

Nikko AM Balanced Strategy

Monthly Update 30 November 2023

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

- Markets remained volatile over November, rebounding strongly after 3 months of weakness.
- Bonds posted particularly remarkable returns over the month, with some of the sharpest drops in long-term interest rates seen for many decades.
- 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

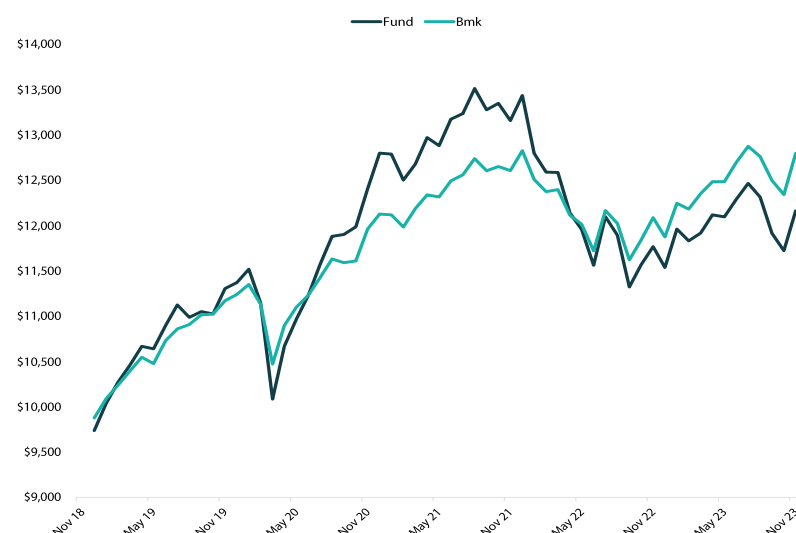
- Fund performance was very strong in terms of absolute returns over November and in relative terms were ahead of benchmark.
- NZ bonds and global bonds both posted strong returns with interest rates sharply lower over November.
- ARK portfolio was up more than 20%, handsomely outperforming the MSCI ACWI Index, as well as the tech-heavy NASDAQ 100 Index (+4.6% in NZD). The global shares unhedged portfolio performed slightly behind benchmark, whereas global shares hedged was slightly ahead of benchmark.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	3.76%	-1.23%	3.37%	-0.65%	4.00%	7.03%
Benchmark²	3.69%	0.28%	5.87%	2.27%	5.06%	6.51%
Retail³	4.78%	-1.08%	3.80%	-1.29%	3.30%	
KiwiSaver³	4.77%	-1.08%	3.79%	-1.29%	3.38%	

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, \$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.



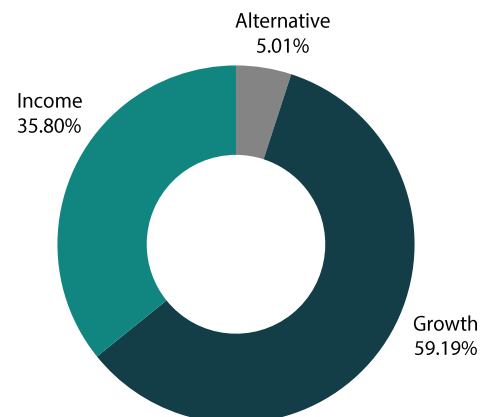
Overview

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	0.53%	0.46%	1.59%	1.41%	5.93%	5.33%	3.03%	2.55%	4.66%	5.00%
NZ Bond Fund	4.11%	3.25%	1.74%	1.61%	3.53%	2.15%	-2.68%	-3.51%	12.02%	12.00%
NZ Corporate Bond Fund	3.15%	2.19%	2.00%	1.88%	5.19%	4.97%	-0.81%	-0.67%	8.05%	8.00%
Global Bond Fund	3.65%	3.26%	1.03%	0.73%	3.36%	2.13%	-3.45%	-3.32%	11.07%	11.00%
Core Equity Fund	4.26%	5.35%	-2.28%	-1.54%	0.09%	-1.04%	-1.30%	-3.15%	12.94%	13.00%
Concentrated Equity Fund	3.83%	0.82%	-4.31%	2.52%	1.04%	10.09%	0.10%	7.42%	4.97%	5.00%
Property Fund	3.87%	4.29%	-4.20%	-3.60%	-3.03%	-2.29%	-5.42%	-6.10%	5.99%	6.00%
Global Shares Funds Unhedged	2.48%	2.86%	-4.40%	-2.09%	5.60%	12.64%	7.22%	10.34%	15.90%	16.00%
Global Shares Funds Hedged	7.72%	7.69%	-0.81%	1.18%	2.78%	9.53%	1.24%	4.30%	16.31%	16.00%
ARK Fund	22.15%	0.80%	0.83%	2.41%	26.28%	10.00%	-20.32%	10.00%	3.10%	3.00%
Multi-Strategy Alternative	1.43%	0.71%	0.48%	2.16%	4.56%	8.48%	2.96%	5.62%	5.01%	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

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 ARK portfolio was up more than 20%, handsomely outperforming the MSCI ACWI Index, as well as the tech-heavy NASDAQ 100 Index (+4.6% in NZD). Roku (Media streaming) and Coinbase (crypto exchange) were the top contributors, while 2U Inc (educational technology) and Robinhood (app-based share-broking firm) were the main detractors. 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 Core Equity Fund returned around 4% over November, trailing the NZX50 Index which was up 5.4%. The JPMAM Multi-strategy Fund had a positive return of 1.4%, a strong return for the diversified fund of fund strategy, but in this month well behind both bond and equity market returns.

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 21.9%.	Strategy size:	\$277.3m
Retail:	0.94%, refer PDS for more details				
KiwiSaver:	0.94%, refer PDS for more details.			Buy / Sell spread:	0.09% / 0.09%
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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