

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	3.57	11.92	21.64	32.80	18.49	19.26		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.01		
Total Fund return (net) [#]	3.57	11.92	21.64	32.80	18.49	19.27	18.70	9.08
Benchmark*	3.09	10.75	20.55	30.17	13.94	14.93	16.36	7.63
Excess return	0.48	1.17	1.09	2.62	4.55	4.33	2.34	1.45

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:

- **HelloFresh** outperformed on the back of another set of strong quarterly results. Management upgraded revenue guidance for the third time this year, reflecting continued strong demand for meal-kits despite markets re-opening after COVID-19 lockdowns.
- **Daikin** performed strongly after quarterly results illustrated that the company is executing on the key themes of its medium-term plan.
- **HDFC Bank** benefited after the Reserve Bank of India (RBI) allowed the company to resume issuing new credit cards, lifting the restriction that was imposed in December 2020, following the RBI's review of the bank's information technology system outages in recent years. This is a positive because the company can acquire new customers again, helping to rebuild the pipeline.
- **Palomar** and **Aon plc** also contributed to performance.

Key detractors from relative performance:

- **Anthem** underperformed after one of its peers (Cigna) announced disappointing Q2 results which suggested that insurers could face elevated cost pressures in 2H21.
- **Encompass Health** was impacted by weak results from a peer (Amedisys). Their Q2 results showed some near-term pressure on the Amedisys Hospice business - with a slower than expected recovery in admissions post COVID-19 and rising wage cost for nurses (exacerbated by poor management execution at the company).
- **LHC Group** was also impacted by the Amedisys results mentioned above. However, hospice only accounts for 11% of LHC's sales and the mid-term growth story for Home

Health continues to look attractive, as demand for at-home care continues to increase.

- **LivaNova** and **Global Payments** also detracted from performance.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	67.29	59.84
Japan	4.86	5.83
China	1.58	4.05
United Kingdom	6.26	3.62
Canada	0.00	2.82
Europe ex UK	13.47	12.92
Asia Pacific ex China & Japan	5.02	8.18
Emerging Europe, Middle East, Africa	0.00	1.79
Latin America	0.00	0.94
Cash	1.53	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	6.37	3.16	United States
Amazon.com	3.82	2.17	United States
Adobe Inc	3.67	0.46	United States
Accenture plc	3.49	0.31	United States
Carlisle Cos	3.05	0.00	United States
HDFC Bank	3.04	0.10	India
Hellofresh SE	3.03	0.03	Germany
Abbott Laboratories	3.00	0.33	United States
Sony Group Corp	2.86	0.19	Japan
Palomar Holdings Inc	2.84	0.00	United States

Market Commentary

The MSCI All Countries World Index returned 3.09% (AUD, unhedged) over the month. Sector performance was generally characterised by higher quality sectors outperforming lower quality cyclicals. For instance, information technology outperformed as the slowdown in economic data increased demand for growth stocks. The most notable underperformers this month were all cyclicals. Consumer discretionary, materials, energy and industrials all failed to keep pace with the market. Only financials bucked this trend – managing to outperform at the same time as utilities, despite the two sectors traditionally being negatively correlated.

There was little to choose between the main regions, with the US, Emerging Asia and Japan all marginally outperforming and Europe ex-UK and the UK slightly underperforming. The performance of Emerging Asia was a significant improvement after the stark underperformance in July, as the Chinese Government provided some context for its regulatory crackdown on parts of the private sector.

Market Outlook and Strategy

Low interest rates also mean low debt servicing costs and these have also had a profound impact on the structure of many industries, allowing unprofitable, overextended companies to remain in business for much longer than normal. These companies were christened ‘zombie’ companies in 2008 because they are half dead (i.e. bankrupt) and half alive, kept afloat by artificially low interest costs and debt forbearance from their lenders. The Bank of International Settlements estimated that 12% of developed market companies were zombies in 2018 and this proportion has likely increased since then. Their existence will create surplus capacity, undermine price discipline and won’t help profit margins in some cyclical businesses, if input cost inflation becomes more entrenched than expected.

The reaction of bond markets and the amount of credit made available by banks will determine how quickly and where any shift in monetary policy is felt in equity markets. If credit keeps flowing, then the zombies could get another lease of life. If, however, credit markets adjust in anticipation of tighter liquidity from the Fed, then things could get ugly fairly quickly in the lower quality part of the market.

By way of contrast, we continue to invest only in high and/or improving quality businesses whilst franchise quality remains a key pillar of Future Quality investing. We want our companies to be well insulated against macroeconomic conditions, with differentiated business models and strong pricing power –

allowing them to protect profit margins and keep investing in research and development, thereby extending their competitive advantage, relative to their more capital constrained competitors. If the US Federal Reserve does too much, too soon or even if bond markets believe that this may be the case then there might well be a ‘Nightmare before Christmas’. Certainly, the zombies will face a time of reckoning. In the meantime, we will continue to focus on finding companies where we believe in the long-term growth prospects and where valuation will still be attractive, even when discount rates are more ‘normal’ – whenever that turns out to be.

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	1.58	9.43
Consumer Discretionary	17.05	12.14
Consumer Staples	5.98	6.78
Energy	0.00	3.08
Financials	15.40	14.10
Health Care	19.92	11.84
Industrials	14.54	9.74
Information Technology	20.67	22.67
Materials	1.31	4.86
Real Estate	2.03	2.65
Utilities	0.00	2.71
Cash	1.53	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 \$196.0 million

Minimum Investment

AUD 10,000

Buy/Sell Spread

0.20%/0.20%

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: investor@yarracm.com

Important Information

This material was prepared by Yarra Investment Management Limited ABN 34 002 542 038, AFSL 229664 (YIML) who is the responsible entity and issuer of units in the Nikko AM Global Share Fund ARSN 092 026 269 (Fund). Effective 12 April 2021, Nikko AM Australia became part of the Yarra Capital Management Group. The information contained in this material is of a general nature only and does not constitute personal advice. It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only. It does not take into account the objectives, financial situation or needs of any individual. Investors should consult a financial adviser as well as the information contained in the Fund’s current Product Disclosure Statement (PDS) and the ‘Additional Information to the PDS’ which are available at www.yarracm.com/pdsupdates before deciding to invest in the Fund. Applications will only be accepted if made on a current application form. An investment in the Fund is not a bank deposit and distributions and the return of capital are not guaranteed. Past performance is not an indicator of future performance. Any references to particular securities or sectors are for illustrative purposes only and are as at the date of publication of this material. This is not a recommendation in relation to any named securities or sectors and no warranty or guarantee is provided that the positions will remain within the portfolio of the Fund.