

Nikko AM Balanced Strategy

Monthly Update 31 December 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 performed strongly in December, continuing from where November left off to close out what has been another remarkable year.
- Yields fell in most bond markets around the world on hopes major central banks would soon cut rates as inflation readings have continued to soften. The Bloomberg Global Agg Index (NZD Hedged) returned 3.1% for December, and 5.7% for 4Q.
- Equity markets were also strong, with MSCI ACWI Index (NZD Hedged) up 4.0% for December and 8.9% for the quarter.

Fund Highlights

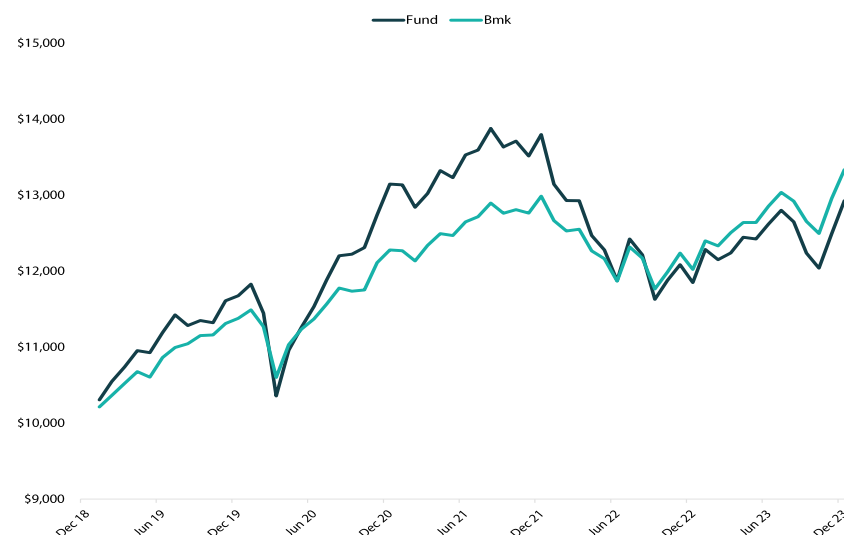
- The fund performance was strong in terms of absolute and relative returns for the final quarter of 2023 with both equities and bonds delivering strong returns.
- The ARK Fund was the standout performer over December (+10.2%), and over the quarter (+24.1%) and the year (+67.4%).
- Global shares were the main detractor in terms of relative returns over the quarter and the year.
- Both the NZ and global bond portfolios added value over both the quarter and the full year.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	3.47%	5.63%	9.09%	-0.56%	5.27%	7.29%
Benchmark²	2.93%	5.39%	10.92%	2.79%	5.93%	6.75%
Retail³	3.63%	5.74%	8.95%	-1.02%	4.64%	
KiwiSaver³	3.64%	5.75%	8.94%	-1.01%	4.72%	

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.

