

Nikko AM Global Equity Multi-Manager Unhedged Strategy

Monthly Update 31 August 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

- Global equities sold off sharply over the first three trading days of the month after Bank of Japan raised rates. Disappointing US economic data further fuelled the sell-off, as investors began to worry about a hard landing in the US economy and risk-off sentiment hit equity markets.
- The sell-off was short lived and by the end of the month, most global equity indices had clawed back some of their initial losses.

Fund Highlights

- The underlying managers delivered mixed performance over the month; the growth manager WCM outperformed significantly, while quality manager NAME also delivered a strong performance, both were well ahead of the benchmark, +145 bps and +131 bps respectively. JP Morgan's core strategy was marginally ahead of the benchmark +17 bps. Royal London faced a challenging month, underperforming by -124 bps.

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.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-2.41%	4.55%	22.94%	13.16%	16.70%	15.08%
Benchmark²	-2.66%	4.60%	17.48%	10.00%	12.32%	11.99%
Retail³	-2.11%	3.98%	20.72%	11.18%	15.24%	13.77%

- Returns are before tax and before the deduction of fees and including tax credits (if any). Based on actual calendar periods.
- Benchmark: MSCI All Countries World Index (net dividends reinvested), in NZD terms. No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

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.

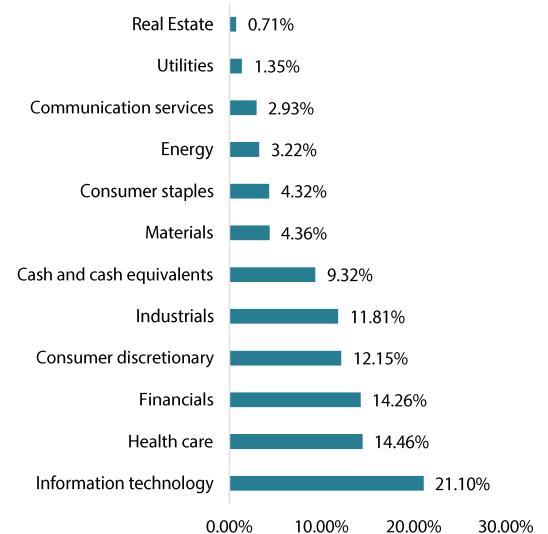
Objective

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	5.69%	United States
Amazon	4.53%	United States
Nvidia	4.30%	United States
Unitedhealth	2.95%	United States
Taiwan Semicon Mfg Co	2.75%	Taiwan
Apple	1.77%	United States
Progressive	1.65%	United States
Meta Platforms	1.53%	United States
Safran	1.36%	France
Visa	1.29%	United States

Manager	Allocation	Active Return
Royal London (Core)	32.61%	-1.23%
NAME (Quality) & JP Morgan (Core) & Cash	45.46%	0.96%
WCM (Growth)	21.93%	1.46%

Based on unhedged performance. Investment style in brackets.

What helped		What hurt	
Progressive Corp	o/w	Dollar General Corp	o/w
AppLovin Corp. Class A	o/w	Steel Dynamics	o/w
MercadoLibre	o/w	Amazon.com	o/w

OW: overweight; UW: underweight; NH: no holding – month end position

Market Commentary

Global equities sold off sharply early in the month in response to the Bank of Japan raising its benchmark interest rate from 0% - 0.1% to “around 0.25%” (the highest since 2008). The stock market rout began in Asia, where Japan's Nikkei 225 Index saw its worst single-day percentage drop since October 1987. The losses spilled over to other Asian equity markets, and then to the rest of the world. The MSCI All Countries World Index returned -2.66% (NZD, unhedged) in August, after it fell as much as 6% by the 5th August. The performance of the “Magnificent Seven” technology stocks was mixed; Meta Platforms (owner of Facebook) was the standout with a return of 4.2%, while Tesla dropped -12.4%. Nvidia, the posterchild of the artificial-intelligence (AI) frenzy, declined 3.2%. However, market concerns are growing that large technology companies could be overspending on AI infrastructure just as economic growth shows signs of slowing. Adding to these concerns was news that Warren Buffett's Berkshire Hathaway disclosed that it had sold nearly half of its position in the iPhone maker Apple during the second quarter.

Fund Commentary

The underlying managers delivered mixed performance over the month. Stock selection contributed positively to the fund's performance in the information technology, financials, consumer discretionary and communication services sectors. However, it detracted in the healthcare, consumer staples and materials sectors. Top contributors: **Progressive** - growth in car insurance policies is accelerating as the company continues to win market share, and the loss ratio continues to improve, resulting in higher profitability. The ad network and mediation platform company **AppLovin Corp** reported robust Q2 results. Operating within the rapidly growing mobile app industry, AppLovin benefits from increasing digital ad spend, as its software is designed to help game developers monetize players' experience through in-app purchases and collect and use data analytics to improve content. **MercadoLibre's** share price was boosted by solid Q2 results and an announcement by the company that it will invest USD 7 billion in Brazil and in Mexico during 2024. Both countries currently have below expected e-commerce penetrations in terms of real GDP growth, which demonstrates that MercadoLibre still has room to grow in both markets.

Top detractors: **Dollar General's** share price plunged more than 30%. The market punished the discount retailer after it reported fiscal second-quarter profit and sales below expectations and slashed its full-year outlook. The company's management attributed the weaker outlook to low-income households, that are feeling more ‘financially constrained’ compared to six months ago. **Steel Dynamics** fell almost 15% after a decline in steel pricing and increased uncertainty in the steel market. The company remains optimistic about steel demand and pricing dynamics for 2024 and sees strong market potential in Mexico for high-value products. The company also reported strong financial and operational performance in the second quarter of 2024 and continues to leverage its low carbon footprint for a competitive edge. Online retailer **Amazon** fell 9% in sympathy with its mega cap technology peers. An extremely high bar has been set for these players and investors are becoming increasingly nervous about the AI capex and depreciation cycle ahead. Furthermore, Amazon's customers in the retail business are starting to trade down, driving lower-than-expected guidance for Q3. Despite this, there remains significant growth potential for Amazon Web Services (AWS), driven by the ongoing transition from on-premise to the cloud.

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: \$417.8m
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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