

Nikko AM Global Equity Multi-Manager Hedged Strategy

Monthly Update 31 December 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 had a strong fourth quarter, with the benchmark MSCI All Countries World Index (ACWI) returning 5.37% (NZD, unhedged).
- The typical “Santa Claus” rally at year-end was driven by optimism that central banks will start cutting interest rates in 2024.
- Information technology was by far the best performing sector over the quarter, with a gain of more than 11%.
- The energy sector was the worst performing sector, in line with falling crude oil prices.

Fund Highlights

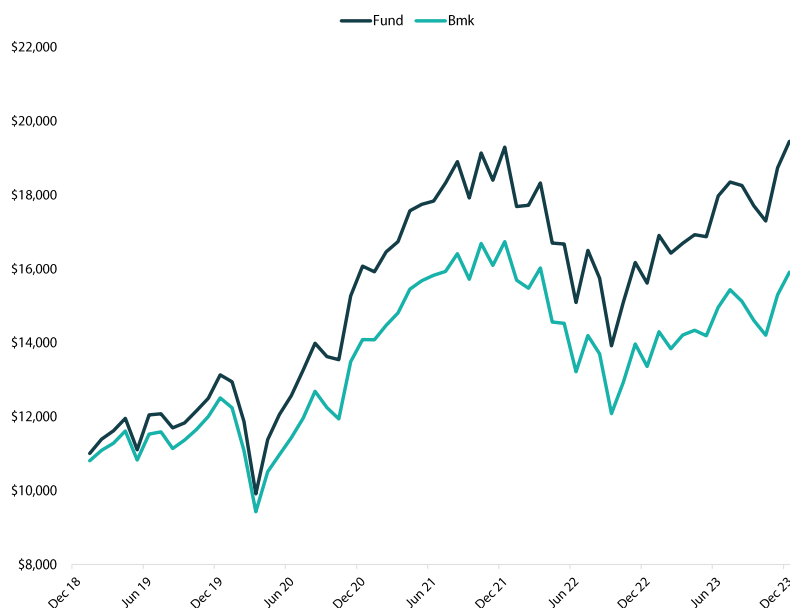
- The fund returned 9.87% (gross of fees) for the quarter, which was 94 basis points (bps) better than the benchmark return of 8.93%.
- WCM was the only manager to outperform with a return of 8.20%.
- The fund’s top contributors were Adyen, Thor Industries and Microsoft.
- Key detractors from performance were Kinsale Capital, Old Dominion Freight Line, Rentokil Initial.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	3.84%	9.87%	24.60%	6.57%	14.24%	10.97%
Benchmark²	4.00%	8.93%	19.10%	4.15%	9.74%	8.45%
Retail³	4.26%	9.51%	21.97%	5.05%	12.70%	9.46%

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) 100% 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.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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.

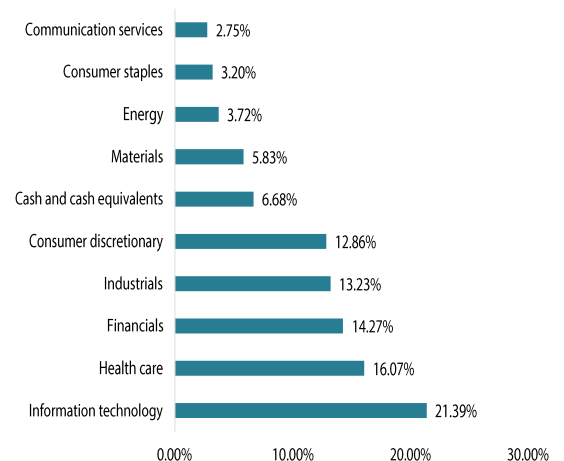
Overview

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.

Asset Allocation



Top 10 Holdings	% of Fund	Country	Manager	Allocation	Active Return	
Microsoft	6.13	United States	NAM Europe & NZD Cash	23.30%	-2.70%	
Unitedhealth	3.09	United States	Royal London	48.40%	-0.56%	
Amazon	2.97	United States	WCM	27.05%	2.83%	
Nvidia	2.48	United States	Cash & Derivatives	1.24%	n/a	
Visa	2.12	United States	Based on unhedged performance			
Progressive	1.84	United States	What helped			
Thor Industries	1.80	United States	Adyen	O/W	Kinsale Capital	O/W
Steel Dynamics	1.78	United States	Thor Industries	O/W	Old Dominion Freight Line	O/W
HCA Healthcare	1.71	United States	Microsoft	O/W	Rentokil Initial	O/W
Old Dominion Freight Line	1.68	United States	OW: overweight; UW: underweight; NH: no holding – month end position			
			What hurt			

Market Commentary

Global equity markets had a strong fourth quarter, with the benchmark MSCI All Countries World Index (ACWI) returning 5.37% (NZD, unhedged). The typical “Santa Claus” rally at year-end was driven by optimism that central banks will start cutting interest rates in 2024. For the full calendar year, the MSCI ACWI returned a very impressive 22.07%. Information technology was by far the best performing sector over the quarter, with a gain of more than 11%. Other top performing sectors included real estate, industrials and financials. The energy sector was the worst performing sector, in line with falling crude oil prices. The consumer staples and healthcare sectors also underperformed over the quarter. Emerging markets performed poorly, trailing the MSCI ACWI by almost 300 bps over the quarter. China was one of the worst performing global equity markets, lacking support from investors due to a weak recovery after COVID-19. The cryptocurrency exchange platform Coinbase Global was the top performing stock in the benchmark with a return of more than 100% over the quarter. Among the largest holdings in the benchmark, Microsoft, Amazon and Meta Platforms had double-digit returns, while Tesla had a negative return.

Fund Commentary

The Fund returned 9.87% (gross of fees) over the quarter to outperform the benchmark return of 8.93% by 94 basis points (bps). WCM was the only manager to outperform with a return of 8.20%, while Royal London (4.81%) and NAME (3.75%) both underperformed. For the full calendar year, the fund’s return of 24.60% was 550 bps ahead of the benchmark return of 19.10%. Regarding the fund’s outperformance of 521 bps in 2023, only three of the “Magnificent 7” (Microsoft, Amazon, Nvidia) were among the key drivers of this outperformance.

Adyen NV, Thor Industries and Microsoft Corp were among the fund’s top contributors to performance over the quarter, while Kinsale Capital Group, Old Dominion Freight Line and Rentokil Initial plc were the key detractors from performance. The Dutch payments processing firm Adyen NV was the portfolio’s top performer in Q4 with a return of 63%. This follows a one-day plunge of 39% in August in response to a first-half profit warning. Thor Industries, the largest recreational vehicle (RV) manufacturer in the world, performed well in Q4 despite industry headwinds. At the beginning of 2023 the market had priced in a collapse in Thor’s profitability. Royal London (who holds the shares) believe that the valuation pay-off remains attractive, given the management team’s ability to aggressively reduce costs and the experience gained through prior down cycles. Microsoft performed well over Q4 as the company continued to demonstrate its ability to compound. The CEO of Microsoft credited their strong results to the increasing demand for their AI (artificial intelligence) tools available through Azure cloud services.

Key Fund Facts

Estimated annual fund charges (incl. GST)		Distributions: Generally does not distribute	Strategy Launch: October 2008
Wholesale:	Negotiated outside of the unit price.	Exclusions: Any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers	Strategy size: \$146.2m
Retail:	1.42%, refer to PDS for more details.		Buy / Sell spread: 0.07%/0.07%
Hedging:	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 Quarter.

Contact Us

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Geographical allocation

