

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

- In the most general terms, financial markets were weak in October; there were material losses in bond markets (particularly in New Zealand), and many equity bourses also retreated.
- Unhedged investors saw much of these gains disappear from the strength in the NZ dollar as it rose by nearly 5% against the USD over the month.

Fund Highlights

- The fund returned 0.55% for the month of October.
- The fund's exposure to global equities and alternatives helped offset the weakness in the bond and domestic equity markets.
- The ARK Disruptive Innovation Fund benefitted from the broader rally in technology stocks and participated in the upside from that sector, whilst the global shares funds also added value over and above the strong market returns. Whilst the performance of the domestic bond sector has been generally good in a relative sense, the sector as a whole has been challenged by the surge in interest rates.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	0.55%	0.86%	11.39%	10.16%	10.02%	10.99%
Benchmark ²	0.37%	0.72%	8.98%	8.30%	7.97%	8.68%
Retail ³	0.08%	0.33%	9.98%	9.39%		
KiwiSaver ³	0.09%	0.33%	10.00%	9.58%		
Market index ⁴	0.82%	1.31%	12.12%	10.85%	9.97%	

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).
 4. Market index: See Other material Information document for composite details.

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.



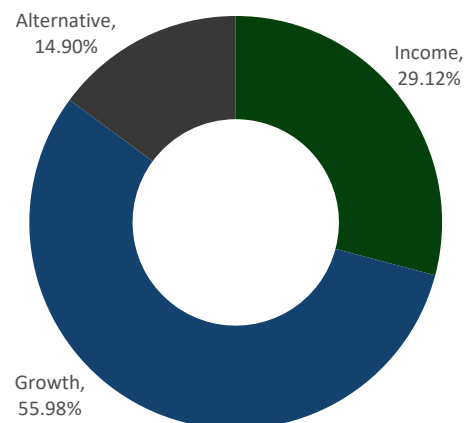
Overview

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	Month		3 months		1 year		3 years p.a.		Asset Allocation	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Bond Fund	-2.70%	-2.88%	-4.30%	-4.70%	-8.29%	-8.78%	2.57%	1.15%	9.61%	10.00%
NZ Corporate Bond Fund	-2.25%	-1.90%	-3.10%	-2.86%	-5.50%	-4.78%	3.15%	2.33%	9.68%	10.00%
Global Bond Fund	-0.87%	-0.23%	-1.85%	-1.38%	-0.70%	-0.83%	5.94%	4.32%	9.83%	10.00%
Core Equity Fund	-1.27%	-1.33%	5.11%	4.26%	11.30%	9.08%	13.96%	15.23%	13.33%	13.00%
Concentrated Equity Fund	-0.74%	0.45%	4.88%	1.31%	16.19%	5.27%	14.96%	5.78%	8.19%	8.00%
Property Fund	-0.89%	-0.61%	0.80%	0.24%	7.47%	3.47%	15.08%	14.08%	4.94%	5.00%
Global Shares Funds UnH	1.55%	1.32%	-0.20%	0.73%	25.43%	26.77%	19.83%	13.94%	12.95%	13.00%
Global Shares Funds Hedged	6.56%	6.16%	3.88%	4.74%	38.95%	39.77%	22.20%	16.39%	13.47%	13.00%
ARK Fund	5.54%	0.80%	0.38%	2.41%	13.26%	9.45%			3.09%	3.00%
Option Fund	0.55%	0.37%	3.46%	1.10%	3.37%	4.34%	-12.10%	4.98%	5.10%	5.00%
Multi-Strategy Alternative	1.02%	0.29%	0.16%	0.86%	9.61%	3.34%	5.32%	3.97%	9.80%	10.00%

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

In the most general terms, financial markets were weak in October; there were material losses in bond markets (particularly in New Zealand), and many equity bourses also retreated. However, a notable exception was US equities where the S&P500 rose nearly 7%, the Nasdaq (the technology focussed index) rose over 7%, and the Dow Jones Industrial rose nearly 6%. These substantial gains meant that investors holding such positions were protected from the weaknesses in other areas of their portfolios. Unhedged investors saw much of these gains disappear from the strength in the NZ dollar as it rose by nearly 5% against the USD over the month. It's well reported now that inflation figures have come in above levels anticipated by central banks, and the outlook for global growth appears to be deteriorating even as the world opens up from the COVID-19 induced lockdowns. The result of this is that bond markets (i.e., the places where interest rates are traded) are caught between a desire to push rates upwards (fears of inflation and central banks tightening monetary policy), and pausing because sustained higher interest rates don't look to be supported. We wait to see whether the recent increases in bond yields will fall back (especially in New Zealand where the increases have been quite severe), or whether equity markets will follow their lead and retrench slightly with lower PE multiples.

Fund Commentary

The fund returned 0.55% for the month of October. The fund's exposure to global equities and alternatives helped offset the weakness in the bond and domestic equity markets. The ARK Disruptive Innovation Fund benefitted from the broader rally in technology stocks and participated in the upside from that sector, whilst the global shares funds also added value over and above the strong market returns. Whilst the performance of the domestic bond sector has been generally good in a relative sense, the sector as a whole has been challenged by the surge in interest rates. This has provided some buying opportunities and we anticipate that the higher yields in the portfolio will provide better returns in that sector going forward, but we do suspect that global equity markets are likely to have a pause or some modest correction in the near-term to pull back from some of the recent very high performance (e.g. hedged global share returns of ~40% over the past year is clearly not sustainable). We reiterate that we do not attempt to time any such corrections, but navigate such times through a disciplined approach of diversification and strong security management at the sub-sector level.

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 19.3%

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: 0.94%, refer PDS for more details

KiwiSaver: 0.94%, refer PDS for more details.

Buy / Sell spread

[Click to view](#)

Strategy size

\$450.1m

Strategy Launch

April 1994

Compliance

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

Contact Us

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