

Global Equity Quarterly Q3 2024

By the Global Equity Team
October 2024

Global equity investment philosophy

Our philosophy is centred on the search for “Future Quality” in a company. Future Quality companies are those that we believe will attain and sustain high returns on investment. ESG considerations are integral to Future Quality investing as good companies make for good investment. The four pillars we use to assess the Future Quality characteristics of an investment are:

Franchise - does the company have a sustainable competitive advantage?

Management - does the company make sound strategic and capital allocation decisions?

Balance Sheet - is growth appropriately financed?

Valuation - are the company’s prospects under-appreciated by the market?

We believe that investing in Future Quality companies will lead to outperformance over the full market cycle. Our strategy is based on fundamental, bottom-up research therefore sector and country allocations are a function of stock selection. The Global Equity strategy is a concentrated, high conviction portfolio with a high active share ratio.

Market outlook

While the first half of the year was dominated by all things AI, the summer hinted at a change in leadership, with many technology stocks underperforming as leading economic indicators across the globe slowed. Defensives, especially interest rate-sensitive sectors such as REITs, attracted bids. However, it was the coordinated nature of Beijing’s support for the world’s second largest economy and emphasis to “stop the decline” that sparked a huge rotation in markets, propelling all things Chinese into the “leadership” mix.

The set of measures announced in September was the clearest signal yet that Beijing stands ready to support the Chinese economy and markets. Although lacking detail and perhaps scale, considering the size of the property deficit facing the Chinese economy, it was enough to trigger significant short covering. Questions still exist, however, and subsequent actions by the authorities in the coming months may determine the success or failure of China’s latest push to shore up its economy.

China’s current property crisis has been spilling into consumer confidence and denting the authorities’ goal of achieving growth of over 5%. Hence, stimulus is likely to be directed at the consumer and, to a degree, the stock market, rather than attempting to attract foreign capital. Despite this, the problems of poor governance and tariffs will likely persist.

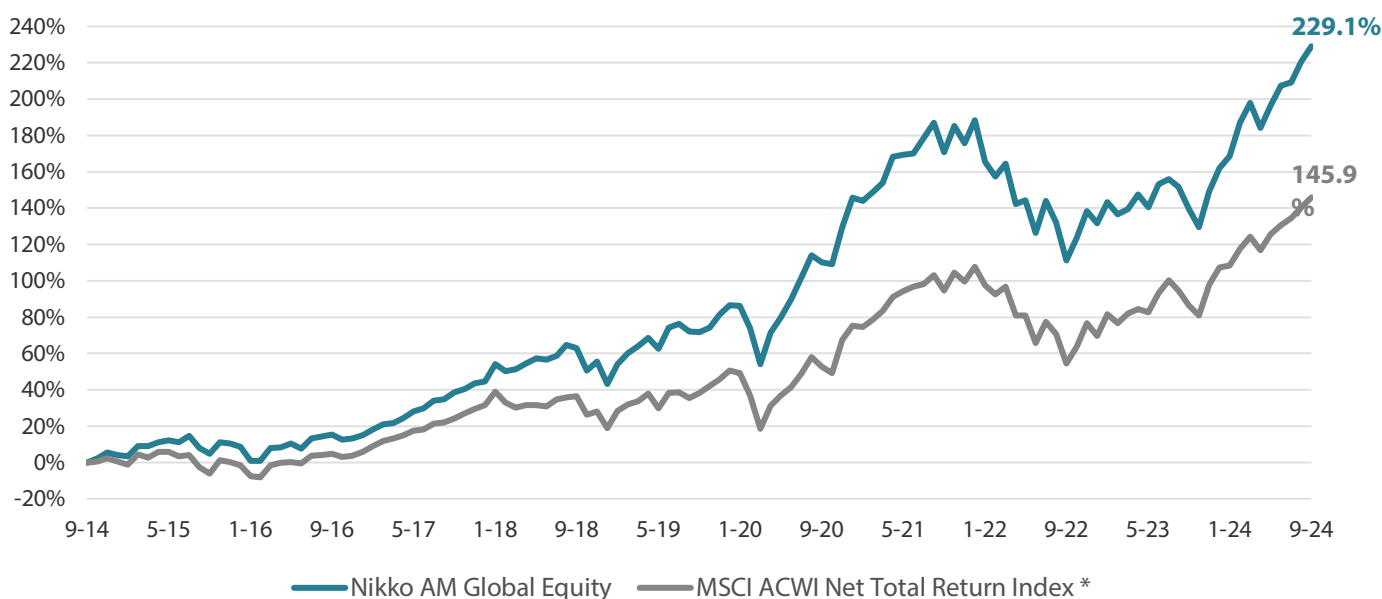
While growth in the East might pick up, growth in the West is slowing. ISM surveys have been at recessionary levels for twelve months, and this is now starting to impact corporate forecasts. Falling interest rates will obviously help the consumer and those who are heavily geared. However, given the lack of a significant upcycle, we question the extent of the boost falling interest rates could provide.

