

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	6.28	-0.22	2.32	-8.26	10.58	12.58		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net) [#]	6.28	-0.22	2.32	-8.26	10.58	12.58	15.63	8.19
Benchmark*	6.61	0.78	0.67	-5.98	7.48	9.13	13.90	6.96
Excess return	-0.34	-1.00	1.65	-2.28	3.10	3.45	1.73	1.23

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:

- The US health insurance provider **Elevance Health** rose following robust quarterly results - driven by lower-than-expected medical treatment costs and strong investment income. Both trends should continue into 2023. A strong showing for the Republican party in the upcoming US mid-term elections would also reduce the risk of private health insurance being disrupted by Democrat-led reforms.
- Home medical equipment supplier **AdaptHealth** continues to recover well as sleep apnea device supply issues slowly improve, despite the ongoing restrictions upon Philips. This category is one of the most profitable for 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 for the firm into 2023 and beyond.
- Post-acute healthcare services provider **Encompass Health** outperformed on the back of solid quarterly results. Inpatient Rehabilitation Facility demand growth remains strong and reimbursement is starting to improve. Furthermore, costs (including labour) are starting to normalise after COVID-19 distorted the nursing market. Price increases should also drive a recovery in EBITDA in 2023/24.

Key detractors from relative performance:

- The building products manufacturer **Carlisle Companies** underperformed following reports of a build-up in inventory, which signalled weakening demand. Evidently, the worsening outlook for a recession is hampering

consumer appetite. However, Carlisle still has a substantial backlog in its repairs business, which offers a degree of defence and helps to differentiate it from peers.

- Shares of the world's number one semiconductor foundry **Taiwan Semiconductor (TSMC)** fell in October on the back of earnings, which signalled a clear downcycle is underway. Additionally, the shares reacted negatively to elevated geopolitical risk, after the Biden administration issued its latest salvo of sanctions on China. Despite these concerns, TSMC is growing faster than the overall market and has a tailwind of secular growth in semiconductor demand due to 5G, Internet of Things and High-Performance Computing. As the market leader, TSMC has become the supplier for fabless customers growing market share (e.g., Apple and AMD). Unless Intel returns to being competitive in manufacturing (2025 at earliest), TSMC has shifted to a higher growth rate than was the case historically.
- The healthcare services company **Tenet Healthcare** underperformed on the back of disappointing Q3 results. Management announced an increase in the use of contract labour, whilst the opposite dynamic was called out by peers. Additionally, the surgery centre business delivered flat volumes in Q3, following a miss in Q2, raising concerns regarding growth. Ultimately, it looks like the share price reaction was somewhat overdone. Whilst it is important to investigate contract labour trends further and dig into competitive dynamics in the surgery centre industry, the market overreaction looks to be partly due to the composition of Tenet's shareholder register (which is dominated by hedge funds) and cautious commentary from hospital peers.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	70.71	63.04
Japan	2.28	5.22
China	0.00	2.75
United Kingdom	7.12	3.68
Canada	0.00	3.15
Europe ex UK	7.98	11.64
Asia Pacific ex China & Japan	9.44	7.81
Emerging Europe, Middle East, Africa	0.00	1.67
Latin America	0.00	1.04
Cash	2.47	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	4.51	3.02	United States
Palomar Holdings	3.29	0.00	United States
Compass Group plc	3.18	0.07	Britain
Danaher Corp	3.18	0.32	United States
Housing Development Finance Corp	3.01	0.09	India
Intercontinental Exchange	2.97	0.10	United States
Deere & Co	2.84	0.21	United States
Encompass Health Corp	2.80	0.00	United States
Progressive Corp	2.78	0.14	United States
Diageo plc	2.76	0.17	Britain

Market Commentary

October was a better month for global equities, with the MSCI ACWI climbing around 6% in US Dollar terms and 6.61% in AUD (unhedged). As ever, these days, the driver of the recovery was the hope / expectation of a gradual shift in approach by the US Federal Reserve, when setting monetary policy.

The best performing sector this month was (once again) energy. Although oil prices have remained well below levels seen earlier in the year, there remains a sense that this is due to a combination of short-term factors that are likely to resolve more quickly than new reserves can be discovered and brought onstream. The US Strategic Petroleum Reserve has already been depleted significantly and Chinese demand won't be restrained by its zero-COVID-19 policy forever. The industrials sector was the other major outperformer, with strength being seen across sub-sectors – from aerospace and defence to more traditional capital goods providers (companies like Caterpillar).

The worst performers in October were a combination of traditionally defensive sectors (such as utilities and real estate) and sectors where benchmark heavyweights had a pronounced impact on returns. This was true in both communication services (where the decline in digital advertising saw significant share price weakness in Meta Platforms and Alphabet) and consumer discretionary (where the main culprits were Amazon and Tesla – both of whom have disappointed investors with their latest set of financial results).

Regionally, emerging Asia was weak again this month as the outcome of the National Congress of the Communist Party suggested that President Xi had consolidated his power and – with it – secured the continuation of unpopular measures, such as the zero-COVID-19 policy. Japan also continued to underperform, with the country's Central Bank increasingly being viewed as out of step

with their counterparts across the world. Most other large regions outperformed this month – including the US and Europe (though the UK fared less well than the rest of the continent, against a backdrop of continued political uncertainty).

Market Outlook and Strategy

Investors are hoping for a seasonal gift from Chairman Powell and his colleagues in the Monetary Policy Committee at the Federal Reserve. A pivot away from the rapid pace of monetary tightening would be high on the Christmas wish list for many, after a punishing 2022. With cash balances high, according to fund manager positioning surveys, any such change of tone by the Fed would likely release a substantial rally in equity markets.

We are probably past the period of peak inflation and near the point of peak hawkishness on monetary policy. What happens next, however, and what will not? What seems reasonably clear however is that it's unlikely that we'll see a quick return to the policy (or economic) conditions that have characterized much of the last 15 years. The cost of raising capital will prove to be higher for longer and the impact of this will be felt for years to come – even after the Fed stops hiking rates. Similarly, the investor positioning that has accumulated over the years of loose monetary policy will take some time to reflect this new reality. It appears that many investors still expect a quick return to the familiar themes that have proven popular (and profitable) over the last few years. The derating of the information technology and communication services sectors likely has further to go as these views are challenged.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	6.89
Consumer Discretionary	12.82	10.82
Consumer Staples	7.42	7.56
Energy	4.45	5.81
Financials	14.30	14.77
Health Care	19.70	13.24
Industrials	16.92	9.83
Information Technology	17.40	20.89
Materials	2.61	4.63
Real Estate	1.91	2.52
Utilities	0.00	3.03
Cash	2.47	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 \$206.9 million

Minimum Investment
AUD 10,000

Buy/Sell Spread
0.20%/0.20%

Distribution Frequency
Quarterly

Contact Us

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