

Nikko AM Balanced Strategy

Monthly Update 31 January 2024

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

- Global equity markets performed strongly over the first month of 2024, with new all-time highs for the S&P500 Index in the US, and the highest levels reached for 20 and 40 years for Europe and Japan respectively.
- Early in the new year bond yields moved higher as markets priced out interest rate cuts in the first quarter. Equity markets also sold off during this period, partially due to fears of higher interest rates and geopolitical instability in the middle East.
- The Bloomberg Global Agg Index (NZD Hedged) was down -0.2% for January, giving back some of the strong gains made over Q4 2023.
- In equities, the MSCI ACWI Index (NZD Hedged) was up 1.3% for January.

Fund Highlights

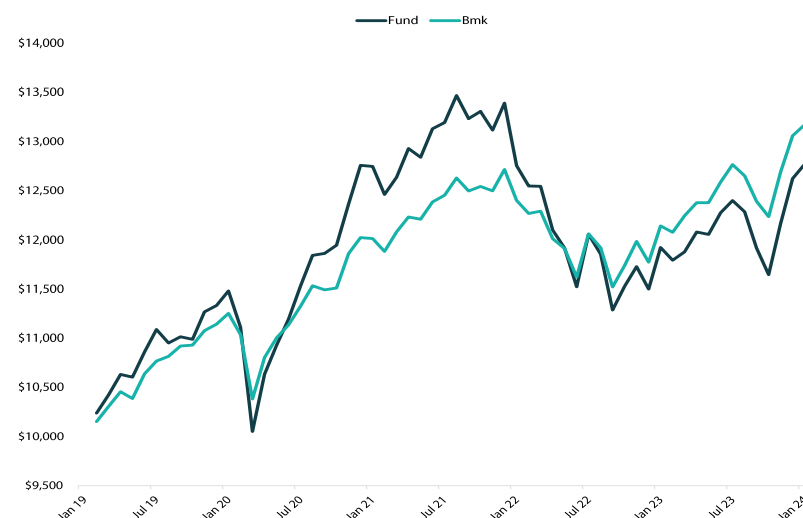
- The fund performance was strong in terms of absolute and relative returns for the first month of 2024.
- Global shares were the main contributor for both absolute and relative returns.
- The portfolio is overweight Nvidia, Netflix, Meta and Microsoft, and has zero exposure to Apple or Tesla, and each of these positions were rewarded over January.
- The NZ equity funds outperformed the NZX50 Index by approximately 0.4%.
- The ARK Fund was weak over January, down nearly 10% to cancel out the gains made in December.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	1.17%	9.66%	7.12%	0.06%	5.01%	7.49%
Benchmark²	0.87%	7.65%	8.49%	3.11%	5.66%	6.85%
Retail³	1.46%	10.17%	7.22%	-0.64%	4.30%	
KiwiSaver³	1.45%	10.16%	7.21%	-0.64%	4.39%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any). 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 in unit price.

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



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.

