

# Nikko AM Global Equity Multi-Manager Hedged Strategy

Monthly Update 31 October 2023

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 continued to decline (in US dollar terms) in October, extending their September losses.
- October saw global equity markets navigating a complex landscape influenced by central bank policies, geopolitical tensions, and corporate earnings. Investors remained cautious, closely monitoring key indicators and events that could shape the market's direction in the coming months.

## Fund Highlights

- Both Royal London (1.34%) and WCM (1.03%) outperformed, while NAME (-1.24%) had another challenging month.
- The fund's top contributors to the month's outperformance came primarily from the financials, healthcare and information technology sectors. The fund's top contributors were Progressive, Microsoft and Unitedhealth.
- Key detractors from performance were Lithia Motors, Rentokil Initial and Delta Airlines.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	-2.32%	-5.74%	14.54%	8.49%	10.51%	10.11%
<b>Benchmark<sup>2</sup></b>	-2.74%	-7.97%	9.83%	5.97%	6.06%	7.72%
<b>Retail<sup>3</sup></b>	-3.01%	-6.37%	11.74%	6.29%	9.05%	8.41%

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

## 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 Portfolio Manager, Alan Clarke.

## 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.

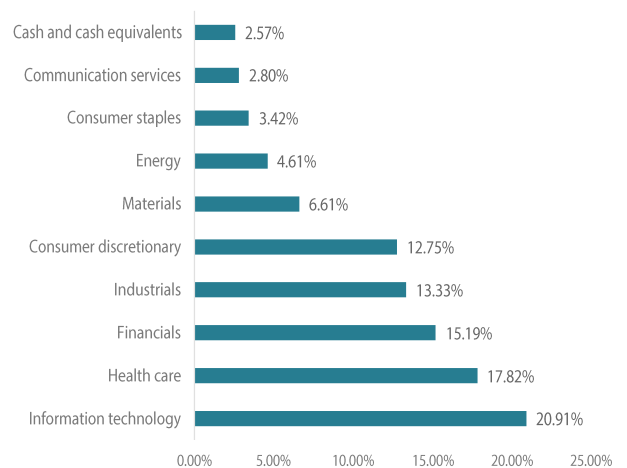
## Objective

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

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



## Asset Allocation



Top 10 Holdings	% of Fund	Country	Manager	Allocation	Active Return	
Microsoft	6.64	United States	NAM Europe & NZD Cash	21.46%	-2.41%	
Unitedhealth	3.88	United States	Royal London	48.18%	1.14%	
Amazon	3.21	United States	WCM	27.04%	0.84%	
Visa	2.51	United States	Cash & Derivatives	3.31%	n/a	
Nvidia	2.44	United States	Based on unhedged performance			
Progressive	2.33	United States	<b>What helped</b>			
Steel Dynamics	1.97	United States	Progressive	O/W	Lithia Motors	O/W
Old Dominion Freight Line	1.93	United States	Microsoft	O/W	Rentokil Initial	O/W
Safran Sa	1.76	France	UnitedHealth	O/W	Delta Airlines	O/W
Shell	1.74	United Kingdom	OW: overweight; UW: underweight; NH: no holding – month end position			

## Market Commentary

Global equity markets continued to decline (in US dollar terms) in October, extending their September losses. One of the primary factors contributing to the volatility in global equity markets over the month was the ongoing uncertainty surrounding central banks' monetary policies, while the Israel/HAMAS conflict in the Middle East added to the geopolitical tensions. On a more positive note, corporate earnings reports for the third quarter generally exceeded expectations, offering support to the markets. Strong performances by various technology companies, particularly in the semiconductor and software sectors, helped limit the downside. From a sector perspective, the main winners over the month were an intriguing mix of the defensive utilities sector and the growth-oriented information technology sector. From a style perspective, "quality" outperformed, while "value" underperformed over the month.

## Fund Commentary

The fund returned -2.32% (gross of fees) in October, which was 42 basis points (bps) better than the benchmark return of -2.74%. Both Royal London (1.34%) and WCM (1.03%) outperformed, while NAME (-1.24%) had another challenging month. The fund's top contributors came primarily from the financials, healthcare and information technology sectors. Top of the list was the US multi-line insurer Progressive Corporation which reported stronger-than-expected earnings for its third quarter. The world's largest software company Microsoft also outperformed in October following a strong set of quarterly results that were driven by sustained growth in the office commercial business and better-than-expected growth in Azure, due to artificial intelligence (AI) consumption and market share gains. The networking-infrastructure provider Arista Networks (one of WCM's recent purchases) actually had a poor month, until it surged 14% on the last day of October on strong third quarter results. Morgan Stanley analyst Meta Marshall sees Arista as the best way to take advantage of "the USD 25 billion AI networking market." Microsoft and Meta Platforms are Arista's largest customers, together accounting for more than 40% of revenue in the most recent fiscal year. The top detractors from relative performance came mostly from Royal London and NAME. Two of NAME's holdings, TransUnion and Rentokil Initial, both fell more than 30% over the month. Shares of the American consumer credit reporting agency TransUnion have been negatively impacted by cyclical, with credit expansion going into reverse and insurance clients lowering their marketing spend. The weakness in the share price of UK pest control business Rentokil Initial followed its Q3 results, which highlighted that top-line growth is negatively impacted by a slowdown in consumer demand, and concerns around the Terminix acquisition. Among Royal London's top detractors, the share price of automotive retailer Lithia Motors was negatively affected by the United Auto Workers' (UAW) strikes in Detroit, with a knock-on effect on dealers' parts and service sales.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Distributions:</b>	Generally does not distribute	<b>Strategy Launch:</b>	October 2008
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Exclusions:</b>	Any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers	<b>Strategy size:</b>	\$133.4m
<b>Retail:</b>	1.42%, refer to PDS for more details.			<b>Buy / Sell spread:</b>	0.07%/0.07%
<b>Hedging:</b>	Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%.				

## Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

## Contact Us

www.nikkoam.co.nz | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).