

# NIKKO AM GLOBAL SHARES HEDGED STRATEGY

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

## Market Overview

- The 75bps hike during June by the Federal Reserve was a clear indication of how Central bank priorities have clearly shifted from the default of the last decade (encouraging higher prices of financial assets) to addressing the inflationary pressures that have emerged globally over the last 18 months. The performance of sectors over the quarter overall have reflected these concerns, with more cyclical sectors such as Information Technology, Consumer Discretionary and Communication Services (particularly excluding more defensive telecom companies) leading the declines.

## Fund Highlights

- The fund returned -16.42% for the quarter, 111 bps ahead of the index.
- Positive contributors to fund performance over the quarter were AdaptHealth, Coca Cola and Progressive.
- Main detractors included Intercontinental Exchange (ICE), Deere & Co and Schneider Electric.
- Foreign currency exposure being hedged to the NZ Dollar detracted value as the NZ dollar weakened. Over the quarter the MSCI All Countries World Index (unhedged) posted a return of -5.6%.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)
Wholesale <sup>1</sup>	-7.93%	-16.42%	-17.57%	6.34%	-
Benchmark <sup>2</sup>	-9.04%	-17.53%	-16.50%	4.65%	-
Retail <sup>3</sup>	-8.30%	-16.97%	-18.42%	5.43%	-

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), 139% 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

## Since Inception Cumulative Performance (gross), \$10,000 invested.<sup>1,2</sup>



## 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.

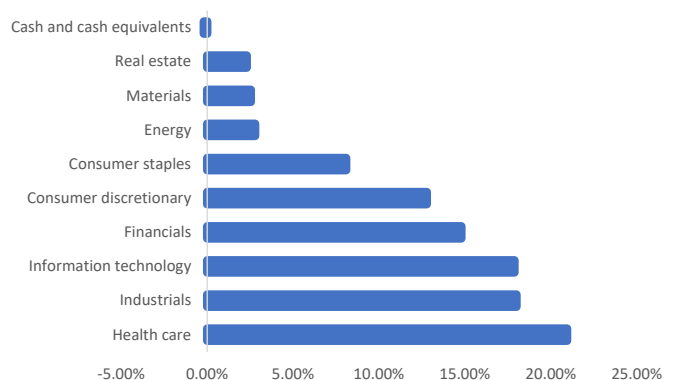
## Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth with currency exposure created as a consequence of global equity investment hedged to NZD.

## Objective

The fund aims to outperform the benchmark, gross hedged 139% to NZD return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

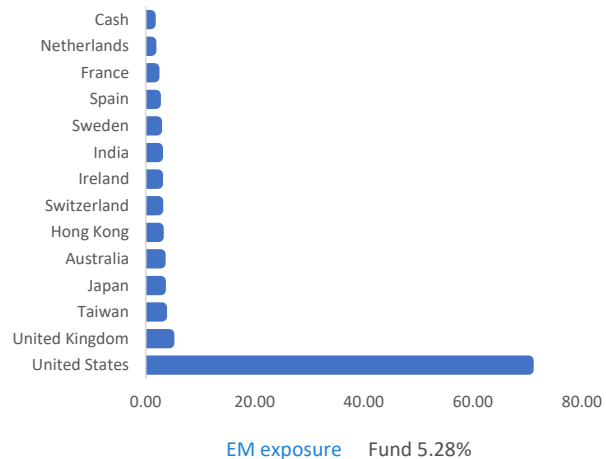
## Asset Allocation



Top 10 Holdings

	% of Fund	Country
Microsoft Corp	6.34	US
Compass Group	3.60	UK
Coca Cola Co	3.42	US
Danaher Corp	3.19	US
Taiwan Semicon Co	3.05	Taiwan
Encompass Health Corp	2.94	US
Progressive Corp	2.89	US
Sony Corp	2.83	Japan
Worley Ltd	2.79	AUS
Abbott Labs	2.61	US

Geographical Allocation



Market Commentary

The 75bps hike during June by the Federal Reserve was a clear indication of how Central bank priorities have clearly shifted from the default of the last decade (encouraging higher prices of financial assets) to addressing the inflationary pressures that have emerged globally over the last 18 months. Whilst some factors driving inflation could potentially be somewhat temporary as a result of supply chain issues or the Ukraine conflict, there is also a recognition that the prior period of ultra loose monetary policy has created a foundation for higher inflation. The performance of sectors over the quarter overall have reflected these concerns, with more cyclical sectors such as Information Technology, Consumer Discretionary and Communication Services (particularly excluding more defensive telecom companies) leading the declines. During June it has also been notable that prior winners such as Materials and Energy have also experienced notable corrections, though Energy still remained the best performing sector over the second quarter. With this increasing pessimism over the growth outlook, more defensive business models are being valued more highly from a relative perspective and reflecting this both Healthcare and Consumer Staples outperformed during both June and the overall quarter.

Fund Commentary

The fund returned -16.42% for the quarter, 111 bps ahead of the index. Positive contributors to fund performance over the quarter were AdaptHealth, Coca Cola and Progressive. AdaptHealth shares continued to recover over the quarter following positive commentary from management on the resolution of market-related CPAP issues. Coca Cola witnessed an improved performance in June and over the quarter. This was partly driven by a recovery in Consumer Staples, with investors leaning into defensive names in the face of a looming recession. Progressive shares rose during the quarter, benefitting from its sensitivity to rising interest rates, via its large investment book. Main detractors included Intercontinental Exchange (ICE), Deere & Co and Schneider Electric. ICE underperformed following an announcement that the company is acquiring Black Knight, a software, data and analytics company that serves the housing finance continuum. While the strategic rationale of the transaction has not received a lot of pushbacks, the purchase price, potential regulatory scrutiny and timing are key areas of investor concern. Given the long-term strategic benefits of the transaction, we think ICE is fully committed to addressing regulatory concerns within reason. Deere & Co shares experienced notable profit taking during the quarter, reflecting a broader trend in US machinery stocks. Despite near-record backlogs and extended production visibility, rising interest rates and broad inflationary pressure have weighed on sentiment. Schneider Electric struggled to perform this quarter in the context of a challenging macroeconomic backdrop. Supply chain constraints are likely to remain an issue throughout 2022 due to lockdowns in China, and the indirect impact from Russia’s war in Ukraine and the resultant sanctions.

Key Fund Facts

**Distributions:** Generally does not distribute.

**Hedging** Any foreign currency exposure is gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

**Exclusions** Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers

**Restrictions** Adult entertainment, tobacco stocks, ‘controversial weapons’, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

Estimated annual fund charges

Wholesale: negotiated outside of the unit price  
Retail 1.20%, refer to PDS for more details

**Buy/Sell spread** 0.07%/0.07%

**Strategy launch** July 2018

**Strategy size**  
\$236m

Compliance

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

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