

# NIKKO AM BALANCED STRATEGY

Applies to: Nikko AM Wholesale Balanced Fund, Nikko AM Balanced Fund (Retail), and Nikko AM KiwiSaver Scheme Balanced Fund

## Market Overview

- The factors which resulted in strong market returns in January continued into February. It would, however, be unwise to forget that markets can turn quickly.
- During February, equity markets around the world were generally positive to various degrees – the NZX50 is up 3.8% for the month, 5.8% for the quarter and 12.6% for the year. At a global level, the MSCI ACWI (unhedged) is up 4.5% for the month, 3.8% for the quarter and 5.1% for the year.
- It was a relatively unexciting month in the bond markets with New Zealand strongly outperforming its global counterpart - the NZ composite index returning around 0.5% compared with the Barclays Global Aggregate Index which was flat for the month.

## Fund Highlights

- The portfolio outperformed its aggregate benchmark over the month.
- Our alternative strategies performed well with both Option Fund (1.2%) and the fund of hedge funds (1.9%) performing their role of diversifying returns away from purely bonds and equities.
- February continued to provide strong returns to investors across a range of sectors, and it was the funds with higher exposures to 'risk' assets that outperformed the more defensive funds.

## Performance

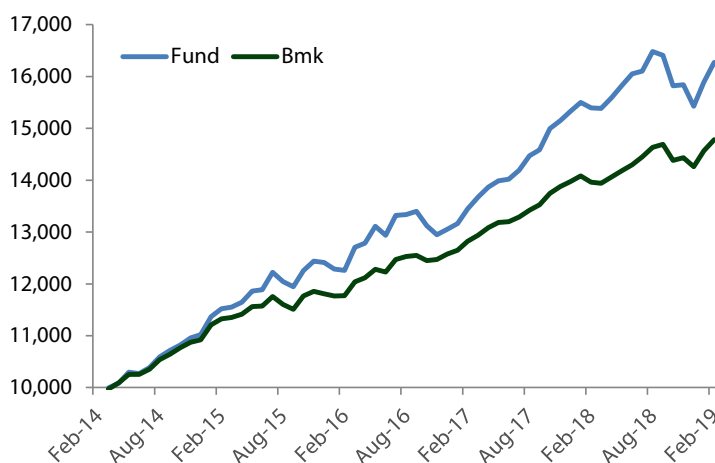
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	2.41%	2.72%	5.69%	9.90%	10.22%	10.90%
Benchmark <sup>2</sup>	1.50%	2.40%	5.88%	7.88%	8.13%	8.81%
Retail <sup>3</sup>	2.33%	2.52%				
KiwiSaver <sup>3</sup>	2.38%	2.56%				

1. Returns are before tax and before the deduction of fees. 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

## Five Year Cumulative Performance<sup>1,2</sup>



## Portfolio Manager

**George Carter**, is Managing Director of Nikko AM New Zealand, he joined in 2015. He has over 15 years of experience in the financial services industry. George has worked as a consulting actuary advising institutional clients on pensions and investments in the UK and New Zealand. George is Chair of the Investment Committee, responsible for the strategic asset allocation of the Nikko AM NZ diversified funds.



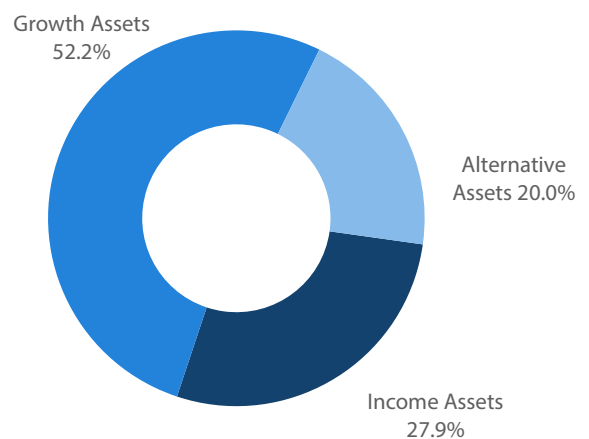
## Overview

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 fee, expenses and taxes over a rolling three year period.

