

# Nikko AM Balanced Strategy

Monthly Update 31 October 2023

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 continued the recent trend of weakness over the month of October, with interest rates continuing their march higher.
- The US 10-year bond yield breached the 5% mark for the first time since before the GFC.
- Corporate earnings season kicked off in October with company reports for the third quarter generally exceeding expectations, offering support to equity markets.

## Fund Highlights

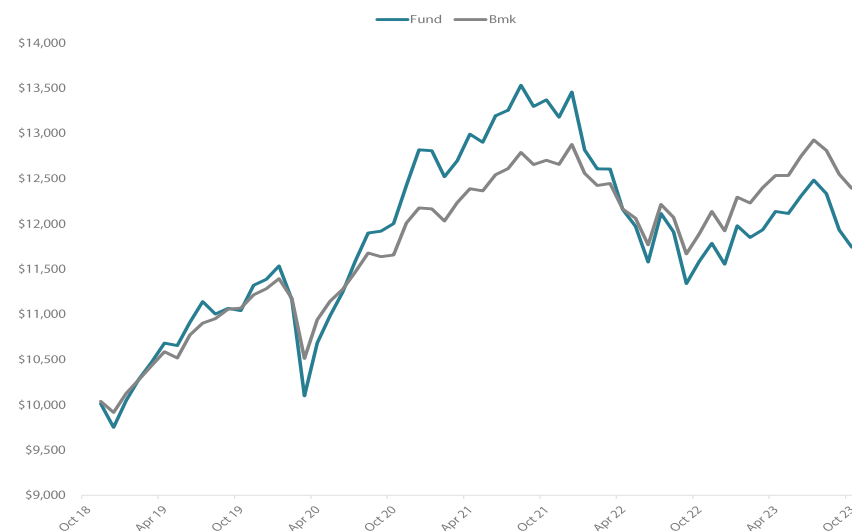
- The fund performance was disappointing in terms of absolute return and relative returns over October with both equities and bond markets continuing their recent trend of weakness.
- In relative terms the Core Fund outperformed the NZX Index.
- NZ bonds and global bonds both posted negative returns with interest rates higher over October, particularly at the long end of the curve.
- The global shares portfolio underperformed the broader market by more than 1%.
- The ARK portfolio was down more than the broader equity market with Tesla, Roku and Zoom, the 3 largest holdings in the portfolio, all down over the month.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
<b>Wholesale<sup>1</sup></b>	-1.61%	-5.95%	1.35%	-0.73%	3.26%	6.71%
<b>Benchmark<sup>2</sup></b>	-1.25%	-4.14%	4.22%	2.06%	4.38%	6.22%
<b>Retail<sup>3</sup></b>	-2.62%	-6.47%	-0.06%	-1.74%	2.46%	
<b>KiwiSaver<sup>3</sup></b>	-2.61%	-6.45%	-0.06%	-1.74%	2.56%	

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, \$10,000 invested<sup>1,2</sup>



## Portfolio Manager

**Alan Clarke,**  
**Portfolio Manager**

Responsible for providing overall management of the diversified funds and for managing external investment



managers. Alan has over 20 years' experience in investment management as both an analyst and portfolio manager. Prior to starting at Nikko AM, Alan spent 17 years at ANZ Investments and has also held roles at Theta Capital Management in Amsterdam and Morley Asset Management in London. Joined in 2023.

