

NIKKO AM BALANCED STRATEGY

Applies to: Nikko AM Wholesale Balanced Fund, Nikko AM Balanced Fund (Retail), and Nikko AM KiwiSaver Scheme Balanced Fund

Market Overview

- In the US, equity markets had fallen by more than 10% at one point before recovering a little to end the month down around 7%.
- Europe, Japan, Australia and NZ were also all negative and the Emerging Markets were also down around 8%.
- The defensive sectors of bonds and cash provided some protection, but global bonds were slightly negative.

Fund Highlights

- Our strategy of using alternative sectors to provide additional diversification proved helpful.
- Currency movements weren't a large contributor over the month, but a slight average fall of the NZ dollar meant that investors who hadn't hedged their exposures benefited slightly from the movement.

Performance

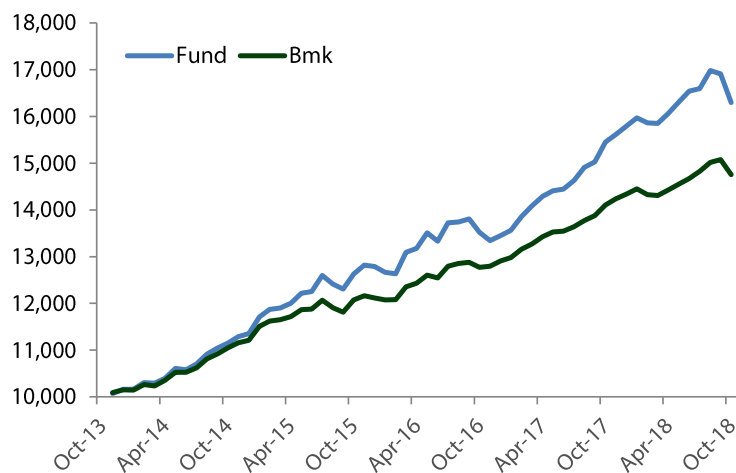
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-3.61%	-1.77%	5.51%	8.88%	10.27%	10.17%
Benchmark ²	-2.13%	-0.47%	4.62%	6.92%	8.09%	8.13%
Retail ³	-4.13%	-2.39%				
KiwiSaver ³	-4.07%	-2.20%				

1. Returns are before tax and before the deduction of fees

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^{1,2}



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.



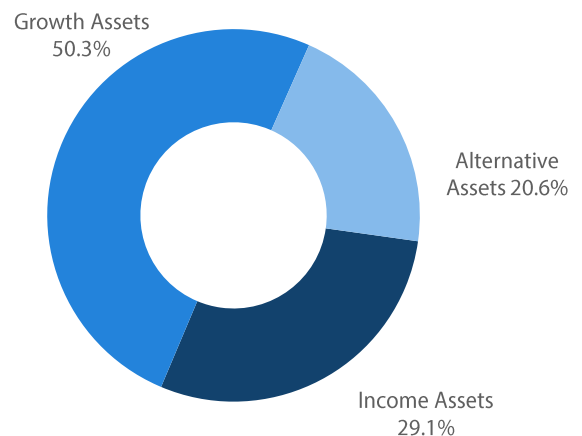
Overview

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 fee, 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	0.54%	0.43%	1.84%	1.53%	5.37%	4.71%	4.85%	3.97%	9.4%	9.0%
NZ Corporate Bond Fund	0.55%	0.43%	1.77%	1.53%	5.33%	4.71%	5.31%	3.97%	9.3%	9.0%
Option Fund	-0.05%	0.49%	1.87%	1.48%	8.74%	6.09%	7.33%	6.36%	10.4%	10.0%
NZ Cash Fund	0.23%	0.16%							5.3%	5.0%
Global Bond Fund	-0.35%	-0.22%	-0.31%	-0.29%	0.95%	0.43%	3.63%	3.32%	5.2%	5.0%
Core Equity Fund	-6.60%	-6.35%	-4.32%	-1.50%	8.48%	8.58%	17.71%	14.83%	6.8%	7.0%
Property Fund	-3.84%	-3.41%	0.14%	0.60%	13.46%	11.99%	9.50%	8.79%	5.1%	5.0%
Concentrated Equity Fund	-7.63%	0.56%	-7.77%	1.66%	5.07%	6.75%	15.00%	6.95%	13.5%	14.0%
Global Shares Funds	-6.82%	-6.67%	-3.26%	-4.39%	4.94%	2.27%	9.97%	8.90%	24.9%	26.0%
Multi-Strategy Alternative	-1.95%	0.16%	-0.98%	0.50%	0.70%	2.50%	3.12%	4.13%	10.2%	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

Market Commentary

With the significant pull back in equity markets during October, all the diversified funds lost value over the month. As designed, the funds with a higher allocation to the more defensive sectors (cash and bonds) were more insulated from these losses than the higher return-seeking funds. Within the major global equity markets, all saw losses to varying degrees. In the US, equity markets had fallen by more than 10% at one point before recovering a little to end the month down around 7%. Europe, Japan, Australia and NZ were also all negative and the Emerging Markets (as measured by MSCI) were also down around 8%. Overall global equity returns were down around 6-7%. Within New Zealand, the NZX50 fell 6.4% during the month reducing the 1-year return for the index to a still healthy 8.5% which is broadly in line with our long term assumption.

Fund Commentary

The defensive sectors of bonds and cash provided some protection, but global bonds were slightly negative at -0.2% compared with domestic bonds which provided a very acceptable 0.4-0.5% return for the month. We aren't surprised by the relative better performance from the NZ bond markets and we continue to have a preference for domestic debt over global debt and our allocations reflect that view.

Our strategy of using alternative sectors to provide additional diversification proved helpful with the multi-strategy hedge fund falling a modest 2% and thereby avoiding some of the worst parts of the equity losses and the option fund was flat for the month thereby preserving capital in a falling market. Currency movements weren't a large contributor during the month, but the slight fall (on average) of the NZ dollar meant that investors who hadn't hedged their exposures benefitted slightly from that movement.

At the diversified fund level the funds with higher allocations to equities gave the weakest returns resulting in gross monthly performance of -1.42%, -3.61% and -5.27% for the conservative, balanced and growth funds respectively. As always, we continue to maintain good diversification across sector, geography and strategy and will maintain our search for opportunities to add value over and above general market returns.

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 18.92%

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

Wholesale: Negotiated outside of fund

Retail: 1.05%, refer PDS for more details

KiwiSaver: 1.0%, refer PDS for more details.

Fee of only 0.30% (estimate) until 31/3/2019

Buy / Sell spread

0.09% / 0.09%

Strategy size

\$278.9m

Strategy Launch

August 2016

Compliance

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

Contact Us

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