

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 most talked about aspect of financial markets in February was the sharp rise in bond yields, as markets anticipated inflationary forces coming down the line, yields start to rise at the longer end of the curve, whilst still being manhandled to the floor at the short-end by central banks. This has led to some of the steepest yield curves observed in many years for some markets.
- Equity markets globally have accepted these higher rates, with most bourses rising during the month. The S&P500 was up 2.6%, the Nikkei225 was up 4.7% and the FTSE100 in the UK was up 1.2%, and the ASX300 was up 1.5% (all local currency terms). New Zealand however, bucked the trend with a fall of nearly 7%, led by the largest names with the top 10 falling over 9%.

Fund Highlights

- The fund fell in value during the month. The exposure to the liquid alternative hedge-funds helped mitigate the losses with that sector posting a 2.5% gain for the month.
- The ARK fund which was added last June saw a material fall of over 6% during the month. This is not unexpected over short time periods and is only modest in the context of the previous strong upside, but more importantly we like the exposures it provides and growth potential over longer time periods.

Performance

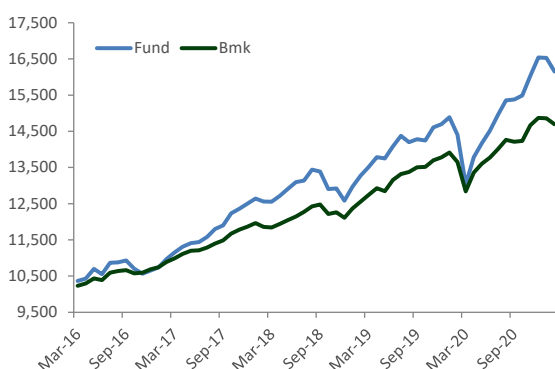
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-2.25%	0.77%	12.16%	8.76%	10.07%	9.95%
Benchmark ²	-1.10%	0.18%	7.66%	7.41%	8.00%	8.10%
Retail ³	-2.41%	0.59%	10.23%			
KiwiSaver ³	-2.40%	0.60%	10.32%			

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.



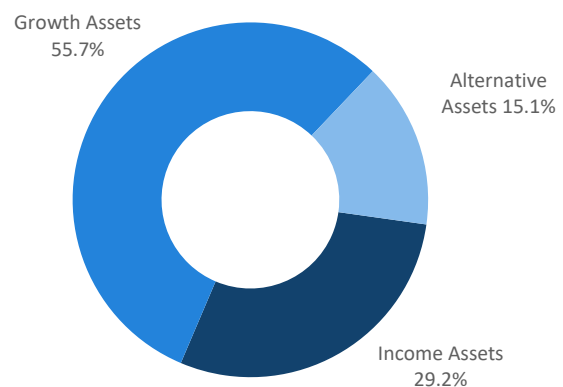
Overview

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	-3.47%	-3.17%	-4.09%	-4.20%	0.36%	-1.64%	4.93%	3.62%	9.8%	10.0%
NZ Corporate Bond Fund	-1.94%	-1.45%	-2.17%	-1.62%	2.28%	1.75%	5.32%	4.55%	9.7%	10.0%
Option Fund	-4.31%	0.35%	-2.78%	1.05%	-17.18%	4.44%	-10.57%	5.35%	4.7%	5.0%
Global Bond Fund	-2.58%	-1.54%	-2.86%	-1.80%	2.69%	0.11%	6.09%	4.43%	9.7%	10.0%
Core Equity Fund	-6.94%	-6.85%	-5.14%	-4.18%	8.07%	9.21%	11.10%	14.43%	12.3%	13.0%
Property Fund	-3.86%	-4.30%	-0.55%	-1.50%	2.95%	-0.23%	15.97%	15.59%	4.9%	5.0%
Concentrated Equity Fund	-5.60%	0.39%	-3.00%	1.27%	10.87%	5.28%	7.84%	6.10%	7.6%	8.0%
Global Shares Funds	1.71%	2.11%	6.45%	5.16%	31.30%	20.68%	16.22%	9.91%	27.6%	26.0%
Multi-Strategy Alternative	2.51%	0.62%	7.25%	-0.91%	17.23%	-1.12%	7.48%	2.12%	10.4%	10.0%
ARK Fund	-6.47%	0.80%	13.18%	2.41%					3.3%	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 most talked about aspect of financial markets in February 2021 was the sharp rise in bond yields. In an almost mirror image reversal of the collapse in yields last March, during February we saw them surge upwards – for example the US Treasury 10yr yield rose from around 1.1% to around 1.4% during the month. This may not sound like much, but it equates to a 3% loss in value for holders of those bonds. It's not surprising then, that we saw bond markets around the world sell-off. Last March the world was beginning to consider what the implications of a global pandemic would mean – border closures, disrupted supply lines, lockdowns and fear, that sent stock markets plummeting and bond yields falling as investors fled to safe haven bonds and central banks forced yields to new lows to help cushion some of the fallout. Roll forward 11 months and there's positive news of successful vaccines being rolled out, and so minds are being turned to the global economy starting to re-open as the northern hemisphere heads towards summer. The US is continuing with an enormous fiscal stimulus plan which is putting trillions of dollars into the financial system, central banks are 'looking through' expected inflation pick-ups and are not expected to raise rates which may choke off any early economic recovery. Naturally, therefore, as markets anticipate inflationary forces coming down the line, yields start to rise at the longer end of the curve. This has led to some of the steepest yield curves observed in many years for some markets. Equity markets globally have accepted these higher rates, with most bourses rising during the month. The S&P500 was up 2.6%, the Nikkei225 was up 4.7% and the FTSE100 in the UK was up 1.2%, and the ASX300 was up 1.5% (all local currency terms). New Zealand however, bucked the trend with a fall of nearly 7%, led by the largest names with the top 10 falling over 9%. Partly due to many NZ companies having prices which are heavily linked to bond yields (e.g. utilities), partly some idiosyncratic issues (i.e. A2 selling into China), and likely some general nervousness about how expensive the market looked as a whole, the sell-off was quite meaningful. Over the past 12 months, NZ equity market performance no longer looks as favourable as it did with the market here being up just 8-9%, compared to large global equity markets up between 20-40% over the period. It should be noted though the global strength has been partly fuelled by the tech boom which isn't represented much in NZ stocks.

Fund Commentary

Unsurprisingly, the fund fell in value during the month. The exposure to the liquid alternative hedge-funds helped mitigate the losses with that sector posting a 2.5% gain for the month. Also helpful was the currency hedging which helped preserve some value in foreign currency as the NZ dollar strengthened. The ARK fund which was added last June saw a material fall of over 10% during the month. This is not unexpected over short time periods, and is only modest in the context of the previous strong upside, but more importantly we like the exposures it provides and growth potential over longer time periods. We continue to focus on maintaining a good diversification of sectors, geographies and sources of return relative to the desired risk/return characteristics of the Fund. Strong real returns are likely to be more challenging in a higher expected inflationary environment.

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 18.61%

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

\$366.7m

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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