

Nikko AM Global Shares Unhedged Strategy

Monthly Update 31 October 2023

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

Market Overview

- October saw equity markets continue to fall from the highs seen during Q2, with both the S&P500 and the Nasdaq ending the month around 10% below their July peaks.
- The 'higher for longer' narrative for interest rates received further support this month, as some US economic data continued to exhibit surprising resilience.
- This month's tragic events in Israel and Palestine once again underlined the heightened geopolitical stresses that exist at present.

Fund Highlights

- The fund posted a return of -1.24% over October, 108 basis points behind the benchmark of 0.20%.
- Positive contributors to fund performance were Microsoft, Netflix, Inc and Progressive Corporation.
- Main detractors were Rentokil Initial, TransUnion and Samsonite International S.A.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-1.24%	-4.20%	2.64%	7.53%	11.27%	
Benchmark²	0.20%	-3.29%	10.37%	11.32%	9.99%	
Retail³	-2.55%	-5.57%	0.83%	5.64%	10.39%	
KiwiSaver³	-2.55%	-5.57%	0.89%	5.74%	10.75%	

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.

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.

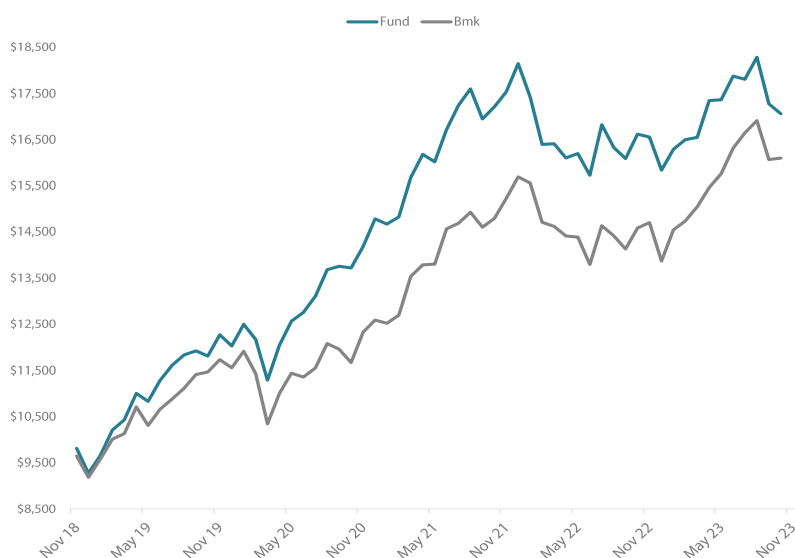
Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth.

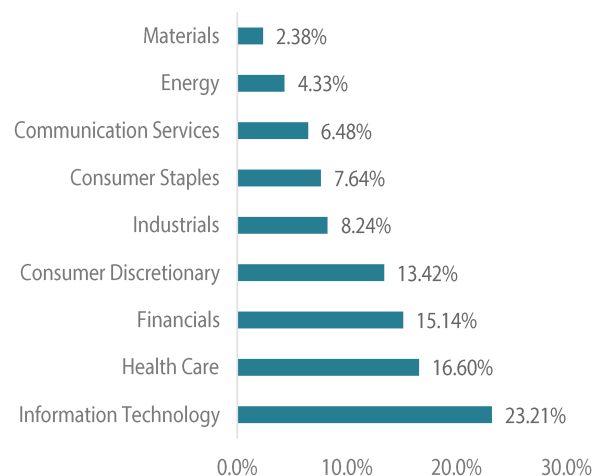
Objective

The fund aims to outperform the benchmark 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}