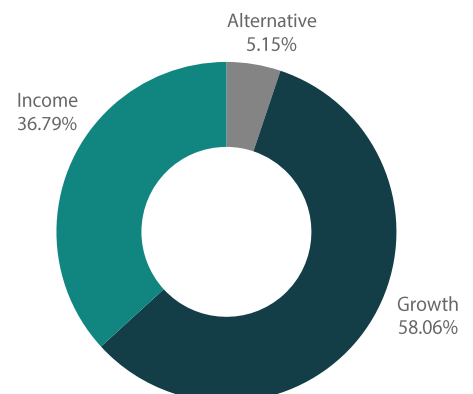
## Overview

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
<b>NZ Cash Fund</b>	0.56%	0.49%	1.60%	1.43%	5.72%	5.16%	2.87%	2.41%	4.99%	5.00%
<b>NZ Bond Fund</b>	-0.56%	-0.16%	-2.44%	-1.79%	0.73%	-0.40%	-4.51%	-5.00%	12.31%	12.00%
<b>NZ Corporate Bond Fund</b>	-0.19%	0.35%	-0.92%	-0.01%	3.00%	3.74%	-2.13%	-1.59%	8.24%	8.00%
<b>Global Bond Fund</b>	-0.72%	-0.75%	-2.59%	-2.60%	2.86%	1.24%	-4.12%	-4.18%	11.25%	11.00%
<b>Core Equity Fund</b>	-4.08%	-4.77%	-9.62%	-10.43%	-1.92%	-4.26%	-0.92%	-3.05%	12.90%	13.00%
<b>Concentrated Equity Fund</b>	-4.14%	0.85%	-8.49%	2.55%	-0.42%	9.94%	-0.29%	7.28%	4.94%	5.00%
<b>Property Fund</b>	-4.62%	-4.62%	-13.30%	-13.48%	-6.48%	-6.63%	-6.45%	-7.57%	5.88%	6.00%
<b>Global Shares Funds Unhedged</b>	-1.24%	0.20%	-4.20%	-3.29%	2.64%	10.37%	7.53%	11.32%	15.98%	16.00%
<b>Global Shares Funds Hedged</b>	-4.10%	-2.74%	-10.30%	-7.97%	2.87%	9.83%	2.29%	5.97%	15.75%	16.00%
<b>ARK Fund</b>	-7.85%	0.80%	-24.64%	2.41%	-4.23%	10.00%	-24.17%	9.82%	2.61%	3.00%
<b>Multi-Strategy Alternative</b>	-0.80%	0.74%	-1.23%	2.18%	3.75%	8.30%	3.75%	5.47%	5.15%	5.00%

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

Markets continued the recent trend of weakness over the month of October, with interest rates continuing their march higher. The US 10-year bond yield breached the 5% mark for the first time since before the GFC as strong economic data over the third quarter suggested the higher short term interest rates had not yet impacted aggregate spending. The tragic events in Israel/Gaza heightened geopolitical uncertainty and global equity markets remained volatile and sold off later in the month to post a third straight monthly decline. The MSCI ACWI Index was down nearly 3% in local currency terms, but with the NZD falling nearly as much the index was slightly positive in NZD (unhedged) terms. The Bloomberg Global Aggregate Index (hedged to NZD) returned -0.75% for the month.

One of the key drivers of higher interest rates over recent months has been the resilience of economic data, and therefore the expectations of the 'higher rates for longer' scenario playing out. In the US the 3rd quarter GDP report (+4.9% QoQ annualised) was the strongest print since late 2021 when the economy was rebounding sharply out of the Covid-induced troughs. The US Fed has hiked rates more than 5% and this is expected to eventually slow down business investment and household spending in the world's largest economy, but this has not yet been the case. European economic growth was much more subdued and the third quarter print there was slightly negative. In positive news for Europe, inflation has fallen back below 3% YoY with the sharp drop in energy prices being the main contributor. This should allow the European Central Bank to pause their rate hiking cycle.

Corporate earnings season kicked off in October with company reports for the third quarter generally exceeding expectations, offering support to equity markets. Earnings growth was especially strong within technology, particularly in the semiconductor and software sectors. The Utilities sector posted the strongest performance over the month. Utilities have been one of the weakest sectors over the last year with their defensive characteristics and high dividend yield underperforming in a rising rate environment.

## Fund Commentary

The fund performance was disappointing in terms of absolute return and relative returns over October with both equities and bond markets continuing their recent trend of weakness. The ARK portfolio was down more than the broader equity market with Tesla, Roku and Zoom, the 3 largest holdings in the portfolio, all down over the month. The global shares portfolio underperformed the broader market by more than 1% with UK pest control company Rentokil the largest detractor following a poorly received third quarter earnings report. US consumer credit reporting company TransUnion was also weak as was luggage company Samsonite International. Microsoft, Netflix and Progressive all performed well on the back of their solid quarterly earnings reports. NZ equities were down nearly 5% for the month, underperforming the broader global market. In relative terms the Core Fund and Concentrated Fund both outperformed the NZX Index with underweight positions to property companies - Property for Industries and Kiwi Property contributing. NZ bonds and global bonds both posted negative returns with interest rates higher over October, particularly at the long end of the curve. Credit holdings have performed better than lower yielding government bonds on a sector basis with margins stable to slightly narrower. The NZ dollar depreciated by around 3% versus the US Dollar over the month in line with risk-off sentiment and a stronger US dollar. The Kiwi has now fallen nearly 9% since mid-July when it traded just under US\$0.64.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST):</b>		<b>Distributions:</b>	Generally does not distribute	<b>Strategy Launch:</b>	April 1994
<b>Wholesale:</b>	Negotiated outside of the unit price	<b>Hedging:</b>	Currency hedging contracts, if any, are held in the sector funds listed in the asset allocation. Currently the fund's foreign currency exposure is 21.4%.	<b>Strategy size:</b>	\$271.4m
<b>Retail:</b>	0.94%, refer PDS for more details			<b>Buy / Sell spread:</b>	<a href="#">0.09% / 0.09%</a>
<b>KiwiSaver:</b>	0.94%, refer PDS for more details.				
<b>Performance Fee:</b>	Not charged in this fund				

## Compliance

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

## Contact Us

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