

Nikko AM Balanced Strategy

Monthly Update 31 October 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

- October was a difficult month for both equities and bonds, with political uncertainty in the US leading up to the election, and in Japan where a surprise election roiled markets.
- Interest rates in the US, UK, Europe and Japan moved higher, and the US Dollar staged a strong rally.
- The New Zealand equity market was one of the few developed markets to post a positive return over the month, boosted in part by the 0.5% cut in interest rates announced by the Reserve Bank of New Zealand.

Fund Highlights

- Overall returns for Balanced Fund investors were strong in October, building on strong performance year-to-date.
- The allocation to NZ equities and listed property, as well as to unhedged global equities were the main drivers of returns for the month.
- Both the global bond and local bond funds slightly underperformed their respective benchmarks.

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.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	1.26%	2.69%	21.91%	2.18%	5.26%	7.63%
Benchmark²	0.77%	2.10%	17.66%	4.70%	5.67%	6.89%
Retail³	1.54%	3.57%	21.79%	1.66%	4.50%	
KiwiSaver³	1.54%	3.53%	21.63%	1.61%	4.49%	

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}



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	0.50%	0.43%	1.53%	1.36%	6.46%	5.73%	4.74%	4.21%	4.73%	5.00%
NZ Bond Fund	-0.96%	-0.51%	0.59%	1.03%	12.93%	10.91%	2.35%	1.40%	11.01%	11.00%
NZ Corporate Bond Fund	-0.65%	-0.15%	1.14%	1.72%	12.09%	10.43%	3.60%	3.39%	5.51%	5.50%
Global Bond Fund	-1.85%	-1.48%	0.44%	0.69%	10.78%	9.39%	-0.56%	-0.99%	16.44%	16.50%
Core Equity Fund	2.18%	1.74%	2.55%	2.19%	18.72%	18.41%	1.24%	-0.36%	8.47%	8.50%
Concentrated Equity Fund	3.75%	0.80%	3.65%	2.47%	22.72%	10.45%	1.54%	9.01%	8.35%	8.50%
Property Fund	1.51%	1.81%	4.71%	4.42%	14.57%	12.97%	-4.44%	-4.82%	5.90%	6.00%
Global Equity Unhedged Fund	6.13%	4.51%	3.68%	2.36%	36.08%	29.78%	16.14%	12.20%	19.93%	19.50%
Global Equity Hedged Fund	-0.31%	-1.14%	3.13%	2.35%	37.20%	31.82%	7.44%	3.92%	19.66%	19.50%

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

October was a difficult month for both equities and bonds, with political uncertainty in the US leading up to the election, and in Japan where a surprise election roiled markets. Interest rates in the US, UK, Europe and Japan moved higher, and the US Dollar staged a strong rally. This meant most other currencies, such as the NZ Dollar, moved lower which benefitted investors in unhedged global equities. The New Zealand equity market was one of the few developed markets to post a positive return over the month, boosted in part by the 0.5% cut in interest rates announced by the Reserve Bank of New Zealand. The MSCI ACWI (NZD Hedged) was down 1.1%, with Europe, China and Hong Kong all down over 3% for the month. Japan (+3.1%) rallied after two months of weakness while share markets in the US, Australia and UK were all down around 1%. With the NZ Dollar falling back below USD0.60 the MSCI ACWI Index (NZD unhedged) was up 4.5%. The Bloomberg Global Agg Index (NZD Hedged) fell 1.5% for October, while the NZ Composite Bond Index fared slightly better, down -0.5%.

Central bank activity continued to be an important dynamic for equity and bond markets around the world. The European Central Bank (ECB) cut rates by 0.25% - its third such rate cut in the current cycle. Economic data there has been weak in areas such as business activity, wage and inflation readings. In early November, the Fed cut the federal funds rate by 0.25%, while the Bank of England (BoE) delivered its second 0.25% rate cut in this cycle, in part due to reduced risks of inflation persistence.

Most sectors were weak over October, with Communication Services and Financials the only two that didn't post a negative return. Communications is dominated by mega-cap names Alphabet and Meta (Facebook), and the former performed well over October. Materials, Real Estate, Healthcare and Consumer Staples all fell between -4.5% to -5.9%. On a year-to-date basis IT (+24.3%) and Communication Services (+24.5%) are still the standout performers, but more interest-rate sensitive sectors like financials (+18.5%) and Utilities (+15.6%) are also doing well.

Fund Commentary

Overall returns for Balanced Fund investors were strong in October, building on strong performance year-to-date. The allocation to NZ equities and listed property, as well as to unhedged global equities, were the main drivers of returns for the month. Relative returns were also ahead of benchmark with outperformance from the Global Multi-Manager Equity Fund, and the NZ equity funds more than offsetting some underperformance from the bond funds. WCM ('growth' style) was the best performing manager with Applovin, a leading ad network and mediation platform company, up nearly 40% after very strong third quarter earnings. Semi-conductor names in the portfolio also outperformed, with Nvidia and Taiwan Semiconductors posting double-digit returns for the month. The Core and Concentrated equity funds both posted strong absolute and relative returns for the month. Overweight positions in Arcadium Lithium and Ryman Healthcare were the main contributors. During the month Arcadium received a takeover bid from Rio Tinto at US\$5.85 per share which the Arcadium board has endorsed. The stock price was up 94.1% (in AUD) over the month on the back of this. Ryman rose 15.6% over the period as it continues to benefit from investors rotating into interest rate sensitive stocks. Both the global bond and local bond fund slightly underperformed their respective benchmarks, the former driven by duration and curve positioning in US and Europe, and the later by the fund's long duration position in New Zealand.

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 23.4%.	Strategy size: \$123m
Retail:	0.94%, refer PDS for more details		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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