

Nikko AM Global Shares Hedged Strategy

Monthly Update 31 December 2023

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 last three months of the year saw strong returns amid growing excitement that central banks will cut interest rates sooner in 2024 than previously expected.
- The MSCI AC World Index delivered marginally above 11% (over the quarter, in USD terms).
- The best performing sector this quarter was unsurprisingly IT, rising more than 11%, closely followed by Real Estate.
- The worst performing sector by far was Energy.

Fund Highlights

- The fund posted a return of 7.88% for the quarter, lagging the benchmark of 8.93%.
- Quarterly contributors to fund performance were Hexagon AB Class B, Netflix Inc and Microsoft Corporation.
- Quarterly detractors were Rentokil Intial PLC, Schlumberger N.V and ChampionX Corporation.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	4.42%	7.88%	10.20%	0.61%	10.47%	
Benchmark²	4.00%	8.93%	19.10%	4.15%	9.74%	
Retail³	4.41%	7.82%	8.63%	-0.49%		

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

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.

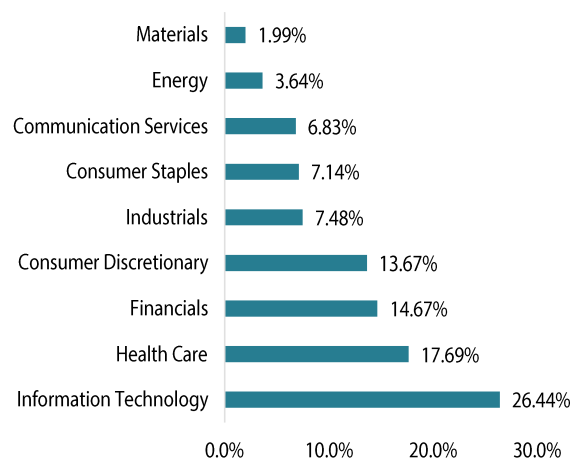
Objective

The fund aims to outperform the benchmark, gross hedged 100% to NZD 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}



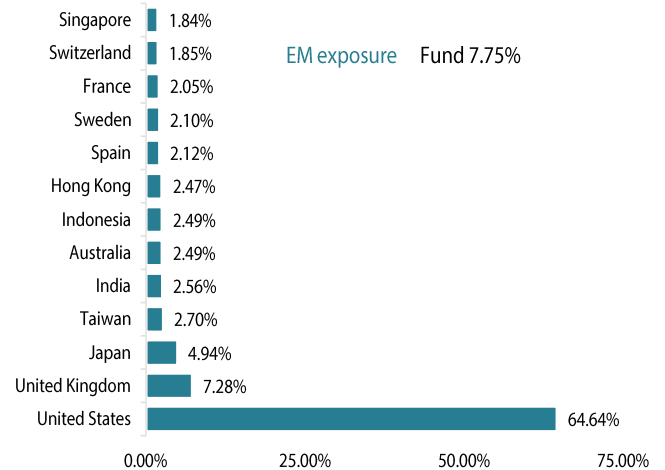
Sector Allocation



Top 10 Holdings

	% of Fund	Country
Microsoft	7.14	United States
Nvidia	3.91	United States
Facebook	3.38	United States
Netflix	3.15	United States
Compass	2.76	United Kingdom
Haleon	2.68	United Kingdom
Broadcom	2.63	United States
Taiwan Semicon Manufacturing	2.58	Taiwan
Hoya	2.55	Japan
Abbott Labs	2.51	United States

Geographical Allocation



Market Commentary (quarterly)

The last three months of the year saw strong returns amid growing excitement that central banks will cut interest rates sooner in 2024 than previously expected, resulting in what is commonly referred to as a Santa Rally. The quarter started with the horrific attack by Hamas on Israel and the realization that tensions in the Middle East would escalate and likely remain raised for some time. Shortly after the Hamas attack, US 10-year Treasury Bills hit 5%, a level not seen since 2007. Despite these headwinds, markets turned positively in November as expected inflation levels peaked and markets started to anticipate global central banks reducing rates in early 2024. Investors returned to their 'declining yields' playbook and not surprisingly markets strengthened, led by the 'Magnificent 7' – which on one day in November collectively gained more than USD 200 billion. The feel-good factor was then rubber stamped in December, with the conclusion of the Fed OPC meeting, suggesting rates have in fact peaked. The MSCI AC World Index delivered marginally above 11% (over the quarter, in USD terms), which led most asset classes with commodities, in particular Energy based commodities, lagging far behind. Leading regions included Europe ex UK, which exceeded the S&P500, largely due to its composition and in particular the continued price appreciation of its largest constituent, Novo Nordisk. Other regions to fare well included Australia and Latin America, both benefiting from a depreciating US dollar. The worst regions included Hong Kong, Singapore & Asia as the ripple effect from China's weak post COVID-19 recovery continues to dampen investor enthusiasm about a much hoped for, but long time coming, cyclical bounce. The UK equity market also lagged due to a combination of higher exposure to underperforming energy and material stocks and British pound sterling strength. The best performing sector this quarter was unsurprisingly IT, rising more than 11%, closely followed by Real Estate, which recovered somewhat from a poor year's performance in the face of rising rates. Both Industrials & Financials also outperformed, albeit only marginally. The worst performing sector by far was Energy, which retraced prior month's gains on the back of falling crude and natural gas prices. This was particularly surprising given the escalation in Middle East hostilities.

Fund Commentary (quarterly)

Contributors: Hexagon AB Class B continued to outperform this quarter following its capital markets day, in which it became clear that the company's medium-term guidance is conservative, paving the way for potential upgrades in 2024. Management delivered a clear view on the growth strategy, introduced new reporting divisions and has plans to increase communication with the market. Netflix Inc.'s third quarter results and management's outlook were ahead of expectations amid stronger subscription gains and accelerating revenue growth. Cash generation remains strong with management now expecting USD 6.5 billion of FCF in 2023 (USD 5 billion+ prior) and lower spend on content - mid USD 13 billion (USD 15 billion prior). Microsoft Corporation shares climbed following better-than-expected quarterly results, delivering strong performance in both Cloud and Professional businesses. Management is confident about the outlook on earnings and demand for AI infrastructure is already proving to be a growth tailwind.

Detractors: Rentokil Initial PLC's third quarter trading update highlighted disappointing trading with their North American business. Organic growth was only slightly below expectations; however, they have recently acquired a large US competitor, Terminix, and investors are concerned about the integration of this asset. Schlumberger N.V. underperformed over the quarter despite strong quarterly results in October. ChampionX Corporation shares underperformed over the quarter, following underwhelming quarterly results in October. However, we are encouraged to see that the Offshore and International businesses, which are central to the long-term investment thesis, remain intact.

Key Fund Facts

Estimated annual fund charges	Distributions: Generally does not distribute	Strategy Launch: July 2018
Wholesale: Negotiated outside of the unit price. Retail: 1.20%, refer to PDS for more details.	Exclusions: Controversial weapons. Tobacco manufacturers.	Strategy size: \$315m
Hedging: Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%.	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%

Compliance

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

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