

# Nikko AM Global Shares Unhedged Strategy

Monthly Update 31 July 2024

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

- We began July with AI stocks dominating the market, and early company quarterly results were promising, albeit not quite meeting elevated expectations.
- July had the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years, along with unexpected outperformance from a diverse mix including Real Estate, Financials, & Utilities sectors.
- IT & Communications sectors underperformed the most over the month.

## Fund Highlights

- The fund posted a positive return for the month, trailing its benchmark.
- Key contributors for the month were Compass, Bio-Techne and TransUnion.
- Key detractors were Nvidia, Synopsys, Broadcom, Microsoft, Amphenol and Hexagon.

## 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>	3.02%	8.26%	26.35%	9.27%	14.15%	
<b>Benchmark<sup>2</sup></b>	4.25%	7.69%	22.61%	11.60%	13.41%	
<b>Retail<sup>3</sup></b>	1.02%	6.27%	22.48%	7.39%	12.46%	
<b>KiwiSaver<sup>3</sup></b>	1.01%	6.26%	22.50%	7.42%	12.61%	

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 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.

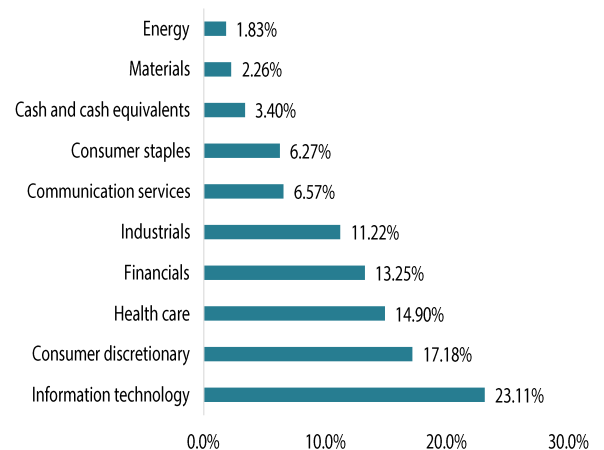
## Objective

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<sup>1,2</sup>



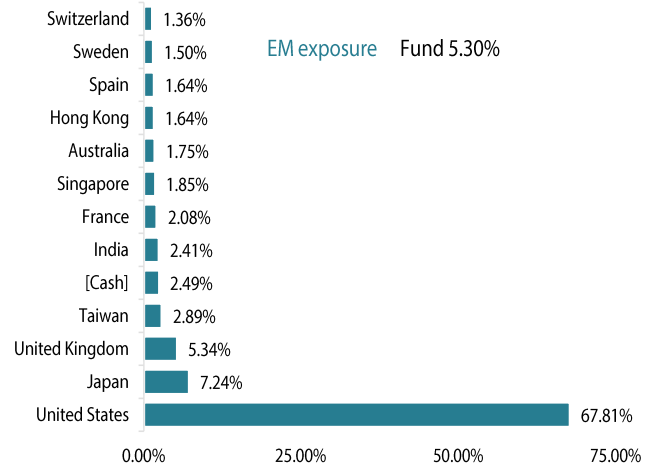
## Sector Allocation (Includes cash in NZ PIE)



## Top 10 Holdings

	% of Fund	Country
Microsoft	6.46	United States
Nvidia	5.99	United States
Amazon	4.87	United States
Meta Platforms Inc	3.51	United States
Netflix	3.05	United States
Taiwan Semicon Manufacturing Co	2.86	Taiwan
Broadcom	2.84	United States
Hoya Corporation	2.78	Japan
Compass	2.72	United Kingdom
Intercontinental Exchange	2.71	United States

## Geographical Allocation (Includes cash in NZ PIE)



## Market Commentary

France nearly voted for a dramatic political reversal, only for central-left parties to unite in a last-minute agreement. On Independence Day, UK voters opted for their own change in leadership, electing Labour, while a failed assassination attempt on Donald Trump nearly precipitated change – though, ironically, this acted as a catalyst (pardon the pun) for a shift at the top of the Democratic Party instead. We began July with AI stocks dominating the market, and early quarterly results were promising, albeit not quite meeting elevated expectations. However, it was a benign CPI print that precipitated a significant reversal in fortunes. Given the prior gains in 2024, it was not surprising to see both the IT & Communications sectors underperform the most over the month. Simultaneously, 2024's previous underperformers played catch-up in July, with investors gravitating towards more value-oriented small-cap equity stocks, which are more sensitive to interest rate cuts. This shift led to the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years, along with unexpected outperformance from a diverse mix including Real Estate, Financials, & Utilities sectors. GEM Asia was the only region to post a negative contribution over the month, suggesting that not all forms of stability are viewed positively by the market.

## Fund Commentary

**Contributors:** **Compass** reported a strong first half (H1), with EBIT margins exceeding expectations. The robust performance was broad-based, with all regions delivering double-digit organic revenue growth and significant margin progression. As a result, consensus revenue and operating profit estimates are likely to increase, and given the low expectations going into the announcement, the shares performed well. The company will also continue with their share buyback program. **Bio-Techne** shares outperformed from previously depressed levels as results from peers in the medical tools and outsourced services markets released outlooks suggesting that the COVID-19 inventory headwinds were coming to an end. In particular, positive results from fellow healthcare holding **Danaher** supported the entire subsector and added fuel to the higher beta Bio-Techne shares. The company is set to report their quarterly results in early August. **TransUnion** reported strong results driven by some large contract wins. Management provided a conservative outlook, which suggests that upgrades for FY24 are likely. Despite the well-flagged weakness in the consumer sector, management is highlighting the increased need for marketing spend among their financial services client base as a driver for top-line growth in the coming months. They are also seeing benefits from their acquisition of Sontiq in the form of greater interest in fraud and security protection solutions.

**Detractors:** Last month's positive stock contributors were predominantly mega-cap or AI-focused, or for some, both. In July, however, we observed a reversal in fortunes for these companies. There was little in the way of company-specific news or disappointments. Instead, it was a CPI print that immediately led to a significant shift in fortunes away from the previous leaders towards more value-based areas of the market, such as small-cap stocks. This shift impacted companies like **Nvidia**, **Synopsys**, and **Broadcom**. Major investors such as **Microsoft** and Alphabet continue to increase AI spending, suggesting that we remain in a growth phase and that the recent market correction is just that—a correction. More insights will be available when these companies report later in August. **Amphenol** was also a winner in the first half of 2024 but underperformed in July, despite reporting strong results and beating earnings and sales expectations by 7%. The main disappointment in July came from **Hexagon**. Management indicated that end markets such as construction, automotive, and automation within China remained weak with no signs of a short-term recovery.

## Key Fund Facts

<b>Estimated annual fund charges</b>		<b>Distributions:</b> Generally does not distribute	<b>Strategy Launch:</b> July 2017
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Exclusions:</b> Controversial weapons. Tobacco manufacturers.	<b>Strategy size:</b> \$566.1m
<b>Retail:</b>	1.20%, refer to PDS for more details.	<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%
<b>KiwiSaver:</b>	1.15% refer to PDS for more details.		

## Compliance

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

## Contact Us

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