

Nikko AM Global Equity Multi-Manager Unhedged 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 5.22% (gross of fees) for the quarter, which was in line with the benchmark return of 5.37%.
- 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	1.70%	5.22%	27.28%	12.49%	17.46%	13.38%
Benchmark²	2.24%	5.37%	22.07%	10.38%	13.01%	10.80%
Retail³	1.55%	4.13%	24.98%	11.30%	16.19%	12.05%

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.

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.

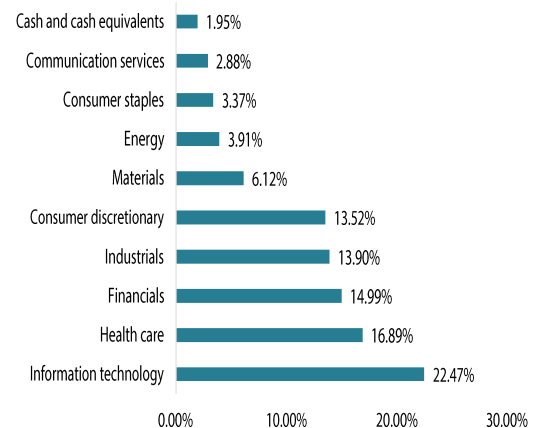
Overview

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 unhedged.

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	6.44	United States	NAM Europe & NZD Cash	23.30%	-2.70%	
Unitedhealth	3.25	United States	Royal London	48.40%	-0.56%	
Amazon	3.12	United States	WCM	27.05%	2.83%	
Nvidia	2.61	United States	Cash & Derivatives	1.24%	n/a	
Visa	2.23	United States	Based on unhedged performance			
Progressive	1.93	United States	What helped			
Thor Industries	1.89	United States	Adyen	O/W	Kinsale Capital	O/W
Steel Dynamics	1.87	United States	Thor Industries	O/W	Old Dominion Freight Line	O/W
HCA Healthcare	1.80	United States	Microsoft	O/W	Rentokil Initial	O/W
Old Dominion Freight Line	1.77	United States	OW: overweight; UW: underweight; NH: no holding – month end position			

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 5.22% (gross of fees) over the quarter, in line with the benchmark return of 5.37%. 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 27.28% was 521 bps ahead of the benchmark return of 22.07%. 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: \$258.2m
Retail:	1.42%, refer to PDS for more details.		Buy / Sell spread: 0.07%/0.07%
Hedging:	Any foreign currency exposure in unhedged.		

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.