

Factsheet 30 September 2023

# NIKKO AM GLOBAL EQUITY MULTI-MANAGER HEDGED STRATEGY

Assets are held in the Nikko AM NZ Wholesale Global Equity Hedged Fund. The Nikko AM Global Equity Multi-Manager Hedged Fund (retail) invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Global equity markets retreated in September, with the benchmark MSCI All Countries World Index (ACWI) returning -5.00% (NZD, unhedged).
- The US equity market, which makes up about 64% of the global equity index, was marginally negative over the quarter.
- India, Japan and the United Kingdom all had positive returns over the quarter while the equity markets of Germany, Taiwan, France, and South Korea declined.
- Sector performance was mixed over the three-month period, with the energy sector (which gained 14%) a standout.
- Other top performing sectors include communication services and financials.

## Fund Highlights

- The fund posted a negative return of -1.48% over the quarter, ahead of its benchmark of -2.38%.
- Of the underlying managers, Royal London was the major driver of the outperformance over the quarter.
- The top three contributors to the fund's quarterly performance were overweight positions in Eli Lilly & Co, Old Dominion Freight Line and Sumitomo Mitsui Financial.
- The three key detractors from the funds quarterly performance were overweight positions in Adyen, HCA Healthcare and Delta Airlines.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-3.02%	-1.48%	27.25%	9.12%	8.91%	10.82%
Benchmark <sup>2</sup>	-3.40%	-2.38%	20.88%	6.05%	5.06%	8.46%
Retail <sup>3</sup>	-3.40%	-0.94%	23.75%	7.63%	7.33%	9.17%

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.
2. Benchmark: MSCI All Countries World Index (net dividends reinvested) 100% gross hedged to NZD. No tax or fees.
3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

## Five Year Cumulative Performance (gross), \$10,000 invested<sup>1, 2</sup>



## Investment Manager

The multi-manager global equity strategy is managed by Yarra Capital Management's (YCM) multi-strategy team based in Sydney and Melbourne. This team provides advice and input to the Nikko AM NZ Investment Committee which is responsible for the ongoing selection, monitoring and review of the underlying investment managers. The Nikko AM NZ Investment Committee comprises senior members from the business and is chaired by the Managing Director, George Carter.

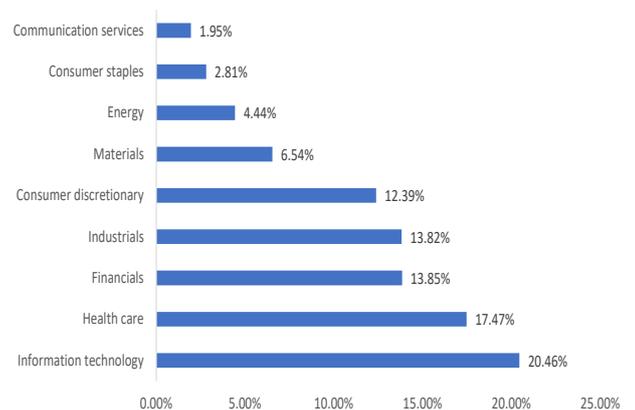
## Overview

This fund aims to provide investors with long term growth from an actively managed investment portfolio selected from global equity markets. Currency exposures created as a consequence of global equity investment are gross hedged at 100% to NZD.

## Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

## Asset Allocation

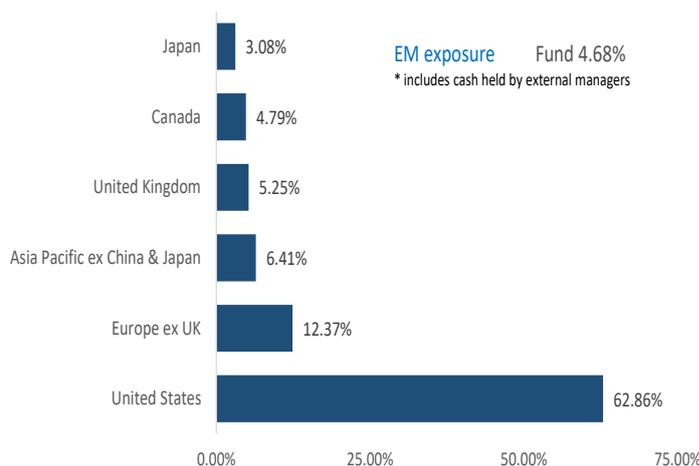


Top 10 Holdings	% of Fund	Country	Manager (Quarter)	Allocation	Active Return
Microsoft	5.93	United States	NAM Europe*	22.18%	-0.84%
Unitedhealth	3.51	United States	Royal London	47.94%	3.84%
Amazon	2.97	United States	WCM	26.98%	-1.29%
Nvidia	2.37	United States	Cash & Derivatives	2.90%	n/a
Progressive	2.03	United States	*Includes NZD Cash Based on unhedged performance		
Old Dominion Freight Line	2.01	United States	<b>What helped (Quarter)</b>	<b>What Hurt</b>	
Steel Dynamics	1.96	United States	Eli Lilly & Co	O/W Adyen	O/W
Visa	1.88	United States	Old Dominion Freight Line	O/W HCA Healthcare	O/W
Thor Industries	1.74	United States	Sumitomo Mitsui Financial	O/W Delta Airlines	O/W
Apple	1.69	United States	OW: overweight; UW: underweight; NH: no holding – month end position		

### Market Commentary

Global equity markets retreated in September, with the benchmark MSCI All Countries World Index (ACWI) returning -5.00% (NZD, unhedged). This was driven by financial conditions which have tightened significantly (a surge in bond yields, the US dollar, and the oil price), although we have probably seen an initial climax in these moves. Of the major global equity regions, India, Japan and the United Kingdom all had positive returns over the quarter, while the equity markets of Germany, Taiwan, France, and South Korea all declined by 4% to 5% over the quarter. The US equity market, which makes up about 64% of the global equity index, was marginally negative over the quarter. Sector performance was mixed over the three-month period, with the energy sector (which gained 14%) a standout. This was partly driven by a surging oil price which rose from USD 75 to over USD 90 per barrel. The energy equipment & services sub-industry performed particularly well with a return of 21%. Other top performing sectors include communication services and financials.

### Geographical allocation



### Fund Commentary

While global equity performance was disappointing over the September quarter, the fund achieved a return of -1.48% (gross of fees), surpassing the benchmark return of -2.38% by 90 basis points (bps). Of the underlying managers, Royal London’s style neutral strategy was once again the top contributor with a return of 2.33%, while the quality growth strategies of WCM (-2.80%) and NAME (-3.37%) both experienced headwinds. Stock selection was responsible for most of the value added over the quarter, while the sector allocation effect was neutral. The stock selection effect was particularly strong in the financials sector, followed by the industrials, consumer staples, information technology and materials sectors. Among financials, Japan’s Sumitomo Mitsui Financial Group, South Korea’s KB Financial Group and Indonesia’s Bank Mandiri made significant contributions to the quarter’s outperformance. Insurance companies (Progressive Corp and Admiral Group) also performed well over the three-month period. While there were fewer negative stock selection effects, these came primarily from the consumer discretionary and healthcare sectors. Among consumer stocks, the major detractors include names such as Amadeus IT Group, Thor Industries, Evolution AB, Mercadolibre and LVMH. The leading healthcare detractors were HCA Healthcare and Masimo Corp. The world’s largest public pharmaceuticals company by market value, Eli Lilly & Co. (held by Royal London), was the fund’s top contributor to the quarter’s outperformance. While the pharmaceuticals sector is enduring a tough year in the stock market, especially drugmakers who sell COVID-19 vaccines and treatments, companies selling weight-loss drugs are a big exception. Surging demand for medications that treat Type 2 diabetes and help patients lose weight has driven a major rally in shares of Denmark’s Novo Nordisk (which markets bestselling drugs Ozempic and Wegovy) and US-based Eli Lilly (which sells the diabetes drug Tirzepatide under the brand name Mounjaro).

We previously wrote about the 50% plunge in the share price of the Dutch payments processing business, Adyen NV (held by WCM). This was driven by weaker-than-expected results due to cutthroat competition from some US peers in the North American market. However, due to its scale, platform, and cost structure, Adyen is expected to emerge as a winner in the long term. The current challenges from the US do not break WCM’s positive long-term investment thesis and the company’s valuation is much more attractive now (29x next twelve months P/E, an all-time low).

### Key Facts

<b>Distributions</b> Generally does not distribute	<b>Estimated annual fund charges (Incl. GST)</b>
<b>Hedging</b> Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%.	Wholesale: negotiated outside of the unit price Retail: 1.42%, refer PDS for more details
<b>Exclusion</b> Any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers.	<b>Buy/Sell spread</b> 0.07%/0.07%
	<b>Strategy Launch</b> October 2008
	<b>Strategy size</b> \$139m

**Compliance** The wholesale fund complied with its investment mandate and trust deed during the quarter.

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