

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

- Q1 has been a good quarter for global equities, although not without volatility – particularly in March. The month started relatively quietly, with equity markets consolidating gains made earlier in the year. Then came the Silicon Valley collapse.
- Bonds finished on a positive note after a volatile quarter and despite considerable uncertainty around economies and inflation as evidenced by how reactive markets have been.
- New Zealand’s balance of payments deficit blew out to its highest level in 34 years, implying the country is living beyond its means and funding consumption from borrowings.

Fund Highlights

- With risk sentiment taking a turn to the south it was pleasing to see the fund produce a positive return for March. On the back of SVB’s and Credit Suisse failures investors sought safe-haven assets such as high-grade credit and government bonds.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	0.73%	3.30%	-5.32%	5.72%	4.18%	7.66%
Benchmark ²	1.40%	4.01%	-0.37%	5.66%	5.04%	6.84%
Retail ³	-0.18%	2.51%	-6.63%	4.87%	3.00%	
KiwiSaver ³	-0.19%	2.49%	-6.66%	4.89%	3.19%	

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.



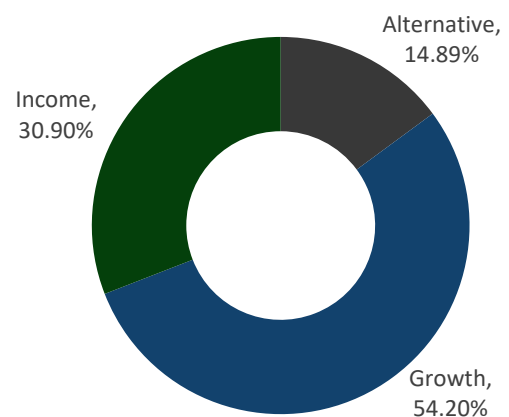
Overview

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	2.21%	1.90%	3.06%	2.40%	-0.17%	-1.34%	-1.11%	-2.83%	10.30%	10.00%
NZ Corporate Bond Fund	1.59%	1.39%	2.42%	2.20%	1.00%	0.99%	0.39%	-0.22%	10.31%	10.00%
Global Bond Fund	2.32%	2.19%	3.13%	2.67%	-5.01%	-4.79%	-0.84%	-2.37%	10.30%	10.00%
Core Equity Fund	0.75%	0.21%	4.18%	3.89%	-0.07%	-1.02%	8.95%	7.41%	12.65%	12.00%
Concentrated Equity Fund	0.72%	0.79%	3.16%	2.25%	-4.98%	8.12%	9.10%	6.28%	5.35%	5.00%
Property Fund	-1.42%	-1.06%	0.64%	1.99%	-14.69%	-15.08%	5.21%	2.81%	5.07%	5.00%
Global Shares Funds UnH	0.28%	2.08%	4.48%	8.47%	0.83%	2.90%	13.59%	13.31%	15.35%	15.00%
Global Shares Funds Hdged	0.86%	2.66%	2.32%	6.35%	-12.77%	-11.33%	15.40%	14.65%	14.13%	15.00%
ARK Fund	1.45%	0.80%	29.55%	2.41%	-29.25%	10.00%			1.66%	3.00%
Option Fund	-1.05%	0.74%	1.79%	2.14%	-24.72%	7.38%	-7.58%	5.42%	4.71%	5.00%
Multi-Strategy Alternative	-0.93%	0.66%	1.89%	1.90%	-0.66%	6.35%	4.93%	4.41%	10.18%	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

Q1 has been a good quarter for global equities. Having been down almost 30% at one stage during 2022, the benchmark has now recovered about half of those losses. Q1 was not without volatility, however – particularly in March. The month started relatively quietly, with equity markets consolidating gains made earlier in the year. Then came Silicon Valley Bank (the 16th biggest bank in the US at the time, in terms of consolidated assets) collapse on 10 March. Other regional banks suffered deposit flight consequently, with Signature Bank also failing. Gauges of financial conditions tightened on the announcement of SVB's failure but quickly loosened again as the Federal Reserve stepped in. Similarly, BBB spreads widened before ending the month relatively unchanged. One of the more lasting impacts of these developments was on interest rate expectations.

Movements in interest rates have been the main driver of returns this year with large fluctuations due to considerable uncertainty around inflation, economic activity and changing expectations for central bank actions. For example, NZ interest rates made new highs early March on the view that central banks would have to hike more and hold rates higher for longer in response to "sticky" inflation. Subsequently rates fell significantly with offshore banking sector concerns and fears for financial stability. From a sector return perspective, the return differential between swap and government bonds has been relatively modest, although longer swaps outperformed governments in March. NZ credit has performed surprisingly well relative to offshore with margins little changed. The retail bid and volume of money looking for a home has been solid, but we are starting to see investors becoming "more picky" especially since bond yields have fallen and look less attractive relative to retail deposit rates.

Fund Commentary

With risk sentiment taking a turn to the south it was pleasing to see the fund produce a positive return for March. On the back of SVB's and Credit Suisse failures investors sought safe-haven assets such as high-grade credit and government bonds. In sympathy with these flows and desire for the safety yields of longer dated high quality fixed interest securities fell as markets viewed a future recession and corresponding central bank easing as increasingly probable. Unsurprisingly with this backdrop interest rate sensitive sectors and growth risk assets fared less well albeit global and domestic equities did produce positive returns. As we move into the year ahead, we expect markets to continue to adjust to a world of higher interest rates, increased recession risk and periods of volatility. This volatility may present opportunities to add risk assets at favorable prices, however return of turbulence is likely and taking a longer-term view will be of increasing importance to providing sound future returns.

Key Fund Facts

Distributions Generally does not distribute	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.
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 19.8%.	Performance fee: Not charged in these funds.
Buy / Sell spread Click to view	Strategy size \$329m
	Strategy Launch April 1994

Compliance

The wholesale fund complied with its investment mandate and trust deed during the quarter, except that an error has been identified in the Option Fund where the value of specific options were incorrectly accounted for in the net asset value of the fund on certain days. The impact to the Balanced Fund was very small and the fund was compensated on 13 March.

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