

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

- The New Zealand equity market saw a modest decline in August of 0.9%, and the NZD weakened against all major currencies.
- Other developed equity markets fell around 2-4%.
- A sharp fall in bond yields saw bondholders receive significant mark-to-market gains in the value of their assets with sovereign bonds performing the best (up more than 2% over the month), and credit markets also providing strong performance notwithstanding the widening of credit spreads in response to equity market falls.

Fund Highlights

- The strategy underperformed benchmark, compounded by some fund specific performance in both the Concentrated and Option funds.
- We expect uncertainty and market gyrations to remain elevated, but note that unless investors' objectives or timeframes have changed, it's generally unwise to make changes in strategy at such times.

Performance

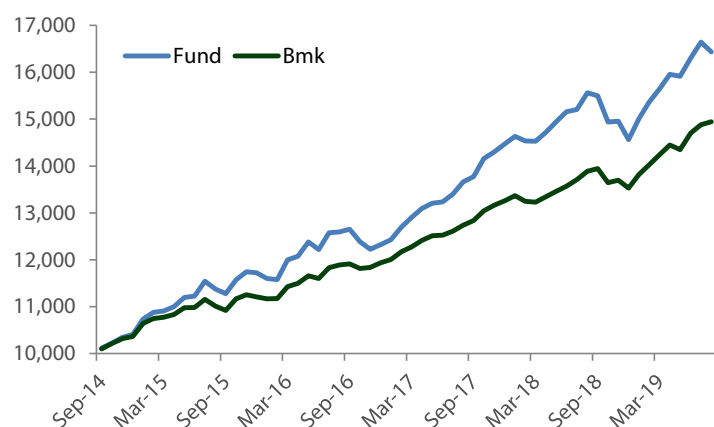
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.24%	3.26%	5.61%	9.28%	10.45%	10.25%
Benchmark ²	0.44%	4.14%	7.63%	7.93%	8.37%	8.38%
Retail ³	-1.45%	2.59%	4.83%			
KiwiSaver ³	-1.39%	2.73%	5.34%			

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^{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.



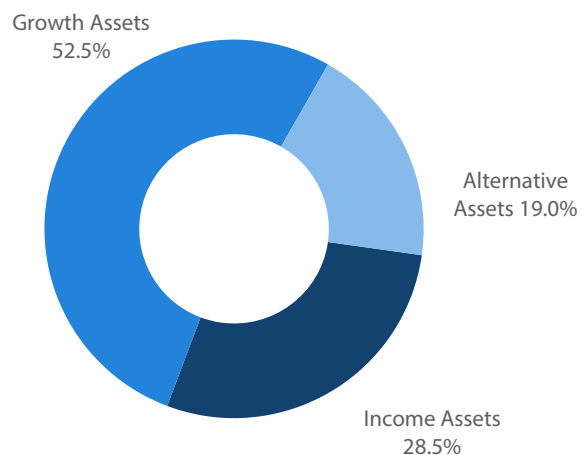
Overview

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 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	2.21%	1.77%	4.04%	3.29%	10.16%	8.43%	5.74%	4.43%	9.3%	9.0%
NZ Corporate Bond Fund	1.72%	1.25%	3.53%	2.70%	9.37%	7.38%	6.10%	4.10%	9.0%	9.0%
Option Fund	-12.40%	0.48%	-12.26%	1.44%	-16.19%	6.03%	-2.47%	6.12%	9.0%	10.0%
Global Bond Fund	2.43%	2.30%	4.76%	4.38%	11.49%	10.15%	4.86%	4.17%	10.3%	10.0%
Core Equity Fund	-1.28%	-0.85%	5.25%	6.49%	9.24%	16.66%	15.03%	14.62%	12.0%	12.0%
Property Fund	3.19%	3.20%	11.86%	13.24%	31.31%	36.63%	14.02%	15.00%	5.4%	5.0%
Concentrated Equity Fund	-3.70%	0.51%	1.01%	1.57%	-0.57%	6.64%	13.26%	6.73%	8.9%	9.0%
Global Shares Funds	-1.10%	-0.84%	7.27%	5.39%	7.41%	1.67%	14.89%	11.61%	26.2%	26.0%
Multi-Strategy Alternative	0.00%	0.10%	1.64%	0.35%	2.83%	1.67%	3.62%	3.11%	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

Market Commentary

Last month we talked about the indicators pointing towards expected economic weakness, and therefore it comes as no surprise that this ended up being reflected in equity market falls in August. Whilst not our base case, there is still the potential for further and larger falls given the continuing deterioration of global economic conditions.

Amongst the very lacklustre global data, from the slowdown in China, to the US inventories, to manufacturing in Germany, New Zealand is doing relatively well. However, that belief may not be widely held given the worsening of both business and consumer sentiment from surveys and the RBNZ cutting interest rates by 0.5% taking it to a record low of 1.0%. Nevertheless, New Zealand is still intricately linked with global markets so we saw the NZX50 fall in value by a modest 0.9%. This was a far better outcome than the falls in other developed markets of around 2-4% depending on country and index being looked at.

By contrast, the sharp fall in bond yields saw bondholders receive significant mark-to-market gains in the value of their assets with sovereign bonds performing the best (up more than 2% over the month), and credit markets also providing strong performance notwithstanding the widening of credit spreads in response to equity market falls. Investors who held assets in foreign currency enjoyed a significant increase in value of these assets in NZ dollar terms as the NZD fell in value against all major currencies, -4.4% vs US Dollar, -6.6% vs Japanese Yen and -3.4% against the Euro.

Fund Commentary

The strategy underperformed the benchmark. This was compounded by some fund specific performance - the Concentrated Equity Fund that fell by 3.7% during August and the Option Fund that was down 12.4% in its worst monthly performance in 8 years following the collapse of yields in US treasuries (separate commentary has been provided on this strategy). Looking forward, we expect uncertainty and market gyrations to remain elevated, but note that unless investors' objectives or timeframes have changed, it's generally unwise to make changes in strategy at such times.

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 15.8%

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: 1.04%, refer PDS for more details

KiwiSaver: 0.99%, refer PDS for more details. Fee of only 0.27% until 30/09/2019

Buy / Sell spread

0.09% / 0.09%

Strategy size

\$316.5m

Strategy Launch

August 2016

Compliance

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

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

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