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	1.54	-1.46	3.12	-1.45	8.30	11.48		
Fund distribution return	0.00	0.00	0.00	0.00	0.00	0.00		
Total Fund return (net)#	1.54	-1.46	3.12	-1.45	8.30	11.48	14.57	8.08
Benchmark*	1.50	-0.69	5.04	-1.28	7.19	8.93	13.09	6.96
Excess return	**0.04**	**-0.77**	**-1.91**	**-0.17**	**1.11**	**2.56**	**1.48**	**1.12**

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 outperformed the benchmark over the month.

Key contributors to relative performance:

- **Palomar Holdings** shares outperformed, fueled by a positive reaction to their fourth quarter earnings release. Reinsurance pricing was the focus of investors heading into the print and whilst the tougher reinsurance market was acknowledged, management were able to ease investor concerns and evidence their ability to obtain sufficient reinsurance capacity at a better price than peers. Earnings visibility continues to improve with growth in Palomar's fronting business and prudent management of potential losses.
- **Progressive Corporation** had a strong month, helped by a positive reaction to the release of their February results which showed robust growth in policy numbers. On top of this, rising bond yields offered a tailwind in February.
- **Box, Inc.** shares started the month strong and held onto those gains despite increased headwinds for the growth end of the market as the month progressed. This came after Box faced some pressure in February from an analyst downgrade, which prevented it from fully participating in the bounce last month.

Key detractors from relative performance:

- **AdaptHealth Corporation** shares fell at the end of the month after reporting a poor Q4 result. Investors were particularly disappointed by the lowering of full year guidance which accompanied the earnings release. While the revised guidance reflected only a minor lowering in top-line and earnings expectations, it was the fact that the existing guidance only lasted 6 weeks before adjustments had to be made which hit the share price.
- **LivaNova plc** underperformed following their release of Q4 numbers. While the headline numbers came in ahead of consensus, investor sentiment was dented by uninspiring growth in US Epilepsy, LivaNova's most profitable business, due to execution issues. Furthermore, a continued lack of conclusive evidence supporting LivaNova's Vagus Nerve Stimulation (VNS) depression therapy continues to test investor's patience.
- **American Tower Corporation** shares were weak performers in February as they felt the impact of rising bond yields. Due to the long-duration cash flows associated with American Tower's business, the share price has limited shelter from rising yields.

Country/ Regional Exposure

Country/Region	Fund %	Benchmark %
United States	61.80	60.31
Japan	2.10	5.46
China	0.00	3.49
United Kingdom	10.05	3.95
Canada	0.00	3.06
Europe ex UK	7.46	13.03
Asia Pacific ex China & Japan	14.63	8.19
Emerging Europe, Middle East, Africa	0.00	1.57
Latin America	0.00	0.94
Cash	3.95	0.00
Total	100.00	100.00

Sector Exposure

Sector	Fund %	Benchmark %
Communication Services	0.00	6.99
Consumer Discretionary	14.36	11.04
Consumer Staples	6.98	7.36
Energy	7.03	5.24
Financials	15.47	15.39
Health Care	17.49	12.28
Industrials	12.76	10.17
Information Technology	17.88	21.15
Materials	2.40	4.96
Real Estate	1.68	2.56
Utilities	0.00	2.87
Cash	3.95	0.00
Total	100.00	100.00

Top 10 Holdings - Underlying Fund

Company	Fund %	Benchmark %	Country
Microsoft Corp	4.44	3.03	United States
Compass Group	3.21	0.07	United Kingdom
Housing Development Finance Corporation	3.11	0.09	India
Schlumberger N.V.	2.99	0.13	United States
Progressive Corp	2.85	0.14	United States
Booking Holdings	2.72	0.17	United States
KBR, Inc.	2.66	0.00	United States
Worley	2.64	0.00	Australia
Diageo	2.61	0.17	United Kingdom
Box, Inc.	2.51	0.00	United States

Market Commentary

There wasn't much momentum into February from January's market exuberance, as global equity markets struggled to add much to the gains made amidst broad-based short covering earlier in the year. During the month, the MSCI All Countries World Index had a total return of 1.50% (AUD, unhedged).

Strong economic data was seen as bad news for equity markets. In the US and Europe, inflation readings have continued to run at elevated levels, with the US Federal Reserve's preferred inflation gauge – the Personal Consumption Expenditures (PCE) deflator – rising 0.6% month-on-month for its biggest gain since 2021. As a result, expectations for peak interest rates have increased again (back above 5%) and hopes for a Fed 'pivot' and interest rate cuts later in the year have receded.

Bond yields pushed higher as a result. Interestingly, however, the spike in yields has not fed through into defensive sectors. Instead, the information technology, financials and industrials sectors continued to trade well – suggesting that investors do not see the current tightening in financial conditions as a lasting phenomenon. Defensives have continued to underperform in February, with the healthcare, real estate and utilities sectors all struggling.

Chinese reopening plays have also fared less well this month, as economic data has been slow to turn so far and geopolitical tensions between the US and China intensified. The Chinese spy balloon controversy and dire US warnings over economic sanctions if China were to militarily aid Russia's invasion of Ukraine soured sentiment towards the region.

The materials sector (particularly mining shares) retreated this month. Cost inflation has eroded corporate profits during reporting season and there have been signs of a gradual shift in capital allocation too, with dividend payments lower than expected and CAPEX budgets generally higher. It is very early days for this change, but it is fair to say that it rarely bodes well for sector returns.

The best performing regions were Europe and the UK, where low starting relative valuations and improving sentiment towards industrials and financials helped to lift sentiment. The US also marginally outperformed, helped by its above average exposure to the information technology sector.

Market Outlook and Strategy

We've written in the past for the need to remain optimistic when investing in equities and with global technology stocks rebounding aggressively from the selling seen at the end of last year, it certainly feels like equity investors are wearing their rose-tinted spectacles at present. Stocks in the consumer discretionary and industrials sectors are also continuing to provide relative market leadership, even in the face of relentless media headlines about high inflation and expectations for ever-tighter monetary policy.

The media headlines at present look the same as mid-2022 (referring to higher, stickier inflation and the need for higher interest rates to tame it) but the reaction in asset classes has been very different (so far this year, at least). Part of the reason for this is a different (higher) starting point for bond yields and (lower) investor expectations. The other part is just a function of time. It's more difficult to be repeatedly surprised by the same thing. The thought process seems to be that even if peak interest rates are higher than previously expected, they will still be the peak – and likely relatively soon.

Whilst some in the market are currently dusting off the playbook that served them well during the 2010s, we are fearful that some of the insatiable appetite for parts of the technology sector might be dangerous. Similarly, we are more willing to be greedy in areas such as energy transition (where some fear the falling oil price, but we see a multi-year upswing in demand) or in the return of tourism volumes (where concerns over consumer confidence are crowding out the fact that volumes have yet to recover from the exogenous shock caused by COVID-19).

Although some form of recession in the US does look likely at some stage this year, we are not confident in forecasting the extent or duration of it. Crucially, also, not all areas of the world are likely to have the same experience. Being optimistic again, any strengthening of activity in other regions could well smooth the impact of any slowdown in the US, meaning that earnings revisions are better supported than US-focused investors may believe. Europe has long been written off by some, but European cohesion has been strengthened by the war on its doorstep. The region's recent policy initiatives, such as its version of the US's Inflation Reduction Act will help finance significant investments in energy transition (amongst other areas), boosting economic activity in the second half of 2023 and beyond.

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 $242.8 million

Minimum Investment
AUD 10,000

Buy/Sell Spread
0.20%/0.20%

Distribution Frequency
Quarterly

Contact Us

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