

# Nikko AM Global Shares Hedged Strategy

Monthly Update 31 January 2024

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

- Unsurprisingly equity markets started the year in weak fashion, giving up some of the healthy fourth quarter gains and partly reversing 2023's Santa rally.
- The MSCI AC World Index rose 0.6% (in USD terms) over the month.
- The Information Technology sector was again the best performing sector rising 6.1%, closely followed by Communication Services, rising almost 6.0%.
- The worst performing sector was Materials, falling nearly 3.0%, despite the US Dollar rising sharply.

## Fund Highlights

- The fund posted a return of 3.05% for the month, ahead of its benchmark of 1.29%.
- Top contributors for the month were NVIDIA Corporation, Microsoft Corporation and Meta Platforms Inc.
- Key detractors were HDFC Bank Limited, Samsonite International S.A. and Bio-Techne Corporation.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	3.05%	15.92%	7.76%	1.81%	9.49%	
<b>Benchmark<sup>2</sup></b>	1.29%	13.44%	12.71%	4.61%	8.32%	
<b>Retail<sup>3</sup></b>	3.73%	17.01%	8.45%	0.58%		

1. Returns are before tax and before the deduction of fees and including tax credits (if any). 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.

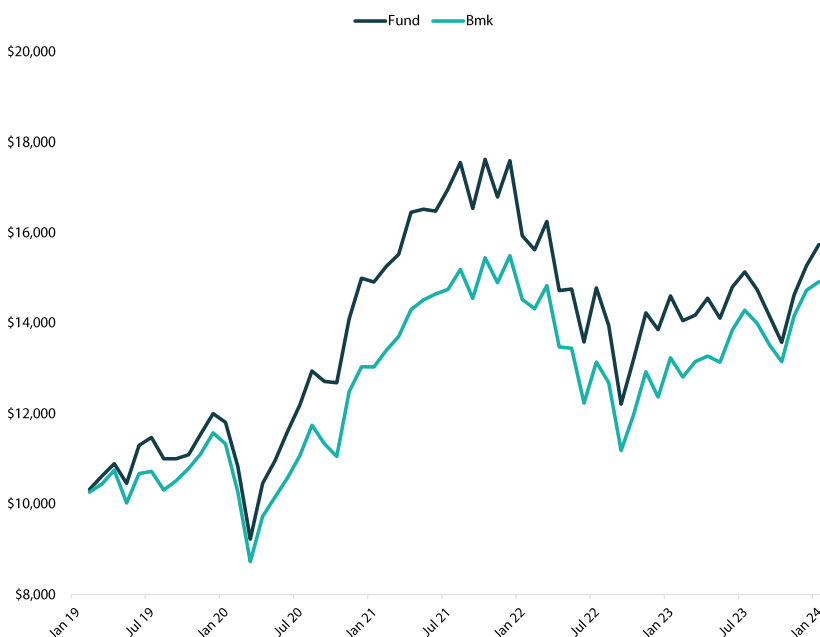
## Overview

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.

