

Nikko AM Balanced Strategy

Monthly Update 28 February 2025

Assets are held in the Nikko AM Wholesale NZ Balanced Fund. The Nikko AM Balanced Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM Balanced Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- February was a 'month of two halves', with the strong returns seen in January continuing into the first two weeks of the month, before investor sentiment turned and global equity markets moved lower.
- In the US earnings per share growth for S&P500 companies was 12% for 4Q2025, ahead of expectations for 8% growth.
- Europe and UK equity markets, as well as Hong Kong and China, continued their strong start to 2025, while the US was once again a laggard versus the broader market. New Zealand and Australian equities were also weak, falling 3% and 4% respectively.

Fund Highlights

- Returns for Balanced Fund investors were weak in February, with the funds giving up some of the January gains.
- All of the 'growth asset classes' (equities and listed property) were down in absolute terms for the month, with the exception of unhedged global equities which posted a small gain.
- WCM ('growth' style) has been the stand-out manager in recent times for the Global Multi-Manager Equity Fund, however they underperformed in February.

Performance

| | One month | Three months | One year | Three years (pa) | Five years (pa) | Ten years (pa) |
|------------------------------|-----------|--------------|----------|------------------|-----------------|----------------|
| Wholesale¹ | -1.16% | 0.17% | 12.00% | 5.36% | 5.72% | 7.31% |
| Benchmark² | -0.48% | 0.86% | 11.53% | 6.64% | 6.16% | 6.70% |
| Retail³ | -1.49% | -0.25% | 10.78% | 4.40% | 4.58% | |
| KiwiSaver³ | -1.50% | -0.32% | 10.55% | 4.31% | 4.56% | |

- Returns are before tax and before the deduction of fees and including tax credits (if any). Based on actual calendar periods.
- Benchmark: Weighted composite of the benchmarks for the underlying sector funds. No tax or fees
- 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 | 0.36% | 0.32% | 1.22% | 1.07% | 6.01% | 5.31% | 5.19% | 4.63% | 4.79% | 5.00% |
| NZ Bond Fund | 0.72% | 0.59% | 1.31% | 1.16% | 8.28% | 7.17% | 3.22% | 2.12% | 11.19% | 11.00% |
| NZ Corporate Bond Fund | 0.57% | 0.34% | 1.56% | 1.46% | 8.67% | 8.09% | 4.50% | 4.15% | 5.62% | 5.50% |
| Global Bond Fund | 1.14% | 1.18% | 0.86% | 0.66% | 6.86% | 5.61% | 1.14% | 0.43% | 16.69% | 16.50% |
| Core Equity Fund | -3.66% | -2.98% | -3.75% | -3.45% | 7.45% | 8.14% | 3.51% | 2.56% | 8.39% | 8.50% |
| Concentrated Equity Fund | -5.12% | 0.67% | -4.25% | 2.19% | 5.30% | 10.03% | 3.97% | 9.41% | 8.25% | 8.50% |
| Property Fund | -2.48% | -2.74% | -2.89% | -3.38% | 2.41% | 0.23% | -3.68% | -4.67% | 5.99% | 6.00% |
| Global Equity Unhedged Fund | -0.97% | 0.28% | 4.00% | 5.89% | 25.80% | 25.10% | 20.20% | 16.22% | 19.62% | 19.50% |
| Global Equity Hedged Fund | -1.91% | -0.81% | -1.12% | 0.73% | 16.21% | 16.37% | 12.03% | 8.28% | 19.45% | 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

February was a 'month of two halves', with the strong returns seen in January continuing into the first two weeks of the month, before investor sentiment turned and global equity markets moved lower. Ongoing rhetoric from global political leaders on a range of new tariffs in response to the US administrations on-again/off-again tariffs led to uncertainty over the impact such tariffs could have on inflation and economic growth. On the positive side of the ledger, company earnings season was generally positive. In the US earnings per share growth for S&P500 companies was 12% for 4Q2025, ahead of expectations for 8% growth. The MSCI ACWI (NZD Hedged) was down -0.8%, but is still up over 16% on a rolling 1-year basis. The NZ Dollar remained well below U\$0.60 and moved slightly lower meaning the MSCI ACWI Index (NZD unhedged) was up 0.2% (+25.1% rolling 1-yr). Global Interest rates moved in a similar trend to equity markets, initially moving higher to peak mid-month, before falling as risk appetite waned. This meant global bonds posted a solid gain in February, the Bloomberg Global Agg Index (NZD Hedged) advanced 1.2% for the month, while the NZ Composite Bond Index was up 0.6%. Europe and UK equity markets, as well as Hong Kong and China, continued their strong start to 2025, while the US was once again a laggard versus the broader market. New Zealand and Australian equities were also weak, falling 3% and 4% respectively.

Lagging economic data out of the US remained solid, but some leading indicators suggested an increased chance of a slowdown ahead. The Atlanta Federal Reserve branch produces a 'GDP Nowcast' forward-looking estimate for economic growth, this is now predicting a contraction in GDP for the first quarter of 2025. The Federal Reserve have suggested they will be patient before cutting rates further, and currently two rate cuts are expected in the second half of the year. The Bank of England cut rates in February, and most other central banks retained a dovish stance, with the exception of Japan where economic data remains strong and more hikes are expected.

On a sector basis some of the leaders from most of the last few years underperformed. Information technology, consumer discretionary, and communications services were all weak, while defensive sectors such as real estate and consumer staples posted solid gains. The much watched 'Magnificent 7' combination of mega-cap companies was down over 8% for the month, with Tesla, Alphabet and Amazon particularly weak.

Fund Commentary

Returns for Balanced Fund investors were weak in February, with the funds giving up some of the January gains.

All of the 'growth asset classes' (equities and listed property) were down in absolute terms for the month, with the exception of unhedged global equities which posted a small gain. In terms of relative performance the funds were behind benchmark, with Core, Concentrated and Global Equities all underperforming. WCM ('growth' style) has been the stand-out manager in recent times for the Global Multi-Manager Equity Fund, however they underperformed in February. AppLovin is the largest position in the WCM portfolio and the share price fell 11% on some negative reports from short-sellers. Progressive (held by Royal London and Nikko-Europe), SAAB (WCM) and Yum!Brands (JPM) all posted strong gains for the month. The Concentrated and Core Equity funds underperformed the NZ equity market, driven by positions in Ryman and Spark. Ryman surprised the market with a large \$1bn capital raising to reduce debt and gearing levels, while Spark was down after another weak earnings release. Overweight positions to Worley, A2 Milk and Contact Energy all added value with following solid earnings results. The domestic bond funds outperformed thanks to the long duration positioning which benefited from the fall in interest rates, while the Global Bond Fund was flat versus benchmark.

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 22.5%. | Strategy size: | \$123.3m |
| Retail: | 0.94%, refer PDS for more details | | | Buy / Sell spread: | 0.09% / 0.09% |
| KiwiSaver: | 1.14%, 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.

Contact Us

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