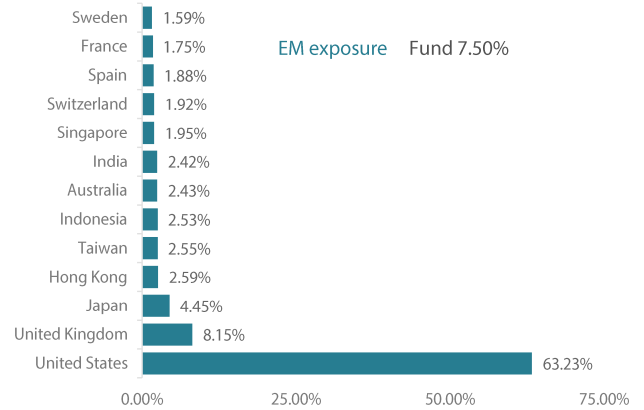
Sector Allocation



Top 10 Holdings

	% of Fund	Country
Microsoft	7.46	United States
Nvidia	3.75	United States
Facebook	3.34	United States
Netflix	3.09	United States
Haleon plc	3.04	United Kingdom
Synopsys	3.01	United States
Compass	2.95	United Kingdom
Schlumberger	2.81	United States
Accenture	2.76	Ireland
Coca Cola	2.64	United States

Geographical Allocation



Market Commentary

October saw equity markets continue to fall from the highs seen during Q2, with both the S&P500 and the Nasdaq ending the month around 10% below their July peaks. The driver of the weakness was the same as in September, as bond yields continued up – the yield on the US 10-year briefly rising above 5% towards the end of the month. The ‘higher for longer’ narrative received further support this month, as some US economic data continued to exhibit surprising resilience. GDP and retail sales both came in notably above economists’ expectations during the month. We are less convinced about any meaningful fall in the demand of the long-term proven appeal of US Dollar denominated assets in times of geopolitical turmoil. This month’s tragic events in Israel and Palestine once again underlined the heightened geopolitical stresses that exist at present. Growth stocks proved marginally more resilient than their value counterparts. Part of the reason for this was the latest round of quarterly reports, with tech giants such as Microsoft Corporation once again confirming the durability of their revenue growth (and strong cash generation). This allowed Information Technology to be one of the strongest performing sectors in the month. Cyclical sectors continued to give up ground last month, as fears grew over future economic growth. Consumer Discretionary was the weakest performer. Industrials, Energy and Materials all failed to keep pace with the market also. Regionally, the US was the only major region to outperform, helped once again by its relatively heavy exposure to Big Tech. All other major regions underperformed the market last month, although there was little difference between their respective returns.

Fund Commentary

Contributors: Microsoft outperformed in October following a strong set of quarterly results that were driven by sustained growth in the office commercial business and better-than-expected growth in Azure, due to AI consumption and share gains. This performance illustrated Microsoft’s growing wallet share within enterprise IT organisations, resilient demand and the ramping generative AI opportunity. Netflix, Inc. shares reacted positively to robust quarterly results, which illustrated that the new strategy is working. Netflix has rolled out paid sharing in every region in which it operates, with cancellation rates much lower than management’s expectations. Additionally, Netflix has successfully increased pricing for the Basic and Premium subscriptions, while maintaining strong user engagement. This strategy, alongside ongoing share buybacks, demonstrate that this is a high-quality business with superior management execution. Progressive Corporation shares climbed in October on the back of solid Q3 results, which demonstrated the company’s ability to execute on achieving positive underwriting results despite the strained loss environment. It was also encouraging to see that actions taken to improve margins have not hindered premium growth.

Detractors: Rentokil shares declined following Q3 results, which highlighted that top-line growth is negatively impacted by a slowdown in consumer demand, and concerns around the Terminix acquisition. Ultimately, it feels like Rentokil management paid up for a turnaround asset that they will need to fix, and this is going to take longer than expected. We do, however, remain confident that the integration will be successful in the long run. TransUnion shares have been negatively impacted by cyclical. Credit expansion has gone into reverse and insurance clients have lowered their marketing spend, impacting the volume of checks asked of the company. It feels like we are still early in a cyclical downturn and there is little that management can do to counter this. Samsonite International S.A. succumbed to some mild profit taking last month, as sentiment towards consumer discretionary spending and travel softened. Relatively weak numbers from luxury goods makers such as LVMH and Kering added to this negative sentiment.

Key Fund Facts

Estimated annual fund charges		Distributions: Generally does not distribute	Strategy Launch: July 2017
Wholesale:	Negotiated outside of the unit price.	Exclusions: Controversial weapons. Tobacco manufacturers.	Strategy size: \$555.4m
Retail:	1.20%, refer to PDS for more details.	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%
KiwiSaver:	1.15% refer to PDS for more details.		

Compliance

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

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