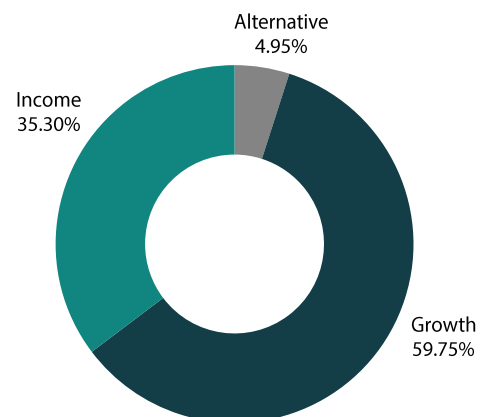
Overview

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	0.50%	0.47%	1.58%	1.42%	6.18%	5.55%	3.33%	2.86%	4.59%	5.00%
NZ Bond Fund	-0.80%	-0.60%	6.77%	5.54%	4.71%	3.49%	-1.65%	-2.45%	11.89%	12.00%
NZ Corporate Bond Fund	-0.31%	-0.19%	5.62%	4.08%	6.05%	5.57%	0.06%	0.00%	7.94%	8.00%
Global Bond Fund	-0.05%	-0.22%	7.25%	6.23%	5.33%	4.05%	-2.25%	-2.31%	10.88%	11.00%
Core Equity Fund	1.26%	0.87%	9.96%	10.47%	1.79%	0.09%	-0.17%	-2.53%	13.02%	13.00%
Concentrated Equity Fund	1.38%	0.85%	10.20%	2.55%	5.58%	10.30%	1.19%	7.72%	5.04%	5.00%
Property Fund	-0.28%	-0.36%	11.47%	11.57%	3.67%	4.60%	-4.25%	-4.88%	6.01%	6.00%
Global Shares Funds Unhedged	5.41%	3.46%	10.75%	8.81%	15.97%	20.42%	8.80%	11.84%	16.41%	16.00%
Global Shares Funds Hedged	3.05%	1.29%	15.92%	13.44%	7.76%	12.71%	1.81%	4.61%	16.42%	16.00%
ARK Fund	-9.24%	0.80%	22.21%	2.41%	22.97%	10.00%	-25.21%	10.00%	2.85%	3.00%
Multi-Strategy Alternative	0.11%	0.72%	3.22%	2.17%	4.60%	8.70%	1.94%	5.94%	4.95%	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

Global equity markets performed strongly over the first month of 2024, with new all-time highs for the S&P500 Index in the US, and the highest levels reached for 20 and 40 years for Europe and Japan respectively. Early in the new year bond yields moved higher as markets priced out interest rate cuts in the first quarter. Equity markets also sold off during this period, partially due to fears of higher interest rates and their impact on the broader economy, but also due to ongoing geopolitical instability in the Middle East. Shipping costs have moved sharply higher due to the disruptions in the Red Sea. This will eventually flow through to higher overall supply chain costs, with the risk that this keeps inflation above central bankers target ranges. Yields finished the month slightly higher having overshot late in 2023, partially due to expectations that key central banks around the world would commence easing cycles soon. While most central bank guidance suggested this will happen in 2024, its likely it will not begin until the middle of the year. The Bloomberg Global Agg Index (NZD Hedged) was down -0.2% for January, giving back some of the strong gains made over Q4 2023. In equities, the MSCI ACWI Index (NZD Hedged) was up 1.3% for January. The Kiwi was down over 3.2% versus the USD, so returns were boosted for unhedged NZ investors, up 3.5% for the month.

Information Technology maintained its sector leadership status, with Communication Services as the second strongest. These sectors are dominated by the US mega-cap names that have led the market higher since the 2022 sell-off. Japan delivered the strongest returns for January (+8.4%), while China's weak economic recovery meant their equity market was an underperformer, down over 3%. The NZ and Australian markets both posted positive returns to start the year, but at 0.9% and 1.2% respectively, they lagged the broader global market.

On the economic front, the US economy has continued to hold up well with strong 4th quarter GDP print, and ongoing strength in the labour market. This has fed through to rising US consumer sentiment, as reflected in the University of Michigan survey at its highest level since mid-2021.

Fund Commentary

The fund performance was strong in terms of absolute and relative returns for the first month of 2024 with global share markets continuing to move higher. Global shares were the main contributor for both absolute and relative returns. The portfolio is overweight to healthcare and underweight to materials, and both these tilts added value. The main contributors to relative performance were mostly in the 'magnificent 7' stocks. The portfolio is overweight Nvidia, Netflix, Meta and Microsoft, and has zero exposure to Apple or Tesla, and each of these positions were rewarded over January. On the negative side of the ledger stock selection in industrials (Worley Ltd and Rentokil) and Financials (Indian bank HDFC and DBS Group) detracted from relative returns. The ARK Fund was weak over January, down nearly 10% to cancel out the gains made in December. The main detractors were Coinbase, Tesla, Block, and Unity Software, some of the best performers last month. The top contributors for the month were Draftkings, Meta, Nvidia, and Spotify. Both the NZ and global bond portfolios delivered slightly negative returns that were similar to the benchmark. The NZ equity funds within the portfolio got off to a solid start for the year, outperforming the NZX50 Index by around 0.4%. Overweight positions in Infratil (+5.3%) and Somerset Holdings (+7.2%) were key drivers.

Key Fund Facts

Estimated annual fund charges (incl. GST):		Distributions: Generally does not distribute	Strategy Launch: April 1994
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 22.3%.	Strategy size: \$283.8m
Retail:	0.94%, refer PDS for more details		
KiwiSaver:	0.94%, refer PDS for more details.		
Performance Fee:	Not charged in this fund		Buy / Sell spread: 0.09% / 0.09%

Compliance

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

Contact Us

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