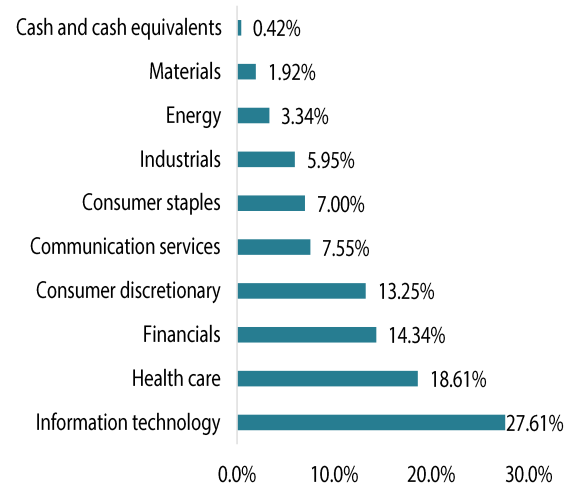
## Objective

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<sup>1,2</sup>



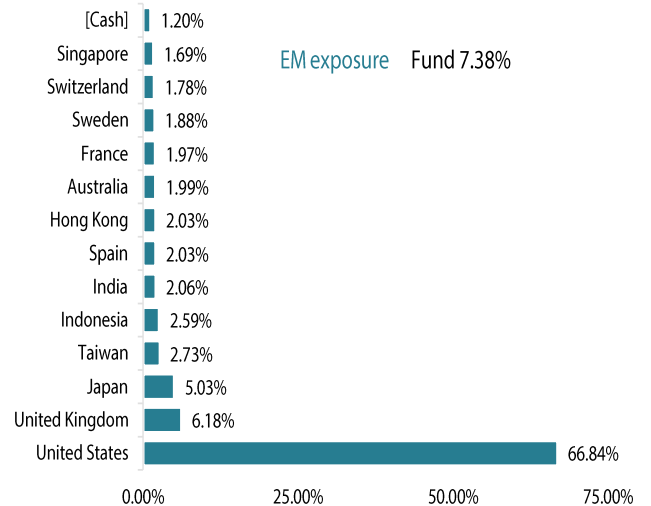
## Sector Allocation



## Top 10 Holdings

	% of Fund	Country
Microsoft	7.74	United States
Nvidia	4.99	United States
Facebook	3.81	United States
Netflix	3.74	United States
Abbott Labs	3.15	United States
Cencora	2.92	United States
Compass	2.87	United Kingdom
Broadcom	2.86	United States
Taiwan Semicon Manufacturing	2.75	Taiwan
Haleon	2.74	United Kingdom

## Geographical Allocation



## Market Commentary

Unsurprisingly equity markets started the year in weak fashion, giving up some of the healthy fourth quarter gains and partly reversing 2023's Santa rally. By mid-January markets were buoyed as economic data further fuelled hopes for a 'soft landing' and investors focused on positive trading in the tech sector and economic tailwinds from future falling interest rates. This optimism was slightly tempered at the end of the month when the Federal Reserve struck a less dovish tone at its January meeting, resulting in the MSCI AC World Index rising 0.6% (in USD terms) over the month.

The best performing global index was the Japan TOPIX Index, continuing the strong performance seen last year. In the US, the S&P 500 & Nasdaq 100 Indices reached new highs as optimism around a 'soft landing' scenario continued to drive markets. A robust job report, steady unemployment figures and better than expected GDP (3.3% annualized) helped support the soft-landing thesis, while also suggesting interest rates may need to remain high, given the underlying strength of the economy. This view was backed by the Fed near the end of the month, as Chairman Powell pushed back on dovish market pricing for rate cuts, and explicitly noted that a March cut seems unlikely.

Europe (ex UK) also delivered positive returns of close to 3.0%. The European Central Bank (ECB) kept rates on hold at its January meeting and re-iterated its commitment to remain data-dependent while UK equities stalled in January. While all things AI drove markets higher, the underperformance from all things linked to China was just as stark. This was a continuation of performance in 2023, as the Chinese domestic economy continued to struggle, with disappointing retail sales and further deterioration in housing activity. Fourth quarter GDP grew 5.2% year-on-year, in line with expectations, but still historically weak. The Hong Kong market fell over 5.0%, while GEM Asia also fell just over 2.5%.

Over the month, growth stocks proved more resilient than their value counterparts. The Information Technology sector was again the best performing sector rising 6.1%, closely followed by Communication Services, rising almost 6.0%. The worst performing sector was Materials, falling nearly 3.0%, despite the US Dollar rising sharply. Real Estate also fell (-2.0%), and to a lesser degree so did Utilities (-0.1%).

## Fund Commentary

**Contributors:** NVIDIA Corporation, Microsoft Corporation and Meta Platforms Inc. all outperformed in January. Correlation between technology stocks was strong as investors became increasingly convinced that 2024 would be the year of AI adoption. Microsoft's results at month end illustrated that companies across all sectors are embracing the leading AI players' technologies to improve their business practices. For example, Walmart, the beating heart of American retail, is deploying Microsoft's AI capabilities to improve and personalise the online shopping experience. These tech companies are also leveraging their AI capabilities to enhance their own performance – for example, Meta's AI investments are driving increased user engagement on Instagram. NVIDIA, as the leading provider of hardware for these AI solutions, is benefiting from this strong wave of adoption.

**Detractors:** HDFC Bank Limited underperformed in January following disappointing quarterly results. The Indian bank and its peers have seen weaker deposit growth, which has led the bank to raise savings rates to attract further deposits, thereby reducing their net interest margins and profitability for the next few quarters. Samsonite International S.A. struggled to perform in January after data indicated that growth in the US and Europe is now normalising and business recovery in China is going to take longer than initially anticipated. Bio-techn Corporation gave back some of the gains it made in December, when the stock rallied on expectations of an improved outlook for bioprocessing and life sciences.

## Key Fund Facts

<b>Estimated annual fund charges</b>	<b>Distributions:</b> Generally does not distribute	<b>Strategy Launch:</b> July 2018
<b>Wholesale:</b> Negotiated outside of the unit price. <b>Retail:</b> 1.20%, refer to PDS for more details.	<b>Exclusions:</b> Controversial weapons. Tobacco manufacturers.	<b>Strategy size:</b> \$317.9m
<b>Hedging:</b> Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%.	<b>Restrictions:</b> Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="http://nikkoam.co.nz/invest/retail">nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b> 0.07%/0.07%

## Compliance

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

## Contact Us

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