

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

- Equity markets surged upwards again in August, whilst bond markets globally generally lost value.
- The recent COVID-induced lockdowns in NZ are clearly highly significant for us here in NZ, but not surprisingly it has very little impact on global economic forces. This is clearly seen in bond markets where our longer term rates take their direction from offshore events and movements, and so we observed a general downward trend in yields until late July, and then from early August rates started rising.
- In equity markets, the extremely strong returns from global equities were even surpassed by NZ equities which provided a remarkable 5% (NZX50) return for the month, most of which occurred in the latter part of the month whilst the country was locked down.

Fund Highlights

- The exceptionally strong returns from equity markets were the prime driver of overall returns in the funds during August.
- The higher exposure to equities in the Balanced funds saw them produce correspondingly higher returns overall. The NZ dollar weakened considerably following the mid-month COVID lockdown, but this more than unwound by the end of month and in fact the NZ dollar finished the month stronger than where it had started, resulting in positive gains from assets which were hedged against foreign currency movements.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.08%	4.89%	13.72%	9.11%	9.93%	11.34%
Benchmark ²	1.41%	3.43%	9.51%	7.92%	7.98%	8.97%
Retail ³	1.86%	4.61%	12.77%	8.20%		
KiwiSaver ³	1.85%	4.61%	12.78%	8.42%		

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.



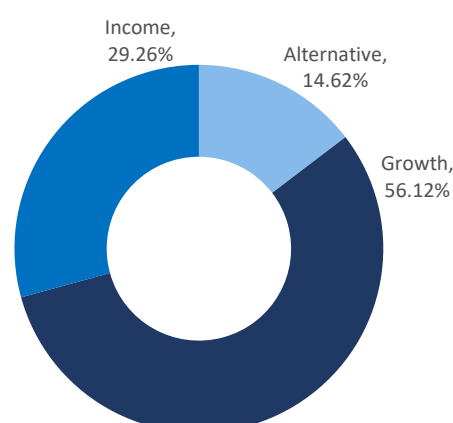
Overview

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	-0.87%	-1.01%	0.13%	-0.18%	-4.18%	-4.68%	3.96%	2.53%	9.72%	10.00%
NZ Corporate Bond Fund	-0.45%	-0.47%	-0.18%	-0.41%	-2.18%	-1.95%	4.29%	3.26%	9.73%	10.00%
Global Bond Fund	-0.05%	-0.19%	1.93%	1.58%	1.49%	0.75%	6.38%	4.52%	9.82%	10.00%
Core Equity Fund	5.58%	5.00%	8.85%	7.43%	12.76%	11.42%	11.38%	13.26%	13.34%	13.00%
Property Fund	4.52%	4.36%	8.78%	8.11%	20.51%	17.14%	15.89%	15.24%	5.07%	5.00%
Concentrated Equity Fund	5.09%	0.44%	9.44%	1.30%	18.13%	5.25%	11.07%	5.85%	8.14%	8.00%
Global Shares Funds UnH	2.07%	1.64%	9.87%	8.16%	28.64%	23.53%	17.89%	12.11%	13.20%	13.00%
Global Shares Funds Hedged	3.46%	2.99%	6.25%	4.64%	35.62%	29.35%	18.57%	13.08%	13.22%	13.00%
ARK Fund	1.90%	0.80%	12.70%	2.41%	26.29%	10.00%			3.14%	3.00%
Option Fund	3.01%	0.38%	1.63%	1.08%	4.54%	4.33%	-12.15%	5.06%	5.03%	5.00%
Multi-Strategy Alternative	-0.47%	0.30%	-1.58%	0.84%	8.90%	3.33%	4.28%	4.06%	9.59%	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

Equity markets surged upwards again in August, whilst bond markets globally generally lost value. The recent COVID-induced lockdowns in NZ are highly significant for us here in NZ, but not surprisingly it has very little impact on global economic forces. This is clearly seen in bond markets where our longer term rates take their direction from offshore events and movements, and so we observed a general downward trend in yields until late July, and then from early August rates started rising. Earlier in the year US 10-year rates had risen to as high as 1.7%, but by the end of July had dropped to 1.2% before climbing back to 1.3% by the end of August. Similarly, in NZ, 10-year rates had been as high as 2.0% before dropping to around 1.5% by the start of August and then started to rise again. Interestingly, when the country was plunged back into Level 4 lockdown mid-month, not surprisingly the expected OCR rise was deferred and so rates immediately fell, however this was quite temporary and by late August had risen to 1.7% and have since pushed higher leading to losses from bond investments. In equity markets, the extremely strong returns from global equities were even surpassed by NZ equities which provided a quite remarkable 5% (NZX50) return for the month, most of which occurred in the latter part of the month whilst the country was locked down. We reiterate comments from prior months that central banks continue with policies that are encouraging activity and demand, accepting some inflationary forces and associated increases in bond yields; accordingly, we expect that for the short-term and notwithstanding bouts of volatility, the environment remains positive for growth assets.

Fund Commentary

The exceptionally strong returns from equity markets were the prime driver of overall returns in the funds during August. The higher exposure to equities in the Balanced funds saw them produce correspondingly higher returns overall. The NZ dollar weakened considerably following the mid-month COVID lockdown, but this more than unwound by the end of month and in fact the NZ dollar finished the month stronger than where it had started, resulting in positive gains from assets which were hedged against foreign currency movements. We anticipate that bond yields will continue to move about within the current ranges, and therefore overall returns are likely to be similar to the current yield to maturity (~1.5-2.0% p.a.). Equities should provide higher returns than this, but volatility will remain elevated and highly influenced by geopolitical events as much as economic sentiment and activity.

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 19.68%

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

\$455.3m

Strategy Launch

April 1994

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

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