

Nikko AM Global Equity Multi-Manager Unhedged Strategy

Monthly Update 31 July 2024

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

Market Overview

- A weaker-than-expected US Consumer Price Index (CPI) reading early in the month, combined with weaker US labour market data, gave investors growing confidence that the US Federal Reserve (Fed) might cut interest rates for the first time this cycle in September.
- There was a sharp rotation within equities over the month, with small caps outperforming large caps and value outperforming growth.
- The MSCI All Countries World Index returned 4.25% in July, with developed market equities gaining 4.42% to outperform emerging market equities (2.97%).

Fund Highlights

- In July, the fund returned 3.17%, underperforming the benchmark return of 4.25% by 108 basis points (bps).
- Stock selection was the key driver of the month's underperformance. A reversal in fortunes for AI-focused mega-cap companies contributed most to the drag on performance.
- Top contributors for the month were UnitedHealth Group, Old Dominion Freight Line and Thor Industries.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	3.17%	7.63%	30.05%	14.74%	17.98%	15.85%
Benchmark²	4.25%	7.69%	22.61%	11.60%	13.41%	12.69%
Retail³	2.36%	6.16%	26.50%	12.72%	16.27%	14.24%

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), 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 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 Portfolio Manager, Alan Clarke.

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 unhedged.

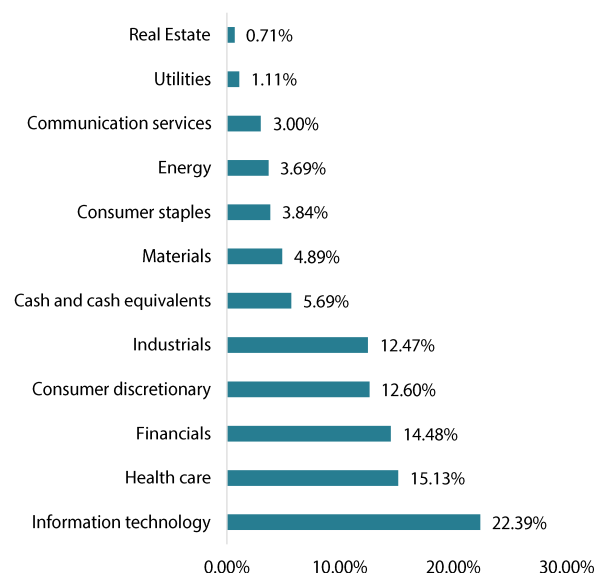
Objective

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}



Asset Allocation



Top 10 Holdings	% of Fund	Country
Microsoft	6.06%	United States
Amazon	4.98%	United States
Nvidia	4.38%	United States
Taiwan Semicon mfg Co	3.12%	Taiwan
Unitedhealth	2.99%	United States
Apple	2.19%	United States
Progressive	1.63%	United States
Safran Sa	1.55%	France
Constellation Software	1.41%	Canada
Meta Platforms	1.39%	United States

Manager	Allocation	Active Return
Royal London	37.72%	1.39%
NAME & JP Morgan & Cash	40.63%	-2.85%
WCM	21.65%	-1.91%
Based on unhedged performance		

What helped	What hurt
UnitedHealth	O/W Apple U/W
Old Dominion Freight Line	O/W Tesla U/W
Thor Industries	O/W Berkshire Hathaway Class B U/W
OW: overweight; UW: underweight; NH: no holding – month end position	

Market Commentary

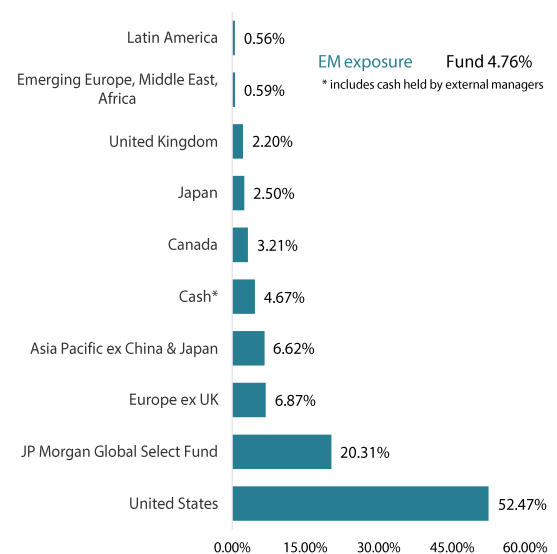
Global equity markets generally showed positive performance in July 2024, although it proved to be a volatile month as markets digested several notable economic and political developments. A weaker-than-expected US Consumer Price Index (CPI) reading early in the month, combined with weaker US labour market data, gave investors growing confidence that the US Federal Reserve (Fed) might cut interest rates for the first time this cycle in September. There was a sharp rotation within equities over the month, with small caps outperforming large caps and value outperforming growth. The MSCI All Countries World Index returned 4.25% in July, with developed market equities gaining 4.42% to outperform emerging market equities (2.97%). Growth stocks were particularly weak, advancing only 1.71%, as investors grew more sceptical about the potential for future returns from investment in artificial intelligence (AI). Value stocks however had a very strong July with a gain of 7.11%, but still lag the broader market year-to-date with a return of 18.7%. US small-cap stocks performed particularly well over the month, with the Russell 2000 Index surging more than 12%. This was also the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years.

Fund Commentary

In July, the fund returned 3.17%, underperforming the benchmark return of 4.25% by 108 basis points (bps). Of the underlying managers, Royal London was the sole outperformer, exceeding the benchmark return by 139 bps. In contrast, NAME (-119 bps), JP Morgan (-166 bps) and WCM (-191 bps) had disappointing relative returns over the month. Stock selection was the key driver of the month's underperformance. A reversal in fortunes for AI-focused mega-cap companies contributed most to the drag on performance. While there was little in the way of company-specific news or disappointments, the weaker-than-expected US Consumer Price Index (CPI) reading led to a significant shift away from especially mega-cap technology stocks towards more value-based areas of the market. This shift negatively impacted technology companies like Microsoft, Taiwan Semiconductor, Nvidia, Datadog and Integris. Apple was one of the few exceptions in the technology sector - it gained more than 8% over the month but detracted from performance as the fund is underweight Apple. Nil exposure to outperforming benchmark heavyweights such as Tesla, JP Morgan, Berkshire Hathaway and Philip Morris also contributed to the underperformance.

The fund's top contributors for the month were spread across various sectors. Top of the list was the US health insurance provider, UnitedHealth Group, and the trucking business, Old Dominion Freight Line, followed by non-benchmark holdings, Thor Industries and KB Financial Group (KBFG). Thor is the largest manufacturer of recreational vehicles (RVs) in North America, while KBFG provides a broad range of banking and financial services in South Korea. Now that the US Fed has signalled that it is prepared to start cutting interest rates, the overall cost to purchase RVs and boats could become far more tolerable, potentially boosting sales for RV makers like Thor Industries. Meanwhile KBFG has become the first publicly traded South Korean company to officially announce a plan to disclose its corporate value enhancement plans. This is part of a government-led corporate value enhancement initiative, as part of an effort to solve for the persistent undervaluation of Korean bank stocks.

Geographical allocation



Key Fund Facts

Estimated annual fund charges (incl. GST)	Distributions: Generally does not distribute	Strategy Launch: October 2008
Wholesale: Negotiated outside of the unit price.	Exclusions: Any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers	Strategy size: \$416.5m
Retail: 1.42%, refer to PDS for more details.		Buy / Sell spread: 0.07%/0.07%
Hedging: Any foreign currency exposure is unhedged.		

Compliance

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

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