

Nikko AM Balanced Strategy

Monthly Update 31 July 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

- Inflation data in the US (CPI and PCE) reaffirmed the disinflationary trend.
- The continuation of disinflationary trends was a positive for growth and defensive asset classes.
- The S&P500 was up just over 1% while the Nasdaq Index was down 1.6%.
- As expected, the Bank of Canada (BoC) became the first major central bank to implement consecutive rate reductions.
- The Real Estate and Utilities sector were up over 6%, while Financials posted a 5.1% gain.

Fund Highlights

- In July, the fund returned 2.70%, underperforming the benchmark return of 2.78% by 8 basis points (bps).
- The Global Share strategies underperformed their benchmarks, as did the local equity funds.
- The ARK Disruptive Innovation Fund posted a strong month, up nearly 5%.
- Global Bond Fund outperformance was driven by the duration and cross-sector strategies.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale¹	2.70%	5.05%	11.50%	1.57%	4.51%	7.78%
Benchmark²	2.78%	4.55%	10.46%	4.23%	5.54%	7.09%
Retail³	1.92%	3.88%	9.98%	0.59%	3.53%	
KiwiSaver³	1.90%	3.82%	9.91%	0.55%	3.56%	

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.

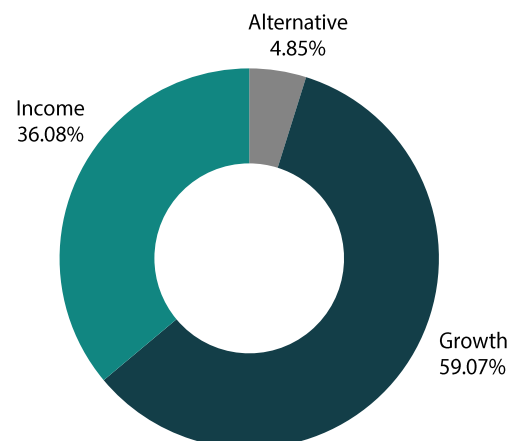
Overview

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	0.57%	0.49%	1.63%	1.43%	6.53%	5.80%	4.28%	3.78%	4.91%	5.00%
NZ Bond Fund	2.82%	2.31%	5.41%	4.20%	9.52%	7.81%	0.67%	-0.56%	12.13%	12.00%
NZ Corporate Bond Fund	2.41%	2.14%	4.62%	3.82%	9.80%	8.56%	2.14%	1.82%	8.03%	8.00%
Global Bond Fund	2.27%	1.97%	4.54%	3.75%	7.43%	5.81%	-1.32%	-1.67%	11.01%	11.00%
Core Equity Fund	5.35%	5.90%	3.48%	3.85%	4.64%	3.78%	2.07%	0.31%	13.13%	13.00%
Concentrated Equity Fund	4.29%	0.85%	3.23%	2.55%	8.35%	10.53%	1.94%	8.60%	5.02%	5.00%
Property Fund	6.30%	5.72%	0.59%	-0.62%	-5.14%	-6.40%	-5.64%	-6.11%	5.98%	6.00%
Global Shares Funds Unhedged	3.02%	4.25%	8.26%	7.69%	26.35%	22.61%	9.27%	11.60%	16.20%	16.00%
Global Shares Funds Hedged	-0.04%	1.26%	8.11%	7.72%	21.50%	18.52%	2.24%	4.72%	15.73%	16.00%
ARK Fund	4.97%	0.80%	5.07%	2.41%	-2.27%	10.00%	-20.57%	10.00%	3.02%	3.00%
Multi-Strategy Alternative	0.57%	0.73%	1.16%	2.18%	6.36%	8.96%	3.20%	6.88%	4.85%	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

July was a very strong month for both equity and bond markets, with mixed economic growth data contributing to a 'month of two halves'. For the first half of the month equity markets continued to move higher but sold off slightly over the back half. The recent disinflationary trend continued, and this was a positive for growth and defensive asset classes with a number of key central banks signalling they were increasingly confident they can start easing interest rates soon. The gain in global equity markets was the third straight month of strong returns after weakness in April. Global and local bonds also posted solid positive returns over the month. The MSCI ACWI (NZD Hedged) was up 1.3%, and for once the 'tech-heavy' USA was not the standout market. The S&P500 was up just over 1% while the Nasdaq Index was down 1.6%. The leaders over the month were New Zealand, Australia and UK where equity markets were up 5.9%, 4.2% and 2.5% respectively. The Bloomberg Global Agg Index (NZD Hedged) was up 2.0% for July, and the NZ Composite Bond Index topped that with a 2.3% return. The Kiwi dollar fell back below US\$0.60 over the month which provided a boost for unhedged investors. The MSCI ACWI Index (NZD unhedged) was up 4.3% for the month.

Inflation data in the US (CPI and PCE data) reaffirmed the disinflationary trend. Labour market data was more mixed, the unemployment rate edged higher again, but this points more to a continued normalisation from the post-pandemic period. GDP growth for the second quarter was not as strong as recent quarters, but still came in above expectations. As expected the Bank of Canada (BoC) became the first major central bank to implement consecutive rate reductions. They also signalled more cuts to come in the remaining meetings this year.

Previous laggards led the way in July in terms of sector leadership, with sectors most sensitive to interest rates doing well on the back of lower yields in bond markets. The Real Estate and Utilities sector were up over 6%, while Financials posted a 5.1% gain. Communications Services and Information Technology were the laggards, down 3.0% and 2.2% respectively, but both remain the strongest performers year-to-date.

Fund Commentary

July fund performance was very strong in absolute terms, and close to flat in relative returns, with share and bond markets both posting positive returns locally and globally. The Global Share strategies underperformed their benchmark, as did the local equity funds. For Global Shares, July saw a reversal in fortunes for the mega-cap or AI-focused companies which impacted names like Nvidia, Synopsys, and Broadcom. There was little in the way of company-specific news or disappointments, instead it was the softer inflation readings that contributed to a significant shift away from the previous leaders towards more value-based areas of the market, such as smaller-cap stocks. The ARK Disruptive Innovation Fund posted a strong month, up nearly 5%. Key contributors for the month include Tesla, Roblox and Beam Therapeutics. Tesla reported better-than-expected second quarter vehicle deliveries and record stationary energy deployments, however, the stock returned some gains after a delay in their robotaxi event and Tesla then reported second-quarter earnings that missed analysts' profit expectations. Key detractors for the month include Pinterest, Robinhood and Shopify. The global bond outperformance was driven by the duration and cross-sector strategies, while the securitized selection strategy detracted from excess 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.	Strategy size: \$79m
Retail: 0.94%, refer PDS for more details		Currently the fund's foreign currency exposure is 22.5%.	
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.

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