

Factsheet 31 March 2022

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

- Bond markets continued to be the focus of much attention during March as interest rates continued their push higher resulting in 'mark-to-market' losses for bond funds (ie when interest rates move higher, your holdings of older bonds with a lower interest rate are worth less).
- The NZ dollar, perhaps surprisingly in a 'risk off' environment strengthened appreciably over the month resulting in enhanced returns for foreign currency investments that were hedged back to the NZ dollar.

Fund Highlights

- The generally strong returns from equities offset the losses in bonds, the ARK fund and the Option fund. The ARK fund has lost around a third of its value since the start of the year, and the Option Fund's losses were due to the rapid increase in US interest rates upon which the option contracts are written.
- Day-to-day volatility remains elevated across all sectors and serve as a reminder that good diversification is an important aspect of portfolio construction.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-0.02%	-6.32%	-0.73%	6.38%	7.84%	9.66%
Benchmark ²	0.19%	-3.35%	1.73%	6.05%	6.71%	7.92%
Retail ³	0.08%	-6.29%	-1.16%	5.67%		
KiwiSaver ³	0.08%	-6.28%	-1.13%	5.81%		
Market index ⁴	0.54%	-4.95%	1.00%	7.29%	8.18%	

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.



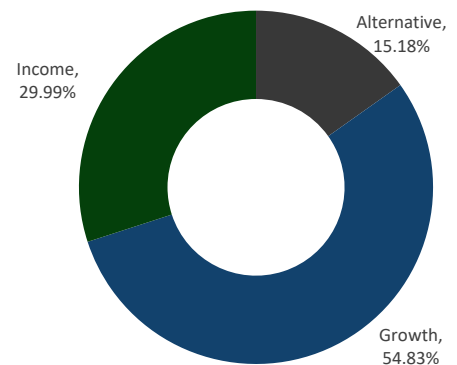
Overview

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	-2.02%	-2.04%	-3.58%	-3.62%	-5.70%	-6.28%	0.43%	-0.88%	10.01%	10.00%
NZ Corporate Bond Fund	-1.41%	-1.45%	-2.52%	-2.46%	-4.53%	-4.61%	1.39%	0.69%	10.05%	10.00%
Global Bond Fund	-1.99%	-2.06%	-5.31%	-4.83%	-3.67%	-3.60%	2.53%	1.19%	9.94%	10.00%
Core Equity Fund	1.51%	1.36%	-6.42%	-6.85%	1.26%	-2.90%	8.65%	7.91%	13.24%	13.00%
Concentrated Equity Fund	2.48%	0.50%	-6.29%	1.41%	4.01%	5.48%	10.57%	5.64%	8.12%	8.00%
Property Fund	1.30%	1.31%	-6.82%	-6.11%	1.66%	1.30%	8.45%	7.51%	4.94%	5.00%
Global Shares Funds UnH	0.09%	-0.60%	-9.58%	-6.84%	4.66%	8.02%	16.31%	13.01%	13.20%	13.00%
Global Shares Funds Hedged	4.04%	3.55%	-7.63%	-4.27%	4.70%	8.20%	15.25%	12.41%	13.37%	13.00%
ARK Fund	-7.78%	0.80%	-30.18%	2.41%	-43.50%	10.00%			1.95%	3.00%
Option Fund	-6.34%	0.42%	-7.51%	1.22%	4.75%	4.60%	-11.95%	4.82%	4.85%	5.00%
Multi-Strategy Alternative	1.38%	0.34%	0.41%	0.98%	0.34%	3.59%	4.86%	3.82%	10.33%	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

Bond markets continued to be the focus of much attention during March as interest rates continued their push higher resulting in 'mark-to-market' losses for bond funds (ie when interest rates move higher, your holdings of older bonds with a lower interest rate are worth less). The move upwards in interest rates comes from both investor expectation that central banks will continue to increase their base rate for lending (e.g. the OCR in NZ) and linked to this, that investors demand a higher interest rate to compensate for the erosion of value from inflation. How much higher interest rates will continue to climb is a matter of some debate, but we expect that some of the recent momentum will subside and that rates will stabilise around these levels but the risk is to the upside (ie if rates don't stabilise then we expect they will be rising further rather than falling). Equity markets were generally strong globally, and the NZ market also rose, though not quite as strongly, with a return of 1.4% for March. This late uptick in March has meant that the return from equities in the first quarter of the year is less severe than it might have been. The NZ dollar, perhaps surprisingly in a 'risk off' environment strengthened appreciably over the month resulting in enhanced returns for foreign currency investments that were hedged back to the NZ dollar.

Fund Commentary

The generally strong returns from equities offset the losses in bonds, the ARK fund and the Option fund. The ARK fund has lost around a third of its value since the start of the year, and the Option Fund's losses were due to the rapid increase in US interest rates upon which the option contracts are written. Day-to-day volatility remains elevated across all sectors, serves as a reminder that good diversification is an important aspect of portfolio construction. As we finalise this year's strategic asset allocation review we note that the higher interest rate environment will ultimately lead to higher expected returns over time, albeit that the journey will continue to provide significant jolts both upwards and downwards especially in equity markets. We remain firmly of the view that equities will outperform bonds over the longer term and that bonds will outperform cash, but that the more defensive sectors still have a role to play in the overall portfolio.

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 18.2%.

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

\$417.1m

Strategy Launch

April 1994

Compliance

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

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