

# NIKKO AM BALANCED STRATEGY

Assets are held in the Nikko AM Wholesale NZ Balanced Fund. The Nikko AM Balanced Fund (retail) and Nikko AM KiwiSaver Scheme Balanced Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- During January NZ equities, as measured by the NZX50 index, were up just 0.3%, global equities were on average flat, and in fact dropped about 0.5% when allowing for the slightly stronger NZ dollar.
- From a macro-economic perspective, the same topic continues to dominate market sentiment and activity; namely the degree to which central banks will continue to intervene in markets to set short-term cash rates at levels close to zero, and to buy longer term bonds (mostly Government bonds, but also some corporate issuance) in order to hold the so-called 'long end' of the yield curve down.

## Fund Highlights

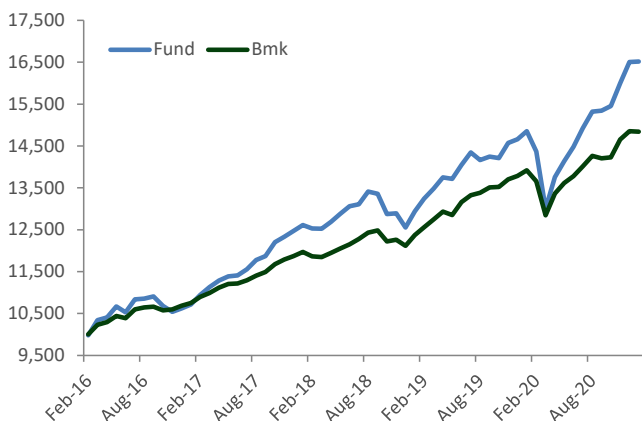
- Diversification remains important in the fund, and the month of January also showed the value of having alternative return sources with the multi-strategy alternative fund returning a solid 1.4% in January despite the noise coming from the 'short-squeeze'
- The ARK fund also had a strong month returning just over 10% which provided some counterbalance to the weaker performance from the traditional core sectors.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.08%	6.88%	11.21%	9.40%	10.56%	10.46%
Benchmark <sup>2</sup>	-0.10%	4.31%	6.59%	7.43%	8.21%	8.40%
Retail <sup>3</sup>	0.31%	6.55%	9.97%			
KiwiSaver <sup>3</sup>	0.31%	6.54%	10.03%			

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.  
 2. Benchmark: Weighted composite of the benchmarks for the underlying sector funds. No tax or fees  
 3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change

## Five Year Cumulative Performance<sup>1, 2</sup>



## Portfolio Manager

**George Carter**, is Managing Director of Nikko AM New Zealand, he joined in 2015. He has over 20 years of experience in the financial services industry. George has worked as a consulting actuary advising institutional clients on pensions and investments in the UK and New Zealand. George is Chair of the Investment Committee, responsible for the strategic asset allocation of the Nikko AM NZ diversified funds.



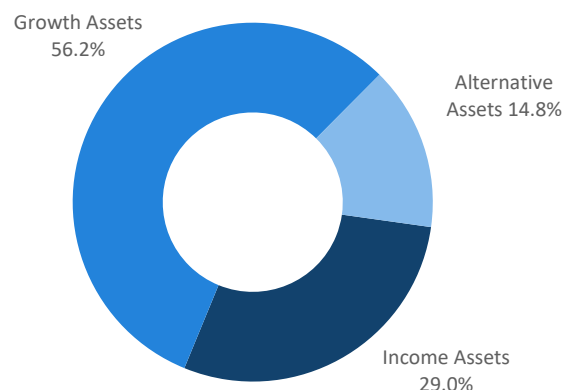
## Overview

This fund has a diversified portfolio across income, growth and alternative assets which aims to generate a return while minimising potential losses.

## Objective

The fund aims to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three year period.

