Factsheet 31 January 2021

# NIKKO AM CONSERVATIVE STRATEGY

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

## Market Overview

- During January NZ equities, as measured by the NZX50 index, were up just 0.3%, global equities were on average flat, and in fact dropped about 0.5% when allowing for the slightly stronger NZ dollar.
- From a macro-economic perspective, the same topic continues to dominate market sentiment and activity; namely the degree to which central banks will continue to intervene in markets to set short-term cash rates at levels close to zero, and to buy longer term bonds (mostly Government bonds, but also some corporate issuance) in order to hold the so-called 'long end' of the yield curve down.

## Fund Highlights

- Diversification remains important in the fund, and the month of January also showed the value of having alternative return sources with the multi-strategy alternative fund returning a solid 1.4% in January despite the noise coming from the 'short-squeeze'.

## Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|---|---|---|---|---|---|---|
| Wholesale[1] | -0.31% | 2.56% | 6.91% | 7.22% | | |
| Benchmark[2] | -0.21% | 2.04% | 4.93% | 6.21% | | |
| Retail[3] | -0.12% | 2.43% | 6.29% | | | |
| KiwiSaver[3] | -0.12% | 2.40% | 6.20% | | | |

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. See overleaf. 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 in unit price.

## 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.

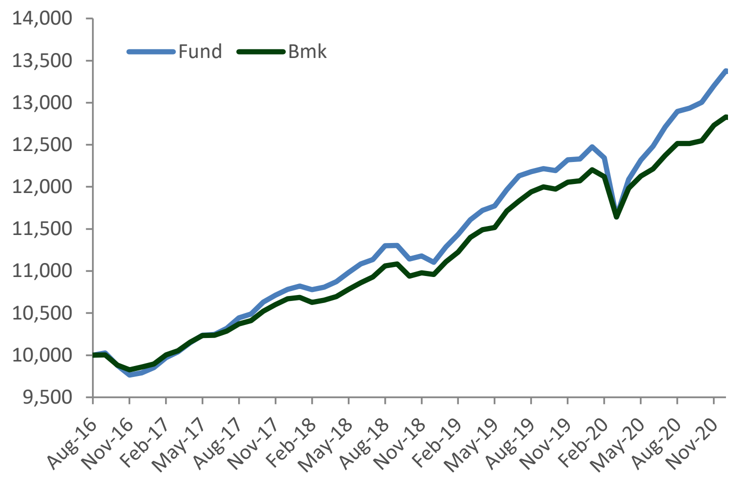
## Overview

This fund has a diversified portfolio which aims to preserve capital and achieve an investment return above bank deposit rates.

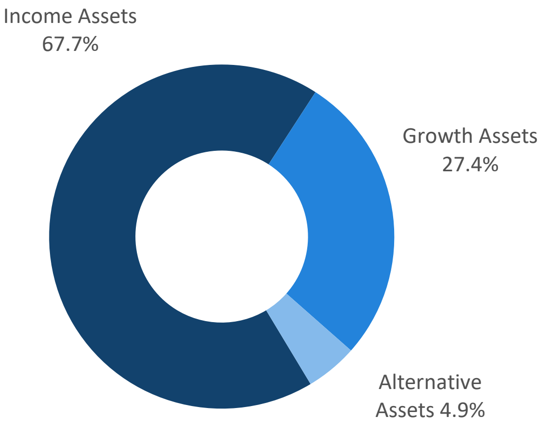
## Objective

The fund aims to outperform the benchmark return by 1.0% per annum before fees, expenses and taxes over a rolling three year period.

