

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	0.97	-1.52	-1.73	-8.64	6.65	11.45	13.17	
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00	1.42	
Total Fund return (net) [#]	0.97	-1.52	-1.73	-8.64	6.65	11.45	14.59	8.04
Benchmark*	3.14	0.67	1.46	-8.01	5.01	8.50	13.12	6.91
Excess return	-2.17	-2.19	-3.19	-0.64	1.64	2.95	1.47	1.12

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)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:

- The credit reporting agency **TransUnion** recovered some of the losses it incurred during 2022. Last year's weak performance was attributable to rising interest rates, which forced a decline in new mortgage applications, negatively impacting TransUnion's credit business. Now that it seems like rates may have peaked, the shares look oversold.
- Online travel business **Booking Holdings Inc.** outperformed in January echoing the market's preference for cyclicals over defensives. The Fed slowed the pace of rate hikes in December on the back of encouraging inflationary data, indicating that a softer landing could be on the cards in 2023. Additionally, demand for overseas holidays remains robust, supporting growth in travel-related stocks like Booking.
- The Spanish technology provider for the global travel and tourism industry, **Amadeus IT Group**, benefitted from similar factors to Booking during the month of January. Cyclicals outperformed defensives on the back of speculation that the Fed could be nearing the end of its aggressive interest rate cycle. Furthermore, robust demand for overseas travel remains a favourable trend for Amadeus.

Key detractors from relative performance:

- Engineering services company **Emerson Electric** underperformed this month following its announcement that it has offered to acquire National Instruments Corporation. Investors are concerned about deal execution given almost no overlap between Emerson and National Instrument's businesses. There is some concern that management is chasing an asset that they don't know well, with additional fear that the urgency is due to deteriorating visibility on earnings.
- Shares of the specialty retailer, **O'Reilly Automotive**, struggled to perform in January as the market made a preference for cyclicals over defensives in the context of a potentially less gloomy outlook for 2023. As a leading retailer in the automotive aftermarket industry, O'Reilly skews to the defensive side of the Consumer Discretionary sector. If a recession is relatively short-lived, and consumer spending is not significantly impacted, there will be less demand for second-hand cars than expected. Despite this, we continue to believe that O'Reilly has a strong franchise quality and provides us with a degree of defense should macroeconomic headwinds worsen over the year.
- India's largest private sector bank, **HDFC Bank**, underperformed this month on the back of an outflow of capital from India into other emerging markets that are starting to rally this year (particularly China). Additionally, the Indian banking sector has been under pressure following a short attack by Hindenburg Research on Gautam Adani's business empire in India. Whilst HDFC Bank is not directly associated with Gautam Adani's business, it has been impacted by the negative news flow across the sector.

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 plc	3.27	0.07	Britain
Housing Development Finance	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 plc	2.76	0.18	Britain
Coca-Cola Co	2.74	0.46	United States
Worley Ltd	2.70	0.00	Australia

Market Commentary

After the punishing bear market in 2022, January was a much better month for global equity markets, as investors positioned for a less daunting monetary policy backdrop. With the Federal Reserve having reduced the pace of tightening to 25 basis point increments already in December, economic data points have been scrutinised even more closely than ever in January, to forecast when we will have seen the peak in rates for this cycle.

January brought some much-needed relief in this regard, with even core US CPI easing to 6.5% (from 7.1%) on falling food and energy costs. Even the stubbornly hot US labour market showed some signs of cooling – with average hourly wage growth lagging expectations, even as initial jobless claims continued to point to solid demand for labour.

The US dollar has continued to depreciate too, relative to the currencies of the US's main trading partners, further easing financial conditions during the month. China's chaotic reopening, following the sudden easing of COVID-related travel restrictions also buoyed sentiment over the month – particularly for emerging Asia and other regions that traditionally benefit from strengthening Chinese economic activity, such as Europe.

The best performing sectors this month were those that had endured the most punishing end to 2022. The consumer discretionary and communication services sectors led the way, with information technology not far behind as investors returned to some of their growth stock favourites, in the hope that more dovish monetary policy would mark an end to the derating seen across those sectors in 2022. Some of the stock specific share price moves that drove the sector returns were remarkable. For instance, Tesla climbed more than 35% (even as earnings expectations continued to be downgraded for the year ahead).

The start of year mean reversion was also evident in the list of underperforming sectors in January. Energy lagged the market, as oil prices continued to stall, despite the demand boost expected from the economic reopening of China. Defensive sectors also failed to keep pace with the benchmark, with healthcare, utilities and consumer staples all delivering negative returns on the month. Within healthcare, the biggest falls were reserved for those sub-sectors that fared the best in 2022 – notably pharmaceuticals and managed care.

Market Outlook and Strategy

January's 10% rebound in the Nasdaq Index has certainly captured a lot of attention – marking the strongest January for the Index for more than 20 years. The fact that the charge higher has been led by erstwhile investor favourites including Tesla, Meta Platforms and Netflix has made it feel like we are back in 2021. Do moves like this really herald the resumption of the old trend, or is it likely to prove something less sustainable?

Our sense is that the force of the move is probably a function of the deeply oversold condition that had developed in these names towards year-end 2022, as earnings downgrades met valuation multiple compression (thanks to a resolutely hawkish Federal Reserve). We agree that the monetary policy headwinds are easing (and peak interest rates are likely within sight), but they are not reversing, the cost of capital will remain elevated, and the earnings downgrade cycle still has some way to run.

2023 has started very positively for equity markets after a very challenging 2022. That is undoubtedly good news. January has often proven to be the month of mean reversion in equity markets, however, with minimal follow through as the year develops, we remain concerned about the amount of realism embedded within market earnings expectations across some sectors (particularly communication services and parts of information technology) and what that could mean for valuations.

Our belief is that this year will be all about earnings delivery (following 2022's broad-based multiple compression), and the pillars of Future Quality should benefit us if that is the case. Whilst the end of 2022 was a slightly frustrating one for the Fund, where a small number of stock specific factors took the gloss off generally solid positioning, we continue to believe in the potential of these stocks and are excited about what their recovery will add to our exposure to longstanding areas of interest to us, such as energy security (and transition) and healthcare cost containment.

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

Responsible Entity Yarra Investment Management Limited	Minimum Investment AUD 10,000
APIR Code SUN0031AU	Buy/Sell Spread 0.20%/0.20%
ARSN 092 026 269	Distribution Frequency Quarterly
Fund Size AUD \$233.9 million	

Contact Us

Yarra Investment Management Limited

Level 11, Macquarie House
167 Macquarie Street, Sydney NSW 2000, Australia
Phone: 1800 251 589
Fax: +61 2 8072 6304
Email: sales.au@yarracm.com

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