

Nikko AM Balanced Strategy

Monthly Update 31 August 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

- August was a volatile month for markets, with an initial sell-off due to the unwinding Japanese carry trade and weak economic data, but sentiment quickly recovered, and markets moved higher as central banks signalled a more dovish stance.
- Labour market data in the US remained mixed, with US jobless claims (release mid-August) coming in lower than expected.
- In the Euro area the annual rate of inflation fell to 2.2% YoY, however manufacturing activity readings remained weak.
- The Real Estate and Utilities sector were up 5.4% and 3.9% respectively, while Healthcare posted a 5.4% gain.

Fund Highlights

- August fund performance was positive in absolute terms, and slightly ahead of benchmark in relative terms.
- The Global Shares strategy strongly outperformed the benchmark, although unhedged global equities fell on the back of a stronger NZ dollar. The local equity funds underperformed slightly.
- Both the global bond and local bond fund performed in line with their respective markets over what was a very positive month for fixed income investors.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	0.76%	5.13%	13.39%	1.13%	4.93%	7.65%
Benchmark²	0.73%	4.54%	12.27%	4.00%	5.60%	6.97%
Retail³	0.98%	4.63%	12.10%	0.30%	4.04%	
KiwiSaver³	0.96%	4.57%	11.99%	0.26%	4.05%	

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. Alan joined Nikko in 2023.

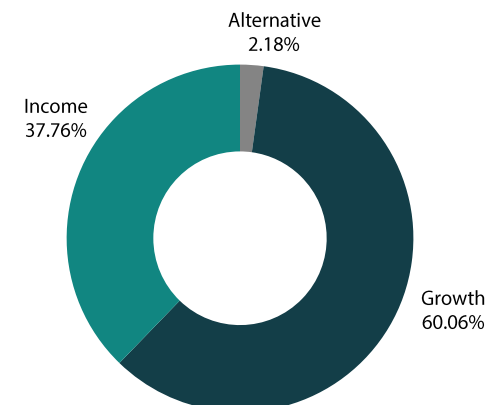
Overview

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	0.52%	0.47%	1.60%	1.43%	6.51%	5.79%	4.44%	3.92%	4.94%	5.00%
NZ Bond Fund	0.86%	0.91%	5.10%	4.25%	10.65%	9.02%	1.25%	0.08%	11.78%	12.00%
NZ Corporate Bond Fund	0.87%	0.86%	4.46%	3.94%	10.54%	9.17%	2.59%	2.27%	7.87%	8.00%
Global Bond Fund	1.08%	1.06%	4.44%	3.95%	8.67%	7.10%	-0.95%	-1.27%	13.17%	11.00%
Core Equity Fund	-0.35%	0.40%	4.04%	5.06%	8.15%	8.72%	0.13%	-1.18%	12.62%	13.00%
Concentrated Equity Fund	-1.05%	0.84%	2.96%	2.54%	7.97%	10.52%	-0.08%	8.74%	4.79%	5.00%
Property Fund	7.12%	7.22%	10.50%	9.80%	8.09%	7.21%	-4.87%	-5.26%	5.93%	6.00%
Global Shares Funds Unhedged	-1.34%	-2.66%	6.35%	4.60%	21.39%	17.48%	8.04%	10.00%	19.08%	16.00%
Global Shares Funds Hedged	3.10%	1.58%	7.19%	5.53%	26.79%	22.92%	2.12%	4.24%	15.74%	16.00%
ARK Fund	-4.61%	0.80%	4.57%	2.41%	2.13%	10.00%	-22.30%	10.00%	1.90%	3.00%
Multi-Strategy Alternative	-0.34%	0.72%	0.20%	2.17%	6.32%	8.95%	3.24%	7.03%	2.18%	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 was another volatile month, in particular for investors in equity markets. As with July, the month could best be described as “a month of two halves”. Early in the month global markets were roiled by after a sharp sell-off in Japanese equities and the unwinding of the Japanese Yen carry trade. Some weak economic data from the previously robust US economy early in the month - for example the July labour market reading - also contributed to the “risk-off” tone for the first week of August. Sentiment then turned positive as quickly as it had deteriorated on some better economic data and dovish comments from central bankers. Equity markets quickly recovered and most ended the month in positive territory. The gain in global equity markets was the fourth straight month of positive returns after weakness in April. Global and local bonds also posted solid positive returns of around 1% over the month. The MSCI ACWI (NZD Hedged) was up 1.6%, and the majority of equity markets in the developed world posted solid gains, with Japan (-1.2%) and China (-3.5%) being the two exceptions. The Bloomberg Global Agg Index (NZD Hedged) was up 1.1% for August, slightly ahead of the NZ Composite Bond Index return of 0.9%. The Kiwi dollar rallied strongly over the month, up from below US\$0.60 to nearly US\$0.625 which was a headwind for unhedged investors. The MSCI ACWI Index (NZD unhedged) was down -2.7% for the month.

Labour market data in the US remained mixed, with US jobless claims (release mid-August) coming in lower than expected, therefore sending an opposite signal to the weak July jobs number (released early August). In the Euro area the annual rate of inflation fell to 2.2% YoY, however manufacturing activity readings remained weak, while the services sector looks a bit healthier and improved slightly from July readings.

As was the case in July, previous laggards led the way in August in terms of sector leadership, and for the second straight month information technology was not the standout sector. Real Estate, a sector very sensitive to interest rates, was the best performer on the back of the prospect of lower rates. The Real Estate and Utilities sector were up 5.4% and 3.9% respectively, while Healthcare posted a 5.4% gain. Three of the more cyclical sectors lagged the broader market, with Energy, Consumer Discretionary and Materials returning -1.0%, 0.6%, and 0.8% respectively.

Fund Commentary

August fund performance was positive in absolute terms, and slightly ahead of benchmark in relative terms, with most share and bond markets posting positive returns locally and globally. The one exception was for unhedged global equity markets which fell on the back of a stronger NZ dollar. The Global Shares strategy strongly outperformed the benchmark, while the local equity funds underperformed slightly. The local listed property sector had a very strong month, with the Property Fund and index both up just over 7%. For Global Shares the top contributors to relative performance were US insurer Progressive Corp, Japanese optical products manufacturer HOYA Corp, and global consumer healthcare company Haleon. All three reported solid earnings numbers and/or improved guidance for their respective markets. The ARK Disruptive Innovation Fund was down -4.6% for the month. Key detractors for the month included Coinbase, Tesla, and Twist Bioscience. Tesla's latest Full-Self Driving (FSD) model was released ahead of the company's robotaxi event in October. Twist Bioscience reported earnings with revenue ahead of guidance and improved gross margins, but the stock still underperformed. Both the global bond and local bond fund performed in line with their respective markets over what was a very positive month for fixed income investors.

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.	Strategy size:	\$86.9m
Retail:	0.94%, refer PDS for more details		Currently the fund's foreign currency exposure is 22.8%.	Buy / Sell spread:	0.09% / 0.09%
KiwiSaver:	0.94%, refer PDS for more details.				
Performance Fee:	Not charged in this fund				

Compliance

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

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