NIKKO AM GLOBAL SHARE FUND

Fund Update

Fund Performance

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years p.a. (%)	5 Years p.a. (%)	10 Years p.a. (%)	Since Inception p.a. (%)
Fund growth return	-3.24	-0.64	-4.44	-13.94	8.96	13.49		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net)#	-3.24	-0.64	-4.44	-13.94	8.96	13.49	15.52	8.11
Benchmark*	-1.96	-1.26	-6.02	-10.33	7.41	10.14	13.77	6.89
Excess return	**-1.28**	**0.63**	**1.58**	**-3.61**	**1.55**	**3.35**	**1.75**	**1.22**

Source: BNP Paribas. Fund growth return is the change in redemption prices over the period. Fund distribution return equals total Fund return minus Fund growth total return. Total Fund returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Past performance is not an indicator of future performance. Inception date: November 1995.
In July 2015, the Fund was restructured from a global equities multi-manager strategy to gaining this exposure by investing in the Nikko AM Global Equity Fund (Underlying Fund) (a sub-fund of the Nikko AM Global Umbrella Fund which is an open ended investment company registered under Luxembourg law as a societe d'investissement, a capital variable).
* Benchmark: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged). The Fund gains exposure to global equities by investing in the Nikko AM Global Equity Fund (underlying Fund)1. Prior to 18 August 2016 MSCI All Countries World Ex-Australia Index (with net dividends reinvested) expressed in AUD (unhedged). Prior to 15 July 2015 the Benchmark was the MSCI World ex-Australia Index (with net dividends re-invested) expressed in AUD (unhedged). Prior to 1 October 2005, the index was the MSCI World Index (net dividends reinvested) expressed in AUD (unhedged).

Performance Commentary

The Fund underperformed the benchmark over the month.

Key contributors to relative performance:

- Specialist insurer **Palomar Holdings** outperformed on the back of better-than-expected quarterly results. The rapidly expanding fronting business drove significant expense improvement, whilst record premium growth provided additional support to earnings during the quarter.
- **Deere & Company,** one of the world's largest makers of farm equipment, recovered from their oversold condition caused by the roll over in soft commodities. The shares performed well ahead of quarterly results in August, which confirmed full year 2022 guidance. Furthermore, the slight easing of supply chain issues is helping the company to fulfil demand.
- Property and casualty insurer **Progressive Corporation** rebounded following a decline in July. August results were particularly strong providing further evidence that a turnaround is underway.

Key detractors from relative performance:

- **SolarEdge Technologies** underperformed this month after a quarterly results announcement in which margins disappointed meaningfully. This was partially due to Chinese lockdowns, which caused disruption in the supply of key components and led to stalled production globally. Worsening sales mix and euro FX also contributed to the margin miss. However, the runway for demand is very clear through the rest of the year, as tailwinds continue to be favourable around policy and high European energy prices.
- Home medical equipment provider **AdaptHealth Corporation** were weak after announcing slightly disappointing Q2 numbers. Although the sleep apnea business outperformed expectations, organic growth was slightly slower than expected in both diabetes care and core medical equipment.
- Electrical power products manufacturer, **Schneider Electric,** had a poor August with its share price falling more than 10%. This followed a press release in which Schneider said it is considering buying the remaining 41% of shares in Aveva Group that it does not already own. Aveva Group is a global leader in industrial software. This idea may offer an attractive financial return and would be easily affordable from a balance sheet perspective, however, it has created confusion for investors as it is in stark contrast with prior messaging from management.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	69.47	61.86
Japan	2.60	5.46
China	0.00	3.63
United Kingdom	6.40	3.68
Canada	0.00	3.10
Europe ex UK	8.41	11.31
Asia Pacific ex China & Japan	10.54	8.40
Emerging Europe, Middle East, Africa	0.00	1.63
Latin America	0.00	0.93
Cash	2.59	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	6.15	3.26	United States
Compass Group plc	3.58	0.07	Britain
Danaher Corp	3.25	0.32	United States
Coca-Cola Co	3.20	0.44	United States
Palomar Holdings Inc	3.03	0.00	United States
Intercontinental Exchange	2.99	0.10	United States
Carlisle Cos	2.98	0.00	United States
Taiwan Semiconductor	2.97	0.72	Taiwan
Housing Development Finance Corp	2.96	0.09	India
Worley Ltd	2.67	0.00	Australia