## Asset Allocation



Sector Performance	One month		Three months		One year		Three years p.a.		Asset Allocation	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Bond Fund	-0.35%	-0.41%	-2.27%	-2.52%	5.17%	2.80%	6.25%	4.78%	9.7%	10.0%
NZ Corporate Bond Fund	-0.13%	-0.06%	-1.15%	-0.82%	5.40%	4.07%	6.12%	5.10%	9.6%	10.0%
Option Fund	0.41%	0.35%	3.41%	1.05%	-22.41%	4.54%	-9.73%	5.39%	4.9%	5.0%
Global Bond Fund	-0.69%	-0.55%	1.21%	0.27%	6.59%	2.94%	6.96%	4.91%	9.7%	10.0%
Core Equity Fund	-0.83%	0.28%	7.51%	8.71%	11.38%	12.72%	14.20%	16.86%	12.9%	13.0%
Property Fund	-0.39%	-0.25%	3.96%	2.38%	4.27%	2.30%	16.36%	16.01%	5.0%	5.0%
Concentrated Equity Fund	-2.49%	0.44%	5.43%	1.30%	12.39%	5.36%	10.53%	6.14%	7.8%	8.0%
Global Shares Funds	-0.66%	-0.30%	12.27%	12.56%	22.06%	10.19%	14.55%	8.03%	26.9%	26.0%
Multi-Strategy Alternative	1.36%	0.62%	9.08%	-0.91%	13.51%	-1.12%	6.63%	2.12%	9.9%	10.0%
ARK Fund	10.40%	0.80%	27.37%	2.41%					3.7%	3.0%

The benchmark for this strategy is a weighted composite of the benchmarks of the underlying sector funds. Details can be found in the Statement of Investment Policy and Objectives available at [www.nikkoam.co.nz](http://www.nikkoam.co.nz).

## Market Commentary

Whilst the first month of 2021 had plenty of political action, financial markets had a rather sluggish start to the year. NZ equities (as measured by the NZX50 index) were up just 0.3%, global equities were on average flat, and in fact dropped about 0.5% when allowing for the slightly stronger NZ dollar. Both domestic and global bonds also fell slightly. Against this backdrop of largely uninteresting market movements we had the headline grabbing stories of the "Reddit-investors", i.e. retail investors discussing stocks via online forums to find companies that had been heavily short-sold, and then buying the stock in order to create a 'short-squeeze', thereby triggering mark-to-market losses for the short sellers which ultimately led to many of those investors (often hedge funds) having to close out their positions and realise the losses. This was mostly noise, however, and led to the unfortunate position of many retail investors paying enormously high prices for companies they didn't want, or know much about, and facing the prospect of large losses themselves as the price inevitably fell. From a macro-economic perspective, the same topic continues to dominate market sentiment and activity; namely the degree to which central banks will continue to intervene in markets to set short-term cash rates at levels close to zero, and to buy longer term bonds (mostly Government bonds, but also some corporate issuance) in order to hold the so-called 'long end' of the yield curve down. As long as this activity continues, both equity and bond markets are likely to continue to feel supported. However, there are two broad schools of thought currently competing in the marketplace. One side is typified by the comments made by Jeremy Grantham (famous for picking previous stock market crashes), who is calling the current equity market boom the biggest bubble yet and set to rival the 1920s crash and South Sea Bubble collapse. The other side notes that despite many signs of exuberance and high prices, with central banks providing ongoing funding and support economic growth will eventually pick up to support current prices and that the support can be slowly withdrawn as that eventuates thereby avoiding a crash.

## Fund Commentary

As financial markets rarely do anything smoothly for very long, it seems more likely that there will be heightened volatility, and therefore caution is urged against speculation on asset prices continuing to inflate. This is however, different to saying that we can time the markets and know when and where the ups and downs will occur. Diversification remains important in the fund, and the month of January also showed the value of having alternative return sources, with the multi-strategy alternative fund returned a solid 1.4% in January despite the noise coming from the 'short-squeeze' noted earlier. This is partly due to the well diversified positions within the portfolio, but also noting that 'shorting' is just one of the tools used within the portfolio to generate returns that are lowly correlated with traditional markets. The ARK fund also had a strong month returning just over 10% which provided some counterbalance to the weaker performance from the traditional core sectors.

## Key Fund Facts

### Distributions

Generally does not distribute

### Hedging

Currency hedging contracts, if any, are held in the sector funds listed in the asset allocation. Currently the fund's foreign currency exposure is 18.98%

### Performance fees

Performance fees (if any) are recognised in the unit price of the Balanced Fund for the following sector funds:

*Nikko AM Wholesale Concentrated Equity Fund*

10% of excess return over benchmark, subject to recovery of any previous period negative returns before entitlement.

*Nikko AM Wholesale Option Fund*

15% of returns in excess return over benchmark, subject to recovery of any previous period negative returns before entitlement.

### Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of fund

Retail: 0.96%, refer PDS for more details

KiwiSaver: 0.96%, refer PDS for more details.

### Buy / Sell spread

[Click to view](#)

### Strategy size

\$371.9m

### Strategy Launch

April 1994

**Compliance** The wholesale fund complied with its investment mandate and trust deed during the month.

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