

Nikko AM Global Shares Hedged Strategy

Monthly Update 31 December 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

- Global equity markets (hedged to NZD) finished off 2024 with a negative month and positive quarter to close out what was a second straight spectacular year.
- The MSCI ACWI Index (NZD Hedged) was down 1.7% for December and up 1.2% for the quarter.
- AI dominated performance again over the course of the year, and IT and Communication Services sectors outperformed the fourth quarter, driven largely by the “Magnificent 7”, though also helped by stellar results from Broadcom Inc.

Fund Highlights

- The fund posted a positive return for the quarter, well ahead of its benchmark.
- Key contributors for the quarter were Netflix, Inc., Broadcom Inc. and Interactive Brokers Group Inc.
- Key detractors for the quarter were Elevance Health, Inc., Tesla, Inc., Apple Inc. and Uber Technologies, Inc.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-2.13%	2.47%	27.75%	3.50%	10.21%	
Benchmark²	-1.66%	1.23%	20.52%	4.64%	8.93%	
Retail³	-1.49%	2.08%	26.63%	2.42%	8.98%	

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.

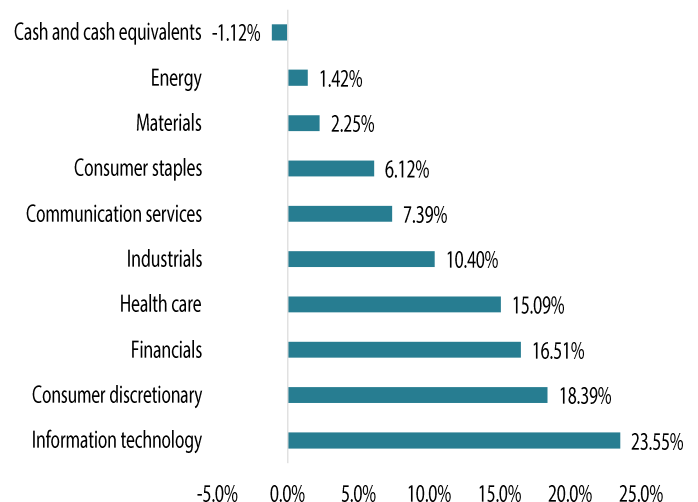
Objective

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}



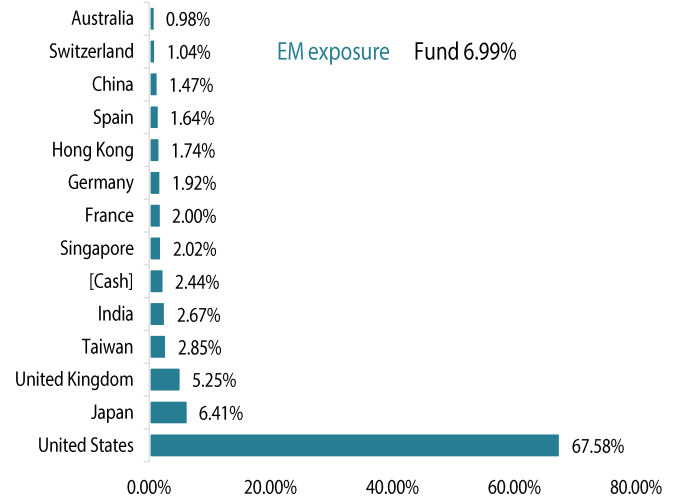
Sector Allocation (Includes cash in NZ PIE)



Top 10 Holdings

	% of Fund	Country
Nvidia Corp	5.95	United States
Microsoft Corp	5.60	United States
Amazon Com Inc	5.27	United States
Meta Platforms Inc	4.22	United States
Broadcom Corp Com	3.65	United States
Netflix Inc	3.18	United States
Taiwan Semicon Manufacturing Co Ltd	2.96	Taiwan
Compass Group	2.87	United Kingdom
Sony Corp	2.84	Japan
HDFC Bank Ltd	2.77	India

Geographical Allocation (Includes cash in NZ PIE)



Market Commentary

Hedged global equity markets finished off 2024 with a negative month and positive quarter to close out what was a second straight spectacular year. The MSCI ACWI Index (NZD Hedged) was down 1.7% for December and up 1.2% for the quarter. The US election took centre stage over the fourth quarter with the decisive win for the Republican party being well received by the US equity market in particular where November returns were strong. Uncertainty on the extent new global trade or tariff policies might be rolled out by the incoming Trump administration was reflected in some weakness in non-US markets.

Some of the more cyclical sectors such as Financials, pushed higher in the weeks after the US election in anticipation of Trump led deregulation while interest rates rose. AI was a key driver of performance again over the course of the year, and IT and Communication Services sectors outperformed over the fourth quarter, driven largely by the "Magnificent 7", though also helped by stellar results from Broadcom Inc. The Consumer Discretionary sector also performed well, driven by both Tesla and Amazon.com, Inc.

Fund Commentary

Although no one theme dominates the portfolio, what is common across the holdings is the ability of the companies to raise pricing when required and continue to take market share. Across the globe, growth is scarce, and this scarcity has driven the ratings of those that can deliver. The premium for top-line growth is high, but so too is scepticism about AI returns. The hyperscalers continue to deliver 30%+ FCF margins and even higher returns on capital, and, as demonstrated in 2024, the opportunity cost of not investing in them is high. Price gains have been supported by earnings and cash flow growth, while higher-than-expected capex spending has spurred a range of beneficiaries—software, semiconductor, power, and electrical companies, to name a few.

Contributors: 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. **Broadcom Inc.** outperformed the market significantly after posting strong results in the last quarter. There was a large increase in demand for its AI solutions. Revenue was up 51% year-over-year, with a 220% rise in AI revenue. **Interactive Brokers Group Inc.** 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. The chance of rising interest rates helps future earned income, and the Trump election success suggests that financial regulation may be relaxed, which should drive further gains for the company.

Detractors: Elevance Health, Inc. fell sharply after belatedly succumbing to margin pressure noted by Medicaid peers earlier in the year. This Medicaid redetermination process has had a much more profound impact on patient acuity than previous cycles, and Elevance had not priced their health plans on that basis. This has led to significant, temporary margin pressure in this book of business. Both **Tesla, Inc.** and **Apple Inc.** performed well in December, and given the zero weighting in both of these MAG7 stocks, they were among the largest detractors for the month. **Uber Technologies, Inc.** fell during the month. Negative sentiment on the timing of Tesla's entry into the AV rideshare industry continues to weigh on the stock, particularly post the Trump election win. Investors are still trying to understand the potential role Uber will play in the AV industry if AV regulation is more favourable and the technology is rolled out faster than anticipated. The decision by Waymo to enter the Miami market but not use the Uber app was also taken as a negative.

Key Fund Facts

Estimated annual fund charges		Distributions: Generally does not distribute	Strategy Launch: July 2018
Wholesale:	Negotiated outside of the unit price.	Exclusions: Controversial weapons. Tobacco manufacturers.	Strategy size: \$277m
Retail:	1.20%, refer to PDS for more details.	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%
Hedging:	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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