

Factsheet 31 August 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

- August was a tough month for investment performance across most sectors.
- Equity markets suffered a broader market sell-off with inflation sticky and interest rates expected to be higher for longer.
- Optimism over a return to the pre-covid world and business as normal has somewhat stalled.

Fund Highlights

- The fund return was negative for the month, finishing behind benchmark.
- ARK relinquished some of their previous strong returns.
- Both Core Equities and Global Shares unhedged funds were ahead of their respective benchmarks, but absolute returns for the sectors were disappointing.
- Bond funds finished the month around flat as rising interest rates negated the income accrual.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-1.20%	1.81%	3.55%	1.20%	3.43%	7.63%
Benchmark ²	-0.89%	2.21%	6.14%	3.14%	4.71%	6.80%
Retail ³	-0.93%	1.70%	2.61%	0.50%	2.65%	
KiwiSaver ³	-0.92%	1.71%	2.60%	0.50%	2.78%	

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.



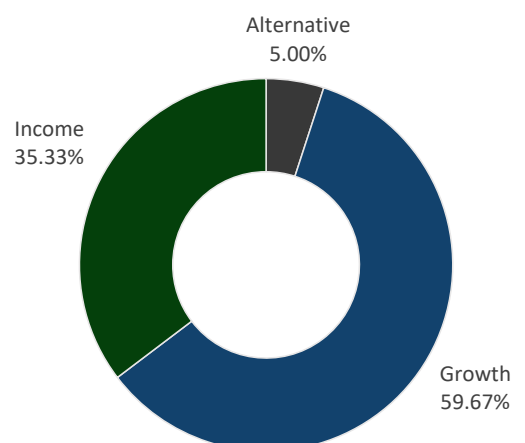
Overview

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	0.54%	0.48%	1.60%	1.43%	5.27%	4.75%	2.59%	2.10%	4.54%	5.00%
NZ Bond Fund	-0.17%	-0.21%	-0.90%	-1.27%	1.62%	0.33%	-3.50%	-4.30%	11.86%	12.00%
NZ Corporate Bond Fund	0.20%	0.29%	0.27%	0.47%	2.88%	2.93%	-1.51%	-1.33%	8.24%	8.00%
Global Bond Fund	-0.07%	-0.16%	0.17%	-0.14%	1.14%	-0.18%	-3.18%	-3.26%	10.70%	11.00%
Core Equity Fund	-3.58%	-4.16%	-1.71%	-2.10%	2.39%	0.43%	1.53%	-0.37%	12.82%	13.00%
Concentrated Equity Fund	-0.70%	0.85%	1.45%	2.55%	4.26%	9.56%	2.96%	6.99%	4.94%	5.00%
Property Fund	-5.99%	-6.39%	1.43%	1.41%	-5.99%	-6.80%	-1.35%	-2.42%	5.91%	6.00%
Global Shares Funds UnHdg	2.69%	1.60%	5.32%	7.31%	11.98%	17.33%	10.15%	11.86%	16.75%	16.00%
Global Shares Funds Hdged	-2.59%	-2.05%	4.50%	6.55%	5.71%	10.37%	4.44%	6.03%	16.12%	16.00%
ARK Fund	-8.71%	0.80%	10.43%	2.41%	12.47%	10.00%			3.13%	3.00%
Multi-Strategy Alternative	-0.30%	0.73%	2.49%	2.18%	4.91%	7.88%	4.07%	5.16%	5.00%	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

August proved to be a tough month for investment returns. Bond returns were around flat as moves higher in interest rates resulted in capital losses largely negating the monthly income accrual from fixed income. Deteriorating government fiscal positions and a resulting increase in government bond supply has weighed on yields. Unfortunately, the good times for bonds in terms of capital gains from falling yields keep getting pushed further into the future. Here and offshore an improving inflation profile remains the key to lower rates, but we may need to wait longer for validation.

After two positive months equity markets uncharacteristically suffered a dint in optimism as the persistence of inflation appears to be giving more truth that “inflation is no one’s friend”. Markets had been running with the “glass half full” outlook looking forward to cuts in cash rates and falling yields. August however experienced some shift in focus to rising cost pressures challenging profitability, weakening demand, and higher borrowing costs which resulted in a broad market decline.

The markets want to move forward but there seems to be increasing thought that we won’t necessarily return to the “pre-covid world” in which inflation was typically in a very narrow range. The increased prevalence of supply shocks, deglobalisation, climate change, the energy transition and shifts in demographics mean either steeper supply curves or more variable supply curves. While this doesn’t mean that the inflation target can’t be achieved on average over the medium, it does mean that inflation is likely to be more variable around Central bank targets which may mean more volatility in financial markets. Of course, volatility doesn’t capture the trend just the magnitude and isn’t necessarily bad for returns. The fund is widely diversified across sectors and strategy and in a healthy market there is positive or upward price volatility as well as downward which can present opportunities.

Fund Commentary

Fund performance was muted in terms of absolute returns with both equities and bonds struggling with the rates need to be higher for longer theme. ARK which had performed very strongly gave back some of their strong performance, but this remained in context of what we would expect from the fund during a broad equity market decline. It was a challenging month on a relative basis for the fund with less than half the sectors managing to outperform their benchmarks. The NZ dollar depreciated by around 4.5% over the month resulting in Global Shares unhedged beating benchmark and outperforming Global Shares Hedged, which was a reversal of the previous month’s outcome. The Core Equity Fund had a reasonable out performance with the largest positive contributors to the funds relative return overweight positions in **Infratil (IFT)**, **NextDC (NXT)** and **Contact Energy (CEN)**. The largest negative contributors to return were from underweight (nil) positions in Freightways (FRW) and Air New Zealand (AIR) and an overweight position in **Restaurant Brands (RBD)**. Locally a lot of investment decisions for corporates have been on hold pre-election. In general, defensive holdings performed better with the market weakening. The bond funds’ returns almost netted each other out with the NZ Bond Fund marginally positive and Corporate Bond negative, although NZ Bond managed a small relative outperformance versus benchmark largely due to the underweight holding of NZ government bonds versus benchmark.

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
\$295.3m

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.

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.