

Factsheet 31 July 2022

# NIKKO AM GROWTH STRATEGY

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

## Market Overview

- Bond markets are currently the driving force behind much of what is happening in broader financial markets. During July, bond markets globally reasoned that economic growth was now more challenged than previously expected, and therefore pulled back expectations around how far central banks will hike rates. This resulted in a large rally in bonds with values increasing by 2-3% over the month.

## Fund Highlights

- Given the strength of both the bond and equity markets in July, the fund enjoyed its strongest monthly performance for quite some time.
- The Multi-Strategy fund fulfilled its role as an alternative diversifier providing a return which is lowly correlated with the broader bond and equity markets. The ARK strategy had a strong month as the strongest performing sector which helped to reverse a little of the losses from prior periods. The Option Fund is receiving high income, but not sufficient to offset the option strikes.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale <sup>1</sup>	5.90%	-0.48%	-10.42%	4.23%	7.59%	-
Benchmark <sup>2</sup>	4.32%	0.12%	-2.25%	5.81%	7.11%	-
Retail <sup>3</sup>	4.99%	-1.76%	-11.73%	2.97%	-	-
KiwiSaver <sup>3</sup>	4.99%	-1.76%	-11.75%	2.99%	-	-

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.
2. Benchmark: Weighted composite of the benchmarks of 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 in unit price.

## Cumulative Performance Since Inception<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.



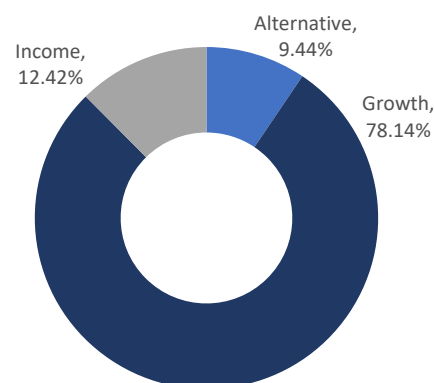
## Overview

This fund has a diversified portfolio of predominately growth assets to deliver growth in capital value over the long term.

## Objective

The fund aims to outperform the benchmark return by 2.0% per annum before fees, expenses and taxes over a rolling three-year period.

## Asset Allocation



Sector Performance	Month		3 months		1 year		3 years p.a.		Asset Allocation	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Corporate Bond Fund	2.10%	1.76%	2.14%	1.99%	-4.07%	-3.96%	0.55%	0.05%	6.31%	6.00%
Global Bond Fund	3.37%	2.55%	0.31%	0.82%	-9.06%	-7.68%	0.21%	-0.64%	6.11%	6.00%
Core Equity Fund	5.67%	5.77%	-2.79%	-3.17%	-5.65%	-8.08%	3.72%	2.63%	20.32%	17.00%
Concentrated Equity Fund	7.37%	0.60%	-2.11%	1.71%	-6.57%	6.00%	5.67%	5.66%	14.38%	12.00%
Global Shares Fund Unh	6.96%	6.08%	4.47%	1.52%	-2.45%	-0.36%	13.16%	10.39%	20.31%	21.50%
Global Shares Fund Hedged	8.81%	7.44%	0.41%	-2.48%	-12.88%	-10.89%	8.81%	7.01%	18.72%	21.50%
ARK Fund	9.36%	0.80%	-3.08%	2.41%	-56.43%	10.00%			4.41%	6.00%
Option Fund	-1.55%	0.54%	-9.24%	1.50%	-15.08%	5.14%	-16.40%	4.83%	4.45%	5.00%
Multi-Strategy Alternative	-0.33%	0.46%	-2.56%	1.26%	-3.38%	4.13%	2.86%	3.82%	4.99%	5.00%

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

Bond markets are currently the driving force behind much of what is happening in broader financial markets. During July, bond markets globally reasoned that economic growth is now more challenged than previously expected, and therefore pulled back expectations around how far central banks will hike rates. This resulted in a large rally in bonds with values increasing by 2-3% over the month (though this still leaves the markets negative for the year-to-date and over 12 months). Perhaps counterintuitively this acknowledgement by markets of a weaker economic outlook didn't result in equities falling, but rather they too rallied – simply because of the relationship between bond yields and equity valuations (i.e. as bond yields fall the value the market places on expected dividend cashflows and discounted future equity valuations increases). The interesting next stage for equities is the extent to which economic weakness and reduced consumption (due to inflation) will result in lower earnings, lower dividends and lower capital growth. Clearly these factors will result in equity valuation weakness, but only to the extent that they are worse than what is currently expected, and for now equity valuations as a whole are being more influenced by interest rates than underlying fundamental company data. This should allow for a good stock picking environment.

## Fund Commentary

Given the strength of both the bond and equity markets in July, the fund enjoyed its strongest monthly performance for quite some time, and resulted in a positive return for the quarter (though still negative over 6 and 12 months). The Option Fund is receiving very high levels of income for the options being written, but this is being more than offset by the ongoing volatility of US treasuries which mean the fund is having to pay out when the options are struck; a period of more stabilised yields will see that income stream retained in the fund as positive performance. Over all time periods this strategy has detracted from the fund's performance and we will continue to monitor this notwithstanding that we like the non-directional low correlation expected return it provides. By contrast, the Multi-Strategy fund has fulfilled its role as an alternative diversifier and not only provided a return which is lowly correlated with the broader bond and equity markets, but it has also positively contributed to the fund's overall returns over the past year, showing its value as a low volatility alternative to bonds. The ARK strategy had a strong month as the strongest performing sector which helped to reverse a little of the losses from prior periods.

### 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 31.16%

#### Performance fees

Performance fees (if any) are recognised in the unit price of the Growth 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 the unit price.

Retail: 1.09%, refer PDS for more details

KiwiSaver: 1.09%, refer PDS for more details.

#### Buy / Sell

spread

[Click to view](#)

#### Strategy size

\$109.5m

#### Strategy Launch

August 2016

## Compliance

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

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