

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

- Aside from some modest (temporary) respite in the NZ bond markets during May, the month provided little positive news for investors. The NZ equity market (as measured by the NZX50) fell nearly 5% and is now down by more than 10% over the past six months. Global equity markets (as measured by the MSCI ACWI index) fell slightly during May but are also down materially over the past six months.

Fund Highlights

- The underlying equity strategies in the fund (domestic and global) outperformed the broader equity markets, but in aggregate were still unable to produce a positive return.
- The positive return from domestic bonds and cash was largely offset by the negative returns from global bonds.
- On the positive side, with interest rates having risen so much over the past few months, forward looking return expectations are now higher, and it's healthier to have some yield premium back into the bond portfolios and this will be return enhancing for the fund over the longer term.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-1.52	-5.03	-7.19	3.97	6.25	9.08
Benchmark ²	-0.84	-2.91	-2.44	4.68	5.64	7.55
Retail ³	-1.80	-5.04	-7.72	3.02	-	-
KiwiSaver ³	-1.81	-5.05	-7.71	3.12	-	-

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).

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.



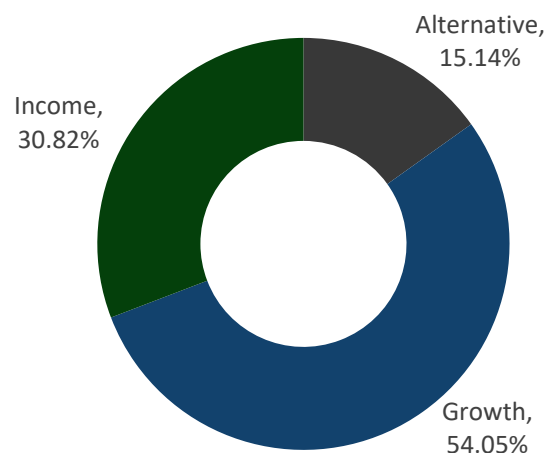
Overview

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	0.19	0.22	-3.84	-3.74	-7.47	-7.87	-0.65	-1.78	10.26	10.00
NZ Corporate Bond Fund	0.31	0.29	-2.44	-2.39	-5.54	-5.51	0.54	-0.03	10.33	10.00
Global Bond Fund	-0.33	-0.14	-5.48	-4.98	-7.86	-6.94	0.75	-0.29	10.23	10.00
Core Equity Fund	-4.57	-4.81	-4.87	-5.31	-4.51	-7.55	5.31	4.50	13.13	13.00
Concentrated Equity Fund	-4.70	0.54	-4.24	1.55	-5.28	5.68	6.41	5.63	8.02	8.00
Property Fund	-6.86	-6.50	-8.49	-8.60	-9.78	-9.69	3.21	1.94	4.81	5.00
Global Shares Funds UnH	0.58	-0.17	-1.21	-2.17	1.11	4.25	14.36	11.76	13.55	13.00
Global Shares Funds Hedged	0.22	-0.22	-5.55	-6.12	-10.69	-7.36	12.16	10.29	12.98	13.00
ARK Fund	-6.33	0.80	-31.79	2.41	-53.43	10.00			1.56	3.00
Option Fund	-1.75	0.46	-14.15	1.31	-9.30	4.78	-14.12	4.79	4.81	5.00
Multi-Strategy Alternative	-0.74	0.38	-1.07	1.07	-2.68	3.78	3.79	3.79	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

Aside from some modest (temporary) respite in the NZ bond markets during May, the month provided little positive news for investors. The NZ equity market (as measured by the NZX50) fell nearly 5%, and is now down by more than 10% over the past six months. Global equity markets (as measured by the MSCI ACWI index) fell slightly during May, but are also down materially over the past six months. These losses in equity markets however are not primarily due to any significant underlying problems within the corporate sector, but rather are a pricing response to the rapidly rising interest rates. Taking a step back from the minutiae of the monthly activity, what we are now seeing is the 'payback' for the global COVID response. Essentially, the world shut down a large portion of its economy (travel, hospitality being the obvious examples, but with large flow-on effects elsewhere) but instead of shrinking demand to counter this supply shock, governments across the board responded to this manufactured supply shock by printing money, lowering interest rates and paying people not to work. It should therefore come as no surprise that at the end of the 'party' there's a large bill to pay – and it's coming in the very unpleasant form of high inflation and slowing economies. So, we now have the situation where the government is under pressure to address the 'cost of living crisis' (i.e. by giving people price cuts, tax cuts or more cash) whilst the central bank is mandated to crush demand by making things more expensive. In other words, what's popular for the government to do/be seen doing, and what's required by the central bank are pulling in completely opposite directions. Ultimately, the central banks will win, the question is at what cost and over how long. In the meantime, what we need is more supply and more growth and the quickest and easiest way to achieve this would be to bring in large amounts of skilled labour very quickly – something the NZ government is unwilling to do. Around the world, the governments which increase their supply side the most quickly and effectively will help their country recover from this crisis in the best shape.

Fund Commentary

The underlying equity strategies in the fund (domestic and global) outperformed the broader equity markets, but in aggregate were still unable to produce a positive return. The positive return from domestic bonds and cash was largely offset by the negative returns from global bonds (whose 1-year numbers are now similar to domestic bonds which had started their decline a little earlier). Foreign currency exposure in the portfolios (achieved through having a portion of the global shares holdings unhedged) has added value as the NZ dollar weakens, through the higher value of the offshore currencies. This continues to be an important part of the fund's overall diversification strategy albeit it's not designed to provide additional returns over time it will help smooth returns. Within the alternative sectors, the 'multi-strategy' portfolio has benefitted the portfolio by softening the falls from both equity and bond markets, however, the Option Fund has delivered falls in value similar to equity markets over the past six months and therefore hasn't provided any downside protection. On the positive side, with interest rates having risen so much over the past few months, forward looking return expectations are now higher, and it's healthier to have some yield premium back into the bond portfolios and this will be return enhancing for the fund over the longer term.

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 18.52%.

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

\$385.8m

Strategy Launch

April 1994

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

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