

# 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

- Global equity markets sold off driven by earnings season, continued inflation concerns and bond yield movements.
- The sharp fall of the NZ dollar meant that in NZ dollar terms an unhedged portfolio of global shares fell by just 2% vs a fall of 12% for hedged (MSCI All Countries World Index returns in NZD).
- Markets are struggling to find reasons for confidence and the general mood is that economically and geo-politically things will get worse before they get better. A key question for markets is the degree to which this uncertainty and lack of confidence is now priced in and/or what new news may result in further falls or the first shoots of stability for future growth.

## Fund Highlights

- All sub-sectors of the fund contributed towards the losses experienced in September.
- Volatility of returns is likely to be an ongoing feature for some time yet as the world navigates a difficult economic and political environment.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale <sup>1</sup>	-4.80%	-2.06%	-14.72%	0.81%	4.22%	8.04%
Benchmark <sup>2</sup>	-3.34%	-0.86%	-7.81%	1.80%	4.40%	6.84%
Retail <sup>3</sup>	-5.03%	-2.42%	-15.37%	0.08%		
KiwiSaver <sup>3</sup>	-5.02%	-2.42%	-15.36%	0.11%		

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).

## 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.



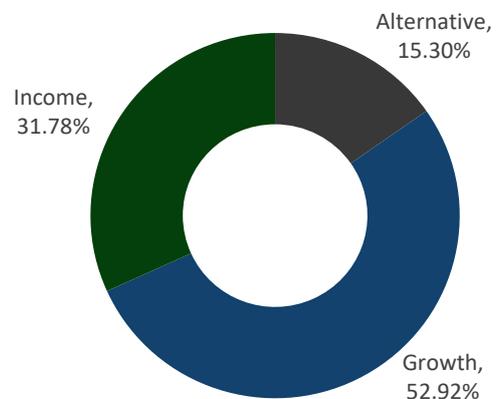
## Overview

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	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 Bond Fund	-1.51%	-1.35%	-1.14%	-1.41%	-8.37%	-8.80%	-2.42%	-3.48%	10.66%	10.00%
NZ Corporate Bond Fund	-0.95%	-0.96%	-0.36%	-0.58%	-5.57%	-5.25%	-0.82%	-1.14%	10.79%	10.00%
Global Bond Fund	-4.07%	-3.50%	-3.64%	-3.68%	-14.39%	-12.28%	-2.72%	-3.25%	10.32%	10.00%
Core Equity Fund	-4.81%	-4.32%	2.04%	2.17%	-14.42%	-15.97%	2.43%	1.14%	13.14%	12.00%
Concentrated Equity Fund	-6.27%	0.63%	0.32%	1.88%	-17.38%	6.43%	4.62%	5.76%	6.02%	5.00%
Property Fund	-6.82%	-6.19%	-1.91%	-1.77%	-18.87%	-17.39%	-2.82%	-4.30%	5.06%	5.00%
Global Shares Funds UnH	-1.48%	-1.99%	2.28%	2.42%	-5.07%	-3.24%	10.49%	7.37%	14.90%	15.00%
Global Shares Funds Hedged	-12.45%	-11.80%	-10.12%	-8.55%	-26.17%	-23.13%	3.53%	2.07%	12.12%	15.00%
ARK Fund	-2.42%	0.80%	1.92%	2.41%	-57.31%	10.00%			1.68%	3.00%
Option Fund	-13.40%	0.58%	-13.47%	1.70%	-27.46%	5.57%	-17.26%	4.92%	4.55%	5.00%
Multi-Strategy Alternative	-1.43%	0.50%	-0.15%	1.45%	-2.38%	4.56%	3.20%	3.91%	10.75%	10.00%

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

The fall in markets in August accelerated through September, and by the end of the month many major markets has slid back to the lows seen in mid-June. Global share markets led the lurch downwards, and in aggregate falling by more than 10% in local currency terms. For NZ investors, the sharp fall of the NZ dollar meant that in NZ dollar terms an unhedged portfolio of global shares fell by just 2% again showing the benefit of foreign currency as part of a diversified portfolio. The NZX participated in these losses falling more than 3%, and the sub-sector of companies making up the REIT index (ie listed property) falling over 6%. As we've seen throughout this inflation induced, supply constrained shock, bond markets didn't provide investors with some offsetting gains. Global bonds (as measured by the Barclays global aggregate index) fell 3.5%, and local NZ bond markets were down around 1-1.5% depending on the index. It seems that at the moment, markets are struggling to find reasons for confidence and the general mood is that economically and geo-politically things will get worse before they get better. A key question for markets is the degree to which this uncertainty and lack of confidence is now priced in and/or what new news may result in further falls or the first shoots of stability for future growth. It's tempting to want to 'opt-out' during such times and then re-engage with markets when times are calmer; the major problem with such an approach is that periods of calm and stability are usually preceded by a large upwards re-rate in markets and so by being on the sidelines you don't participate in the upswings. An excellent illustration of this is an analysis on the S&P500 which over a 20-year period has averaged a return of ~7% p.a. However, if you'd missed out on the 40 days (out of over 5,000 trading days) of the largest returns you'd have had a loss of 2.8% p.a; and even missing just the best 5 days would have seen the 7% p.a. gains reduced to just 5% p.a.

## Fund Commentary

All sub-sectors of the fund contributed towards the losses experienced in September, and the fund underperformed its blended index largely as a function of a number of sub-sectors having 'cash-plus' index targets. Foreign currency exposure continued to help mitigate some of the losses as the NZ dollar fell sharply against most major currencies (including even the pound which had been singled out by a number of commentators for its weakness), and so the fund's exposure to both hedged and unhedged global shares has led to an avoidance of some of the worst exposures to global equity markets. The multi-strategy fund helped overall performance by 'only' falling 1.4%, but again showed its value when both equity and bond markets are falling. Unfortunately, the Option Fund suffered due to the severe volatility in US treasury yields and produced a return more in line with the worst performing equity markets than providing some offsetting better performance. The ARK strategy behaved broadly in line with other global equity sectors, and overall helped improve the fund's return despite falling 2.4%. Volatility of returns is likely to be an ongoing feature for some time yet as the world navigates a difficult economic and political environment.

## 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 21.0%

### Buy / Sell spread

[Click to view](#)

### 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.

**Performance fee:** Not charged in these funds.

### Strategy size

\$337m

### Strategy Launch

April 1994

## Compliance

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

## Contact Us

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