

# NIKKO AM GLOBAL SHARE FUND

## Fund Update

### Fund Performance

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
	(%)	(%)	(%)	(%)	p.a. (%)	p.a. (%)	p.a. (%)	p.a. (%)
Fund growth return	-3.88	3.67	3.28	-14.10	7.88	11.89	13.62	--
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00	1.42	--
Total Fund return (net) <sup>#</sup>	-3.88	3.67	3.28	-14.10	7.88	11.89	15.05	8.03
Benchmark*	-5.13	4.07	3.71	-12.48	5.26	8.27	13.29	6.82
<b>Excess return</b>	<b>1.25</b>	<b>-0.40</b>	<b>-0.43</b>	<b>-1.63</b>	<b>2.62</b>	<b>3.62</b>	<b>1.76</b>	<b>1.21</b>

Source: Citi. 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)<sup>1</sup>. 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 outperformed the benchmark over the month.

Key contributors to relative performance:

- **Box** shares soared on the back of strong quarterly results. Despite macro headwinds, Box posted resilient numbers, highlighting the compelling value proposition of the company. By bundling together sales of various solutions (addressing different stages of data management), Box have accelerated adoption of their technology – driving higher revenue per customer and sales productivity.
- **AIA Group** shares continued to outperform in December on the back of news that China was loosening its zero COVID-19 policy. This development should benefit AIA given the company's significant exposure to customers in mainland China. Low insurance penetration across the region, favourable demographic changes and household income growth are supportive structural trends for AIA over the long term.
- **Compass Group** recovered following pressure on the shares after Q3 results. Margin guidance was below expectations, raising concerns that Compass may not be able to achieve its medium-term targets. We do not believe this is the case and attribute slight margin pressure to temporary, short-term cost headwinds. We continue to believe that the structural increase in outsourcing of contract catering will support Compass's robust growth over the long term.

Key detractors from relative performance:

- **Palomar Holdings** shares continued to fall on the back of investor concerns that the shift to a less volatile and less earnings-dense business mix is occurring more quickly than expected. Indeed, the fronting business, which is fee-oriented but does not earn premiums, is now assumed to account for 25% of the mix by the end of 2023, compared

to the previous forecast of 15%. In addition, the California Earthquake Authority (CEA), Palomar's main competitor, is struggling to fully renew its reinsurance coverage. Importantly however, Palomar management is confident in its ability to get relatively better reinsurance terms than the CEA due to the company's national footprint and exposure to multiple perils.

- **AdaptHealth** shares fell in December due to weaker-than-expected margins at Q3 results and the failure of the Philips' sleep test results to provide a real clearing event in sleep apnea. The FDA is still considering the data and the timing of a response is unknown. Additionally, no update was provided on the impact of the consent decree. Given that Adapt is a key customer of Philips, this lack of clarity weighed on Adapt's shares. Despite this, we continue to recognise that sleep apnea is one of the most profitable businesses at Adapt and a substantial backlog of untreated patients has built up in recent months. Getting these patients onto therapy should provide relatively secure sales and profit growth at Adapt in 2023 & beyond.
- **Chart Industries** shares continued to underperform in December following last month's announcement that it would purchase Howden, a UK-based producer of air and gas handling products and aftermarket services, for \$4.4 billion. The shares suffered because there was no indication from Chart that a deal was forthcoming, the preferred stock element has uncertainty surrounding it and may end up in a capital raise, and the price paid is historically high for a capital goods company. This raises the concern that Chart is overpaying and gearing up at the wrong time. Ultimately, we think that the deal makes strategic sense, however, we are in discussions with management to understand the rationale behind the way in which the deal was funded and how it was communicated to the market.

## Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	65.37	60.31
Japan	1.95	5.59
China	0.00	3.61
United Kingdom	8.41	3.88
Canada	0.00	3.06
Europe ex UK	7.94	12.54
Asia Pacific ex China & Japan	12.30	8.39
Emerging Europe, Middle East, Africa	0.00	1.66
Latin America	0.00	0.95
Cash	4.03	0.00
Total	100.00	100.00

## Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	4.38	3.02	United States
Compass Group	3.27	0.07	Britain
Housing Development Finance Corporation	3.22	0.10	India
Danaher Corp	3.16	0.33	United States
Schlumberger Ltd	3.08	0.13	United States
Intercontinental Exchange	3.00	0.10	United States
Encompass Health Corp	2.89	0.00	United States
Diageo	2.76	0.18	Britain
Coca-Cola Co	2.74	0.46	United States
Worley	2.70	0.00	Australia

## Market Commentary

The gradual recovery seen in global equity markets in October and November lost momentum in December, frustrating hopes for the usual year-end rally. More hawkish commentary from the Federal Reserve and uncertainty over the upcoming earnings season more than offset better news from China, regarding a substantial relaxation of its COVID-19 restrictions.

