

Global Equity Quarterly

Q3 2020

October 2020

Last month saw a marked increase in share price volatility in some of the stocks deemed most insulated from the adverse impacts of COVID-19. We suspect that this volatility will persist for some time as the real strengths of economies are revealed; with emergency wage support measures rolling off in the UK, inventories partially rebuilt and political uncertainty elevated.

By the Global Equity Team

Global equity investment philosophy

Our philosophy is centred on the search for “Future Quality” in a company. Future Quality companies are those that we believe will attain and sustain high returns on investment. ESG considerations are integral to Future Quality investing as good companies make for good investment. The four pillars we use to assess the Future Quality characteristics of an investment are:

Franchise – does the company have a sustainable competitive advantage?

Management – does the company make sound strategic and capital allocation decisions?

Balance Sheet – is growth appropriately financed?

Valuation – are the company’s prospects under-appreciated by the market?

We believe that investing in Future Quality companies will lead to outperformance over the full market cycle. Our strategy is based on fundamental, bottom-up research therefore sector and country allocations are a function of stock selection. The Global Equity strategy is a concentrated, high conviction portfolio with a high active share ratio.

Market outlook

One factor that has been helping equity markets push higher in recent months has been positive earnings revisions. Given the unprecedented nature of the coronavirus outbreak and the economic lockdowns introduced to limit its spread, it is not surprising that forecasting error has turned out to be significant for estimates compiled back in the dark days of March to May this year. Hindsight is a wonderful thing in investment, but it turns out that the world hasn’t yet ended and that people still need and want to do the things that give them pleasure.

Where will profit expectations go from here and how realistic are expectations that 2021 will mark a return to pre COVID-19 normal? These questions look especially pertinent as we near the traditional flu season in the northern hemisphere and deal with increasing infection rates. Can the public health risks be effectively managed without jeopardising economic health? At the very least, politicians should no longer be under any illusion

“
At the very least, politicians should no longer be under any illusion regarding the economic damage done by lockdowns.

regarding the economic damage done by lockdowns. The societal damage and the disproportionately high burden of this damage on those worse off in society should be equally clear.

Our portfolio has experienced more than its fair share of strong performers throughout the crisis, despite none of us foreseeing the virus. Dealing with the virus has just accelerated changes that were already taking place; be it the migration of data to the Cloud, the enabling of more flexible working or the shift of some healthcare out of hospitals and into patients' own homes. In each case, we believe that these changes address major societal issues and will persist long after vaccines have successfully been developed and the threat posed by the coronavirus has passed. The sustained nature of the growth opportunities that these changes present for Microsoft, Amazon, Adobe, LHC Group and Encompass Health (among others), are not yet fully reflected in the stocks' long-term valuations. Nevertheless, we have taken profits in some stocks in recognition of them pulling forward of demand. We have been investing the proceeds to increase positions in companies that have been tagged COVID-19 losers, but where we remain confident in their long-term Future Quality credentials, even if we acknowledge that we have no way of knowing when the challenges posed by the vaccine will pass. Compass Group and HDFC are good examples.

The successful development and commercialisation of vaccines for the virus remains the most likely clearing event that would trigger a re-evaluation of the merits of these two camps. Data continues to accumulate on the efficacy and safety of the many products in development. Recent commentary by both regulators and the drug industry suggest that they will not be swayed by the political calendar when assessing their vaccines. This may not help the Republican Party (or those wishing for a rally into year-end) but is almost certainly the best approach to eradicating the threat posed by the virus in the long term. Last month saw a marked increase in share price volatility in some of the stocks deemed most insulated from the adverse impacts of COVID-19. We suspect that this volatility will persist for some time as the real strengths of economies are revealed; with emergency wage support measures rolling off in the UK, inventories partially rebuilt and political uncertainty elevated. We remain optimistic that the picture will look reasonably positive—at least by the middle of next year. With other asset classes looking more expensively valued than equities, we remain constructive on markets. Most importantly, the current bifurcation of markets between the COVID-19 haves and have-nots is continuing to present attractively valued Future Quality businesses for us to invest in on behalf of our clients.

Portfolio positioning

The table below highlights our Global Equity Strategy holdings as of the end of September 2020.

