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	-2.97	-0.37	-6.71	-12.57	8.09	12.03		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net)#	-2.97	-0.37	-6.71	-12.57	8.09	12.03	14.90	7.97
Benchmark*	-3.58	-0.34	-8.21	-10.86	5.41	8.69	13.12	6.73
Excess return	**0.61**	**-0.03**	**1.50**	**-1.71**	**2.67**	**3.34**	**1.79**	**1.24**

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:

- Specialist insurer **Palomar Holdings** continued to outperform this month. Strong quarterly results in August provided further evidence that the shift to more consistent product segments as the key drivers of growth is leading to improved earnings consistency. Palomar's rapidly expanding fronting business is driving significant expense improvement whilst record premium growth is providing additional support to earnings.
- **AdaptHealth Corporation** outperformed after hosting its inaugural Capital Markets Day. Management confidently sketched out their long-term growth ambitions, as well as setting targets for stronger profit margins and improved cash generation. The company also talked positively about nearer-term growth, which will continue to benefit from the ongoing normalization in sleep apnea device availability as semiconductor supplies increase and demand from more economically sensitive areas starts to fall.
- Automotive retailer **O'Reilly Automotive** climbed, its business proposition is seen favourably during a market downturn. As the prospects of recession look even more likely now, and we are starting to see evidence of job cuts and consumer pain, the second-hand auto market becomes a more attractive place to be. Consumers will hold onto existing cars for longer and replace parts, rather than making new purchases.

Key detractors from relative performance:

- **Sony Group Corporation** struggled to perform due to investor concerns around future growth prospects. The company is expected to see ongoing earnings pressure from a strong dollar and the market is wary of weaker prospects for consumer discretionary spending in the context of looming recession.
- **Taiwan Semiconductor (TSMC)** fell in line with semiconductor peers this month. Whilst the sector has not seen downgrades yet, there is clearly a bubble of excess demand relative to COVID-19 and previous semiconductor shortages. This inventory issue now needs to work its way through. Importantly, TSMC is at the better end of this downgrade cycle than peers, given its lower commodity exposure relative to the likes of Micron.
- **Adobe Incorporated** shares fell following the announcement to acquire Figma at the Q3 results update and an unfavourable macroeconomic backdrop for the information technology sector. Going into Q3 results, investors were concerned about Adobe's future growth trajectory and competitive pressures. The company's acquisition of Figma triggered a sell-off for the stock as investors struggled to understand the rationale for the move. Despite this, we think that the market has overreacted. Adobe is a high-quality business, Figma presents a wealth of opportunities, and the stock now probably looks attractively valued.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	70.25	62.00
Japan	2.29	5.38
China	0.00	3.49
United Kingdom	7.07	3.68
Canada	0.00	3.13
Europe ex UK	8.15	11.45
Asia Pacific ex China & Japan	9.86	8.19
Emerging Europe, Middle East, Africa	0.00	1.68
Latin America	0.00	1.00
Cash	2.38	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	6.04	3.22	United States
Compass Group plc	3.68	0.07	Britain
Danaher Corp	3.43	0.35	United States
Palomar Holdings	3.26	0.00	United States
Carlisle Cos	3.12	0.03	United States
Housing Development Finance Corp	2.98	0.09	India
Intercontinental Exchange	2.95	0.10	United States
Diageo plc	2.76	0.19	Britain
Coca-Cola Co	2.69	0.45	United States
Progressive Corp	2.65	0.13	United States

Market Commentary

September was another weak month for global equity markets. The hopes of a pivot towards less hawkish monetary policy from the Federal Reserve continued to fade away as inflation once again surprised to the upside in the US and interest rate expectations moved higher. Global economic data has continued to drift slowly lower, stoking fear over a 2023 recession. Fears over Russian escalation of the conflict in Ukraine, after a series of embarrassing setbacks for the country's military, also served to unnerve investors.

The worst performing sectors this month were some of the market leaders of the last cycle. Information technology and communication services both meaningfully underperformed, as investors weighed cooling revenue growth and higher discount rates. Other interest rate-sensitive sectors, including utilities and real estate also failed to keep pace with the market. As fears over a potential policy error by the Federal Reserve (and a sharp global recession) increased, defensive sectors were the main outperformers with healthcare and consumer staples being the best performing sectors.

Regionally, emerging Asia was weak again this month. The fate of the crucial Chinese residential real estate market remains somewhat unclear. Japan also underperformed over the period and despite their economic woes, both Europe and the UK outperformed this month.

Market Outlook and Strategy

Confidence is everything in investing and investors clearly don't have much (if any) faith in UK politics at present. That much was evident in the price action of UK gilts and Sterling in the aftermath of the Chancellor's 'mini-Budget'. The media (as ever) further sensationalized the issue. However, it often pays to take a step back and consider what is really going on. The UK economy clearly has its challenges but when people who are normally as familiar with global foreign exchange markets as they are with space travel are suddenly aware of the spot FX rate, you know that you are probably near the bottom. It can only be a matter of time before The Economist calls the ultimate low with a picture of a gravestone, inscribed with a sad looking United Kingdom Pound.

It feels to us that inflation is likely to turn appreciably lower in the coming months. Whilst the oil price may have some halo effects on other prices, and oil prices may move higher if the US stops releasing its reserves and China steps back on the economic gas. Other disinflationary pressures are also building, as supply chains free up. For instance, the cost of shipping between China and the US has recently fallen to below pre-COVID levels, having almost tripled a year ago.

We wrote about this repeatedly last year, as excess liquidity made its way into pockets of excessive speculation – separating some stock prices from their economic fundamentals. It increasingly feels like we are nearing the opposite extreme now, where every argument that could justify a lower price is being deployed.

We are not saying that the low for this bear market is definitively in place – just that it is probably a lot closer at hand now than it was – with equity valuations having fallen considerably. We remain focused upon assessing our companies' ability to deliver earnings expectations and cash generation. These give us confidence in the long-term, even if shorter-term developments remain volatile.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	7.38
Consumer Discretionary	12.57	11.51
Consumer Staples	7.52	7.65
Energy	2.42	5.21
Financials	14.30	14.55
Health Care	20.01	12.97
Industrials	16.95	9.49
Information Technology	19.27	20.72
Materials	2.49	4.69
Real Estate	2.09	2.69
Utilities	0.00	3.14
Cash	2.38	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 $191.2 million

Minimum Investment
AUD 10,000

Buy/Sell Spread
0.20%/0.20%

Distribution Frequency
Quarterly

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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