

Nikko AM Global Shares Hedged Strategy

Monthly Update 30 June 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

- The US yet again performed well, along with GEM Asia equities, while most commodity-based regions, such as Australia underperformed the index.
- Only two sectors outperformed the index during the quarter – Information Technology (IT) and Communication Services.
- All other sectors underperformed with commodity-based sectors, Energy & Materials performing the worst, then followed by defensive sectors, Healthcare & Consumer Staples.

Fund Highlights

- The fund posted a positive return for the quarter, lagging its benchmark by 3 basis points (bps).
- Key contributors for the month were NVIDIA Corporation, Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) and Broadcom Inc.
- Key detractors were PT Bank Mandiri (Persero) Tbk, Samsonite International S.A. and Schlumberger (SLB).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	4.01%	3.43%	22.54%	3.25%	9.93%	
Benchmark²	2.60%	3.46%	20.76%	4.52%	9.40%	
Retail³	4.57%	3.72%	22.95%	1.98%	8.79%	

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.

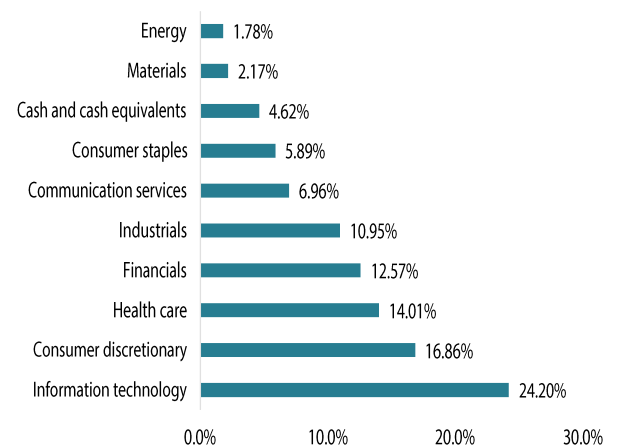
Objective

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^{1,2}



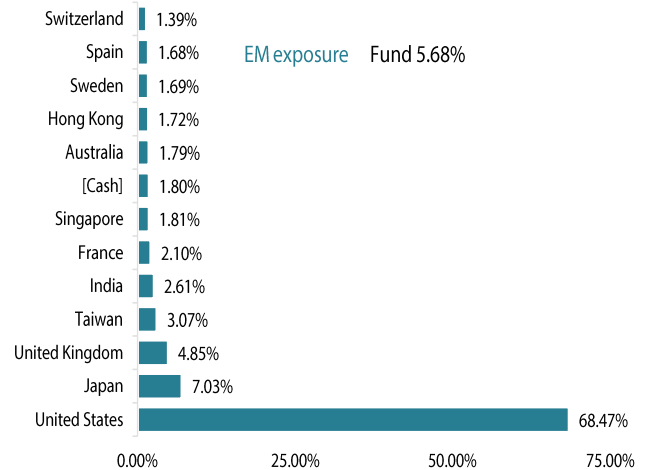
Sector Allocation (Includes cash in NZ PIE)



Top 10 Holdings

	% of Fund	Country
Microsoft	6.86%	United States
Nvidia	6.29%	United States
Amazon	5.00%	United States
Meta Platforms Inc	3.70%	United States
Netflix	3.26%	United States
Taiwan Semicon Manufacturing Co	2.98%	Taiwan
Broadcom	2.82%	United States
Hoya Corporation	2.56%	Japan
HDFC Bank	2.53%	India
Intercontinental Exchange	2.43%	United States

Geographical Allocation



Market Commentary

It is obvious now that we are in the middle of a very strong AI driven infrastructure cycle—but it wasn't always obvious. In late 2022, the AI winners of today were significant underperformers, as higher funding costs took their hold on IT budgets across the globe. But things changed. Our team approach, which allows for open debate and biases to be challenged provided us with the right investment framework to adapt. We researched and analysed the data and over 2023 and made significant alterations to the portfolio by adding several AI infrastructure winners – such as **NVIDIA Corporation**, **Broadcom Inc.** and **Synopsys, Inc.** – to already held winners such as **Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)** and **Microsoft Corporation**. These stocks along with **Meta Platforms Inc.**, **Amazon.com, Inc.** and **Netflix, Inc.** have consistently been among the positive contributors over the last six months – as indeed they were again in June. Only two sectors outperformed the index during the quarter – Information Technology (IT) and Communication Services, which holds **Amazon.com, Inc.** All other sectors underperformed with commodity-based sectors, Energy & Materials performing the worst, followed by defensive sectors, Healthcare & Consumer Staples. Not surprisingly the US yet again performed well, along with GEM Asia equities, while most commodity-based regions, such as Australia underperformed the index. The top five contributors in the S&P500 have sourced just short of 60% of total performance this year and about half in 2023. History suggests that at some point, when the AI narrative breaks down, the tide will turn. But in the meantime, investors continue to climb the wall of worry and the AI theme continues to dominate.

Fund Commentary

Contributors: **NVIDIA Corporation** performed well after publishing better-than-expected quarterly results in May. The company continues to see strong growth in its Data Centre Compute business as demand for AI keeps accelerating. The launch of the more powerful Blackwell chips later this year should help to sustain growth. **Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)** outperformed in the quarter. Sales data illustrated that top-line performance has been tracking ahead of consensus expectations. This reconfirms the view that resilience in other regions is offsetting weakness in China and Apple's orders at TSMC are intact. AI-driven growth is also accelerating, as TSMC adds more capacity next year. **Broadcom Inc.** continued to outperform on the back of strong AI-related revenues, for which the company increased the full-year outlook. Importantly, management also indicated that key non-AI networking markets, which have been a substantial headwind for the company, have bottomed.

Detractors: **PT Bank Mandiri (Persero) Tbk** underperformed after quarterly results in May illustrated continued strong loan growth but a smaller drop through to profits than in recent quarters, as higher funding costs squeezed net interest margins. **Samsonite International S.A.** saw some profit taking after quarterly results in May marginally missed investor expectations (on revenues, more than profit margins). The company cited adverse foreign exchange and a slightly weaker than expected recovery in Chinese demand. Speculative interest in the shares has also declined in recent weeks, as no formal takeover interest has emerged, after rumours earlier in the year. **Schlumberger (SLB)** has struggled to perform since the beginning of the quarter, when the company announced that it would acquire Champion X Corporation for a relatively full valuation. However, we see the cost and revenue synergies from the deal favourably and believe that SLB is taking advantage of a sustainable increase in opex spend over the next few years.

Key Fund Facts

Estimated annual fund charges		Distributions: Generally does not distribute	Strategy Launch: July 2018
Wholesale:	Negotiated outside of the unit price.	Exclusions: Controversial weapons. Tobacco manufacturers.	Strategy size: \$265.3m
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%
Hedging:	Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%.		

Compliance

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

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