## Cumulative Performance Since Inception[1, 2]




## Asset Allocation



| Sector Performance | 1 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 | 0.08% | 0.02% | 0.24% | 0.07% | 1.53% | 0.52% | 2.32% | 1.34% | 15.4% | 15.0% |
| NZ Bond Fund | -0.35% | -0.41% | -2.27% | -2.52% | 5.17% | 2.80% | 6.25% | 4.78% | 17.4% | 17.5% |
| NZ Corporate Bond Fund | -0.13% | -0.06% | -1.15% | -0.82% | 5.40% | 4.07% | 6.12% | 5.10% | 17.5% | 17.5% |
| Global Bond Fund | -0.69% | -0.55% | 1.21% | 0.27% | 6.59% | 2.94% | 6.96% | 4.91% | 17.5% | 17.5% |
| Core Equity Fund | -0.83% | 0.28% | 7.51% | 8.71% | 11.38% | 12.72% | 14.20% | 16.86% | 8.5% | 8.5% |
| Property Fund | -0.39% | -0.25% | 3.96% | 2.38% | 4.27% | 2.30% | 16.36% | 16.01% | 5.0% | 5.0% |
| Global Shares Funds | -0.66% | -0.30% | 12.20% | 12.56% | 22.23% | 10.19% | 14.52% | 8.03% | 13.9% | 14.0% |
| Multi-Strategy Alternative | 1.36% | 0.62% | 9.08% | -0.91% | 13.51% | -1.12% | 6.63% | 2.12% | 4.9% | 5.0% |

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

Whilst the first month of 2021 had plenty of political action, financial markets had a rather sluggish start to the year. NZ equities (as measured by the NZX50 index) were up just 0.3%, global equities were on average flat, and in fact dropped about 0.5% when allowing for the slightly stronger NZ dollar. Both domestic and global bonds also fell slightly. Against this backdrop of largely uninteresting market movements we had the headline grabbing stories of the "Reddit-investors", i.e. retail investors discussing stocks via online forums to find companies that had been heavily short-sold, and then buying the stock in order to create a 'short-squeeze', thereby triggering mark-to-market losses for the short sellers which ultimately led to many of those investors (often hedge funds) having to close out their positions and realise the losses. This was mostly noise, however, and led to the unfortunate position of many retail investors paying enormously high prices for companies they didn't want, or know much about, and facing the prospect of large losses themselves as the price inevitably fell. From a macro-economic perspective, the same topic continues to dominate market sentiment and activity; namely the degree to which central banks will continue to intervene in markets to set short-term cash rates at levels close to zero, and to buy longer term bonds (mostly Government bonds, but also some corporate issuance) in order to hold the so-called 'long end' of the yield curve down. As long as this activity continues, both equity and bond markets are likely to continue to feel supported. However, there are two broad schools of thought currently competing in the marketplace. One side is typified by the comments made by Jeremy Grantham (famous for picking previous stock market crashes), who is calling the current equity market boom the biggest bubble yet and set to rival the 1920s crash and South Sea Bubble collapse. The other side notes that despite many signs of exuberance and high prices, with central banks providing ongoing funding and support economic growth will eventually pick up to support current prices and that the support can be slowly withdrawn as that eventuates thereby avoiding a crash.

## Fund Commentary

As financial markets rarely do anything smoothly for very long, it seems more likely that there will be heightened volatility, and therefore caution is urged against speculation on asset prices continuing to inflate. This is however, different to saying that we can time the markets and know when and where the ups and downs will occur. Diversification remains important in the fund, and the month of January also showed the value of having alternative return sources, with the multi-strategy alternative fund returned a solid 1.4% in January despite the noise coming from the 'short-squeeze' noted earlier. This is partly due to the well diversified positions within the portfolio, but also noting that 'shorting' is just one of the tools used within the portfolio to generate returns that are lowly correlated with traditional markets.

## 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 7.64%

**Estimated annual fund charges (incl. GST)**

Wholesale: Negotiated outside of fund
Retail: 0.71%, refer PDS for more details
KiwiSaver: 0.71%, refer PDS for more details.

| Buy / Sell spread | Strategy size | Strategy Launch |
|---|---|---|
| Click to view | $61.9m | August 2016 |

## Compliance

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

## Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com