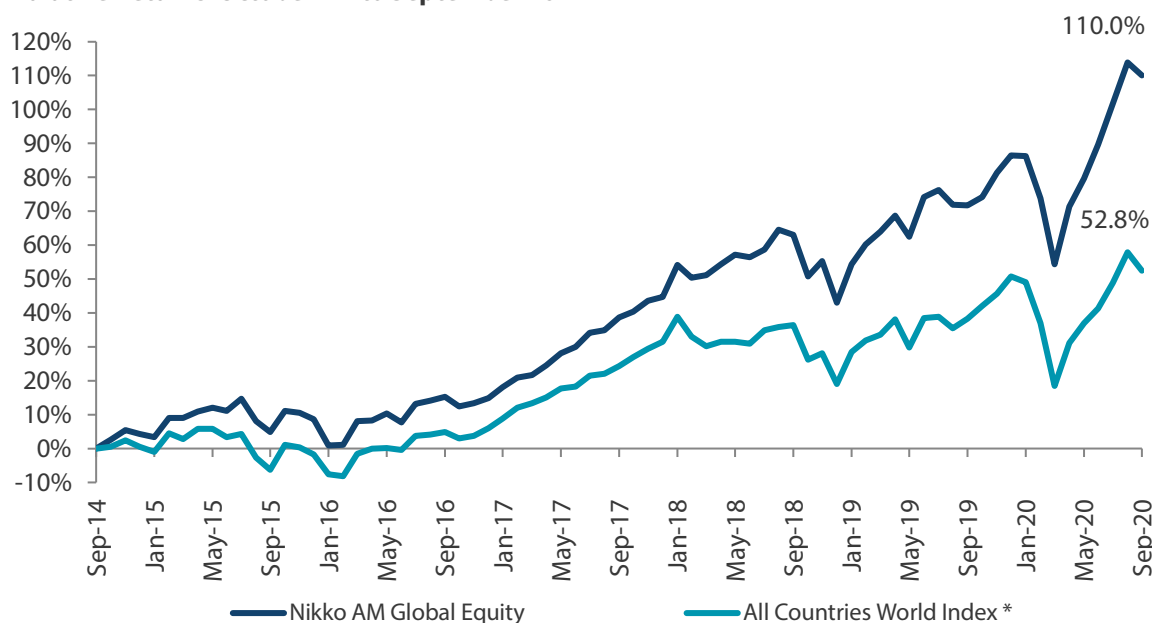
	Portfolio Weight
Consumer Discretionary	17.2
Amazon.com, Inc.	5.0
HelloFresh	3.0
Sony Corporation	3.0
TJX Companies Inc	2.6
Compass Group PLC	1.9
Meituan Dianping	1.7
Information Technology	17.3
Microsoft Corporation	4.9
Accenture Plc Class A	2.9
Adobe Inc.	2.8
SolarEdge Technologies Inc	2.4
Hexagon	2.2
Dolby Laboratories	2.0
Financials	16.5
Progressive Corporation	3.0
Aon Plc.	2.7
SVB Financial Group	2.5
Palomar Holdings, Inc.	2.1
Housing Development Finance Corporation	2.0
AIA Group	2.0
Prudential Plc	1.4
Burford Capital	0.7
Consumer Staples	6.3
Kerry Group Plc	2.2
Unilever Plc	2.0
Coca-Cola	2.0

	Portfolio Weight
Health Care	18.8
Laboratory Corporation of America Holdings	3.0
LHC Group, Inc	3.0
Encompass Health Corporation	2.7
Anthem, Inc	2.4
Bio-Techne Corporation	2.1
LivaNova Plc	1.9
Koninklijke Philips	1.8
Danaher Corporation	1.7
Industrials	13.8
TransUnion	2.8
Deere & Company	2.2
Daikin Industries Ltd	2.1
Schneider Electric SE	2.0
Woodward, Inc.	1.6
Verisk Analytics Inc	1.6
Kingspan	1.6
Materials	1.2
Johnson Matthey Plc	1.2
Communication Services	6.0
Tencent Holdings Ltd.	3.4
Nintendo Co., Ltd.	2.6
Real Estate	1.3
American Tower Corporation	1.3
Utilities	0
Energy	0
[Cash]	1.6

Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy's portfolio, nor constitute a recommendation to buy or sell.

Global Equity Strategy Composite Performance to Q3 2020

Cumulative Returns October 14 to September 20



Nikko AM Gross Annualised Returns (USD) %	1 year	2 years	3 years	5 years	Since Inception
Global Equity Strategy Composite	22.30	13.50	14.84	14.89	13.16
All Countries World Index*	10.44	5.81	7.12	10.27	7.32
Excess Return	11.86	7.68	7.72	4.62	5.84

