

# Nikko AM Balanced Strategy

Monthly Update 31 May 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

- Economic growth remained steady over the month of May, while corporate earnings reports were solid and inflation data was slightly weaker than expected.
- Global equity markets resumed their march higher in May after April's weakness, with a number of regional market indices reaching new all-time highs.
- Global and local bonds also posted solid positive returns over the month.
- Information technology was far and away the strongest sector, returning nearly 8%. Communication Services had a strong month, up 5.6%, and is the leading sector in year-to-date terms.

## Fund Highlights

- May fund performance was positive in terms of absolute returns and close to flat in relative returns.
- The global share strategy outperformed their benchmark, as did both global and local bond funds.
- The ARK Disruptive Innovation Fund was slightly down after recent months of volatile moves in both directions.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
<b>Wholesale<sup>1</sup></b>	0.67%	1.13%	9.90%	1.05%	4.56%	7.42%
<b>Benchmark<sup>2</sup></b>	0.74%	1.84%	9.77%	3.63%	5.52%	6.79%
<b>Retail<sup>3</sup></b>	0.26%	1.06%	8.97%	0.29%	3.63%	
<b>KiwiSaver<sup>3</sup></b>	0.24%	1.02%	8.94%	0.28%	3.68%	

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<sup>1,2</sup>



## 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.

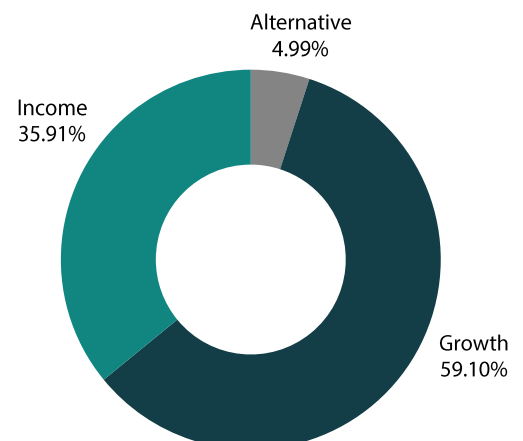
## Overview

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
<b>NZ Cash Fund</b>	0.55%	0.48%	1.61%	1.42%	6.50%	5.80%	3.96%	3.47%	5.00%	5.00%
<b>NZ Bond Fund</b>	1.15%	0.86%	1.16%	0.92%	4.33%	3.25%	-0.38%	-1.36%	11.97%	12.00%
<b>NZ Corporate Bond Fund</b>	1.02%	0.75%	1.46%	1.28%	6.10%	5.54%	1.04%	0.82%	7.98%	8.00%
<b>Global Bond Fund</b>	1.18%	0.87%	0.48%	0.12%	4.22%	2.89%	-1.75%	-2.02%	10.96%	11.00%
<b>Core Equity Fund</b>	-0.88%	-0.75%	1.37%	1.31%	2.17%	1.31%	1.65%	-0.44%	12.96%	13.00%
<b>Concentrated Equity Fund</b>	-0.79%	0.85%	0.43%	2.55%	6.40%	10.53%	1.97%	8.30%	4.96%	5.00%
<b>Property Fund</b>	-2.48%	-2.96%	-1.46%	-1.96%	-0.77%	-0.99%	-5.36%	-5.75%	5.96%	6.00%
<b>Global Shares Funds Unhedged</b>	0.43%	0.23%	2.52%	2.92%	20.21%	20.53%	9.22%	11.23%	16.04%	16.00%
<b>Global Shares Funds Hedged</b>	3.99%	3.69%	3.50%	4.34%	23.61%	24.09%	1.82%	3.95%	16.35%	16.00%
<b>ARK Fund</b>	-4.15%	0.80%	-13.75%	2.41%	7.86%	10.00%	-20.34%	10.00%	2.84%	3.00%
<b>Multi-Strategy Alternative</b>	0.62%	0.72%	1.48%	2.17%	8.76%	8.96%	2.63%	6.56%	4.99%	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](http://www.nikkoam.co.nz).

## Market Commentary

Economic growth remained steady over the month of May, while corporate earnings reports were solid and inflation data was slightly weaker than expected. This combination bolstered risk assets such as equities, and also led to lower yields (and higher prices) in bonds. Global equity markets resumed their march higher in May after April's weakness, with a number of regional market indices reaching new all-time highs. Global and local bonds also posted solid positive returns over the month. The MSCI ACWI (NZD Hedged) was up 3.7% with USA the standout market. The S&P500 and Nasdaq Index returned 4.8% and 6.3% respectively. Softer inflation data was good for bonds, and the Bloomberg Global Agg Index (NZD Hedged) was up 0.9% for May, in line with the return of local bonds. The Kiwi dollar rose sharply from below US\$0.59 to US\$0.61 over the month which provided a headwind for unhedged investors. The MSCI ACWI Index (NZD unhedged) was up 0.2% for the month.

On the economic front, a weaker inflation trend was evident in US CPI (consumer price index) and PCE (personal consumption expenditures) figures. The US Federal Reserve prefers to look at the PCE data as it more accurately reflects price changes of what consumers are actually spending money on. The US 10-year bond moved 0.2% lower over the month as markets remained fixated on when the Federal Reserve would be making the first interest rate cut. The 'goldilocks' outcome would be for interest rate cuts to be driven by inflation falling back into their preferred band. If the first cuts were due to a weakening economy, either through higher unemployment or falling earnings, this would likely be negative for risk assets such as equities.

With the overall markets up strongly over May, it was a resumption in recent trends in terms of sector leadership. Information technology was far and away the strongest sector, returning nearly 8%. Communication Services had a strong month, up 5.6%, and is the leading sector in year-to-date terms. Europe, the UK, Australia, Hong Kong and Japan all posted positive returns between 0.2% and 1.8%, while NZ and Chinese equities were down slightly.

## Fund Commentary

May fund performance was positive in terms of absolute returns and close to flat in relative returns, with global share and global bond markets both posting positive returns. The global share strategy outperformed their benchmark, as did both global and local bond funds. The outperformance from the global shares portfolio was driven by stock selection in mega-cap names Nvidia and Netflix. Nvidia's most recent quarterly earnings report yet again beat market expectations, while Netflix announced increased visibility regarding the continued strong uptake of their paid advertising plans. Bio-Techne was another company that had a strong month after solid earnings report and optimistic guidance on the broader life science tools industry. On the other side of the ledger Thai bank PT Bank Mandiri and luggage company Samsonite had weak months after their quarterly reports did not match market expectations. The ARK Disruptive Innovation Fund was slightly down after recent months of volatile moves in both directions. This Fund is unhedged so the stronger NZD was a drag on performance. The local bond funds are positioned with longer duration than the benchmark, and with local bonds rallying this contributed to relative returns. The global bond outperformance was driven by overweight positions in commercial mortgage-backed securities and collateralized loan obligations where spreads tightened. Being overweight UK rates versus Japan rates also worked well.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST):</b>		<b>Distributions:</b>	Generally does not distribute	<b>Strategy Launch:</b>	April 1994
<b>Wholesale:</b>	Negotiated outside of the unit price	<b>Hedging:</b>	Currency hedging contracts, if any, are held in the sector funds listed in the asset allocation.	<b>Strategy size:</b>	\$76.5m
<b>Retail:</b>	0.94%, refer PDS for more details		Currently the fund's foreign currency exposure is 22.03%.	<b>Buy / Sell spread:</b>	0.09% / 0.09%
<b>KiwiSaver:</b>	0.94%, refer PDS for more details.				
<b>Performance Fee:</b>	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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