Despite fireworks in the equity markets early this autumn, fixed income markets have remained unmoved, suggesting that growth will stay at a premium in the short term. Hence, our focus on Future Quality companies, especially those capable of taking market share as the economic backdrop worsens, may prove beneficial.

What we cannot be certain about is the direction of markets, due to the many moving parts. Despite rising volatility and geopolitical risks, the market continues to march on, although we cannot tell for how long. However, we believe that a portfolio of Future Quality companies with high and rising returns, strong balance sheets, capable management teams and sensible valuations possesses the right mix to continue generating above-market returns for years to come.

There can be no assurance that any performance will be achieved in any given market condition or cycle. Past performance or any prediction, projection or forecast is not indicative of future performance.

Global Equity strategy composite performance to September 2024



| Gross Annualised Returns (USD) % | 1 year | 2 Years | 3 years | 5 years | Since Inception |
|------------------------------------|--------|---------|---------|---------|-----------------|
| Global Equity Strategy Composite | 37.22 | 24.86 | 6.72 | 13.90 | 12.65 |
| MSCI ACWI Net Total Return Index * | 31.76 | 26.16 | 8.09 | 12.19 | 9.42 |
| Active Return | 5.46 | -1.30 | -1.37 | 1.71 | 3.23 |

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*The benchmark for this composite is MSCI ACWI Net Total Return Index. The benchmark was the MSCI ACWI ex AU since inception of the composite to 31 March 2016. Inception date for the composite is 01 October 2014.

Returns are based on Nikko AM’s (hereafter referred to as the “Firm”) Global Equity Strategy Composite returns. Returns for periods in excess of 1 year are annualised. The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Returns are US Dollar based and are calculated gross of advisory and management fees, custodial fees and withholding taxes, but are net of transaction costs and include reinvestment of dividends and interest. Copyright © MSCI Inc. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon. To obtain a GIPS Composite Report, please contact GIPS_inquiry@nikkoam.com. Data as of 30 September 2024.

Nikko AM Global Equity: Capability profile and available vehicles (as at September 2024)

| | | |
|------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------|
| Available strategies | Global ACWI, Global EAFE, Global Developed, Global ex specific country, Sharia, Dividend | |
| Available vehicles | UCITS-SICAV, Country domiciled mutual funds, unit trusts, investment trusts and segregated accounts | |
| Key Features of Global ACWI | Current Positioning | Guidelines |
| Investment Objective | +3% vs MSCI AC World | |
| No. of holdings | 41 | 40-50 |
| Active share | 82.9% | 90-95% |
| Cash | 0.5% | 0-3% |

Target return is an expected level of return based on certain assumptions and/or simulations taking into account the strategy’s risk components. There can be no assurance that any stated investment objective, including target return, will be achieved and therefore should not be relied upon. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon.

