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	-3.23	-6.37	-16.84	-8.73	8.93	12.94		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net)#	-3.23	-6.37	-16.84	-8.73	8.93	12.94	15.54	8.06
Benchmark*	-4.47	-7.90	-15.61	-8.02	6.93	9.37	13.71	6.81
Excess return	**1.24**	**1.53**	**-1.23**	**-0.71**	**2.00**	**3.57**	**1.83**	**1.25**

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 outperformed the benchmark over the month.

Key contributors to relative performance:

- **Palomar** outperformed after the company's investor day, where management illustrated a path towards achieving two times underwriting profitability and greater than 20% adjusted ROE over the intermediate term. Evidently, Palomar's business mix is becoming more diverse, driving sustained high premium growth levels, margin consistency and a lower risk profile.
- **AIA Group** outperformed following improving trends in the Asian life insurance industry. Life insurers witnessed a recovery in premium income growth driven by long-term savings demand against the falling interest rate environment in China. In addition, AIA announced this month that it had achieved regulatory approval for the Henan province. This news came somewhat earlier than investors had anticipated, illustrating AIA's strong execution on its China expansion strategy.
- **Tractor Supply** shares climbed following a solid pre-announcement to Q2 results in June. The press release illustrated that the farm and ranch industry backdrop remains supportive and Tractor Supply is continuing to execute at a high level. As one of the first companies in the space to pre-announce, Tractor Supply provided some clarity amid a volatile market backdrop, which was appreciated by investors.

Key detractors from relative performance:

- **Booking Holdings** derated aggressively in June, echoing a broader aversion to Consumer Discretionary stocks. In the context of persistent inflation and early signs of consumer demand beginning to weaken, a looming recession looks increasingly likely. Consequently, investors are stepping out of discretionary propositions and looking for safe havens in more defensive parts of the market.
- **Taiwan Semiconductor** shares have been negatively impacted by cyclical concerns regarding end-market demand for semiconductors. Whilst TSMC would not be immune if semi demand corrected in 2023, we believe that the company offers relative defensiveness given its scale, technology leadership and customer diversification.
- **SVB Financial** underperformed on the back of concerns regarding the M&A market and the implications for SVB's business model. With the Nasdaq in a bear market, investors are drawing comparisons to prior recessions, weighing on sentiment. Importantly, however, SVB's loan portfolio today has been substantially de-risked due to increased concentration of lower loss products and less exposure to riskier early-stage innovation credits.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	68.22	60.58
Japan	2.69	5.45
China	0.00	4.13
United Kingdom	6.29	3.91
Canada	0.00	3.18
Europe ex UK	8.68	11.84
Asia Pacific ex China & Japan	10.49	8.34
Emerging Europe, Middle East, Africa	0.00	1.64
Latin America	0.00	0.92
Cash	3.63	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	6.15	3.29	United States
Compass Group	3.44	0.07	United Kingdom
Coca-Cola Co	3.32	0.47	United States
Danaher Corp	3.11	0.31	United States
Taiwan Semiconductor	2.92	0.71	Taiwan
Encompass Health Corp	2.79	0.00	United States
Progressive Corp	2.76	0.12	United States
Sony Group Corp	2.69	0.19	Japan
Housing Development Finance	2.69	0.09	India
Worley Ltd	2.68	0.00	Australia

Market Commentary

In June Global equity markets saw further retracement, the MSCI All Country World Index returned -4.48% (AUD, unhedged).

Prior winners such as materials and energy have experienced notable corrections, though energy remained the best performing sector over the second quarter. With increasing pessimism over the growth outlook, more defensive business models are being valued highly from a relative perspective and reflecting this, both healthcare and consumer staples outperformed during both June and the overall quarter.

From a regional perspective, we are seeing increasing divergence in how central banks address the inflation challenges that are washing up on all shores. The US dollar has reached new decade highs as a result of higher rates whilst in Japan the ongoing suppression of market bond yields has resulted in a notable Yen weakness, falling by about 10% over the quarter against the US dollar. Hence there is a marked difference between local currency and USD returns emerging for some geographies and whilst the divergence in policies between countries remains, currency volatility will likely be increasingly relevant for investor returns.

Market Outlook and Strategy

We have long observed that Central Banks have been undertaking a multi-year experiment with their endeavours in money creation via quantitative easing. What has now become clear is that the further round of liquidity creation resulting from COVID-19 has tested the experiment to the point of failure. More specifically, the cumulative imbalance between notable growth in financial assets and the limited growth in the availability of commodities, goods and infrastructure in the real economy has been exposed. When demand has rapidly returned post COVID-19, we have had to experience supply chains that are too lean, limited labour availability and energy shortages. The Ukraine war has just magnified some of these underlying issues.

Our belief is that we have moved into a new regime where inflation will be structurally higher despite the anchors of high debt burdens, ageing societies and ongoing technological disruption. Energy markets remain constrained, labour in short supply and fiscal policies remain vulnerable to the demands from voters to alleviate the pressure on real wages, particularly for lower income groups.

However, the growth trajectory will remain challenging, particularly when Central Banks will be reluctant to return to further rounds of monetary extravagance, even when evidence emerges of business layoffs and an overdue correction in frothy residential property markets. The focus for equity investors will therefore likely shift from the price paid for profits to the confidence that the expected profits are being delivered. Indeed, the pending profit reporting season will likely be a volatile one.

The shift in investors back to investing capital with realistic expectations of future compounding rather than just deploying into the fashionable 'pipe dreams' of the day. Whilst we caution against any expectation of a return to the giddy valuation levels experienced during the COVID-19 period, it is encouraging that valuation levels are now more in line with historical norms. The next test however will be the shape of future profitability, as the increasing volatility of central bank policies dampens both company and household spending. We are confident our consistent focus on enduring high returns franchises with strong management teams, robust balance sheets and credible starting valuations, will help us find a path through these current profitability challenges.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	7.93
Consumer Discretionary	12.20	11.06
Consumer Staples	7.68	7.61
Energy	2.68	4.99
Financials	14.51	14.46
Health Care	20.14	12.95
Industrials	14.28	9.40
Information Technology	20.14	20.85
Materials	2.45	4.77
Real Estate	2.29	2.81
Utilities	0.00	3.17
Cash	3.63	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 $179.0 million

Minimum Investment
AUD 10,000

Buy/Sell Spread
0.15%/0.15%

Distribution Frequency
Quarterly

Contact Us

Yarra Investment Management Limited

Level 26, One International Towers Sydney
100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Phone: 1800 251 589
Fax: +61 2 8072 6304
Email: sales.au@yarracm.com

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