

# Nikko AM Global Shares Unhedged Strategy

Monthly Update 31 May 2024

Assets are held in the Nikko AM NZ Wholesale Global Shares Fund. The Nikko AM Global Shares Fund (retail) and Nikko AM KiwiSaver Scheme Global Shares Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Superficially, equity market leadership in May looked very similar to that observed in the first quarter of 2024 with Information Technology and Communications heavyweights like NVIDIA Corporation and Netflix, Inc performing strongly.
- There was a renewed bid for some more defensive sectors (such as Utilities & Real Estate), whilst more economically sensitive sectors like Energy, Consumer Discretionary and Materials failed to keep pace with the market.
- Regionally, developed markets outperformed Emerging Markets this month.

## Fund Highlights

- The fund posted a positive return for the month, outperforming its benchmark.
- Key contributors for the month were NVIDIA Corporation, Netflix, Inc. and Bio-Techne Corporation.
- Key detractors were PT Bank Mandiri (Persero) Tbk, Samsonite International S.A. and Cencora, Inc.

## 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>	0.43%	2.52%	20.21%	9.22%	14.02%	
<b>Benchmark<sup>2</sup></b>	0.23%	2.92%	20.53%	11.23%	13.01%	
<b>Retail<sup>3</sup></b>	0.23%	2.79%	19.48%	7.78%	12.50%	
<b>KiwiSaver<sup>3</sup></b>	0.24%	2.79%	19.52%	7.83%	12.70%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any). Based on actual calendar periods.
2. Benchmark: MSCI All Countries World Index (net dividends reinvested), in NZD terms. 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.

## Investment Manager

The Global Shares Strategy is managed by Nikko AM's Global Equity team that is based in Edinburgh, Scotland. With over 20 years average experience, team members have dual roles of portfolio manager and analyst responsibility and work together on an equal basis to construct client portfolios. This flat investment structure and investment process has been in place since the team's foundation.

## Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth.

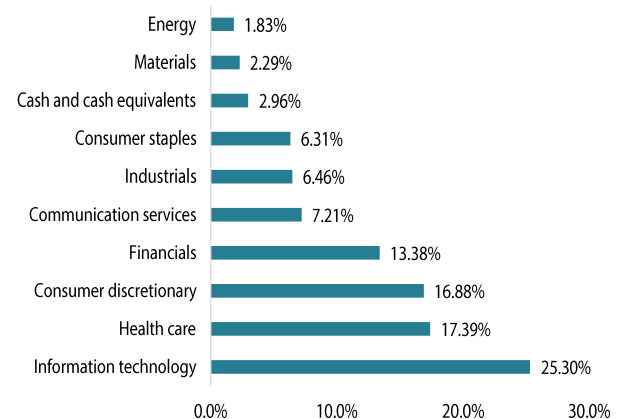
## Objective

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>



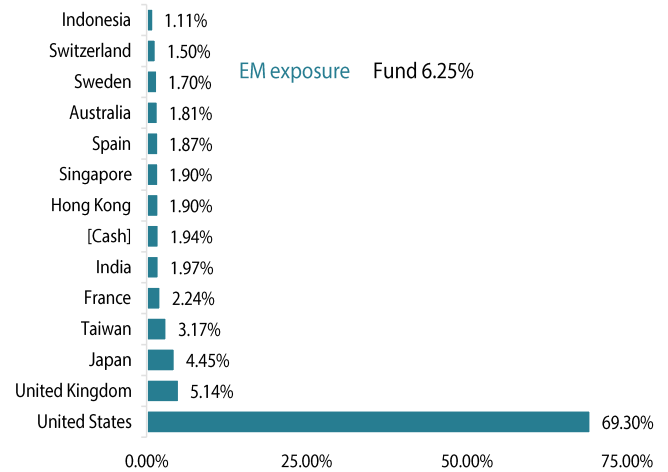
## Sector Allocation (Includes cash in NZ PIE)



