

Nikko AM Conservative Strategy

Monthly Update 30 November 2023

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

Market Overview

- Markets remained volatile over November, rebounding strongly after three months of weakness.
- Bonds posted particularly remarkable returns over the month, with some of the sharpest drops in many decades seen in long-term interest rates.
- The Bloomberg Global Aggregate Index (NZD Hedged) returned over 3.2%, the best monthly return since the early 1990's.
- Equity markets were also strong, with MSCI ACWI Index (NZD Hedged) up 7.7%.

Fund Highlights

- Fund performance was very strong in terms of absolute returns over November and in relative terms were ahead of benchmark.
- NZ bonds and global bonds both posted strong returns with interest rates sharply lower over November.
- The global shares portfolio was slightly behind benchmark.
- The core equity fund and property fund returned around 4% over November.

Portfolio Manager

Alan Clarke,
Portfolio Manager

Responsible for providing overall management of the diversified funds and for managing external investment



managers. Alan has over 20 years' experience in investment management as both an analyst and portfolio manager. Prior to starting at Nikko AM, Alan spent 17 years at ANZ Investments and has also held roles at Theta Capital Management in Amsterdam and Morley Asset Management in London. Joined in 2023.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	2.98%	0.49%	3.75%	-0.53%	3.06%	
Benchmark²	2.93%	0.75%	4.03%	-0.34%	2.80%	
Retail³	3.33%	0.50%	3.56%	-1.12%	2.51%	
KiwiSaver³	3.32%	0.53%	3.59%	-1.09%	2.55%	

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. See overleaf. 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.

Overview

This fund has a diversified portfolio which aims to preserve capital and achieve an investment return above bank deposit rates.

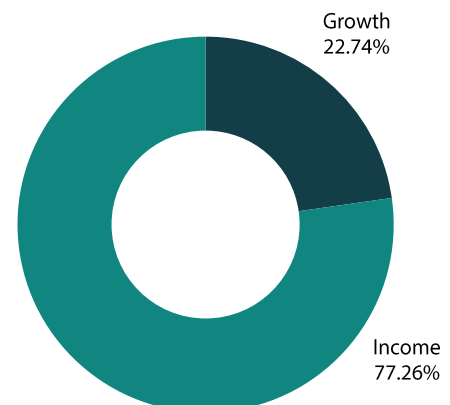
Objective

The fund aims to outperform the benchmark return by 1.0% per annum before fees, expenses, and taxes over a rolling three-year period.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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%	0.46%	1.59%	1.41%	5.93%	5.33%	3.03%	2.55%	19.97%	20.00%
NZ Bond Fund	4.11%	3.25%	1.74%	1.61%	3.53%	2.15%	-2.68%	-3.51%	17.49%	17.50%
NZ Corporate Bond Fund	3.15%	2.19%	2.00%	1.88%	5.19%	4.97%	-0.81%	-0.67%	17.73%	17.50%
Global Bond Fund	3.65%	3.26%	1.03%	0.73%	3.36%	2.13%	-3.45%	-3.32%	22.07%	22.00%
Core Equity Fund	4.26%	5.35%	-2.28%	-1.54%	0.09%	-1.04%	-1.30%	-3.15%	5.85%	6.00%
Property Fund	3.87%	4.29%	-4.20%	-3.60%	-3.03%	-2.29%	-5.42%	-6.10%	4.87%	5.00%
Global Shares Funds UnH	2.48%	2.86%	-4.40%	-2.09%	5.60%	12.64%	7.22%	10.34%	5.97%	6.00%
Global Shares Fund Hedged	7.72%	7.69%	-0.81%	1.18%	2.78%	9.53%	1.24%	4.30%	6.04%	6.00%

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

Markets remained volatile over November, rebounding strongly after three months of weakness. Bonds posted particularly remarkable returns over the month, with some of the sharpest drops in many decades seen in long-term interest rates. The Bloomberg Global Aggregate Index (NZD Hedged) returned over 3.2%, the best monthly return since the early 1990's. The main factors behind the pricing of lower interest rates included weaker than expected CPI prints, optimism that key economies such as the US will avoid a recession, dovish US Federal Reserve (Fed) sentiment, and increased expectations for central banks to ease policy in 2024. Equity markets were also strong, with the MSCI ACWI Index (NZD Hedged) up 7.7%. The NZD was up over 5.6% versus the USD so returns were not as impressive for unhedged investors, up 2.9% (MSCI ACWI – NZD).

Returns of this magnitude for both equities and bonds over the same month are incredibly rare and have typically occurred when markets first bounce back from large drawdowns - such as April 2009 (GFC) and April 2020 (Covid) – or with a game changing development like in November 2020 when the Covid vaccine was first announced. The swift improvement in risk sentiment was driven by economic data releases suggesting inflation was continuing to fall towards target ranges, while labour market data and spending figures continued to hold up better than expected. A number of bond markets around the world are now pricing for a number of interest rate cuts over 2024, some starting as early as the first quarter.

Given the sharp fall in interest rates, and improving sentiment towards global growth, the sectors that performed best were the more cyclical ones such as consumer discretionary, industrials, financials and materials. Information technology topped them all however, and remains far-and-away the best performer year-to-date. The US (+8.9%) and Japan (+8.5%) were the best performing regions in local currency terms, and emerging markets (+7.9%) and Japan (+8.5%) kept pace. The UK was the weakest, returning +1.8%, while New Zealand and Australia were in the middle of the pack, up 5.3% and 4.5% respectively.

Fund Commentary

The fund performance was very strong in terms of absolute returns over November and in relative terms were ahead of benchmark. NZ bonds and global bonds both posted strong returns with interest rates sharply lower over November. The domestic bond funds outperformed predominantly from their long-duration positioning. The global bond fund also outperformed via strong returns from investment grade credit and mortgage-backed securities. The global shares portfolio was slightly behind benchmark with oil services company Schlumberger, luggage manufacturer Samsonite, and outsource catering firm Compass group the main detractors. On the positive side of the ledger Transunion (Credit reporting agency), Hexagon AB (measurement instruments) and Hoya Corporation (optical product manufacturer) outperformed. The property portfolio returned around 4% over November, trailing the NZX Property Index, which was up 4.3%.

Key Fund Facts

Estimated annual fund charges (incl. GST):		Distributions:	Generally does not distribute	Strategy Launch:	August 2016
Wholesale:	Negotiated outside of the unit price	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 6.5%.	Strategy size:	\$111m
Retail:	0.70%, refer PDS for more details			Buy / Sell spread:	0.04% / 0.04%
KiwiSaver:	0.70%, refer PDS for more details.				
Performance Fee:	Not charged in this fund				

Compliance

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

Contact Us

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