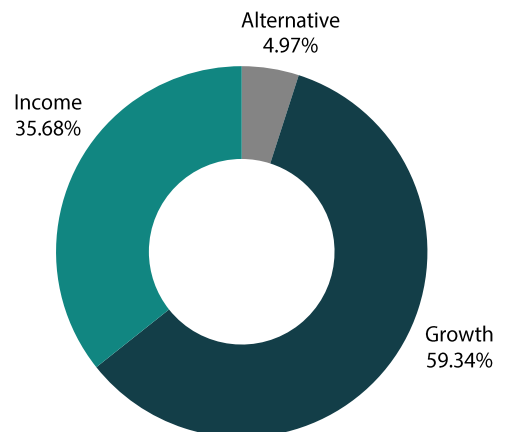
Overview

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	0.55%	0.47%	1.64%	1.43%	6.10%	5.45%	3.19%	2.71%	4.58%	5.00%
NZ Bond Fund	3.38%	2.84%	7.03%	6.01%	8.15%	6.18%	-1.50%	-2.39%	12.06%	12.00%
NZ Corporate Bond Fund	2.71%	2.04%	5.75%	4.64%	8.51%	7.59%	0.12%	0.04%	8.03%	8.00%
Global Bond Fund	3.52%	3.12%	6.53%	5.67%	8.33%	6.59%	-2.46%	-2.42%	11.01%	11.00%
Core Equity Fund	4.16%	3.96%	4.16%	4.30%	5.22%	3.51%	-0.86%	-2.72%	13.06%	13.00%
Concentrated Equity Fund	4.70%	0.85%	4.20%	2.55%	8.49%	10.20%	-0.11%	7.57%	5.03%	5.00%
Property Fund	7.62%	7.37%	6.62%	6.80%	5.53%	6.49%	-4.29%	-4.85%	6.12%	6.00%
Global Shares Funds Unhedged	2.53%	2.24%	3.76%	5.37%	13.17%	22.07%	6.63%	10.38%	15.84%	16.00%
Global Shares Funds Hedged	4.42%	4.00%	7.88%	8.93%	10.20%	19.10%	0.61%	4.15%	16.18%	16.00%
ARK Fund	10.24%	0.80%	24.08%	2.41%	67.36%	10.00%	-20.17%	10.00%	3.12%	3.00%
Multi-Strategy Alternative	1.65%	0.72%	2.28%	2.18%	7.00%	8.60%	2.45%	5.78%	4.97%	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 performed strongly in December, continuing from where November left off to close out what has been another remarkable year. Yields fell in most bond markets around the world on hopes major central banks would soon cut rates as inflation readings have continued to soften. The Bloomberg Global Agg Index (NZD Hedged) returned 3.1% for December, and 5.7% for 4Q. To put this quarterly return in context, the fourth quarter of 2008 – the midst of the GFC – was the only quarter in the last 20 years with a return over 5%! Equity markets were also strong, with MSCI ACWI Index (NZD Hedged) up 4.0% for December and 8.9% for the quarter. The Kiwi was up over 2.7% versus the USD so returns were not quite as impressive for unhedged investors – up 2.2% for the month and 5.4% for the quarter. Closer to home NZ and Australian equities also rallied strongly, with the NZX50 up 4.0% and the ASX200 up 7.1% for December.

The sectors that performed best over the fourth quarter were the more cyclical ones such as Consumer Discretionary, Industrials, Financials and Materials. Real Estate also did well after a tough couple of years in a rising rate environment. Information Technology continued its leadership role and was comfortably the best performer over the year (+49.8%). The US (+11.2%) and Europe (+8.3%) were the best regions in local currency terms for the quarter. Japan delivered the strongest annual returns (+28.2%), ahead of even the tech-heavy US market (+24.2%). The UK, Australia and NZ markets all posted positive returns for the year, but at 3.8%, 7.8% and 3.5% respectively, they lagged the broader global market.

Now inflation has moved lower, and with the majority of interest hiking cycles completed, the key challenge for central banks is balancing the possibility of inflation persisting slightly above target with the risk of weaker growth. This is a dynamic not experienced in recent years, with the majority of the post-GFC / pre-Covid environment characterised by sluggish growth and very low levels of inflation, the combination of which resulted in the zero (or near zero) interest rate policies in many economies.

Fund Commentary

The fund performance was strong in terms of absolute return and relative returns for the final quarter of 2023 with both equities and bonds delivering strong returns. The ARK Fund was the standout performer over December (+10.2%), over the quarter (+24.1%) and the year (+67.4%). The top contributors for the month were Coinbase, Block and Unity – all top-10 names in terms of position size within the portfolio. The main detractors were Roku, Palantir Technologies and Draft Kings. Global shares were the main detractor in terms of relative returns over the quarter and the year. The portfolio is overweight healthcare which was one of the weakest sectors for the quarter, and stock selection within industrials (Rentokil, Transunion and KBR), Financials (Ryan Specialty) and Energy (Schlumberger and ChampionX Corp) was a detractor. On the positive side stock selection in Info Tech (Hexagon AB and Microsoft) and Communications (Netflix) added to relative returns. Both the NZ and global bond portfolios added value over both the quarter and the full year. The NZ portfolios have been long duration, positioned for a fall in interest rates which finally eventuated in November and December, while the global bond fund benefited from country positioning and cross-sector strategies such as investment grade credit.

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 21.86%.	Strategy size:	\$283.2m
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 quarter.

Contact Us

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