

# Nikko AM Global Shares Unhedged Strategy

Monthly Update 31 August 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

- A lower-than-expected ISM manufacturing print, a weak jobs report, and the Bank of Japan finally changing their interest rate policy spooked the markets.
- August results from the AI patch were strong, but as NVIDIA Corporation's results on the day showed, record-breaking numbers are perhaps no longer good enough to drive share prices higher.
- The Energy sector continues to drag on fund performance. Although there were many mixed signals across the market, the most telling shift was the outperformance of all defensive sectors: Utilities, Consumer Staples, Healthcare and REITs.

## Fund Highlights

- The fund posted a negative return for the month but outperformed its benchmark.
- Key contributors for the month were Progressive, Hoya and Haleon.
- Key detractors were Bio-Techne, Samsonite International and Schlumberger.

## 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>	-1.34%	6.35%	21.39%	8.04%	13.40%	
<b>Benchmark<sup>2</sup></b>	-2.66%	4.60%	17.48%	10.00%	12.32%	
<b>Retail<sup>3</sup></b>	-0.92%	5.06%	18.85%	6.37%	12.01%	
<b>KiwiSaver<sup>3</sup></b>	-0.87%	5.09%	18.91%	6.41%	12.12%	

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.

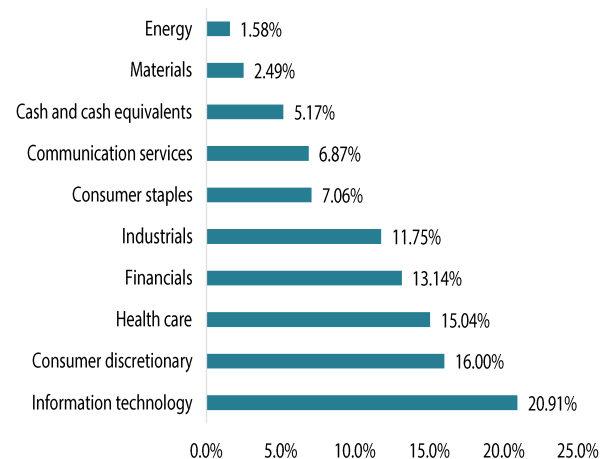
## Objective

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>



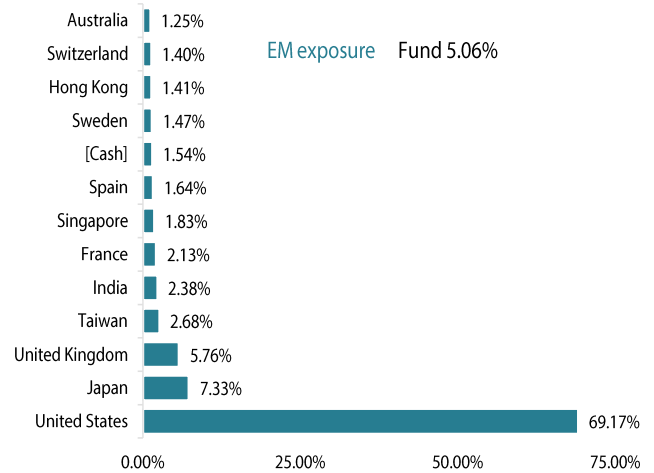
## Sector Allocation (Includes cash in NZ PIE)



## Top 10 Holdings

	% of Fund	Country
Microsoft	5.86	United States
Nvidia	5.56	United States
Amazon	4.16	United States
Meta Platforms	3.65	United States
Netflix	3.23	United States
Haleon	2.91	United Kingdom
Elevance Health	2.91	United States
Coca Cola	2.80	United States
Intercontinental Exchange	2.73	United States
Cencora	2.69	United States

## Geographical Allocation (Includes cash in NZ PIE)



## Market Commentary

Within a few days of August, the true teeth of market volatility were displayed in full force - a reminder, if it was needed, that preparing for more volatile and difficult times has its value. A lower-than-expected ISM manufacturing print, a weak jobs report, and the Bank of Japan finally changing their interest rate policy spooked the markets, increasing volatility to levels seen only a few times before, including a daily drop in the TOPIX of 12%, not seen since 1987. Markets adjusted quickly and are now pricing in over 100 bps of Fed rate cuts, and by the end of the month, global equity markets had risen back to highs and delivered 2%+ for the month. However, an intra-month investigation uncovers deeper fragility within markets, guiding for caution in the months ahead. August results from the AI patch were strong, but as NVIDIA Corporation's results on the day showed, record-breaking numbers are perhaps no longer good enough to drive share prices higher. Outside AI, the IT sector lost its shine a few months ago, which partly explains why we are underweight in the sector. Elsewhere, growth is under pressure, inflation data is cooling, and a normal economic slowdown is taking shape. Despite these headwinds, the fund delivered strong stock selection in Financials, Communication Services, and Industrials, with companies like Progressive Corporation, Netflix, Inc., and Hitachi, Ltd. delivering strong results and share price performance. Value outperformed growth. Although US markets didn't outperform, EAFE markets, driven by the UK, Europe, Canada, and Australia, outperformed, while emerging markets continued their slide downwards. Although fears of recession were raised during the month, Financials outperformed, while commodity sectors struggled to divorce share price performance from drifting commodity prices. The Energy sector continues to drag on fund performance. Although there were many mixed signals across the market, the most telling shift was the outperformance of all defensive sectors: Utilities, Consumer Staples, Healthcare and REITs.

## Fund Commentary

**Contributors: Progressive Corporation** outperformed in August. Growth in auto policies is accelerating as they continue to win market share, and the loss ratio continues to improve, resulting in higher profitability. **Hoya Corporation** shares recovered over the month of August after the company delivered better-than-expected quarterly numbers and forward-looking guidance. The IT business exceeded estimates, and the outlook is optimistic, with the sales recovery in IT expected to continue, destocking complete, and AI-related demand booming. The healthcare business has been more challenged, margins were dragged down by promotional spending needed to maintain market position after a recent cyber-attack and the ongoing anti-corruption push in China. **Haleon PLC** continued to outperform in August, in sympathy with peers as the outlook for Consumer Staples became more favorable. More importantly, the company reported strong results at the beginning of the month, which demonstrated quality growth and strong cash generation. Investors were encouraged by the EBIT margin beat, as it likely signals the end of earnings downgrades.

**Detractors: Bio-Techne Corporation** underperformed in August following lacklustre quarterly numbers. The problem in recent quarters has been the volatility in parts of the business tied to biotech funding and China, and management's ability to frame guidance properly against this backdrop. This continues to weigh on the stock's rating versus peers. **Samsonite International S.A.** shares continued to fall in August after the company reported disappointing results, which reflected a moderating demand environment. Consumption trade-down hurt luxury TUMI sales, and American Tourister suffered from promotional activity in India. The company also reduced its 2024 revenue guidance. There was no new news out on **Schlumberger (SLB)**. The shares continued to underperform on the back of weak commodity prices and prolonged energy equity weakness. Recent results for SLB were solid, and we are becoming increasingly positive on their outlook as the valuation support strengthens. Continued expansion in international markets and the likely global soft-landing outlook should also support the share price as we head into 2025.

## 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> \$568.2m
<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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