

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 soared on the announcement of a successful vaccine. Financial markets are increasingly dependent on interest rates staying low to support current valuations.

Fund Highlights

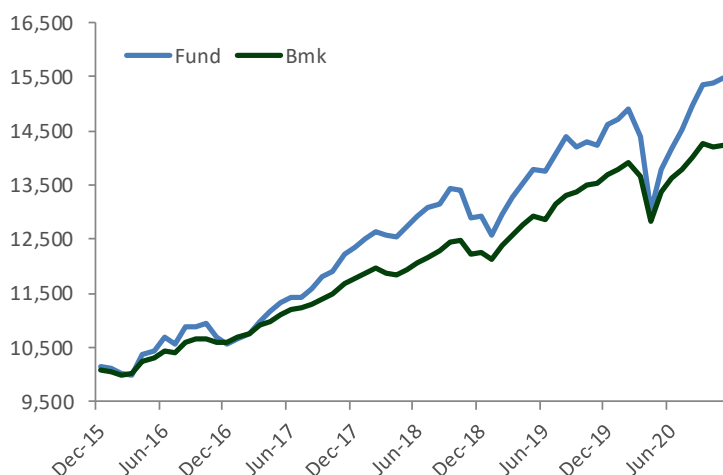
- The fund posted a solid return over the month and ahead of the benchmark. The fund continues to deliver above the longer-term expected return.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	3.51%	4.41%	9.75%	9.06%	9.58%	10.39%
Benchmark ²	3.02%	2.77%	6.96%	7.52%	7.78%	8.52%
Retail ³	3.37%	4.40%	8.63%			
KiwiSaver ³	3.36%	4.39%	8.70%			

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.



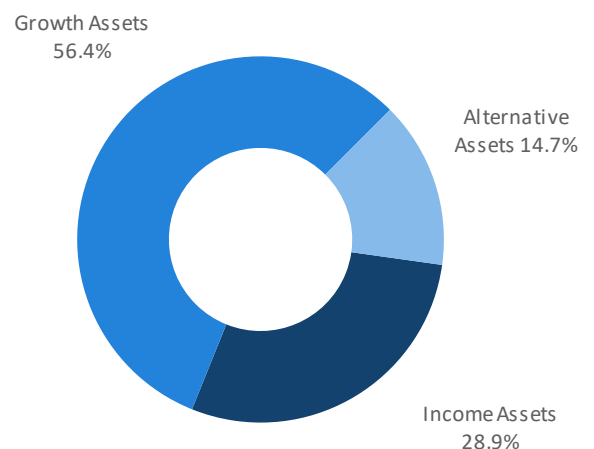
Overview

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	-1.63%	-1.47%	-0.79%	-0.88%	6.42%	4.18%	6.56%	5.10%	9.6%	10.0%
NZ Corporate Bond Fund	-0.91%	-0.64%	-0.16%	-0.15%	6.40%	4.77%	6.39%	5.11%	9.6%	10.0%
Option Fund	1.78%	0.35%	3.38%	1.06%	-25.39%	4.71%	-10.47%	5.49%	4.9%	5.0%
Global Bond Fund	1.50%	0.54%	1.87%	0.92%	8.90%	4.85%	6.98%	4.87%	9.7%	10.0%
Core Equity Fund	5.47%	5.68%	6.37%	7.19%	12.12%	13.52%	14.91%	16.98%	13.2%	13.0%
Property Fund	0.51%	-0.53%	8.69%	8.17%	6.52%	4.62%	15.68%	15.54%	5.0%	5.0%
Concentrated Equity Fund	2.61%	0.42%	4.12%	1.28%	15.36%	5.48%	11.72%	6.23%	7.8%	8.0%
Global Shares Funds	7.27%	9.29%	6.33%	4.20%	19.03%	8.96%	14.30%	8.26%	27.1%	26.0%
Multi-Strategy Alternative	4.25%	0.62%	3.81%	-0.91%	10.56%	-1.12%	5.06%	2.12%	9.8%	10.0%
ARK Fund	8.79%	0.80%	14.98%	2.41%					3.2%	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

At first glance, the performance of financial markets during November was exactly what you may expect when there's an announcement of a successful vaccine during a global pandemic – namely, that equity markets soared, bond returns were anaemic, the price of gold fell whilst oil prices lifted and “risk-on” currencies (such as the NZ dollar) appreciated. It is therefore no surprise that the NX50 index was up nearly 6%, and that appears quite modest with the double digit returns on a number of global stock market indices. The French market was a notable high performer with the CAC40 up more than 20% - but that still wasn't enough to turn the 12 month return positive with the market still being 7% lower than it was 12 months ago. This highlights the divergence between different markets over the past year where the US S&P500 is up 15% over the past 12 months, and at the bottom of the table is the UK FTSE 100 (down nearly 15% since December 2019).

The surprising aspect of this is that following the COVID sell-off in equity markets in March this year, one of the main reasons that equities have performed so strongly is that bond yields have been manhandled ever lower by central banks. During November we saw bond yields stay largely flat (although they did rise in NZ for other reasons) which means that equity markets lifted on the prospect of an economic uplift. In other words, equity markets rose from April-September on the back of falling bond yields and then rose in November on the back of improving economic data. The consequence of this is that financial markets are increasingly dependent on interest rates staying low to support current valuations, and with huge Government debt burdens needing to be financed for many years to come, most commentators are predicting that central banks have effectively no choice but to keep yields suppressed, and hence we see markets looking through this risk of interest rate increases.

Fund Commentary

As yields will almost certainly be forced to stay low for a considerable period, returns from portfolios will be much lower than they have been, and in portfolios more weighted towards cash and bonds, it is likely that returns won't keep up with inflation, and so their role in portfolios is increasingly about managing volatility rather than providing income. So, with both bonds and equities exposed to the risk that yields rise earlier or more quickly than expected, it becomes increasingly important to have non-traditional sources of return in portfolios, and hence we remain highly supportive of our allocation to alternatives in the diversified portfolios.

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 18.4%

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: 0.96%, refer PDS for more details

KiwiSaver: 0.96%, refer PDS for more details.

Buy / Sell spread

[Click to view](#)

Strategy size

\$350.4m

Strategy Launch

April 1994

Compliance The wholesale 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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