

NIKKO AM BALANCED STRATEGY

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

- Over the quarter, the United States S&P 500 index rose 8.5%, the Japanese Nikkei 225 index increased 8.7%, the UK FTSE 100 index ground “only” 1.8% higher, the Australian ASX 200 index was up 0.7% and the MSCI World index ended the quarter up 8.7%, all in local terms.
- Bond yields eased with the NZ 10-year bond ending the quarter at 1.65%, the Australian 10-year bond at 1.37% and US 10-year bond at 1.92%.
- Trade talks between China and the United States are neutral for now and the UK election delivered a clear Brexit mandate.

Fund Highlights

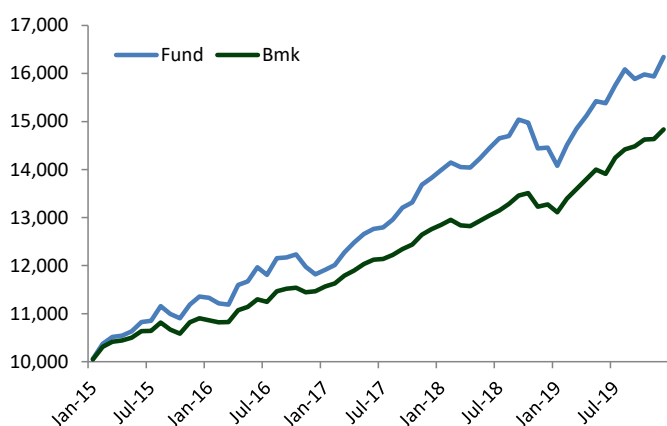
- The fund returned 0.58% for the month, 2.89% for the quarter.
- Equity markets generally continued their run of positive returns although bond markets extended the losses from November. The fund’s higher exposure to growth assets returned positive results as a consequence.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.58%	2.89%	16.78%	11.33%	10.33%	10.13%
Benchmark ²	0.61%	2.05%	13.81%	8.86%	8.24%	8.44%
Retail ³	0.24%	2.80%	16.16%			
KiwiSaver ³	0.24%	2.80%	16.49%			

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^{1, 2}



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.



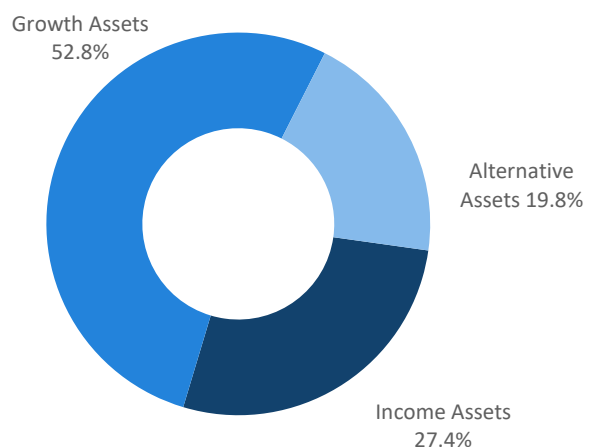
Overview

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 fees, 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	-1.14%	-1.24%	-1.68%	-1.96%	6.51%	4.89%	6.22%	4.96%	8.8%	9.0%
NZ Corporate Bond Fund	-0.65%	-0.44%	-1.13%	-0.83%	6.43%	5.16%	6.39%	5.05%	8.8%	9.0%
Option Fund	1.11%	0.43%	4.77%	1.29%	-5.57%	5.75%	2.67%	5.99%	10.0%	10.0%
Global Bond Fund	-0.15%	-0.24%	-0.10%	-0.64%	9.79%	7.48%	5.18%	4.42%	9.8%	10.0%
Core Equity Fund	0.39%	1.60%	5.19%	5.34%	28.34%	31.64%	20.11%	19.94%	12.2%	12.0%
Property Fund	3.31%	2.80%	1.69%	-0.39%	30.79%	32.37%	18.57%	18.68%	5.1%	5.0%
Concentrated Equity Fund	1.38%	0.50%	6.79%	1.48%	25.06%	6.39%	16.90%	6.63%	9.2%	9.0%
Global Shares Funds	0.97%	1.34%	4.93%	5.61%	29.66%	25.64%	16.48%	12.63%	26.3%	26.0%
Multi-Strategy Alternative	0.57%	0.10%	0.48%	0.30%	7.77%	1.46%	3.29%	2.71%	9.8%	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.

Market Commentary

As 2019 drew to a close, a common discussion around market participants was the continuing issue of low interest rates, and in particular what this means for investors and markets. Clearly, low interest rates mean reduced returns on cash assets, in addition it also resulted in relatively low coupons for bond investors, and therefore by extension lower yields (in the form of dividends and rents etc.) from growth assets such as equities and property. Or to express this another way, investors are prepared to pay higher prices to maintain income levels. It is therefore entirely understandable why equity markets in particular, but also bond markets, have produced strong returns for investors during 2019. Towards the end of the year however, we saw that bond yields had ceased falling, investors believing that the bottom of central bank rate cuts was in sight (if not already completed) and that longer dated bond yields had started to rise (a 'curve steepening' in bond jargon). One of the largest movements over the month was in the value of the NZ dollar against other currencies, and in particular the ~5% gain against the US dollar reversing losses from earlier in the year. Overall for the year, hedged and unhedged global assets provided investors with broadly similar returns, but there was a reasonable degree of intra-month volatility. By having half of the global equity exposure hedged (and the other half unhedged), the diversified funds were able to avoid much of this volatility.

Fund Commentary

The fund returned 0.58% for the month, and 2.89% for the quarter. In December equity markets generally continued their run of positive returns although bond markets extended the losses from November. The fund's higher exposure to growth assets returned positive results as a consequence.

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 14.81%

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 (incl. GST)

Wholesale: Negotiated outside of fund

Retail: 1.04%, refer PDS for more details

KiwiSaver: 0.99%, refer PDS for more details.

Buy / Sell spread

0.09% / 0.09%

Strategy size

\$327.76m

Strategy Launch

August 2016

Compliance

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

Contact Us

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