

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

- Equity markets globally seem to be shrugging off the COVID-19 shutdowns and the NZ market is no different. Rising by over 5% in June and taking its 12 month return to nearly 10%, the rise would have been noteworthy under regular conditions, but on the back of the most severe economic contraction in several decades it's quite astonishing.
- The level of spending that governments across the world have undertaken has been at unprecedented levels; this has inevitably had the desired positive effect of helping to minimise the job losses from business failure and to enable struggling businesses to weather the storm until a more normalised operating environment can return.

Fund Highlights

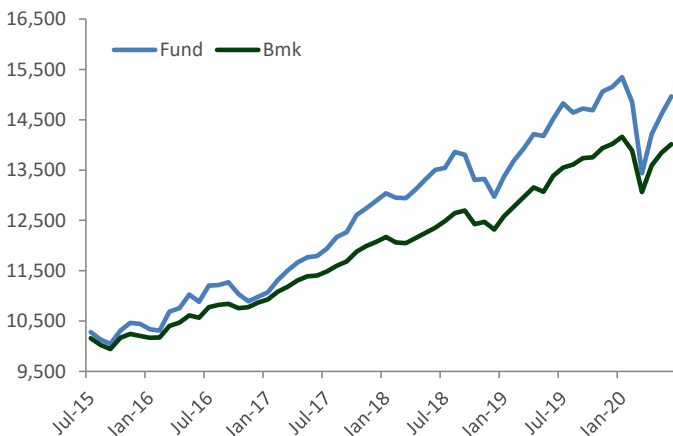
- The fund returned 11.4% over the quarter, 4% ahead of the benchmark.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.41%	11.36%	3.06%	8.26%	8.39%	9.92%
Benchmark ²	1.20%	7.27%	4.69%	7.10%	6.98%	8.33%
Retail ³	2.12%	11.20%	1.89%			
KiwiSaver ³	2.12%	11.22%	2.08%			

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.



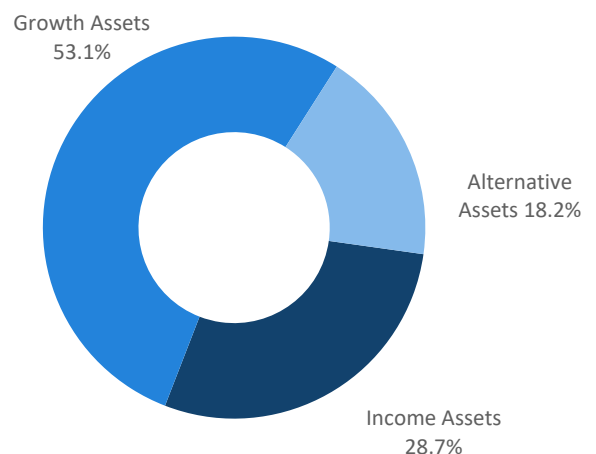
Overview

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	-0.07%	-0.29%	4.77%	2.39%	7.20%	5.36%	7.00%	5.69%	9.2%	9.0%
NZ Corporate Bond Fund	0.45%	0.35%	5.18%	3.45%	6.99%	5.43%	6.95%	5.52%	9.2%	9.0%
Option Fund	0.71%	0.35%	0.24%	1.10%	-32.17%	5.25%	-11.13%	5.81%	7.7%	10.0%
Global Bond Fund	1.30%	0.50%	6.36%	2.40%	8.21%	5.69%	6.41%	5.03%	10.3%	10.0%
Core Equity Fund	5.11%	5.26%	16.78%	16.93%	9.84%	9.85%	15.70%	15.70%	12.4%	12.0%
Property Fund	1.65%	-0.09%	11.09%	6.83%	-6.03%	-7.71%	10.68%	10.31%	4.4%	5.0%
Concentrated Equity Fund	2.83%	0.42%	17.26%	1.28%	8.62%	5.85%	13.65%	6.44%	8.2%	8.0%
Global Shares Funds	3.65%	1.73%	19.01%	15.44%	7.90%	3.05%	12.94%	7.68%	25.1%	24.0%
Multi-Strategy Alternative	1.40%	0.01%	7.23%	0.12%	3.84%	1.05%	3.21%	2.09%	10.5%	10.0%
ARK Fund	7.52%	0.80%	41.53%	2.41%	N/A	N/A	N/A	N/A	3.0%	3.0%

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

The remarkable upsurge in financial markets continued throughout June leading to very strong monthly returns for investors in each of the Nikko AM diversified funds. Equity markets globally seem to be shrugging off the COVID-19 shutdowns and the NZ market is no different. Rising by over 5% in June and taking its 12 month return to nearly 10%, the rise would have been noteworthy under regular conditions, but on the back of the most severe economic contraction in several decades it's quite astonishing. To understand what's going on we need to look at the actions and activities of governments and central banks. The level of spending that governments across the world have undertaken has been at unprecedented levels; this has inevitably had the desired positive effect of helping to minimise the job losses from business failure and to enable struggling businesses to weather the storm until a more normalised operating environment can return.

It may have been expected that with such large spending taking place and more planned spending to come, governments would have been forced to pay higher rates of interest for such borrowing. Indeed that is exactly what market forces would have required, and the resulting falls in bond prices and accompanying losses on the equity markets would have been severe. However, central banks were quick to respond to that dynamic and agreed to purchase vast quantities of these government bonds in order to drive prices up, keep yields low and inject more money into the financial system than at any point in history. In addition to the promise of buying as much of the newly printed debt as required, central banks have also embarked on buying existing government debt, corporate debt, and in the case of Japan equity stocks too – all with the goal of maintaining financial stability (and simultaneously supporting asset prices).

With that in mind, it therefore becomes much easier to explain the recent market dynamics. The unknown question is whether all this stimulus will enable the economic engine to get fired up again and enable an orderly and managed removal of the stimulus, or whether eventually the system will become so unstable that even the central banks can't prop it up, or there's a policy misstep creating a very painful, short, sharp adjustment before a more permanent rebuilding can commence. In this environment, we believe it becomes increasingly important to be actively managing portfolios and only owning securities and companies that you know and understand fundamentally well.

Fund Commentary

The fund returned 11.36% over the quarter, 409 basis points ahead of the benchmark.

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 17.23%

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: 0.98%, refer PDS for more details.

Buy / Sell spread

[Click to view](#)

Strategy size

\$315.5m

Strategy Launch

April 1994

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

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