

Factsheet 31 July 2023

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

- The month of July produced another positive performance.
- Equity markets were generally better performers than bonds with yields moving higher on increased supply and stubborn inflation.
- Growth assets have continued to focus on the positives and a subset of the market has performed particularly well.
- There is still a reasonable amount of uncertainty regarding when the inflation battle will be considered won by central banks.

Fund Highlights

- The fund was slightly ahead of its benchmark for this month.
- ARK had a strong month with Tech and AI strong performers.
- Global and NZ shares both added to returns, with global assets performing better on a NZ dollar hedged basis.
- Bond funds were a modest positive as the move higher in rates detracted from the solid monthly accrual.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	1.44%	2.85%	3.04%	2.51%	4.16%	7.79%
Benchmark ²	1.41%	3.13%	5.84%	4.07%	5.17%	6.90%
Retail ³	1.15%	2.67%	2.35%	1.63%	3.34%	
KiwiSaver ³	1.15%	2.67%	2.33%	1.64%	3.48%	

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).

Five Year Cumulative Performance^{1, 2}



Portfolio Manager

Stuart Williams is Managing Director of Nikko AM New Zealand, he joined in 2014. He has over 20 years' experience across all aspects of investment management. Stuart has



extensive experience in conducting detailed research and developing investment recommendations on listed companies in both New Zealand and Australia. He holds a Bachelor of Commerce degree from the University of Auckland and is a Chartered Accountant.

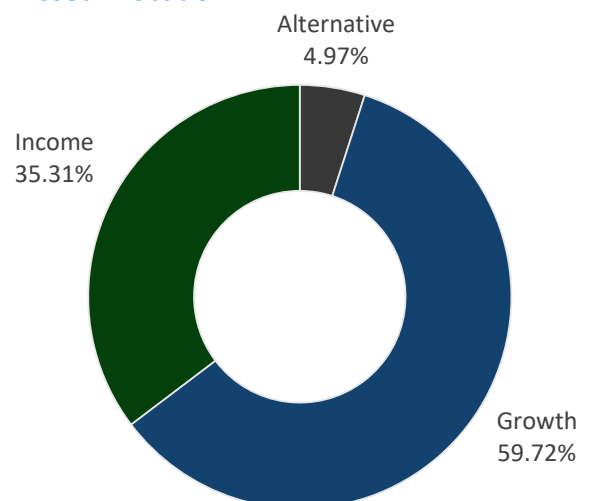
Overview

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	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 Cash Fund	0.53%	0.48%	1.59%	1.41%	4.97%	4.50%	2.47%	1.95%	4.63%	5.00%
NZ Bond Fund	0.06%	0.01%	-1.00%	-1.51%	-0.72%	-1.85%	-2.95%	-3.99%	11.81%	12.00%
NZ Corporate Bond Fund	0.32%	0.28%	0.16%	0.21%	1.16%	1.23%	-1.21%	-1.18%	7.99%	8.00%
Global Bond Fund	0.31%	0.05%	-0.08%	-0.40%	-1.65%	-2.69%	-3.26%	-3.44%	10.87%	11.00%
Core Equity Fund	1.11%	1.20%	1.23%	0.42%	7.73%	5.79%	3.27%	1.66%	13.10%	13.00%
Concentrated Equity Fund	0.59%	0.85%	2.84%	2.53%	4.65%	9.32%	3.96%	6.84%	4.99%	5.00%
Property Fund	4.35%	4.40%	7.75%	7.67%	-0.76%	-1.13%	1.79%	0.78%	6.19%	6.00%
Global Shares Funds UnHdg	-0.38%	2.05%	2.67%	7.69%	5.85%	13.76%	10.76%	12.95%	16.07%	16.00%
Global Shares Funds Hdged	2.25%	3.18%	3.99%	7.66%	2.40%	8.74%	7.49%	8.89%	16.06%	16.00%
ARK Fund	12.97%	0.80%	39.49%	2.41%	17.68%	10.00%			3.31%	3.00%
Multi-Strategy Alternative	0.53%	0.73%	3.26%	2.16%	6.95%	7.62%	4.55%	5.00%	4.97%	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.

Market Commentary

In terms of returns, growth assets appear to have hi-jacked what was expected to be the “year of the bond”. Bond returns have been reasonable but the expected capital gains from rates moving lower have been delayed with inflation “sticky”. Perhaps more surprising, equity markets have taken a “glass half full” view that economies may prove more resilient to interest rate hikes and looking forward the next move in rates will be down, with ample scope to loosen policy once inflation is under control. Still, managing assets has been challenging with the performance in equities driven by a narrow section of the market, and interest rates bouncing around from month-to-month while economic data has at times been contradictory.

The markets want to move forward but there is still a reasonable amount of uncertainty regarding when the inflation battle will be considered won by central banks. On a positive note, we are arguably very close to the peak in terminal cash rates and with longer term yields at cyclical highs following increased government bond supply the threat of meaningful higher interest rates now seems relatively narrow.

It appears the cyclical coordination following covid and inflation fighting has reduced with economies now on different trajectories and the markets betting on relative outcomes. Of relevance to NZ, China has underwhelmed in terms of recovery due to cyclical difficulties in the economy and the structural challenges arising from political and geopolitical factors. Hopes have certainly increased that the Chinese Government is going to act more decisively, to support its economy. China’s economic situation is still mostly an “income statement recession,” where poor economic performance during the pandemic has caused severe profit contraction and income losses, but asset prices have mostly stayed stable while China’s corporate sector is facing a “confidence crisis,” which is preventing the economy from expanding and responding to government stimulus. Fortunately, China generally has low levels of debt and there is no compelling reason for Chinese households and the corporate sector to permanently stay defensive to fix their balance sheets.

Fund Commentary

The month of July continued the theme from June with strong fund performance driven by the growth assets allocation. Deserving of special mention, Property had a strong month with a rebound in some overweight positions and ARK over-achieved continuing its phoenix like resurrection as Tech and AI were strong performers. Global shares and NZ equities also made positive contributions. Global shares were behind benchmark, but the drivers of performance have been concentrated to a small number of stocks and the manager maintains conviction that the second half of the year should see better relative outcomes. NZ equities performed in line with benchmark. July was relatively quiet ahead of the NZ and Australian earnings season in August, with ~60% of the New Zealand market to report results over the coming month.

With the NZ dollar appreciating over the month global assets performed better on a hedged basis versus unhedged.

The bond sectors delivered modest positive returns with July a volatile month in terms of interest rate moves and rates settling modestly higher by month end. With yields high the monthly accrual on the bond funds provides a solid anchor to returns and at some stage it is likely interest rates will fall boosting returns.

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 22.3%.

Strategy Launch
April 1994

Strategy size
\$316.8m

Buy / Sell spread
[Click to view](#)

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of fund

Retail: 0.94%, refer PDS for more details

KiwiSaver: 0.94%, refer PDS for more details.

Performance fee: Not charged in these funds.

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month. www.nikkoam.co.nz | nzenquiries@nikkoam.com

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