

Factsheet 31 August 2022

NIKKO AM GLOBAL EQUITY HEDGED STRATEGY

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

Market Overview

- August was very much a month of two halves. The first half of the month saw equity markets pick up where July left off – with a notable improvement in sentiment and growth leading value. This turned around in the second half of the month, however, as investors were spooked by continued hawkishness from the Federal Reserve (and ECB), in response to persistently high inflation figures.

Fund Highlights

- The fund returned a negative 4.56% in the month of August, which was behind the benchmark return by 106 bps.
- The fund's top contributors to performance in August were Palomar Holdings, Constellation Software and Steel Dynamics Inc.
- The main laggards were Old Dominion Freight Lines, Constellation Software and AdaptHealth Corp.

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 Managing Director, George Carter.

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 139% to NZD.

Objective

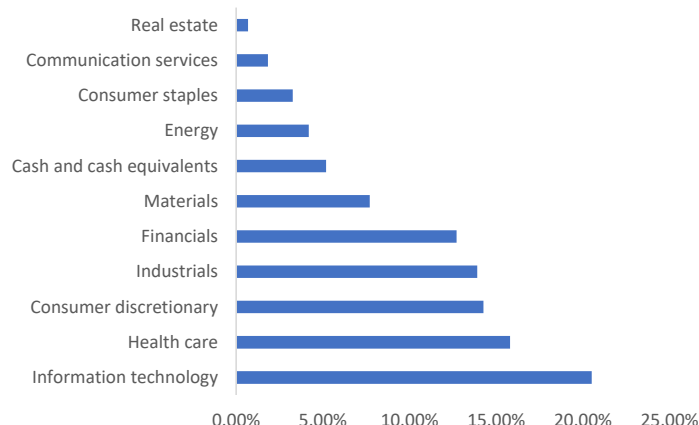
The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.56%	-5.54%	-16.70%	10.42%	8.60%	12.09%
Benchmark ²	-3.50%	-5.69%	-16.50%	7.14%	6.08%	10.43%
Retail ³	-2.45%	-6.14%	-17.25%	9.12%	7.39%	

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.

Asset Allocation



Top 10 Holdings	% of Fund	Country
Microsoft Corp	6.09	US
Amazon Com Inc	3.51	US
Unitedhealth Group Inc Com	2.51	US
Progressive Corp	2.47	US
Reliance Steel & Aluminum Co	2.35	US
Old Dominion Freight Line Inc	2.31	US
Suncor Energy Inc	2.18	Canada
Visa Inc	2.07	US
Anglo American Plc	1.91	UK
Steel Dynamics	1.89	US

Manager	Allocation	Active Return
NAM Europe	31.18%	-0.02%
Royal London	46.52%	-0.46%
WCM	21.90%	-1.42%
Cash & Derivatives	0.40%	n/a

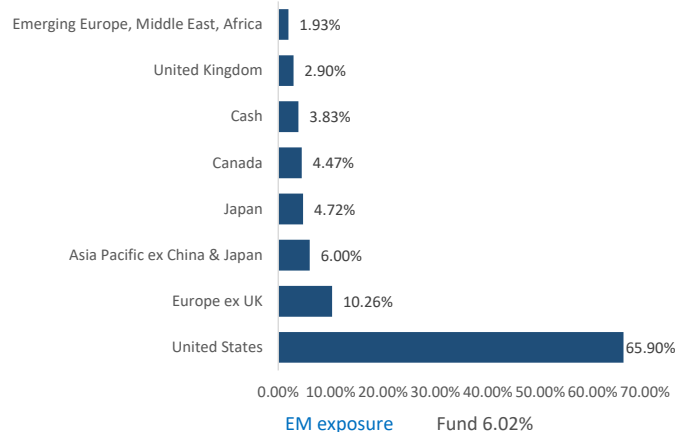
What helped	What Hurt
Progressive Corp	OW Old Dominion Freight Line OW
Palomar Holdings	OW Constellation Software OW
Steel Dynamics Inc	OW AdaptHealth Corp OW

OW: overweight; UW: underweight; NH: no holding – month end position

Market Commentary

August was very much a month of two halves. The first half of the month saw equity markets pick up where July left off – with a notable improvement in sentiment and growth leading value. This turned around in the second half of the month, however, as investors were spooked by continued hawkishness from the Federal Reserve (and European Central Bank), in response to persistently high inflation figures. Whilst the high inflation numbers did not surprise anyone, there had been increasing expectations in some quarters that the Fed may respond to weakening economic data and indicate some slowing in the rate of interest rate increases. Although commodity prices have been tracking economic growth expectations lower in recent weeks, shares in the energy sector have continued to perform strongly, with the sector being comfortably the strongest in the market in August. The combination of attractive free cash flow yields (based on today’s oil price) and a sense that demand may recover towards year-end (faster than any increase in supply) saw to that. Other commodity sectors fared less well, but Basic Materials also managed to outperform slightly this month, even as the prices of key commodities such as copper and steel continued to fall – not helped by the continued weakness in the Chinese real estate sector. Growth sectors fared worst this month, with both Information Technology and Healthcare underperforming the market as bond yields rose, pressuring valuations in these areas.

Geographical Allocation



Fund Commentary

The fund returned a negative 4.56% in the month of August, which was behind the benchmark return by 106 bps. NAME (-135 bps) and WCM (-142 bps) detracted the most from performance, while RLAM (-46 bps) also found it challenging to keep up with the benchmark. The fund’s top contributors to performance in August were Progressive Corp, Palomar Holding and Steel Dynamics Inc. **Palomar Holdings** was the highlight with a return of 30%. This came on the back of better-than-expected quarterly results providing further evidence that the shift to more consistent product segments as the key drivers of growth is leading to improved earnings consistency. **Progressive Corp** (9.1%) also performed well after strong August results provided further evidence that a turnaround is underway. The less-than-truckload business **Old Dominion Freight Line** (ODFL) and the application software business **Constellation Software** were the fund’s top detractors from performance. No issues with either company – both are very high-quality businesses. ODFL had another impressive quarter, with Q2 EPS up 43% year-on-year. Despite slowing volume growth, the company demonstrated its strong cost management abilities, posting a 69.5% operating ratio, the first time ODFL has posted a sub-70 operating ratio. According to Bloomberg, Old Dominion’s market-share gains, industry-leading service and disciplined yield management, coupled with solid demand prospects, sets it up for top-line growth and margin expansion in 2022. Constellation’s Q2 results showed healthy organic growth and solid capital deployed on acquisitions. EBITDA was however below consensus, as post-COVID spending (travel, advertising, etc.) took margins down below pre-COVID levels. The home medical equipment provider **AdaptHealth** fell 17% after announcing slightly disappointing Q2 numbers.

Key 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%.

Restrictions Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers.

Estimated annual fund charges (Incl. GST)

Wholesale: negotiated outside of the unit price
Retail: 1.42%, refer PDS for more details

Buy/Sell spread 0.07%/0.07%

Strategy Launch October 2008
Strategy size \$87m

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

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