Market Commentary

August was very much a month of two halves. The first half of the month saw equity markets pick up where July left off – with a notable improvement in sentiment and growth leading value. This turned around in the second half of the month, however, as investors were spooked by continued hawkishness from the Federal Reserve ("Fed") and European Central Bank ("ECB"), in response to persistently high inflation figures. The MSCI All Country World Index returned -1.96% (AUD, unhedged).

Although commodity prices have been tracking economic growth expectations lower in recent weeks, shares in the energy sector have continued to perform strongly, with the sector being comfortably the strongest in the market in August. The combination of attractive free cash flow yields (based on today's oil price) and a sense that demand may recover towards year end (faster than any increase in supply) saw to that. Growth sectors fared worst this month, with both information technology and healthcare underperforming the market as bond yields rose, pressuring valuations in these areas.

Regionally, emerging markets led the way this month, despite the strength of the US dollar, which will impose higher debt servicing costs on many. A low starting valuation and exposure to commodity sectors were viewed positively this month. The US marginally underperformed, dragged lower by its exposure to technology. The weakest region, however, was Europe ex-UK. Inflation in the Euro area has yet to peak if Russia is intent upon limiting energy exports to the region, in retaliation for economic sanctions imposed on the country. This could necessitate more aggressive monetary tightening by the ECB, which would exacerbate the economic slowdown facing the area.

Market Outlook and Strategy

Equity investors have continued to endure heightened volatility throughout the summer months in the northern hemisphere and the path for future inflation (and interest rates) remains less clear than normal as Europe moves into its autumn season. Whilst equity markets often react violently to policy pronouncements from central bankers (witness the reaction to Fed Chair Powell's recent speech at Jackson Hole), equity investors were likely not the intended target for the hawkish remarks. Instead, the Fed is attempting to stop inflation expectations from rising.

If cost pressures were to be seen as more entrenched, then this would likely feed through into higher wage agreements and an inflationary spiral could commence. Something that would require ever more assertive policy action. In this regard, the Fed have been quite successful. Inflation expectations five years from now remain anchored at about 2.6% and the yield on longer-dated government debt, such as the 30-year Bond, has not risen meaningfully since May.

In many cases it also feels like earnings estimates for 2023 still look materially high, given the ebbing of market liquidity and the overspending that the excesses of recent years funded in some parts of the market. That said, might buyside investors be ahead of the stated broker consensus? This seems a plausible scenario to us, as consensus often reflects little more than company guidance, plus or minus some. If so, the downside risk to markets posed by negative earnings revisions could be more limited than some would suggest.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	7.54
Consumer Discretionary	12.40	11.60
Consumer Staples	7.71	7.49
Energy	2.67	5.24
Financials	15.68	14.34
Health Care	19.31	12.18
Industrials	14.96	9.58
Information Technology	20.07	21.46
Materials	2.37	4.64
Real Estate	2.24	2.75
Utilities	0.00	3.20
Cash	2.59	0.00
Total	100.00	100.00

Fund Objective

The Fund aims to achieve capital growth over the long term, with total returns (before fees) 3% above the MSCI All Countries World ex-Australia Index (with net dividends re-invested) expressed in Australian Dollars (unhedged) over rolling three-year periods.

Key Facts

Responsible Entity
Yarra Investment Management Limited

APIR Code
SUN0031AU

ARSN
092 026 269

Fund Size
AUD $191.3 million

Minimum Investment
AUD 10,000

Buy/Sell Spread
0.20%/0.20%

Distribution Frequency
Quarterly

Contact Us

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