

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

- As we enter a new year it is timely to look back on 2020 a year that in many ways was full of surprises. There was the speed at which COVID-19 escalated from a regional outbreak to a global pandemic, the severity of government initiatives to manage the pandemic, the size of stimulatory measures taken by both governments and central banks and the magnitude of equity market rebounds.
- At year end the MSCI ACWI in USD was up 12.7% on its 2019 close and up 68% from its intra year low on 23 March around the peak of the first wave of the Pandemic outbreak. A similar picture is apparent in New Zealand with the NZSE50 up 15.4% for the year and 69% from its intra year low.

Fund Highlights

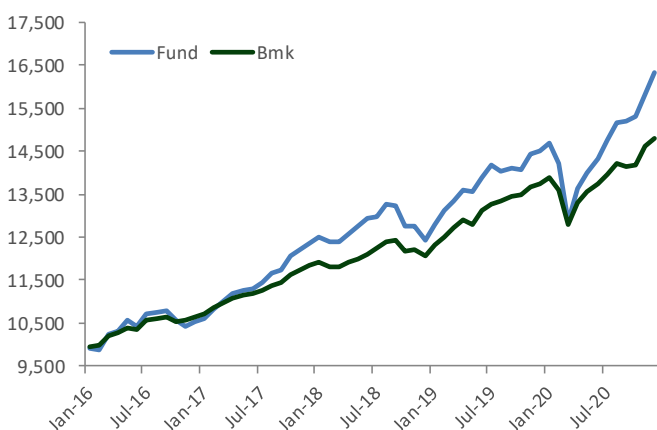
- The fund outperformed benchmark for December and the quarter, benefitting from strong returns in growth assets across all sectors.
- We are pleased to note the strong performance of the fund over 2020 – the benefits of diversification, a disciplined approach to maintaining a strategic asset allocation and staying the course were well proven over the year

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	3.17%	7.55%	12.57%	9.78%	10.31%	10.62%
Benchmark ²	1.36%	4.55%	7.75%	7.76%	8.16%	8.55%
Retail ³	2.76%	7.39%	11.36%			
KiwiSaver ³	2.76%	7.38%	11.43%			

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.



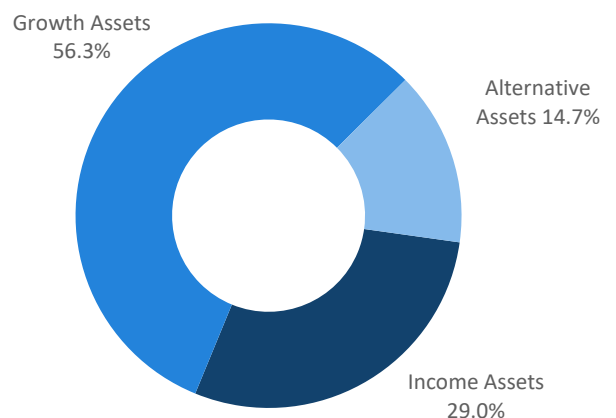
Overview

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	-0.29%	-0.65%	-1.78%	-2.18%	7.33%	4.80%	6.36%	4.75%	9.6%	10.0%
NZ Corporate Bond Fund	-0.11%	-0.12%	-0.76%	-0.59%	6.99%	5.11%	6.24%	4.94%	9.6%	10.0%
Option Fund	1.19%	0.35%	2.96%	1.06%	-25.33%	4.63%	-10.48%	5.44%	4.9%	5.0%
Global Bond Fund	0.40%	0.29%	2.02%	0.84%	9.50%	5.41%	7.03%	4.88%	9.7%	10.0%
Core Equity Fund	2.80%	2.58%	11.59%	11.52%	14.81%	14.62%	14.94%	16.96%	13.0%	13.0%
Property Fund	3.84%	3.19%	9.88%	8.69%	7.07%	5.02%	16.09%	15.51%	5.0%	5.0%
Concentrated Equity Fund	5.37%	0.44%	9.40%	1.30%	19.91%	5.42%	12.28%	6.18%	8.0%	8.0%
Global Shares Funds	5.35%	3.29%	12.73%	10.11%	24.19%	11.06%	16.20%	9.31%	26.9%	26.0%
Multi-Strategy Alternative	3.22%	0.62%	6.38%	-0.91%	13.47%	-1.12%	6.15%	2.12%	9.8%	10.0%
ARK Fund	12.30%	0.80%	26.45%	2.41%					3.4%	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

As we enter a new year it is timely to look back on 2020 a year that in many ways was full of surprises. There was the speed at which COVID-19 escalated from a regional outbreak to a global pandemic, the severity of government initiatives to manage the pandemic, the size of stimulatory measures taken by both governments and central banks and the magnitude of equity market rebounds. In some ways the most surprising of these events is the extent to which equity markets recovered amidst the economic headwinds of the pandemic. At year end the MSCI ACWI in USD was up 12.7% on its 2019 close and up 68% from its intra year low on 23 March around the peak of the first wave of the Pandemic outbreak. A similar picture is apparent in New Zealand with the NZSE50 up 15.4% for the year and 69% from its intra year low.

At first glance this outcome for equity markets is counter intuitive. One would think that with the curtailment in economic activity valuations of equities should be diminished however there are countervailing forces at play. Globally we have seen governments undertake massive stimulatory measures and central banks cut interest rates and use alternative monetary policy tools to encourage business and consumer spending. The primary goal of these stimulatory measures is to support society and economic activity which has arguably been achieved nevertheless these initiatives also have secondary impacts of which most notable for markets is the upwards pressure they place on asset prices. As we move into 2021 markets face both promise and peril. On the positive side, the distribution of various vaccines is underway globally presenting the prospect that towards the end of the year the ongoing negative impacts of the pandemic could be much abated. At the same time interest rates are likely to remain low and government stimulus continue, under this scenario equity and asset prices would be supported by low interest rates along with government and central bank stimulatory measures. On the negative side COVID continues to prove a threat and is far from controlled in many parts of the world. On top of this there is also the risk the virus mutates sufficiently that vaccines prove less effective. A year ago, prior to the arrival of COVID, few would have predicted a global recession in 2020. Similarly, few would have thought we could move to an environment where a number of businesses could function with the majority of their staff working remotely. The learning of which is predictions and assumptions made with the best of thought can often prove to be far from reality.

Fund Commentary

The fund outperformed benchmark for December and the quarter, benefitting from strong returns in growth assets across all sectors. We are pleased to note the strong performance of the fund over 2020 – the benefits of diversification, a disciplined approach to maintaining a strategic assets allocation and staying the course were well proven over the year. As we now look to 2021 risks and uncertainties are apparent however a continuation of this approach will continue to serve investors well.

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 18.7%

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

\$369.9m

Strategy Launch

April 1994

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

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