

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	1.48	4.65	3.98	-9.04	9.02	12.27		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net) [#]	1.48	4.65	3.98	-9.04	9.02	12.27	15.72	8.22
Benchmark [*]	2.89	5.77	4.43	-6.43	6.98	9.12	14.15	7.05
Excess return	-1.41	-1.12	-0.45	-2.62	2.04	3.15	1.57	1.17

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:

- **Taiwan Semiconductor** (TSMC) shares rebounded from October's weakness this month as sentiment improved towards growth stocks and cyclicals. November also saw the Wall Street Journal report that TSMC was looking to build another large facility in the US, to expand overseas production and tackle geopolitical risk. Finally, news that Warren Buffett's Berkshire Hathaway had invested USD4 billion in the company added to improved sentiment.
- **AIA Group** shares rallied this month on hopes that China is looking to loosen zero-Covid policies and start to re-open. As a leader in the insurance industry in China, AIA is set to benefit from the re-opening. Low insurance penetration across the region, favourable demographic changes and household income growth should support strong new business value growth momentum over the long term.
- **SolarEdge Technologies** shares soared in November following strong quarterly results, in which revenue, gross and operating margins were all ahead of expectations. It was encouraging to hear that demand remains solid, especially in Europe, execution is improving as COVID-19 disruption to the supply chain eases and price increases are realised. SolarEdge also announced that it plans to build out US-based manufacturing in FY23 to capture domestic manufacturing tax credits in the Inflation Reduction Act. This could be a catalyst for earnings in FY24. What is more, California announced new proposals for net metering which signal that there is huge incentive to send electricity back to the grid – a positive tailwind for SolarEdge.

Key detractors from relative performance:

- **Palomar Holdings** underperformed following lacklustre quarterly results. The primary issue is that the shift to a lower volatility, but less earnings-dense mix is occurring more quickly than expected. The front business, which is fee oriented but does not earn premiums, is expected to be closer to 25% of the mix by the end of 2023, which is much higher than the market anticipated.
- **Chart Industries** declined sharply in November following the company's announcement that it would purchase Howden, a UK-based producer of air and gas handling products and aftermarket services, for USD4.4 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.
- **Box Inc.** shares have come down in anticipation of quarterly results at the end of the month. The market is questioning the sustainability of Box's profitable growth profile in an evolving competitive market and uncertain macro environment. Currency is also expected to be a slight headwind for the company. Despite these concerns, we maintain conviction in Box given the company's competitive advantage in enabling enterprises to manage and collaborate on unstructured data.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	68.71	61.62
Japan	2.57	5.33
China	0.00	3.30
United Kingdom	8.57	3.80
Canada	0.00	3.11
Europe ex UK	8.17	12.04
Asia Pacific ex China & Japan	10.73	8.24
Emerging Europe, Middle East, Africa	0.00	1.61
Latin America	0.00	0.96
Cash	1.25	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	4.65	3.09	United States
Housing Development Finance Corp	3.34	0.10	India
Danaher Corp	3.25	0.32	United States
Intercontinental Exchange	3.16	0.10	United States
Compass Group plc	3.15	0.07	Britain
Deere & Co	2.97	0.22	United States
Diageo plc	2.84	0.18	Britain
Encompass Health Corp	2.82	0.00	United States
Taiwan Semiconductor	2.79	0.67	Taiwan
Linde plc	2.77	0.29	United States

Market Commentary

November saw a continuation of the positive momentum seen in October, as equity markets recovered some more of the losses seen earlier in the year. Hopes abounded of a partial easing of China's zero COVID policy and that we may be nearing the point of peak hawkishness in US monetary policy.

Although the US labour market has continued to remain resilient and services inflation remains relatively high, cracks have appeared in other economic data, suggesting that a marked cooling in US economic activity is already underway. These datapoints include US consumer confidence and the ISM New Orders index – which remains at low levels, indicating a widespread loss of confidence in future economic growth.

The best performing sector this month was materials – based on these hopes for a recovery in Chinese economic output. Commodity prices have recovered in November (for instance, copper rose 11% and iron ore climbed over 20%) and mining stocks have outperformed as a result. Industrials also outperformed again this month, as did communication services – suggesting an element of mean reversion, following October's extreme earnings-led weakness in these names.

The energy sector has been the outstanding beneficiary of this year's geopolitical events and has outperformed the benchmark substantially. It was, however, the worst performer in November – belatedly tracking the oil price lower. The healthcare sector also underperformed, while the information technology sector marginally underperformed, as index heavyweight Apple weakened on concerns over demand for its new iPhone and regarding the health of its supply chain.

Regionally, emerging Asia went from being the weakest of the major regions in recent months to one of the strongest – outperforming by almost 10%. Europe ex-UK also outperformed this month – benefitting from slightly higher risk appetites. The US underperformed this month – not helped by the profit taking in the US dollar or the weakness in Apple (which remains more than 6% of the MSCI US Index).

Market Outlook and Strategy

Coming into this year, we had been becoming increasingly concerned about potential market volatility with the Federal Reserve explicitly intent upon demonstrating their inflation-fighting credentials. December 2021's outlook piece contained several references to potential asset price volatility if we saw a meaningful style rotation and concluded with our expectation that 2022 might well reveal some unpleasant home truths about the speculative mania that had characterised much of 2020 and 2021. That much has certainly been true, as investors in cryptocurrency and the communication services sector can (unfortunately) testify.

2023's outlook statements will certainly be delivered against a very challenging background, with companies facing both existing and potential risks. It seems unlikely that many management teams will feel the need to be overly positive. By H2 2023, however, things could (& probably will) be looking very different. Interest rate hikes will have slowed materially (or stopped). If so, the US dollar would likely see some profit taking (reducing some of the margin & earnings pressure seen at US multinationals at present). It is also possible that dwindling savings and sticky (but moderating) inflation will draw people back into the labour market and that supply chains will finally be free of COVID-related strains. All of these factors could happen, but it is unlikely that management teams will factor them into guidance.

A tilt towards growth will always be a component of Future Quality. Companies with high quality franchises and management teams tend to grow more quickly than the average company over any reasonable length of time. Key will be ascertaining the level of growth deliverable in this environment and (just as importantly) what the right price is to pay for this growth.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	6.87
Consumer Discretionary	13.01	10.79
Consumer Staples	7.50	7.54
Energy	5.27	5.56
Financials	13.98	14.92
Health Care	19.62	13.02
Industrials	16.52	9.96
Information Technology	18.14	20.81
Materials	2.77	4.91
Real Estate	1.92	2.58
Utilities	0.00	3.03
Cash	1.25	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 \$222.2 million

Minimum Investment

AUD 10,000

Buy/Sell Spread

0.20%/0.20%

Distribution Frequency

Quarterly

Contact Us

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