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Nikko AM Global Equity Team



This Edinburgh based team provides solutions for clients seeking global exposure. Their unique approach, a combination of Experience, Future Quality and Execution, means they are continually “joining the dots” across geographies, sectors and companies, to find the opportunities that others simply don’t see.

There are four key areas that make our strategy different:

- a focus on **Future Quality** companies – a different and clear philosophy
- a distinctive team **culture** – a tight-knit team with a process built on openness and respect
- unique **execution**, including rigorous team challenge of every idea
- differentiated **portfolios**, with a strong track record in stock-picking and ESG integration

Future Quality companies

We believe that companies with superior long-term returns on investment will deliver better performance. We call these Future Quality companies, and it is only these companies that make it into client portfolios. We search for Future Quality through analysis and financial modelling of companies that we expect to deliver over the next five years, and beyond. This approach is supported by academic evidence that businesses with high and improving returns on invested capital provide superior compound performance over the long term. With this investment time horizon, the sustainability of returns is a crucial ingredient of our Future Quality approach. We have found that companies developing solutions to ESG issues and management teams providing value to all stakeholders are more likely to be successful at sustaining high returns on invested capital over the long-term.

Distinctive team structure and culture

We believe that our collective knowledge and experience are powerful tools for delivering investment performance. Since 2011, we have operated a team-based approach to uncovering Future Quality investment ideas and have fostered a strong group dynamic. Individually, each Portfolio Manager is an expert investor with a broad skillset and experience of many market cycles.

We work in a flat structure, where all our Portfolio Managers have a dual role that combines investment analysis and investment management responsibilities. With individual analytical coverage split along industry lines, each Portfolio Manager is a specialist in the stocks and sectors they cover.

We all actively challenge the ideas and analysis of colleagues throughout the investment process, in an open atmosphere of vigorous and constructive debate. Portfolio Analysts work alongside Portfolio Managers, typically researching thematic trends that could influence and uncover future investment opportunities.

We take collective responsibility for approving stocks for the portfolio, and therefore there is joint accountability for performance. As such, it is in everyone's interest to ensure that the investment analysis is thorough and that no stone is left unturned in the search for Future Quality.

We believe that the broad experience of our Portfolio Managers and distinctive team-based approach that sees everyone contributing to the strategy, increases the probability of successfully uncovering Future Quality.

Unique execution

Our tight-knit team approach and flat structure enable us to execute in a transparent way, including a rigorous team challenge of every idea. By using our strict Future Quality standards, we can identify long-term winners from the broader universe, to narrow down a comprehensive watch list and around 100 deep dive researched ideas. This is within a unique framework of individual accountability for the underlying analysis and company research, combined with the collective challenging of assumptions at the team level. Our proprietary ranking tool creates a disciplined process to compare and rank attractive opportunities and ensures that at the portfolio construction phase, only our best-ranked ideas receive the most committed weights in client portfolios. We believe our culture is key, and the collective ownership of our research process brings the best portfolio outcomes for clients.

Differentiated portfolios

We deliver a high-conviction Global Equity strategy for clients that is not constrained by benchmarks. As such, Future Quality can be sourced from listed businesses across any geography or sector. And, in a world awash with investment prospects, our disciplined, accountable and transparent process helps us to focus solely on building portfolios from companies that best meet our specific Future Quality criteria.

In terms of balancing risk and reward, our track record shows that we consistently deliver attractive returns on a lower risk-adjusted basis compared with peers and the global reference benchmark. The high active share and concentrated number of holdings help ensure that our Future Quality stock-selection process delivers differentiated portfolios.

Risks

Emerging markets risk - the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

Currency risk - this exists when the strategy invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the strategy will lead to a reduction in the value of the strategy.

Operational risk - due to issues such as natural disasters, technical problems and fraud.

Liquidity risk - investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio

cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the strategy.

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