

Nikko AM Global Shares Unhedged Strategy

Monthly Update 31 December 2024

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

Market Overview

- Global equity markets finished off 2024 with a weak month but a strong quarter to close out what was a spectacular and a solid year.
- The MSCI ACWI Index was up 3.09% for December and up 12.44% for the quarter.
- The Kiwi fell sharply over the month and the quarter, versus the USD in particular, so returns for unhedged investors in global shares were strong.
- Despite AI dominating performance again over the course of the year, IT and Communication Services sectors still outperformed the fourth quarter, driven largely by the Mag7, though also helped by stellar results from Broadcom Inc.

Fund Highlights

- The fund posted a positive return for the quarter, well ahead of its benchmark.
- Key contributors for the quarter were Netflix, Inc., Broadcom Inc. and Interactive Brokers Group Inc.
- Key detractors for the quarter were Elevance Health, Inc., Tesla, Inc., Apple Inc. and Uber Technologies, Inc.

Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|------------------------------|-----------|--------------|----------|--------------------|-------------------|------------------|
| Wholesale¹ | 2.79% | 14.20% | 42.27% | 12.00% | 16.21% | |
| Benchmark² | 3.09% | 12.44% | 32.78% | 12.72% | 14.23% | |
| Retail³ | 2.41% | 13.11% | 40.62% | 10.60% | 14.80% | |
| KiwiSaver³ | 2.39% | 13.09% | 40.69% | 10.62% | 14.88% | |

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.

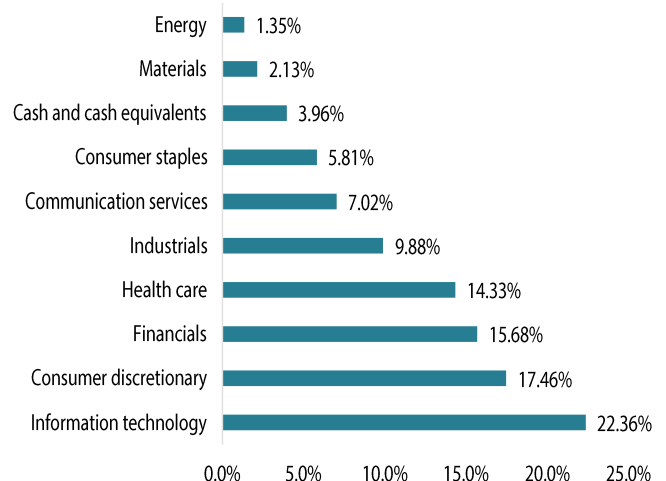
Objective

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^{1,2}



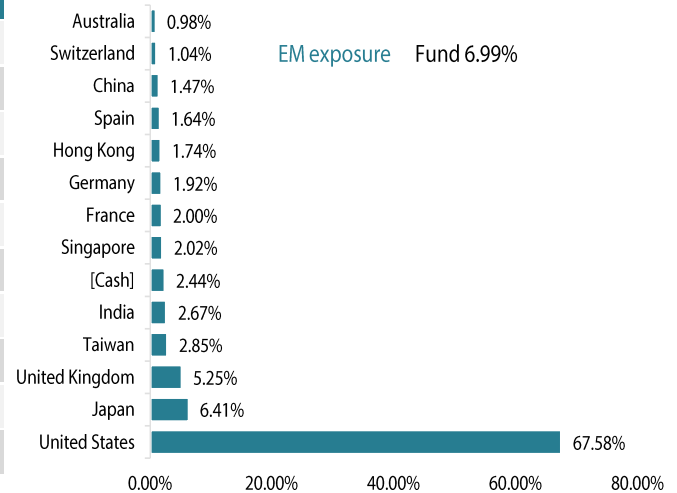
Sector Allocation (Includes cash in NZ PIE)



Top 10 Holdings

| | % of Fund | Country |
|----------------------|-----------|----------------|
| Nvidia Corp | 5.65% | United States |
| Microsoft Corp | 5.32% | United States |
| Amazon Com Inc | 5.01% | United States |
| Meta Platforms Inc | 4.01% | United States |
| Broadcom Corp Com | 3.46% | United States |
| Netflix Inc | 3.02% | United States |
| Taiwan Semiconductor | 2.81% | Taiwan |
| Compass Group Ord | 2.73% | United Kingdom |
| Sony Corp | 2.70% | Japan |
| HDFC Bank Ltd | 2.63% | India |