## Asset Allocation



Sector Performance	One month		Three months		One year		Three years p.a.		Asset Allocation	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Bond Fund	0.62%	0.54%	2.38%	2.15%	6.42%	6.15%	4.88%	3.84%	8.9%	9.0%
NZ Corporate Bond Fund	0.53%	0.45%	2.17%	2.01%	5.94%	6.01%	5.40%	3.79%	9.0%	9.0%
Option Fund	1.17%	0.48%	-3.31%	1.49%	7.62%	6.11%	5.41%	6.24%	9.9%	10.0%
NZ Cash Fund	0.22%	0.15%	0.68%	0.49%					5.0%	5.0%
Global Bond Fund	0.17%	0.05%	2.85%	2.47%	4.49%	3.74%	3.96%	3.24%	5.0%	5.0%
Core Equity Fund	3.75%	3.81%	6.21%	5.78%	7.94%	12.57%	17.75%	15.73%	7.0%	7.0%
Property Fund	1.65%	1.59%	5.02%	5.39%	19.61%	20.36%	11.16%	10.62%	5.1%	5.0%
Concentrated Equity Fund	3.19%	0.50%	4.56%	1.62%	-2.09%	6.75%	15.14%	6.85%	13.9%	14.0%
Global Shares Funds	4.43%	3.55%	3.06%	2.71%	6.77%	2.78%	13.88%	12.58%	26.1%	26.0%
Multi-Strategy Alternative	1.89%	0.12%	2.40%	0.42%	2.50%	1.91%	3.90%	3.70%	10.0%	10.0%

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

The factors which resulted in strong market returns in January continued into February, such that the negative returns from the latter part of 2018 seem to be an age ago. It would, however, be unwise to forget that markets can turn quickly. Clearly, the strong support provided by central banks for equity markets has been a key part of the confidence for market participants, but at some point, the 'free market' is going to have to feel confident aside from such accommodative monetary policy settings. Having said that, the conciliatory tone between Washington and Beijing is calming concerns of further fallout, and knowing that central banks are going to continue with the recent policy approach allays any immediate fears of the prospect of rates rising at the time when the global economy looks a little more fragile in terms of growth. During February, equity markets around the world were generally positive to various degrees, and if you happened to avoid looking at monthly data the medium term picture looks quite benign – the NZX50 is up 3.8% for the month, 5.8% for the quarter and 12.6% for the year. At a global level, the MSCI ACWI (unhedged) is up 4.5% for the month, 3.8% for the quarter and 5.1% for the year. However, this masks the effect of currency where over the year it has been very positive for those who have kept their foreign currency exposures unhedged. These unhedged returns are around 2% higher of the month and nearly 5% higher over the year as a result of NZ dollar weakness, which show the underlying equity markets offshore haven't produced much in the way of returns over the year notwithstanding the recent rally. It was a relatively unexciting month in the bond markets as a whole with New Zealand strongly outperforming its global counterpart - the NZ composite index returning around 0.5% compared with the Barclays Global Aggregate Index which was flat for the month.

## Fund Commentary

Our alternative strategies performed well with both the Option Fund (1.2%) and the fund of hedge funds (1.9%) performing their role of diversifying returns away from purely bonds and equities. Overall, February continued to provide strong returns to investors across a range of sectors, and it was the funds with higher exposures to 'risk' assets that outperformed the more defensive funds. Accordingly, we saw the Nikko Growth Fund produced a gross return of around 3.1%, the Balanced Fund returned 2.3% and the Conservative Fund a still very healthy 1.3% for the month.

## Key Fund Facts

### Distributions

Generally does not distribute

### 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 17.78%

### Performance fees

Performance fees (if any) are recognised in the unit price of the Balanced Fund for the following sector funds:

*Nikko AM Wholesale Concentrated Equity Fund:* 10% of excess return over benchmark, subject to recovery of any previous period negative returns before entitlement. *Nikko AM Wholesale Option Fund:* 15% of returns in excess return over benchmark, subject to recovery of any previous period negative returns before entitlement.

### Estimated annual fund charges

Wholesale: Negotiated outside of fund

Retail: 1.05%, refer PDS for more details

KiwiSaver: 1.0%, refer PDS for more details.

Fee of only 0.30% p.a. until 30/9/2019

### Buy / Sell spread

0.09% / 0.09%

### Strategy size

\$288.1m

### Strategy Launch

August 2016

## Compliance

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

## Contact Us

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