

# 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

- The New Zealand equity market rose more than 3% during the month and there was a similar story in equity markets around the world, although most markets are still more than 10% lower than they were at the start of the year. On that basis, the NZ market seems quite robust being just 5% lower than it was at the start of 2020.
- Government bond yields have risen slightly over the month as the market digests the size and scale of the borrowing programmes announced around the world.

## Fund Highlights

- The fund returned 2.8% in May, 93 bps ahead of the benchmark.
- With positive returns from the alternative sectors of the Option Fund and the Multi-Strategy hedge funds (each returning around 2.5%), the monthly returns for all Nikko AM diversified funds were very healthy. It's possible that financial markets have moved ahead of some of the underlying economic data and so we're mindful of the possibility for this to pull back at some point.

## Performance

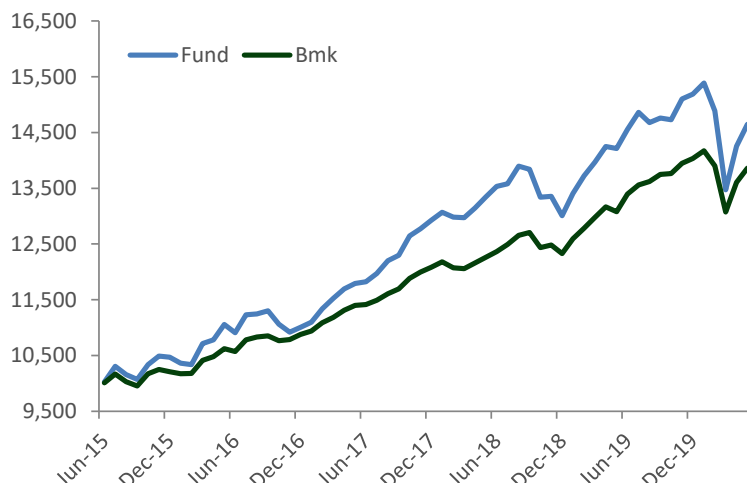
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	2.78%	-1.62%	3.06%	7.49%	7.93%	9.55%
Benchmark <sup>2</sup>	1.85%	-0.30%	5.97%	6.73%	6.74%	8.10%
Retail <sup>3</sup>	2.42%	-2.99%	1.59%			
KiwiSaver <sup>3</sup>	2.42%	-2.96%	1.82%			

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.



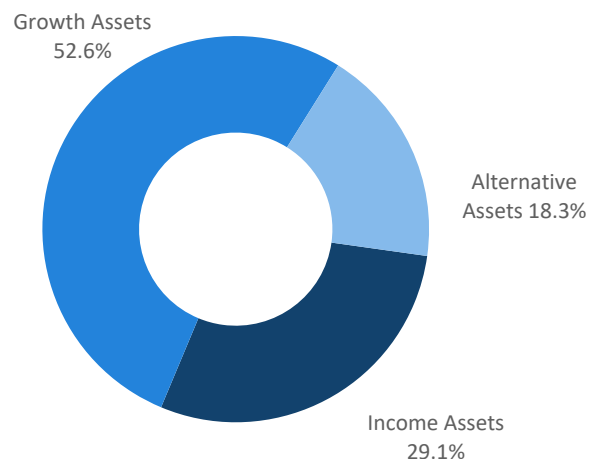
## Overview

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	1.39%	0.37%	3.00%	2.40%	8.15%	6.49%	6.88%	5.55%	9.4%	9.0%
NZ Corporate Bond Fund	1.28%	0.77%	2.38%	1.98%	7.33%	5.73%	6.73%	5.16%	9.3%	9.0%
Option Fund	2.57%	0.36%	-20.39%	1.22%	-34.40%	5.37%	-11.13%	5.86%	7.8%	10.0%
Global Bond Fund	1.22%	0.30%	0.99%	0.20%	8.47%	6.53%	5.83%	4.79%	10.4%	10.0%
Core Equity Fund	2.51%	3.33%	-2.95%	-3.16%	6.97%	8.40%	14.77%	14.75%	12.1%	12.0%
Property Fund	3.90%	3.12%	-15.65%	-15.14%	-2.57%	-1.87%	10.53%	10.90%	4.5%	5.0%
Concentrated Equity Fund	2.95%	0.44%	0.24%	1.33%	7.60%	5.95%	13.18%	6.48%	9.2%	9.0%
Global Shares Funds	4.53%	4.16%	2.28%	-0.40%	10.45%	6.30%	11.29%	6.85%	26.8%	26.0%
Multi-Strategy Alternative	2.50%	0.03%	0.75%	0.21%	3.09%	1.16%	2.76%	2.21%	10.6%	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

We noted last month that across all financial markets there had been a surge in returns as markets priced in the upsides from the world moving out of the COVID-19 lockdowns (both physical and economic). This momentum continued throughout May, and albeit at lesser levels than April, investors still enjoyed strong returns for the month. The New Zealand equity market rose more than 3% during the month and there was a similar story in equity markets around the world, although most markets are still more than 10% lower than they were at the start of the year. On that basis, the NZ market seems quite robust being just 5% lower than it was at the start of 2020. We've noted before that holdings of foreign currency can help with diversification, and it's noteworthy that the MSCI global equity index in NZ dollars (unhedged) is broadly flat for the year to date meaning that the losses in equity markets have largely been offset by the gains from holding the foreign currencies.

It is perhaps not surprising that Government bond yields have risen slightly over the month as the market digests the size and scale of the borrowing programmes announced around the world. However, this movement has been relatively modest as central banks have been acquiring as much debt as necessary (and sometimes arguably more than strictly necessary) in order to keep yields suppressed. Within this environment credit spreads continue to narrow and therefore we've experienced not only another positive month of returns for investors in aggregate style bond mandates, but significant returns relative to the yields on the portfolios. This was especially the case within our NZ fixed interest funds which returned around 1.3% for the month which is broadly similar to the annual yields in the portfolios.

## Fund Commentary

The fund returned 2.8% in May, 93 basis points ahead of the benchmark. With positive returns from the alternative sectors of the Option Fund and the Multi-Strategy hedge funds (each returning around 2.5%), the monthly returns for all diversified funds were very healthy. It's possible that financial markets have moved ahead of some of the underlying economic data and so we're mindful of the possibility for this to pull back at some point; but in the meantime as central banks provide unprecedented levels of money supply and the momentum from the easing of global lockdowns continue markets may remain buoyant for the immediate future.

## 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 15.26%

### 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: 0.98%, refer PDS for more details.

### Buy / Sell spread

[Click to view](#)

### Strategy size

\$308.8m

### Strategy Launch

April 1994

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

**Contact Us** [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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