Geographical Allocation (Includes cash in NZ PIE)



Market Commentary

Global equity markets finished off 2024 with a weak month but a strong quarter to close out what was a spectacular and a solid year. The MSCI ACWI Index was up 3.09% for December and up 12.44% for the quarter. The Kiwi fell sharply over the month and the quarter, versus the USD in particular, so returns for unhedged investors in global shares were strong. The US election took centre stage over the fourth quarter with the decisive win for the Republican party being well received by the US equity market in particular, where November returns were strong. Uncertainty on the extent new global trade or tariff policies might be rolled out by the incoming Trump administration was reflected in some weakness in non-US markets.

Some of the more cyclical sectors such as Financials, pushed higher in the weeks after the US election in anticipation of Trump led deregulation while rates rose. Despite AI dominating performance again over the course of the year, IT and Communication Services sectors still outperformed the fourth quarter, driven largely by the Mag7, though also helped by stellar results from Broadcom Inc. The Consumer Discretionary sector also performed well, driven by both Tesla and Amazon.com, Inc. Across the globe, growth is scarce, and this scarcity has driven the ratings of those that can deliver. The premium for top-line growth is high, but so too is scepticism about AI returns. The hyperscalers continue to deliver 30%+ FCF margins and even higher returns on capital, and, as demonstrated in 2024, the opportunity cost of not investing in them is high. Price gains have been supported by earnings and cash flow growth, while higher-than-expected capex spending has spurred a range of beneficiaries—software, semiconductor, power, and electrical companies, to name a few.

Fund Commentary

Contributors: Netflix, Inc. outperformed due to continued subscriber growth and popular new content releases. The company's ability to consistently deliver engaging content helped it maintain its leading position in the streaming market, and we anticipate management will continue to deliver gains in 2025. **Broadcom Inc.** outperformed the market significantly after posting strong results in the last quarter. There was a large increase in demand for its AI solutions. Revenue was up 51% year-over-year, with a 220% rise in AI revenue. **Interactive Brokers Group Inc.** shares surged due to strong quarterly earnings announced in October and increased trading volumes post the US election. The company's robust platform and competitive pricing continue to attract more clients amid market volatility, boosting investor confidence. The chance of rising interest rates helps future earned income, and the Trump election success suggests that financial regulation may be relaxed, which should drive further gains for the company.

Detractors: Elevance Health, Inc. fell sharply after belatedly succumbing to margin pressure noted by Medicaid peers earlier in the year. This Medicaid redetermination process has had a much more profound impact on patient acuity than previous cycles, and Elevance had not priced their health plans on that basis. This has led to significant, temporary margin pressure in this book of business. Both **Tesla, Inc.** and **Apple Inc.** performed well in December, and given our zero weighting in both of these MAG7 stocks, they were among the largest detractors for the month. We do not believe either company is a Future Quality investment and don't anticipate this view to change in the immediate future. **Uber Technologies, Inc.** fell during the month. Negative sentiment on the timing of Tesla's entry into the AV rideshare industry continues to weigh on the stock, particularly post the Trump election win. Investors are still trying to understand the potential role Uber will play in the AV industry if AV regulation is more favourable and the technology is rolled out faster than anticipated. The decision by Waymo to enter the Miami market but not use the Uber app was also taken as a negative.

Key Fund Facts

| | | | |
|--------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| Estimated annual fund charges | | Distributions: Generally does not distribute | Strategy Launch: July 2017 |
| Wholesale: | Negotiated outside of the unit price. | Exclusions: Controversial weapons. Tobacco manufacturers. | Strategy size: \$631.7m |
| Retail: | 1.20%, refer to PDS for more details. | Restrictions: Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website nikkoam.co.nz/invest/retail . | Buy / Sell spread: 0.07%/0.07% |
| KiwiSaver: | 1.35% refer to PDS for more details. | | |

Compliance

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

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