

Nikko AM Global Shares Hedged Strategy

Monthly Update 30 November 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

- One of the immediate outcomes from the US election result has been the anticipation of sweeping deregulation and rising real rates, propelling the financial sector higher.
- Prior AI winners underperformed, so it was particularly pleasing to deliver strong relative performance while our AI holdings paused for breath.
- Emerging markets significantly underperformed developed markets, with Asian equities declining due to concerns about a future trade conflict.

Fund Highlights

- The fund posted a positive return for the month, ahead of its benchmark.
- Key contributors for the month were Interactive Brokers Group, Inc.'s, Netflix, Inc. and Ryan Specialty Holdings, Inc.
- Key detractors were Tesla, Inc., Hitachi, Ltd.'s and Taiwan Semiconductor Manufacturing Co., Ltd.'s

Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|------------------------------|-----------|--------------|----------|--------------------|-------------------|------------------|
| Wholesale¹ | 5.79% | 6.64% | 36.30% | 5.88% | 11.53% | |
| Benchmark² | 4.13% | 4.92% | 27.46% | 6.61% | 10.19% | |
| Retail³ | 2.81% | 6.81% | 34.21% | 3.81% | 9.95% | |

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.

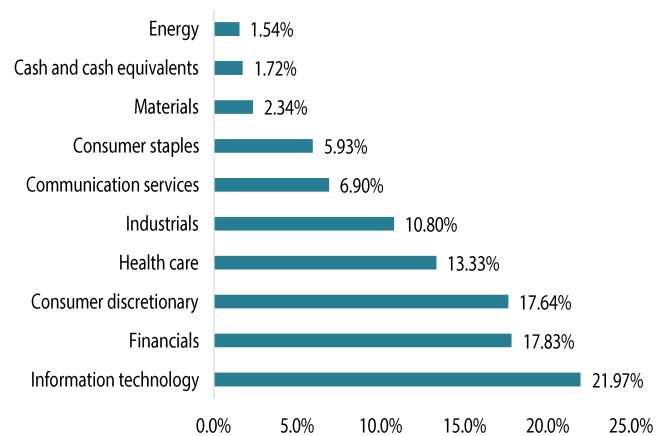
Objective

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^{1,2}



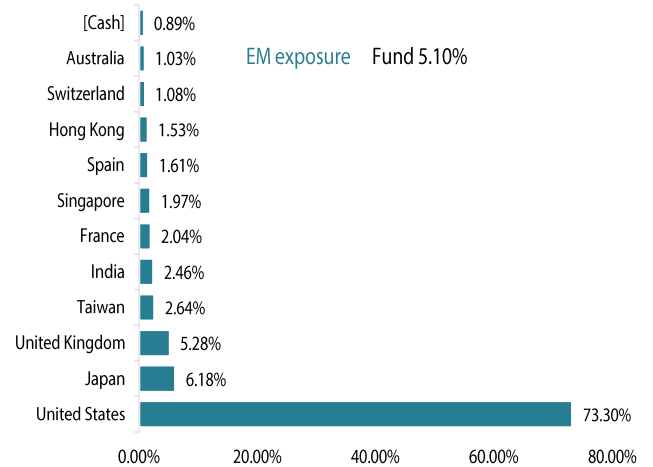
Sector Allocation (Includes cash in NZ PIE)



Top 10 Holdings

| | % of Fund | Country |
|---------------------------|-----------|----------------|
| Microsoft | 5.80 | United States |
| Nvidia | 5.80 | United States |
| Amazon | 4.73 | United States |
| Meta Platforms | 3.91 | United States |
| Netflix | 2.99 | United States |
| Compass | 2.79 | United Kingdom |
| Cencora | 2.76 | United States |
| Interactive Brokers | 2.73 | United States |
| Booking Hldgs | 2.66 | United States |
| Intercontinental Exchange | 2.65 | United States |

Geographical Allocation (Includes cash in NZ PIE)



Market Commentary

The US elections were undoubtedly the star show for November, and although a Trump victory was increasingly the likely outcome, the scale of the Republican victory was the cliffhanger ending. Trump Season 2 starts in January, and it promises to have us on the edge of our seats in a weird intoxication. The stars are bigger than ever, with Elon Musk and JFK Junior joining Donald Trump as lead actors. One of the immediate outcomes from the election result has been the anticipation of sweeping deregulation and rising real rates, propelling the financial sector higher. The big winning region was the USA, as MAGA policies look to support growth back home while penalising overseas exporters. However, prior AI winners underperformed, so it was particularly pleasing to deliver strong relative performance while our AI holdings paused for breath. AI remains the biggest area of growth across markets with as yet no sight of a slowdown. Although most mega caps didn't perform well, there was an exception in Tesla, which rose more than 35% on the back of the new Broligarchy* established at the White House. Tesla was the largest detractor to fund performance based on it not having Future Quality characteristics and hence not owned. Outside US markets, the election result was met with some caution. Emerging markets significantly underperformed developed markets, with Asian equities declining due to concerns about a future trade conflict and the assessment that the previously announced Chinese government support is not yet sufficient to overcome the domestic real estate and confidence crisis. Europe – which increasingly looks in political and economic difficulty – also performed poorly.

* Broligarchy – refers to a power structure where a small group of men, often distinguished by their 'bro-ness', control a political or social system.

Fund Commentary

Contributors: Interactive Brokers Group, Inc.'s shares surged due to strong quarterly earnings announced in October and increased trading volumes post the US election. The company's robust platform and competitive pricing continue to attract more clients amid market volatility, boosting investor confidence. **Netflix, Inc.** outperformed due to continued subscriber growth and popular new content releases. The company's ability to consistently deliver engaging content helped it maintain its leading position in the streaming market, and we anticipate management will continue to deliver gains in 2025. **Ryan Specialty Holdings, Inc.** had a strong performance in November, driven by impressive third-quarter results. The company also benefits from continued industry consolidation in the wholesale broking industry.

Detractors: Tesla, Inc. was the biggest detractor for the portfolio over the month due to the shares rising 35% and our zero weighting in the portfolio. The main driver for the shares was the success of Donald Trump in the US General Election and Elon Musk's likely appointment to lead the newly created Department of Government Efficiency ('DOGE'). It is viewed that lower government regulation may accelerate Tesla's opportunity to dominate the Autonomous Vehicle ('AV') market. **Hitachi, Ltd.'s** second quarter results were a disappointment for the market, with raised full-year guidance matching what consensus was already expecting and a reminder of the drag from underperforming segments, with a one-off write-down in one of their smaller affiliates. **Taiwan Semiconductor Manufacturing Co., Ltd.'s** shares fell despite strong quarterly results, continued market share gains, higher demand from Nvidia's Hopper GPU chip, and raised guidance. However, the shares were weak as the market started to price in likely Trump tariffs and subsequent implications for future trading for the company.

Key Fund Facts

| | | | |
|--------------------------------------|---|--|---------------------------------------|
| Estimated annual fund charges | | Distributions: Generally does not distribute | Strategy Launch: July 2018 |
| Wholesale: | Negotiated outside of the unit price. 1.20%, refer to PDS for more details. | Exclusions: Controversial weapons. Tobacco manufacturers. | Strategy size: \$274m |
| Retail: | | | |
| Hedging: | Any foreign currency exposure is gross hedged at 100% to NZD. The permitted operational hedging range is 95% to 105%. | Restrictions: Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website nikkoam.co.nz/invest/retail . | Buy / Sell spread: 0.07%/0.07% |

Compliance

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

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