Although the Fed slowed the pace of hikes to 50 basis points in December, following four consecutive 75 basis point moves, the news conference that accompanied the Fed's December meeting suggested that Policy Committee members were still very determined to return inflation towards 2%.

China markedly changed its COVID-19 strategy last month – belatedly copying the policies adopted across the Western world some time ago; namely, vaccinating the most-at-risk and then allowing the virus to spread more freely among the rest of the population.

The best performing sectors this month were defensives – reflecting the slightly risk-off mode seen in equity markets in December. Utilities, consumer staples and healthcare all outperformed the market. Of the cyclical sectors, industrials and materials both fared relatively well and also modestly outperformed. The driver of this was the improved sentiment towards China, noted above.

The weakest sectors in December continued to hint at a shift in market leadership – away from the sectors that led the market in the years of monetary easing. The weakest performer was information technology. Apple had been seen as a relatively safe hiding space within the sector earlier in the year but it also fell

sharply in December on concerns over slowing shipments of its latest iPhones and potential customer demand softness in 2023. Consumer discretionary was impacted by a similar issue, as Tesla and Amazon continued to fall. The falls in Tesla's share price have been particularly severe, as evidence emerges that even steep discounting is not leading to a pick-up in deliveries.

Regionally, emerging Asia continued the improvement seen in November, thanks to China's re-prioritisation of economic growth. Europe ex-UK also outperformed, helped by its exposure to China and by a sense that the region had not yet succumbed to a full-scale energy crisis, even as Russia further curtailed its energy supplies to the region. The US underperformed again this month – not helped by the continued profit taking in the US dollar or the weakness in Apple, Google, Amazon, Microsoft and Tesla.

## Market Outlook and Strategy

It feels like equity investors have just come off the summit of one mountain (formed during the days of QE) and are eyeing up the next (if / when any Fed-induced US recession has passed). The problem is that the weather is currently poor, and visibility is not great. This matters when assessing the depth of the drop between the two summits. In equity parlance, how great might the earnings downgrades be? And what does this mean for where share prices bottom?

At the risk of straining this analogy too far, there is probably still a narrow pass threading its way between the two summits (also known as a soft landing), but the chances of Fed policy delivering us to this seem to be dimming and investors are questioning the abilities of their mountain guide.

There is an ongoing tussle between credit markets and the narrative consistently espoused by the Federal Reserve. The Fed are adamant that they will need to see Services inflation cool (as Goods inflation already has) and some slack in labour markets before changing tack, but credit markets seem unconvinced – seemingly of the view that enough has been done already and that we are closer to peak rates than the Fed would have us believe. The spread payable on BBB-rated debt (relative to Government bonds) has come in in recent months and financial conditions have eased.

The four guiding principles of our Future Quality philosophy will remain our investment compass in these challenging conditions. The stocks that satisfy the four requirements represent the middle ground, between the two stylistic extremes noted above and allow us to construct balanced portfolios. Our focus on franchise quality and management quality allows us to look forwards with optimism, whilst balance sheet quality and valuation discipline provide something of a safety rope, in case of unplanned slips.

We remain convinced that the future will look very different to the recent past. Delivery of sales and profit growth will be ever more critical to share price performance. It seems unlikely to us that the areas that have sucked in the most capital over the last 10 years will turn out to be those with the most unmet demand (think Digital Advertising, niche software applications or streaming services). The recent glut of headcount reductions across Big Tech suggests that management teams here may also be beginning to share that view.

Instead, more pressing needs are presenting themselves – many of which have been underinvested over the last decade (or longer). Defence and Energy security have been very much front of mind over the last 12 months (and are likely to remain so in our view). There are likely other areas too, where the stars are starting to align. We continue to spend all of our time attempting to identify these, as part of our bottom-up stock research.

## Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	6.77
Consumer Discretionary	11.87	10.45
Consumer Staples	7.35	7.75
Energy	5.77	5.58
Financials	15.18	15.20
Health Care	19.30	13.37
Industrials	15.26	10.16
Information Technology	17.09	19.99
Materials	2.31	4.98
Real Estate	1.84	2.59
Utilities	0.00	3.18
Cash	4.03	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

<b>Responsible Entity</b> Yarra Investment Management Limited	<b>Minimum Investment</b> AUD 10,000
<b>APIR Code</b> SUN0031AU	<b>Buy/Sell Spread</b> 0.20%/0.20%
<b>ARSN</b> 092 026 269	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD \$228 million	

## Contact Us

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