

# 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 fund posted a negative return in the month of May. This was largely due to falls in the NZ equity market, domestic bonds and a general strengthening of the NZ dollar resulting in unhedged foreign currency assets falling in value, in NZ dollar terms.
- At the country level, all the major global equity markets were up during May (in local currency terms), with the exception of the tech heavy Nasdaq index in the US which fell 1.5%

## Fund Highlights

- The fund utilises 'active management' within each specific sector. This approach allows for a better application of ESG (Environmental, Social and Governance) factors to be taken into account, as well as having portfolio managers consider the merits of each specific investment rather than simply owning something just because it exists.
- Over time this has shown to add value above the benchmark indices, and this has also been true of the past 12 months.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.69%	3.04%	17.48%	8.84%	9.25%	10.12%
Benchmark <sup>2</sup>	-0.19%	2.76%	10.97%	7.83%	7.67%	8.35%
Retail <sup>3</sup>	-0.88%	2.64%	16.63%	7.84%		
KiwiSaver <sup>3</sup>	-0.87%	2.65%	16.70%	8.14%		

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 20 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.



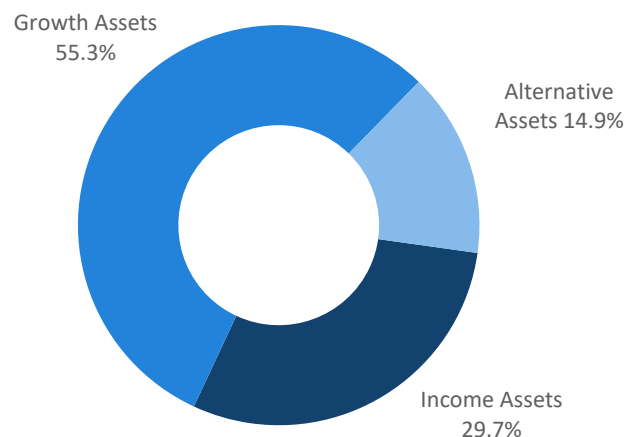
## Overview

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	-0.63%	-0.71%	0.57%	0.57%	-2.00%	-3.40%	4.69%	3.35%	9.9%	10.0%
NZ Corporate Bond Fund	-0.40%	-0.39%	0.33%	0.23%	0.23%	0.01%	5.06%	4.17%	9.9%	10.0%
Global Bond Fund	0.30%	0.23%	0.61%	0.08%	2.31%	0.00%	5.96%	4.16%	9.9%	10.0%
Core Equity Fund	-2.27%	-3.19%	2.66%	0.98%	14.33%	13.88%	10.39%	13.37%	12.8%	13.0%
Property Fund	0.51%	0.03%	2.50%	1.69%	25.09%	19.55%	14.79%	14.12%	5.0%	5.0%
Concentrated Equity Fund	-0.47%	0.44%	6.88%	1.30%	18.22%	5.25%	8.85%	5.98%	8.0%	8.0%
Global Shares Funds	-0.29%	0.79%	8.07%	8.55%	38.74%	31.52%	18.02%	12.59%	26.3%	26.0%
ARK Fund	-8.32%	0.80%	-14.37%	2.41%					3.2%	3.0%
Option Fund	1.75%	0.36%	2.34%	1.07%	6.47%	4.30%	-11.23%	5.21%	5.0%	5.0%
Multi-Strategy Alternative	-0.87%	0.62%	-1.07%	-0.91%	15.11%	-1.12%	6.95%	2.12%	9.9%	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

After a strong uplift in both March and April, the fund saw negative returns in the month of May. This was largely due to falls in the NZ equity market, domestic bonds and a general strengthening of the NZ dollar which resulted in unhedged foreign currency assets falling in value, in NZ dollar terms. The NZ equity market has, for the most part, been outperforming the broader global markets (as measured by the MSCI index) for over a decade; however recent weakness has seen this differential reduce, and now on a 5 year basis the NZX50 and the MSCI ACWI are pretty similar (a little higher or lower depending on the level of hedging). At the country level, all the major global equity markets were up during May (in local currency terms), with the exception of the tech heavy Nasdaq index in the US which fell 1.5%. As noted in previous commentaries, markets are watching inflation closely and just as much the central banks' response to the data coming through. At the moment, this is manifesting itself through general weakness in bond prices (i.e. yields moving upwards), and stronger commodity prices.

## Fund Commentary

The fund does not do 'dynamic asset allocation', i.e. we do not change the allocation between sectors, countries or currencies based on short term views on valuation. The value of this approach is evidenced in that over 3 and 5 years, we observe that the difference in returns from NZ equities and global equities is broadly similar, the difference between hedged and unhedged global assets is broadly similar, and the difference between domestic and global bonds is broadly similar. We note that at any point in time these different sectors can perform quite differently, and thus in theory there is the opportunity to benefit from those price swings. However, in practice, timing in and out of such movements is very difficult and often comes down to being in (or out of) a particular market for just a few days of large price movements. Our preference is to not try and time these differences, but instead by keeping close to the desired long-term positions the fund ends up by default 'buying low and selling high'.

The fund does, though, utilise 'active management' within each specific sector. This approach allows for a better application of ESG (Environmental, Social and Governance) factors to be taken into account, as well as having portfolio managers consider the merits of each specific investment rather than simply owning something just because it exists. Over time this has shown to add value above the benchmark indices, and this has also been true of the past 12 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 19.40%

### 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: 0.94%, refer PDS for more details

KiwiSaver: 0.94%, refer PDS for more details.

### Buy / Sell spread

[Click to view](#)

### Strategy size

\$423.7m

### Strategy Launch

April 1994

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

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