

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

- 2022 was a year when inflation reasserted itself wiping significant value from financial assets as central banks raced to slow rising consumer prices by hiking interest rates around the world.
- It is difficult to recall a time when both bond and equity prices were down simultaneously for such a prolonged period, the good news is that the end is in sight of central bank interest rate hikes with attention turning to how long central banks will keep interest rates at very restrictive settings.

Fund Highlights

- The fund posted a positive return of 1.89%, 30 basis points behind the benchmark for the quarter.
- Even though the December outcomes were disappointing the quarterly performance delivered a positive outcome. The standout sector was global equities that were hedged to the NZ Dollar.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-1.95%	1.89%	-14.13%	0.49%	3.58%	7.81%
Benchmark ²	-1.76%	2.19%	-7.42%	1.85%	4.18%	6.82%
Retail ³	-1.27%	1.66%	-14.65%	-0.29%	-	-
KiwiSaver ³	-1.26%	1.66%	-14.65%	-0.26%	-	-

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

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.



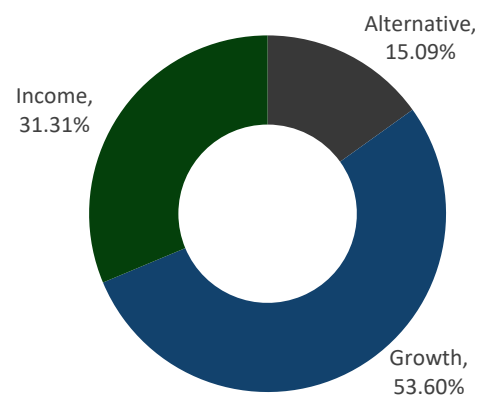
Overview

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	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 Bond Fund	-1.04%	-1.06%	0.34%	0.09%	-6.60%	-7.14%	-1.75%	-2.81%	10.42%	10.00%
NZ Corporate Bond Fund	-0.43%	-0.44%	0.28%	0.42%	-3.87%	-3.61%	-0.35%	-0.73%	10.52%	10.00%
Global Bond Fund	-1.23%	-1.20%	1.80%	0.80%	-12.79%	-11.75%	-2.11%	-2.78%	10.37%	10.00%
Core Equity Fund	-0.92%	-0.61%	4.06%	3.79%	-10.24%	-11.25%	2.06%	0.64%	12.97%	12.00%
Concentrated Equity Fund	-2.49%	0.75%	2.71%	2.14%	-13.70%	7.23%	3.27%	5.99%	5.60%	5.00%
Property Fund	-1.10%	-1.49%	-1.42%	-3.44%	-21.01%	-21.82%	-3.82%	-5.29%	5.03%	5.00%
Global Shares Funds UnH	-4.34%	-5.66%	-1.56%	-1.83%	-12.74%	-11.63%	9.60%	6.27%	14.81%	15.00%
Global Shares Funds Hedged	-2.61%	-4.36%	13.49%	10.56%	-21.24%	-20.18%	4.91%	2.23%	13.88%	15.00%
ARK Fund	-16.82%	0.80%	-23.44%	2.41%	-61.87%	10.00%	-	-	1.31%	3.00%
Option Fund	0.11%	0.69%	-0.62%	1.96%	-31.60%	6.42%	-18.70%	5.15%	4.60%	5.00%
Multi-Strategy Alternative	-0.67%	0.61%	1.60%	1.71%	-2.10%	5.40%	2.85%	4.14%	10.49%	10.00%

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

The much hoped for Santa Claus rally failed to materialise over December with bond, equity and property sectors all falling over the month. Large global technology companies lead stocks lower closing out the worst year in more than a decade for global equities and bonds. 2022 was a year when inflation reasserted itself wiping significant value from financial assets as central banks raced to slow rising consumer prices by hiking interest rates around the world. It is difficult to recall a time when both bond and equity prices were down simultaneously for such a prolonged period, the good news is that the end is in sight of central bank interest rate hikes with attention turning to how long central banks will keep interest rates at very restrictive settings. Looking into 2023 a few bumps in the road are to be expected as weaker economic trends are likely as the central banks from the US Federal Reserve to our own Reserve Bank battle inflation which may well result in a mild recessionary environment, but this could set up equities for a stronger period of returns as interest rates peak and begin to retrace. Falling rates will also benefit bond market returns as an element of capital gain can be expected as inflation and consumer demand softens. The New Zealand Dollar continued to climb against the US Dollar over the month resulting in a benefit for offshore assets which were hedged to the NZD.

Fund Commentary

All asset classes other than the Option Fund fell in value over December. In general, domestic bond and equity markets were more defensive, falling less than their global bond and equity counterparts. The property sector continues to be sensitive to interest rate movements and sentiment. Perhaps with a brighter outlook for interest rate markets over 2023 and 2024 property markets may also be looked upon more favourably as the new year progresses. Even though the December outcomes were disappointing the quarterly performance delivered a positive outcome. The standout performing sector was global equities that were hedged to the NZ Dollar. After a stellar run the US Dollar weakened against the NZ Dollar generating outsized returns over the quarter after a period of negative results. The benefit of diversification, including currency diversification, has been well canvassed in previous fund commentaries, however the volatile currency movements seen over the past year only serve to reinforce the benefit of holding a diversified portfolio of investments.

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 19.25%.

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.

Strategy size

\$333m

Strategy Launch

April 1994

Compliance

The wholesale fund complied with its investment mandate and trust deed during the quarter, except that an error has been identified in the Option Fund where the value of specific options were incorrectly accounted for in the net asset value of the fund on certain days. We are working through the details and will advise the affected clients when the impact analysis is complete later in January.

Contact Us

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