

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

- Markets rose strongly in June, with NZ equities recovering from the May fall to post larger than anticipated returns for the month and quarter.
- Global equity markets were also strongly positive (about 1% in local currency terms, which is roughly double what would be expected in an 'average' month).
- Domestic bonds were a little soft, but provided a positive return, whilst global bonds (as measured by the Barclay's Global Aggregate Index) rose in value by around 0.5% during the month, and 1% for the quarter which is also well above the forward looking expected rate of return from that sector.

Fund Highlights

- The fund produced a strong return for the month and quarter ended June, with returns significantly above the levels expected from our forward-looking estimates.
- In addition to the general upwards trend in both equity and bond markets, the fund benefitted from noticeable outperformance in the NZ equity sector and outperformance in the bond sectors, but these were offset by underperformance in global shares.
- The ARK Disruptive Innovation strategy has positively contributed to performance during the month, quarter and year.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.26%	3.90%	17.31%	9.14%	10.03%	10.47%
Benchmark ²	1.44%	2.52%	11.23%	8.04%	8.08%	8.55%
Retail ³	2.21%	3.86%	16.73%	8.31%		
KiwiSaver ³	2.22%	3.88%	16.81%	8.58%		

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.



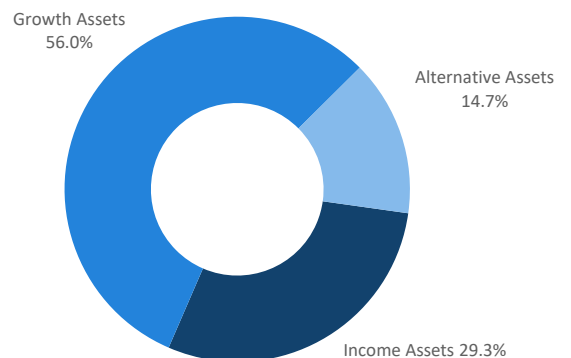
Overview

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	0.21%	0.12%	0.22%	0.09%	-1.72%	-3.00%	4.55%	3.20%	9.8%	10.0%
NZ Corporate Bond Fund	0.20%	0.12%	0.22%	0.10%	-0.03%	-0.22%	4.92%	4.01%	9.7%	10.0%
Global Bond Fund	0.58%	0.51%	1.41%	1.01%	1.59%	0.01%	6.07%	4.28%	9.8%	10.0%
Core Equity Fund	3.30%	2.79%	2.65%	0.86%	12.36%	11.21%	10.19%	13.16%	12.9%	13.0%
Property Fund	1.74%	1.18%	3.56%	2.39%	25.20%	21.07%	14.54%	13.94%	4.9%	5.0%
Concentrated Equity Fund	4.73%	0.42%	7.45%	1.28%	20.41%	5.25%	9.47%	5.94%	8.2%	8.0%
Global Shares Funds	2.04%	3.24%	6.41%	7.29%	36.58%	33.48%	18.52%	13.42%	26.3%	26.0%
ARK Fund	20.82%	0.80%	8.43%	2.41%	62.51%	10.00%			3.8%	3.0%
Option Fund	0.78%	0.35%	6.69%	1.07%	6.54%	4.31%	-11.59%	5.16%	4.9%	5.0%
Multi-Strategy Alternative	0.34%	0.27%	0.55%	0.57%	13.90%	0.66%	6.79%	1.17%	9.7%	10.0%

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

Markets rose strongly in June, with NZ equities recovering from the May fall to post larger than anticipated returns for the month and quarter. In a similar reversal from May, the NZ dollar weakened resulting in foreign currency assets appreciating in value in NZ dollar terms. Global equity markets were also strongly positive (about 1% in local currency terms, which is roughly double what would be expected in an 'average' month). Domestic bonds were a little soft, but provided a positive return, whilst global bonds (as measured by the Barclay's Global Aggregate Index) rose in value by around 0.5% during the month, and 1% for the quarter which is also well above the forward looking expected rate of return from that sector. As the vaccination rollout for COVID-19 continues to progress globally, economies are opening up step-by-step which is leading to aggregate demand increasing whilst at the same time aggregate supply is still constrained by supply-chain difficulties. As a result, it is no surprise that inflation is lifting around the world. The message from central banks continues to be that this is 'transitory' and that inflation levels will revert to acceptable and normalised levels in due course. As this messaging is also being accompanied with mechanisms (mostly QE style operations) to keep longer end yields suppressed, there is little sign that markets are worried about bond yields shooting up any time soon. However, markets are starting to anticipate short-end policy driven interest rates begin to rise earlier than had previously been expected – for example the expectation is now that the US will raise rates twice before the end of 2023 whereas previously it was anticipated that no rises would occur before 2024 at the earliest.

Fund Commentary

The fund produced a strong return for the month of June and the June quarter, with returns significantly above the levels expected from our forward-looking estimates. In addition to the general upwards trend in both equity and bond markets, the fund benefitted from noticeable outperformance in the NZ equity sector and outperformance in the bond sectors, but these were offset by underperformance in global shares. The ARK Disruptive Innovation strategy has positively contributed to performance during the month, quarter and year. As we've observed before, we do not expect currency to materially affect overall returns over time, however it can create noticeable volatility over shorter time periods. The month of June was a good example of this with unhedged assets providing strong outperformance over their hedged counterparts. However, over a three-year timeframe the difference is trivial. By having an approach of hedging some foreign currency assets but leaving some foreign currency unhedged we can reduce the overall volatility without sacrificing return.

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 20.3%

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

\$436.6m

Strategy Launch

April 1994

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

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