

Global Equity Quarterly Q4 2024

By the Global Equity Team
March 2025

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

Whether it's walking around the block with an empty suitcase (Colombia), throwing furniture out of the window (South Africa), or smashing pomegranates (Greece), there are many strange and wonderful traditions across the world for seeing in the New Year.

In Scotland, we have “first-footing”, a tradition that dates back to the time of the Norse invaders. After the stroke of midnight on New Year's Eve, people visit the homes of friends and family, bringing gifts that symbolise prosperity, warmth, and good fortune, such as coal, shortbread, and perhaps a “wee dram” of whisky for good cheer.

For many Scottish families, first-footing serves as a symbolic fresh start—a way of looking forward to better times ahead. The symbolism is obvious—out with the old and in with the new. In true Scottish style, first-footing can go on for a few days as all friends, neighbours, and family meet, explaining the extended national holiday we get at the start of the year. But like the fireworks on Hogmanay, the merriment eventually fizzles out.

Across the globe, growth is scarce, and this scarcity has driven the ratings of those that can deliver. The premium for top-line growth is high, but so too is scepticism about AI returns. The hyperscalers continue to deliver FCF margins exceeding 30% and even higher returns on capital, and, as demonstrated in 2024, the opportunity cost of not investing in them is high. Price gains have been supported by earnings and cash flow growth, while higher-than-expected capex spending has spurred a range of beneficiaries—software, semiconductor, power, and electrical companies, to name a few.

While some areas look extended, there are parts of the market that do look appealing. As demonstrated with our more recent investments—Trip.com and Siemens Healthineers—the team is spending more time looking for and

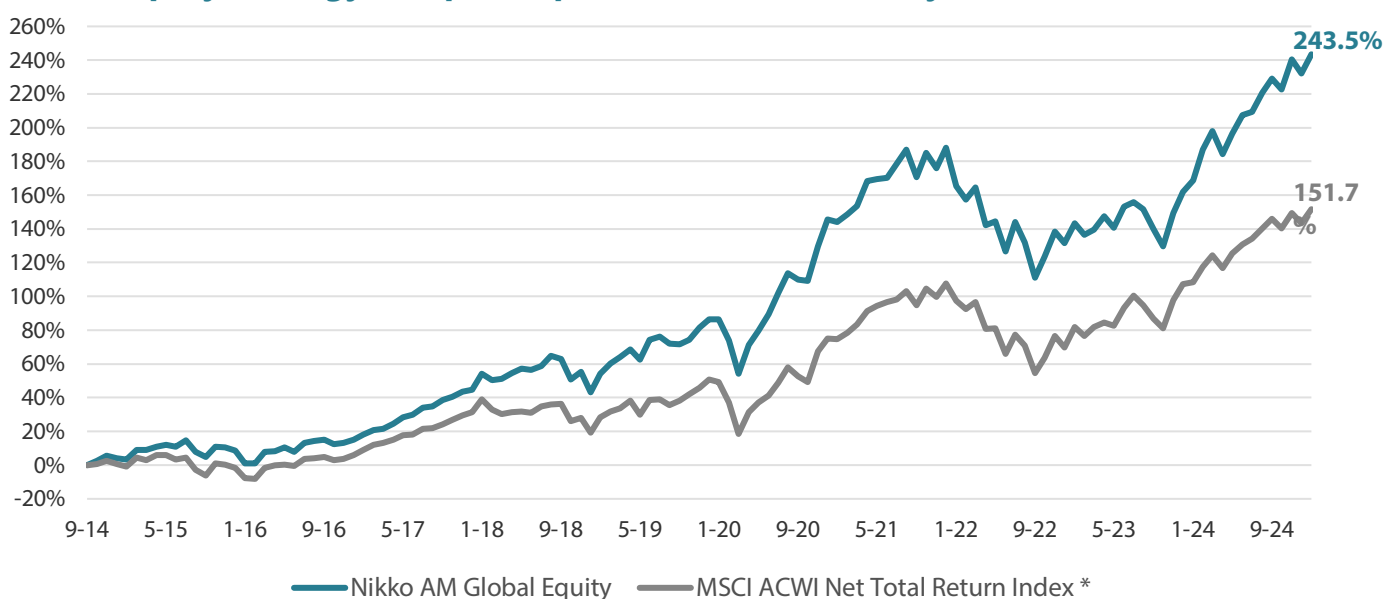
researching ideas outside the US than we have in the recent past. Another area of interest is in defensive growth stocks, where relative valuations are reaching long-term lows. We have been adding to stocks like Coca-Cola over the year, while Haleon, Cencora, and global caterer Compass Group also remain as top 10 active positions.

Although no one theme dominates the portfolio, what is common across our holdings is the ability of our companies to raise pricing when required and continue to take market share. Our top 10 active positions in the fund reflect this. Only two, Meta and Amazon, have direct AI tailwinds while the others operate in a multitude of sectors and regions, each expected to deliver improving returns while together offering a truly diverse set of future quality ideas.

