

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

- The quarter ending 30 September provided investors with strong returns across all sectors; however, this was largely driven by the uplift in prices throughout July and August with the month of September seeing a modest pull-back in equity markets.
- In NZ, larger firms which had been leading the market higher experienced a modest sell-off during September, whilst the smaller cap names generally performed quite well as did the power generation companies that were supported following the news of a likely extension to the operations at Tiwai Point. Even with the weaker performance from some of the NZX larger names, the overall market in NZ still fared better than many global markets in local currency terms.
- Bond markets were generally strong as central banks continued with their programme of ensuring interest rates remain low.

Fund Highlights

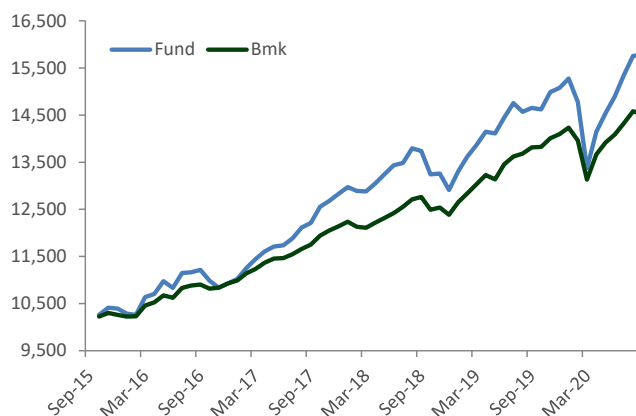
- The fund returned 5.98% over the quarter, 285 basis points (bps) ahead of the benchmark.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.16%	5.98%	7.70%	8.93%	9.56%	10.02%
Benchmark ²	-0.38%	3.13%	5.17%	7.33%	7.75%	8.24%
Retail ³	-0.10%	5.84%	6.60%			
KiwiSaver ³	-0.10%	5.89%	6.68%			

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 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.



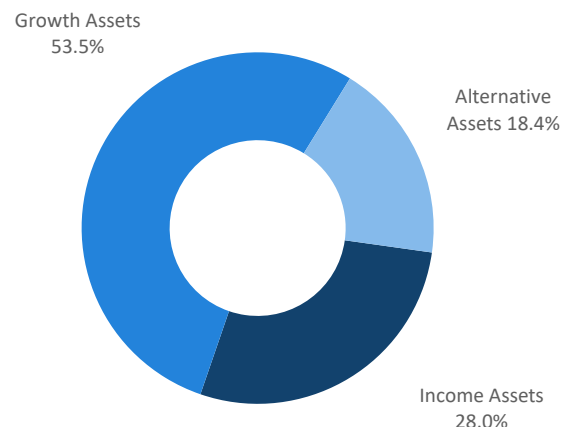
Overview

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	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	0.72%	0.67%	3.22%	2.13%	7.45%	5.03%	7.64%	6.11%	9.4%	9.0%
NZ Corporate Bond Fund	0.51%	0.32%	2.33%	1.54%	6.59%	4.86%	7.15%	5.74%	8.9%	9.0%
Option Fund	1.60%	0.35%	4.41%	1.06%	-24.02%	4.85%	-10.28%	5.58%	8.5%	10.0%
Global Bond Fund	0.25%	0.38%	1.70%	0.70%	7.22%	3.86%	6.70%	4.93%	9.8%	10.0%
Core Equity Fund	-2.00%	-1.41%	2.89%	2.86%	8.23%	8.26%	13.77%	15.02%	11.9%	12.0%
Property Fund	2.72%	2.70%	14.11%	13.42%	-0.91%	-3.75%	15.22%	14.83%	5.0%	5.0%
Concentrated Equity Fund	0.29%	0.42%	6.81%	1.30%	17.05%	5.61%	13.28%	6.31%	8.1%	8.0%
Global Shares Funds	-0.63%	-2.25%	8.74%	6.25%	15.60%	6.52%	13.78%	8.04%	25.2%	24.0%
Multi-Strategy Alternative	0.73%	0.01%	3.81%	0.04%	7.18%	0.76%	4.03%	1.71%	9.9%	10.0%
ARK Fund	2.12%	0.80%	27.38%	2.41%	102.03%	10.00%	n/a	10.00%	3.5%	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 quarter ending 30 September provided investors with strong returns across all sectors; however, this was largely driven by the uplift in prices throughout July and August with the month of September seeing a modest pull-back in equity markets.

At the more granular level, we saw in NZ the larger firms which had been leading the market higher experienced a modest sell-off during September (specifically A2 Milk and Fisher & Paykel Healthcare), whilst the smaller cap names generally performed quite well as did the power generation companies that were supported following the news of a likely extension to the operations at Tiwai Point. Even with the weaker performance from some of the NZX larger names, the overall market in NZ still fared better than many global markets in local currency terms; however, investors who were unhedged (i.e. had exposures in foreign currencies) benefitted from a weakening NZ dollar which mitigated some of the losses.

Bond markets were generally strong as central banks continued with their programme of ensuring interest rates remain low. The yields in bond portfolios therefore remain low, but performance has exceeded these yields due to mark-to-market gains in the capital value of bonds held. Unsurprisingly, with equity markets pulling back slightly, it was the riskier corporate bonds that were the weaker performers, whereas the sovereign bonds provided the strongest returns in this sector. The fund's exposure to the alternative strategies (the Option Fund and the Multi-Strategy hedge fund) were positive during September at 1.6% and 0.7% respectively, and were additive to overall portfolio returns, as well as having the benefit of providing differentiated sources of market exposure.

Fund Commentary

The strategy returned 5.98% for the quarter, 285 basis points (bps) ahead of the benchmark. During September, the strategy saw a positive return as exposure to the continuing strong run of performance from bonds more than compensated for exposure to equities. Over the 12 month and 3 year periods, returns remain well ahead of long term expectations.

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 17.83%

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

\$332.1m

Strategy Launch

April 1994

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

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