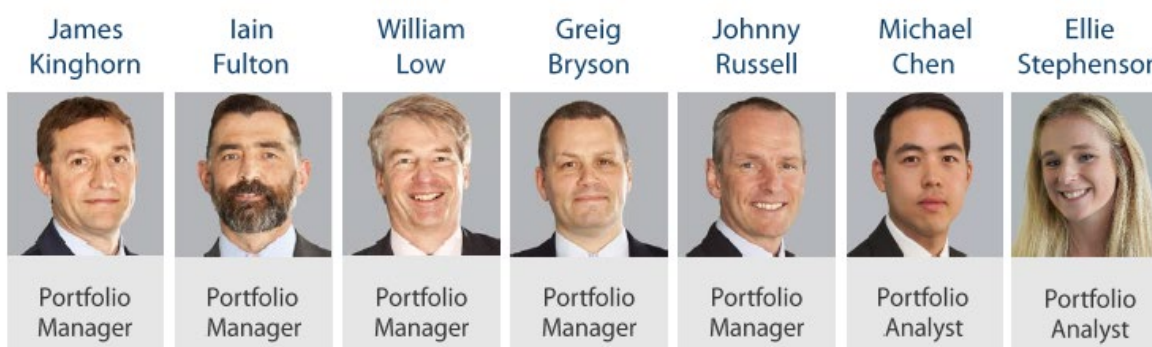
*The benchmark for this composite is MSCI All Countries World Index. The benchmark was the MSCI All Countries World Index ex AU since inception of the composite to 31 March 2016. Inception date for the composite is 01 October 2014. Returns are based on Nikko AM's (hereafter referred to as the "Firm") Global Equity Strategy Composite returns. Returns for periods in excess of 1 year are annualised. The Firm claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Returns are US Dollar based and are calculated gross of advisory and management fees, custodial fees and withholding taxes, but are net of transaction costs and include reinvestment of dividends and interest. Copyright © MSCI Inc. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. For more details, please refer to the performance disclosures found at the end of this document. Data as of 30 September 2020.

Nikko AM Global Equity: Capability profile and available funds
(as at 30 September 2020)

Available strategies	Global ACWI, Global EAFE, Global Developed, Global ex specific country, Sharia, Dividend		
Available vehicles	UCITS-SICAV, Country domiciled mutual funds, unit trusts, investment trusts and segregated accounts		
Key Features of Global ACWI	Current Positioning		Guidelines
Investment Objective	+3% vs MSCI AC World		
No. of holdings	42		40-50
Active share	89.8%		90-95%
Cash	1.6%		0-3%

Past performance is not indicative of future performance. This is provided as supplementary information to the performance reports prepared and presented in compliance with the Global Investment Performance Standards (GIPS®). Nikko AM Representative Global Equity account. Source: Nikko AM, FactSet.

Nikko AM Global Equity Team



This Edinburgh based team provides solutions for clients seeking global exposure. Their unique approach, a combination of Experience, Future Quality and Execution, means they are continually “joining the dots” across geographies, sectors and companies, to find the opportunities that others simply don’t see.

Experience

Our five portfolio managers have an average of 23 years' industry experience and have worked together as a Global Equity team for eight years. In 2019, two portfolio analysts, Michael Chen and Ellie Stephenson joined the team and they are the first in a new generation of talent on the path to becoming portfolio managers. The team's deliberate flat structure fosters individual accountability and collective responsibility. It is designed to take advantage of the diversity of backgrounds and areas of specialisation to ensure the team can find the investment opportunities others don't.

Future Quality

The team's philosophy is based on the belief that investing in a portfolio of Future Quality companies will lead to outperformance over the long term. They define Future Quality as a business that can generate sustained growth in cash flow and improving returns on investment. They believe the rewards are greatest where these qualities are sustainable and the valuation is attractive. This concept underpins everything the team does.

Execution

Effective execution is essential to fully harness Future Quality ideas in portfolios. We combine a differentiated process with a highly collaborative culture to achieve our goal: high conviction portfolios delivering the best outcome for clients. It is this combination of extensive experience, Future Quality style and effective execution that offers a compelling and differentiated outcome for our clients.

About Nikko Asset Management

With USD 249.5 billion* under management, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income, Multi-Asset and Alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).

*Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 30 September 2020.

Risks

Emerging markets risk - the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

Currency risk - this exists when the strategy invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the Sub-Fund will lead to a reduction in the value of the strategy.

Operational risk - due to issues such as natural disasters, technical problems and fraud.

Liquidity risk - investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the Strategy.

Contact us

EMEA – Nikko Asset Management Europe Ltd.

1 London Wall, London EC2Y 5AD, U.K.

Phone: +44 (0) 20 7796 9866

Fax: +44 (0) 20 7796 9816

Email: EMEAenquiries@nikkoam.com

Americas – Nikko Asset Management Americas, Inc.

605 Third Avenue, 38th Floor, New York, NY 10158, U.S.A.

Phone: +1-212-610-6100

Fax: +1-212-610-6140

Email: USsalesinquiries@nikkoam.com

Important Information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell. Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements. All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom and rest of Europe: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities

and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

Australia: This document is issued in Australia by Nikko AM Limited (ABN 99 003 376 252, AFSL 237563). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request. The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after

such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

MSCI: The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).