

Factsheet 31 January 2020

# 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

- Markets were primarily focused on developments around the Coronavirus "2019-nCov" outbreak in China. As the month progressed it became increasingly apparent that an outbreak had occurred.
- The most important areas of risk to New Zealand's economy are in our exposure to China through export of commodities and in domestic services we provide including tourism and educational services. It is important to note New Zealand's exposure to China in these areas is significantly higher than during the SARS outbreak of 2003.

## Fund Highlights

- The fund returned 1.31% for the month.
- January provided investors with another strong month of performance notwithstanding that the Coronavirus situation knocked some of the confidence out of global equity markets late in the month. NZ investors who had exposure to foreign currency in unhedged global assets received the benefit of the weaker NZ dollar.

## Performance

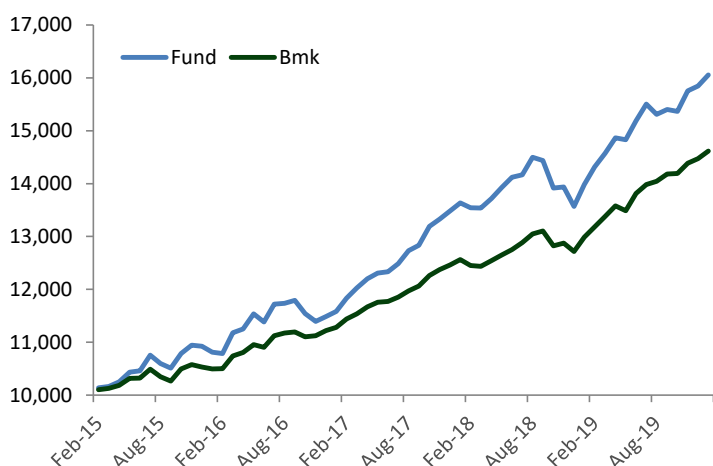
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.31%	4.49%	14.79%	11.50%	9.93%	10.23%
Benchmark <sup>2</sup>	0.99%	2.97%	12.53%	9.02%	7.89%	8.54%
Retail <sup>3</sup>	1.58%	4.52%	14.44%			
KiwiSaver <sup>3</sup>	1.58%	4.52%	14.84%			

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.



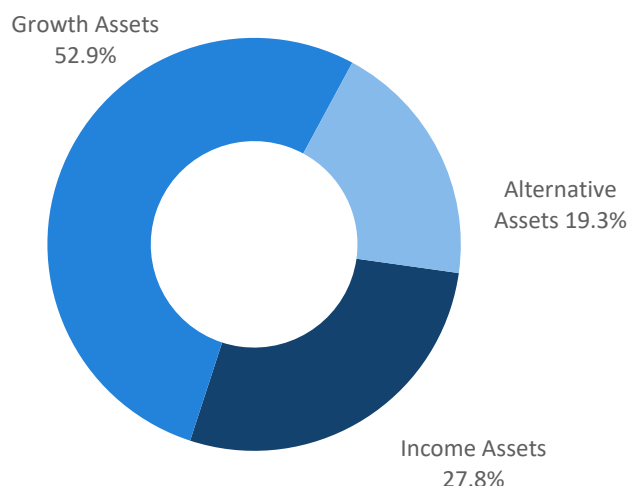
## Overview

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 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	1.70%	1.52%	0.48%	0.24%	7.59%	5.87%	6.69%	5.47%	9.0%	9.0%
NZ Corporate Bond Fund	1.37%	0.94%	0.62%	0.40%	7.25%	5.60%	6.74%	5.36%	8.8%	9.0%
Option Fund	-3.37%	0.44%	-1.14%	1.30%	-9.46%	5.69%	0.91%	5.97%	9.6%	10.0%
Global Bond Fund	2.03%	1.83%	1.84%	1.42%	10.23%	8.39%	5.92%	5.13%	10.0%	10.0%
Core Equity Fund	2.22%	1.97%	8.83%	8.73%	27.18%	31.62%	20.24%	19.74%	12.2%	12.0%
Property Fund	2.28%	2.40%	6.07%	4.96%	32.22%	33.15%	18.80%	18.63%	5.2%	5.0%
Concentrated Equity Fund	4.03%	0.50%	12.30%	1.48%	24.57%	6.32%	18.70%	6.61%	9.4%	9.0%
Global Shares Funds	1.08%	0.49%	6.18%	4.57%	23.69%	18.89%	16.32%	12.65%	26.1%	26.0%
Multi-Strategy Alternative	1.33%	0.10%	2.69%	0.30%	6.06%	1.41%	3.37%	2.61%	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](http://www.nikkoam.co.nz).

## Market Commentary

Markets were primarily focused on developments around the Coronavirus “2019-nCov” outbreak in China. As the month progressed it became increasingly apparent that an outbreak had occurred. Unsurprisingly markets looked to previous viral outbreaks to draw inferences on the potential human and economic costs with the more recent viral outbreaks SARS (2003), H1N1 (2009) and MERS (2012) featuring in the media and commentaries.

We can draw some comfort from the features of the virus and the strong policy response. The most important areas of risk to New Zealand’s economy are in our exposure to China through export of commodities and in domestic services we provide including tourism and educational services. It is important to note New Zealand’s exposure to China in these areas is significantly higher than during the SARS outbreak of 2003. This can be seen in the massive increase in the proportion of New Zealand’s commodity exports going into China. Prominent amongst these are: Forestry increasing 5x to 46.1%, Beef increasing 137x to 46.1%; Sheep meat increasing 18x to 41.6%; Seafood increasing 9x to 35.2% and Dairy increasing 6x to 32.5%. In relation to tourism we note Chinese visitors account for 10% of all arrivals (3% in 2003) and their associated spend on travel services is estimated to account for ~1% of NZs nominal GDP. In the event of a more mild play out of the Coronavirus we expect a limited temporary impact with growth returning as the outbreak is brought under control. We would expect the Reserve Bank to look through any impacts on growth, employment and inflation in this scenario. Should the outbreak intensify in its severity and geographic dispersion, the impact would be larger and a policy response may be elicited from the Reserve Bank.

## Fund Commentary

From a diversified fund perspective, January provided investors with another strong month of performance notwithstanding that the Coronavirus situation knocked some of the confidence out of global equity markets late in the month. NZ investors who had exposure to foreign currency in unhedged global assets received the benefit of the weaker NZ dollar. With so many underlying sectors (including NZ equity, global and domestic bonds and unhedged global equities) providing several months’ worth of expected returns in just one month it’s unsurprising to see the Balanced Fund return 1.31% for the month. Clearly this is unusual and we expect more modest returns in the coming months.

## 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 15.13%

### 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

\$335.25m

### Strategy Launch

April 1994

## Compliance

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

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