As a team, we remain focused on stock selection as the key driver of alpha—the core of our success over the last 10 years. The four guiding principles of our Future Quality philosophy will remain at the front and centre. Our focus on franchise and management quality allows us to look forward with optimism, whilst balance sheet quality and valuation discipline provide comfort for when the fireworks start for all the wrong reasons. As stock pickers, rather than relying on superstition, we look for answers through the companies we research and invest in, to be able to put our first—and best—foot forward. In that way, the start of 2025 is no different from any other.

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Global Equity strategy composite performance to January 2025



Gross Annualised Returns (USD) %	1 year	2 Years	3 years	5 years	Since Inception
Global Equity Strategy Composite	27.88	18.78	8.96	13.01	12.68
MSCI ACWI Net Total Return Index *	20.72	17.67	8.41	11.04	9.34
Active Return	7.16	1.11	0.55	1.97	3.34

Past performance is not a guide to future returns. Source: Nikko AM, FactSet.

*The benchmark for this composite is MSCI ACWI Net Total Return Index. The benchmark was the MSCI ACWI 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. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon.

Data as of 31 January 2025.









Nikko AM Global Equity: Capability profile and available vehicles (as at January 2025)

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	44	40-50
Active share	82.1%	90-95%
Cash	0.5%	0-3%

Target return is an expected level of return based on certain assumptions and/or simulations taking into account the strategy's risk components. There can be no assurance that any stated investment objective, including target return, will be achieved and therefore should not be relied upon. Any comparison to a reference index or benchmark may have material inherent limitations and therefore should not be relied upon.

Past performance is not indicative of future performance. Nikko AM Representative Global Equity account. Source: Nikko AM, FactSet.

Nikko AM Global Equity Team

							
Ella-Kara Brown PM	Greig Bryson PM	Iain Fulton PM	James Kinghorn PM	William Low PM	Johnny Russell PM	Michael Chen Analyst	Finn Stewart Analyst

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.

There are four key areas that make our strategy different:

- a focus on **Future Quality** companies – a different and clear philosophy
- a distinctive team **culture** – a tight-knit team with a process built on openness and respect
- unique **execution**, including rigorous team challenge of every idea
- differentiated **portfolios**, with a strong track record in stock-picking and ESG integration

Future Quality companies

We believe that companies with superior long-term returns on investment will deliver better performance. We call these Future Quality companies, and it is only these companies that make it into client portfolios. We search for Future Quality through analysis and financial modelling of companies that we expect to deliver over the next five years, and beyond. This approach is supported by academic evidence that businesses with high and improving returns on invested capital provide superior compound performance over the long term. With this investment time horizon, the sustainability of returns is a crucial ingredient of our Future Quality approach. We have found that companies

developing solutions to ESG issues and management teams providing value to all stakeholders are more likely to be successful at sustaining high returns on invested capital over the long-term.

Distinctive team structure and culture

We believe that our collective knowledge and experience are powerful tools for delivering investment performance. Since 2011, we have operated a team-based approach to uncovering Future Quality investment ideas and have fostered a strong group dynamic. Individually, each Portfolio Manager is an expert investor with a broad skillset and experience of many market cycles.

We work in a flat structure, where all our Portfolio Managers have a dual role that combines investment analysis and investment management responsibilities. With individual analytical coverage split along industry lines, each Portfolio Manager is a specialist in the stocks and sectors they cover.

We all actively challenge the ideas and analysis of colleagues throughout the investment process, in an open atmosphere of vigorous and constructive debate. Portfolio Analysts work alongside Portfolio Managers, typically researching thematic trends that could influence and uncover future investment opportunities.

We take collective responsibility for approving stocks for the portfolio, and therefore there is joint accountability for performance. As such, it is in everyone's interest to ensure that the investment analysis is thorough and that no stone is left unturned in the search for Future Quality.

We believe that the broad experience of our Portfolio Managers and distinctive team-based approach that sees everyone contributing to the strategy, increases the probability of successfully uncovering Future Quality.

Unique execution

Our tight-knit team approach and flat structure enable us to execute in a transparent way, including a rigorous team challenge of every idea. By using our strict Future Quality standards, we can identify long-term winners from the broader universe, to narrow down a comprehensive watch list and around 100 deep dive researched ideas. This is within a unique framework of individual accountability for the underlying analysis and company research, combined with the collective challenging of assumptions at the team level. Our proprietary ranking tool creates a disciplined process to compare and rank attractive opportunities and ensures that at the portfolio construction phase, only our best-ranked ideas receive the most committed weights in client portfolios. We believe our culture is key, and the collective ownership of our research process brings the best portfolio outcomes for clients.

Differentiated portfolios

We deliver a high-conviction Global Equity strategy for clients that is not constrained by benchmarks. As such, Future Quality can be sourced from listed businesses across any geography or sector. And, in a world awash with investment prospects, our disciplined, accountable and transparent process helps us to focus solely on building portfolios from companies that best meet our specific Future Quality criteria.

In terms of balancing risk and reward, our track record shows that we consistently deliver attractive returns on a lower risk-adjusted basis compared with peers and the global reference benchmark. The high active share and concentrated number of holdings help ensure that our Future Quality stock-selection process delivers differentiated portfolios.

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 strategy 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.

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