nikko am
Nikko Asset Management

Factsheet 31 October 2022

NIKKO AM GLOBAL SHARES UNHEDGED STRATEGY

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

- October was a better month for global equities, with the MSCI ACWI climbing around 6% in US Dollar terms. As ever, these days, the driver of the recovery was the hope / expectation of a gradual shift in approach by the US Federal Reserve, when setting monetary policy.
- Economic data has continued to accumulate, suggesting that the Fed has already tightened money supply enough to lead to a marked slowdown in economic activity in the US (and globally) during 2023, with year-on-year growth in gauges such as M2 almost in contraction now – following months of unsustainable expansion during the early stages of the global COVID pandemic.

Fund Highlights

- The fund performed in line with its benchmark over the month.
- Positive contributors to fund performance over the month were AdaptHealth, Encompass Health and Elevance.
- Main detractors included Carlisle, TSMC and Tenet Healthcare.

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

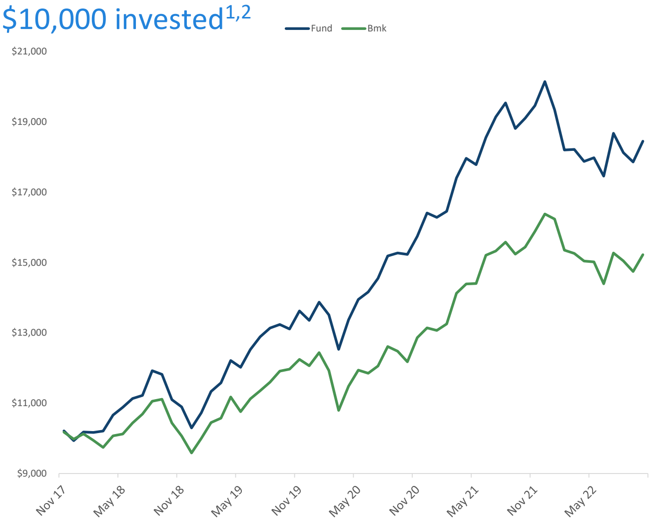
The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

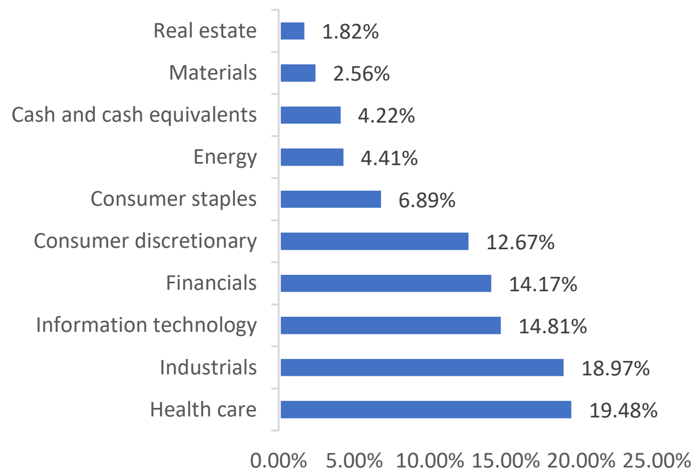
	One month	Three months	One year	Three years (p.a)	Five years (p.a)
Wholesale[1]	3.31%	-1.21%	-3.43%	12.06%	13.03%
Benchmark[2]	3.24%	-0.32%	-1.40%	8.36%	8.77%
Retail[3]	3.35%	-0.46%	-3.82%	10.52%	11.73%
KiwiSaver[3]	3.35%	-0.47%	-3.81%	10.60%	-

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), 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.