## Top 10 Holdings

	% of Fund	Country
Microsoft	6.76%	United States
Nvidia	6.55%	United States
Amazon	4.85%	United States
Facebook	3.63%	United States
Netflix	3.57%	United States
Taiwan Semicon Manufacturing Co	3.14%	Taiwan
Broadcom	2.89%	United States
Encompass Health	2.72%	United States
Compass	2.60%	United Kingdom
Haleon	2.49%	United Kingdom

## Geographical Allocation (Includes cash in NZ PIE)



## Market Commentary

Superficially, equity market leadership in May looked very similar to that observed in the first quarter of 2024 with Information Technology and Communications heavyweights like NVIDIA Corporation and Netflix, Inc. performing strongly. Beneath the surface, however, there were also some major differences, relative to earlier this year. Most notably, there was a renewed bid for some more defensive sectors (such as Utilities & Real Estate), whilst more economically sensitive sectors like Energy, Consumer Discretionary and Materials failed to keep pace with the market.

In fairness, the increased interest in Utilities is attributable to investors looking for new ways to invest in the booming demand for Artificial Intelligence, rather than seeking safe havens. Whilst the ultimate amount of energy required to power the next generation of data centres remains uncertain, given the rapid advancements made in chip energy performance, they will provide increasingly visible demand growth for a sector that has not seen much demand growth in the last decade. Part of the challenge for the Utility sector (and other defensive sectors, like Pharma and Staples) has been the fact that US Government bonds are delivering yields higher than their dividend yields. May showed little sign of this challenge easing, as disappointing bond auctions saw the yield on the US 10-Year exceed 4.7%. The back up in bond yields was not attributable to economic data this month, with inflation data generally coming in in-line with expectations, increasing evidence of a cooling US labour market and signs that this normalisation is beginning to feed through into reduced consumer spending. This all contributed to a softer showing in the cyclical sectors noted above. Greater selectivity in spending was also observable within Technology. Whereas spending on hardware and AI infrastructure has continued to grow, May saw some evidence that this spending may be squeezing other parts of Technology – principally software. Regionally, developed markets outperformed Emerging Markets this month. The US gained from its relatively heavy exposure to the AI theme and in Europe inflation is cooling quickly and will allow the ECB to ease monetary policy sooner, rather than later, potentially supporting risk assets.

## Fund Commentary

**Contributors: NVIDIA Corporation's** latest quarterly results were, once again, better than investor expectations – driven by continued, strong growth in their data centre compute business (which grew almost 30% quarter-on-quarter), as demand for AI infrastructure boomed. Management also talked confidently about the sustainability of this growth as they move towards full commercial launch of their new, more powerful Blackwell chips later this year. **Netflix, Inc.** quickly recovered the losses seen last month as company announcements increased visibility regarding the continued strong uptake of their paid advertising plans. The company confirmed this month that they now have forty million users on these plans and that 40% of new customers are subscribing to these (more profitable) plans. Shares in **Bio-Techne Corporation** rose more than 16% at the start of the month, after publishing a reassuring set of quarterly numbers.

**Detractors: PT Bank Mandiri (Persero) Tbk** underperformed as quarterly results showed continued strong loan growth but a smaller drop through to profits than in recent quarters, as higher funding costs squeezed net interest margins. **Samsonite International S.A.** saw some profit taking after quarterly results marginally missed investor expectations (on revenues, more than profit margins). The company cited adverse foreign exchange and a slightly weaker than expected recovery in Chinese demand. **Cencora, Inc.** fell after quarterly results showed weaker than expected revenue growth, but stronger profit margins. The revenue growth softness was largely attributable to older insulin products, which have seen substantial price cuts in recent months.

## Key Fund Facts

<b>Estimated annual fund charges</b>		<b>Distributions:</b> Generally does not distribute	<b>Strategy Launch:</b> July 2017
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Exclusions:</b> Controversial weapons. Tobacco manufacturers.	<b>Strategy size:</b> \$520m
<b>Retail:</b>	1.20%, refer to PDS for more details.	<b>Restrictions:</b> Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="http://nikkoam.co.nz/invest/retail">nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b> 0.07%/0.07%
<b>KiwiSaver:</b>	1.15% refer to PDS for more details.		

## Compliance

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

## Contact Us

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