

NIKKO AM GLOBAL SHARES HEDGED STRATEGY

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

- Although the gradual recovery seen in global equity markets in October and November lost momentum in December, Q4 was still positive for global equity markets – reversing some of the steep losses seen earlier in the year. Whereas December saw more hawkish commentary from the Federal Reserve (which has been a constant refrain this year), credit markets (and financial conditions) have loosened slightly during the quarter on the belief that peak interest rates for this tightening cycle are not far above current levels.

Fund Highlights

- Over the quarter the fund returned 13.49%, 293 basis points ahead of the benchmark.
- Positive contributors to fund performance over the quarter were Encompass Health Corporation, Deere & Company and Emerson. Main detractors included Palomar Holdings, Chart Industries and Carlisle Companies.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)
Wholesale ¹	-2.61%	13.49%	-21.24%	4.91%	-
Benchmark ²	-4.36%	10.56%	-20.18%	2.23%	-
Retail ³	-0.15%	12.57%	-21.88%	3.77%	-

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

Since Inception Cumulative Performance (gross), \$10,000 invested.^{1,2}



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.

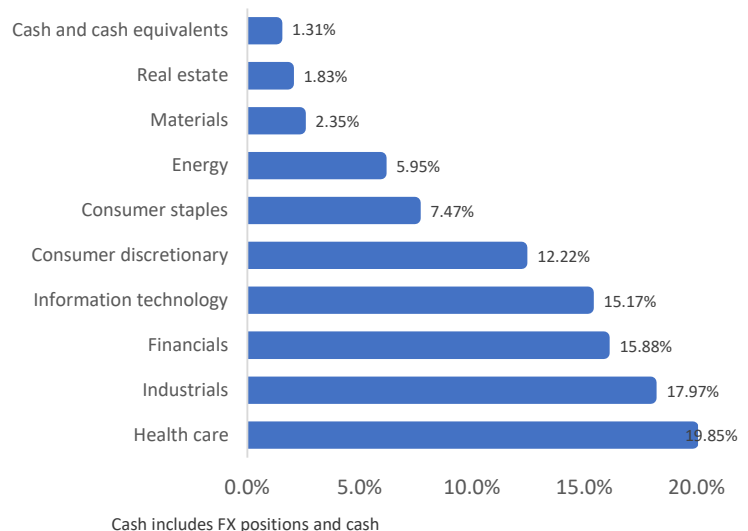
Overview

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 139% to NZD return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

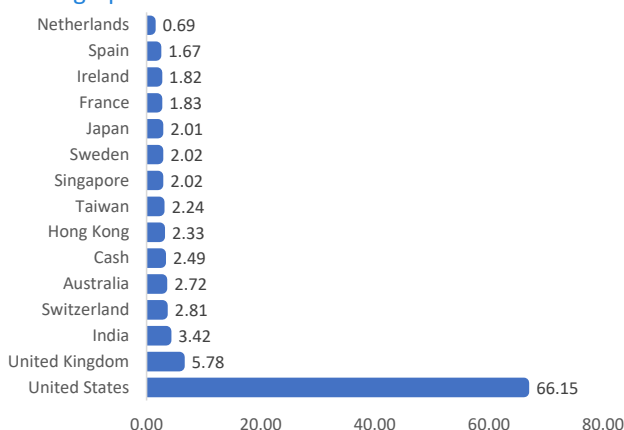
Asset Allocation



Top 10 Holdings

	% of Fund	Country
Microsoft Corp	4.40	US
HDFC Bank Ltd	3.47	India
Compass Group	3.35	UK
Schlumberger Ltd	3.19	US
Danaher Corp	3.18	US
Intercontinental Exchange Inc	3.10	US
Encompass Health Corp	2.99	US
Nestle	2.85	Switzerland
Coca Cola Co	2.76	US
Worley Limited	2.76	Australia

Geographical Allocation



EM exposure Fund 5.66%

Market Commentary

Although the gradual recovery seen in global equity markets in October and November lost momentum in December, Q4 was still positive for global equity markets – reversing some of the steep losses seen earlier in the year. Whereas December saw more hawkish commentary from the Federal Reserve (which has been a constant refrain this year), credit markets (and financial conditions) have loosened slightly during the quarter on the belief that peak interest rates for this tightening cycle are not far above current levels. The best performing sectors this quarter were those that would have the most to gain from a return to Chinese economic activity levels seen in the past. Energy, Industrials and Materials all outperformed. December’s light risk-off tone was not enough to change this picture but did allow some of the defensive sectors (Healthcare) to get back into positive territory relative to the market over the quarter. The weakest sectors continued to hint at a shift in market leadership – away from the sectors that led the market during the years of monetary easing. The fate of individual, large index constituents didn’t help either. For instance, the weakest performers over the quarter included Consumer Discretionary and Communication Services, as Tesla, Amazon, Meta and Google all fell over the quarter – following weak financial results. The falls in Tesla’s share price have been particularly severe, as evidence emerges that even steep discounting is not leading to a pick-up in deliveries.

Fund Commentary

Over the quarter the fund returned 13.49%, 293 basis points ahead the benchmark. Positive contributors to fund performance over the quarter were Encompass Health Corporation, Deere & Company and Emerson. Main detractors included Palomar Holdings, Chart Industries and Carlisle Companies. Encompass Health Corporation shares comfortably beat the market in Q4. Inpatient Rehabilitation Facility demand growth remains robust. Encompass has a substantial leadership position in this industry, which is only now beginning to reveal its full value proposition to payers through lower treatment costs and better health outcomes. Deere & Company shares outperformed on the back of strong results in November, which illustrated strong demand, healthy production rates and reducing inventory. Importantly, management sounded confident on the agricultural cycle more broadly, discussing that dealer inventory replenishment will be pushed into 2024 and that North America large agricultural volumes are 20-25% below the 5-year average of the 2010-2014 replacement cycle. Shares in Emerson were also relatively strong in Q4. The company announced solid quarterly results at the end of October, at the same time as announcing the latest step in their ongoing strategic shift (away from capital intensive, more mature industries into capital light, faster growing ones). Palomar Holdings shares continued to fall through the quarter on the back of investor concerns that the shift to a less volatile and less earnings-dense business mix is occurring more quickly than expected. Chart Industries shares underperformed sharply following November’s announcement that it would purchase Howden, a UK-based producer of air and gas handling products and aftermarket services, for USD4.4 billion. Carlisle Companies shares underperformed in December on the back of concerns that we are beginning to see a slowdown in consumer demand as recession looms. Additionally, inventory levels are trending higher, raising concerns around destocking.

Key Fund 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%.

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

Buy/Sell spread 0.07%/0.07%

Strategy launch July 2018

Strategy size

\$276m

Compliance

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

Contact Us

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