

# Nikko AM Global Shares Hedged Strategy

Monthly Update 30 September 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 Fed kick-started a new cutting cycle with a 50-basis point move in September.
- Hong Kong drove markets, rising over 19% over the quarter as the value on offer was too appealing and Chinese policymakers announced a raft of new stimulus measures.
- The European Central Bank delivered its second rate cut in September, taking interest rates to 3.5%, following in the footsteps of the Bank of England in August.
- Despite slowing global economies, both Financials and Industrials sectors posted outperformance, each contributing more than 6% over the quarter.

## Fund Highlights

- The fund posted a positive return for the quarter, ahead of its benchmark.
- Key contributors for the month were Haleon PLC, TransUnion and Hoya Corporation.
- Key detractors were Synopsys, Inc., Elevance Health, Inc. and SLB (formerly 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>	1.85%	4.97%	34.50%	4.81%	11.59%	
<b>Benchmark<sup>2</sup></b>	1.92%	4.84%	29.69%	6.42%	10.76%	
<b>Retail<sup>3</sup></b>	3.08%	4.68%	33.75%	3.45%	10.39%	

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.

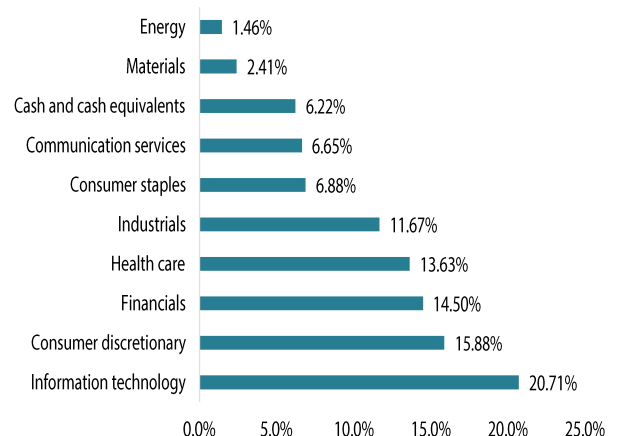
## Objective

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<sup>1,2</sup>



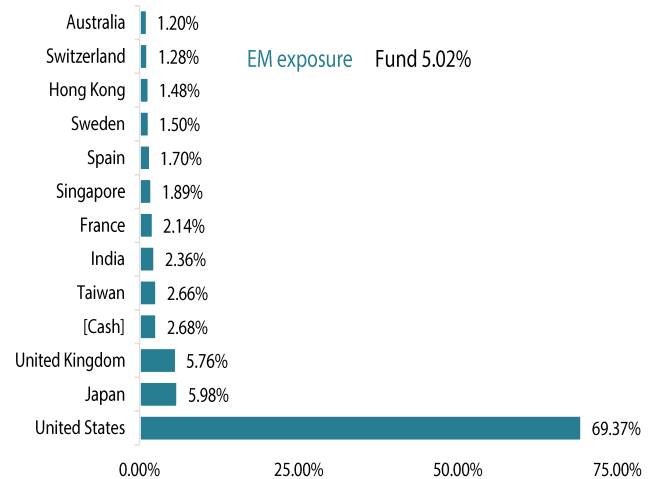
## Sector Allocation (Includes cash in NZ PIE)



## Top 10 Holdings

	% of Fund	Country
Microsoft	5.86	United States
Nvidia	5.48	United States
Amazon	4.21	United States
Meta Platforms	3.88	United States
Haleon	2.96	United Kingdom
Netflix	2.77	United States
Coca Cola	2.69	United States
Intercontinental Exchange	2.63	United States
Elevance Health	2.63	United States
Compass	2.60	United Kingdom

## Geographical Allocation (Includes cash in NZ PIE)



## Market Commentary

The Fed kick-started a new cutting cycle with a 50-basis point move in September. With the unemployment rate having drifted up from a low of 3.4% in April 2023 to above 4%, Fed officials have now made it clear that further weakening in the economy is not welcome. The portfolio rose 4.9% in the quarter, beating the MSCI AC World Index by 13 bps. After months of being in the wilderness, Hong Kong drove markets, rising over 19% over the quarter as the value on offer was too appealing and Chinese policymakers announced a raft of new stimulus measures. While not new or at record levels, the stimulus was enough for a significant reversal in fortunes. Other Asian indices also performed strongly, gaining nearly 5% in the month, while materials-heavy composites in Australia and Canada posted a credible 7%. US markets underperformed global indices, posting 1.4%, which isn't a significant underperformance and was in line with Japan's return of 1.3% and Europe's ex-UK return of 1.7%. With inflation cooling and activity relatively muted, Western central banks also deemed it appropriate to cut rates. The European Central Bank delivered its second rate cut in September, taking interest rates to 3.5%, following in the footsteps of the Bank of England in August. Unsurprisingly, interest rate and Chinese-sensitive sectors performed well over the quarter. This was most evident in REITs and Utilities, which both posted over 12% returns. Despite slowing global economies, both Financials and Industrials sectors posted outperformance, each contributing more than 6% over the quarter. While growth in the East might pick up, growth in the West is slowing. ISM surveys have been at recessionary levels for twelve months, and we are now starting to see that impact corporate forecasts.

## Fund Commentary

**Contributors: 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. **TransUnion** followed up strong second quarter (Q2) results posted in August with a strong September for the share price. The company's Financial Services business should benefit from an acceleration in mortgage enquiries now that interest rates have started to fall. The company has also made a US dollar 80 million debt prepayment and refinanced their debt with more favorable terms. **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.

**Detractors: Synopsys, Inc.** underperformed in sympathy with the semiconductor sector, which has come under significant pressure after strong performance in the first half of 2024. Despite the company delivering solid quarterly results in August, Synopsys's peer, Cadence Design Systems reduced its full-year outlook. **Elevance Health, Inc.** also underperformed. This is attributed to a couple of factors. Firstly, the narrowing of the opinion polls, predicting the outcome of the upcoming US Presidential election. Secondly, the fall observed in bond yields could reduce the level of investment income enjoyed by the insurers. **SLB (formerly Schlumberger)** underperformed in September due to a combination of reduced funding in the oilfield services sector and a cautious outlook for the industry's performance in 2024. These factors led to investor concerns about the company's growth trajectory and profitability and despite the Chinese stimulus package, investors remain cautious on the Energy patch.

## Key Fund Facts

<b>Estimated annual fund charges</b>		<b>Distributions:</b> Generally does not distribute	<b>Strategy Launch:</b> July 2018
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Exclusions:</b> Controversial weapons. Tobacco manufacturers.	<b>Strategy size:</b> \$235.8m
<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>Hedging:</b>	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.

## Contact Us

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