Since Inception Cumulative Performance (gross), $10,000 invested[1,2]



Asset Allocation



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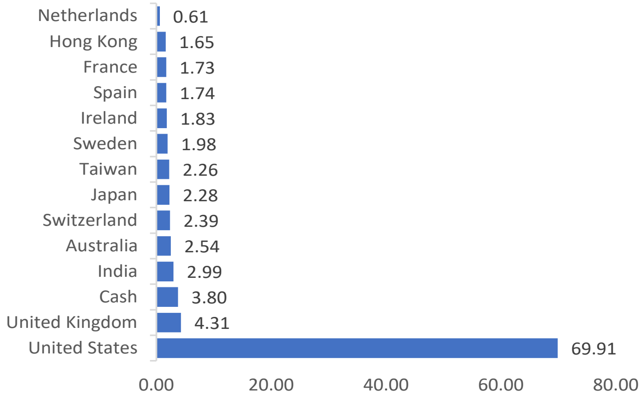
Top 10 Holdings

	% of Fund	Country
Microsoft Corp	4.35	US
Palomar Inc	3.22	US
Compass Group	3.14	UK
Danaher Corp	3.08	US
HDFC Bank Ltd	2.97	India
Intercontinental Exchange	2.95	US
Deere & Co	2.89	US
Encompass Health Corp	2.78	US
Progressive Corp	2.75	US
Anthem Inc	2.70	US

Geographical Allocation



EM exposure Fund 5.24%

Market Commentary

October was a better month for global equities, with the MSCI ACWI climbing around 6% in US Dollar terms. As ever, these days, the driver of the recovery was the hope / expectation of a gradual shift in approach by the US Federal Reserve, when setting monetary policy. Economic data has continued to accumulate, suggesting that the Fed has already tightened money supply enough to lead to a marked slowdown in economic activity in the US (and globally) during 2023, with year-on-year growth in gauges such as M2 (US money stock held by the non-bank public) almost in contraction now – following months of unsustainable expansion during the early stages of the global COVID pandemic. The best performing sector this October was (once again) Energy. Although oil prices have remained well below levels seen earlier in the year, there remains a sense that this is due to a combination of short-term factors that are likely to resolve more quickly than new reserves can be discovered and brought onstream. The US Strategic Petroleum Reserve has already been depleted significantly and Chinese demand won't be restrained by its zero-COVID policy forever. Industrials were the other major outperformers, with strength being seen across sub-sectors – from aerospace and defence to more traditional capital goods providers (like Caterpillar). The worst performers in October were a combination of traditionally defensive sectors (such as Utilities and Real Estate) and sectors where benchmark heavyweights had a pronounced impact on returns. This was true in both Communication Services (where the decline in digital advertising saw significant share price weakness in Meta and Alphabet) and Consumer Discretionary (where the main culprits were Amazon and Tesla – both of whom have disappointed investors with their latest set of financial results).

Fund Commentary

The fund posted a solid return for the month of October and in line with its benchmark. Positive contributors to fund performance over the month were AdaptHealth, Encompass Health and Elevance. Main detractors included Carlisle, TSMC and Tenet Healthcare. AdaptHealth continues to recover well as sleep apnea device supply issues slowly improve, despite the ongoing restrictions upon Philips. This category is one of the most profitable businesses for Adapt and a substantial backlog of untreated patients has built up in recent months. Encompass Health outperformed on the back of solid quarterly results. Inpatient Rehabilitation Facility demand growth remains strong, and reimbursement is starting to improve. Elevance Health rose following robust quarterly results – driven by lower-than-expected medical treatment costs and strong investment income. Carlisle underperformed following reports of a build-up in inventory, which signalled weakening demand. Evidently, the worsening outlook for a recession is hampering consumer appetite. However, Carlisle still has a substantial backlog in its repairs business, which offers a degree of defence and helps to differentiate it from peers. TSMC shares fell in October on the back of earnings, which signalled a clear downcycle is underway. Despite concerns, TSMC is growing faster than the overall market and has a tailwind of secular growth in semiconductor demand due to 5G, Internet of Things and High-Performance Computing. Tenet Healthcare underperformed on the back of disappointing Q3 results. Management announced an increase in the use of contract labour, whilst the opposite dynamic was called out by peers. Whilst we believe it is important to investigate contract labour trends further and dig into competitive dynamics in the surgery centre industry, we think that the market overreaction is partly due to the composition of Tenet's shareholder register (which is dominated by hedge funds) and cautious commentary from hospital peers.

Key Fund Facts

Distributions: Generally does not distribute

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
KiwiSaver 1.15% refer to PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07%/0.07%	July 2017	$540m

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

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