

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

- June provided little change to the general market trend we've observed throughout 2022 as markets continue to digest and price in the consequences of central banks needing to crush demand so that inflation can be reined in. As we observed last month this painful medicine is a necessary consequence of the pandemic responses, but there seems little appetite for governments around the world to acknowledge this cause-and-effect phenomenon.

Fund Highlights

- The fund has generally fared well in the face of such market headwinds, but with a number of sectors being measured against 'cash' or 'absolute return' benchmarks, the overall performance is behind the blended index for the fund. The most helpful relative attribution came from global shares which outperformed the broader equity market (as measured by MSCI AWCI) by over 1% in the month and quarter, but even so the sector was still negative.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-3.30%	-8.15%	-12.24%	1.99%	5.49%	8.74%
Benchmark ²	-2.44%	-5.45%	-6.17%	2.99%	5.09%	7.29%
Retail ³	-3.23%	-8.18%	-12.63%	1.29%	-	-
KiwiSaver ³	-3.23%	-8.19%	-12.63%	1.38%	-	-

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.



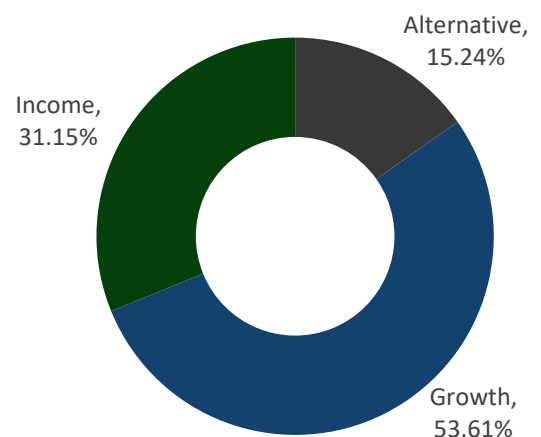
Overview

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	-0.49%	-0.65%	-2.35%	-2.37%	-8.12%	-8.58%	-1.08%	-2.24%	10.46%	10.00%
NZ Corporate Bond Fund	-0.27%	-0.06%	-1.30%	-1.03%	-5.98%	-5.69%	0.19%	-0.26%	10.50%	10.00%
Global Bond Fund	-2.64%	-1.55%	-6.10%	-4.48%	-10.80%	-8.85%	-0.65%	-1.23%	10.19%	10.00%
Core Equity Fund	-3.60%	-3.82%	-9.66%	-10.15%	-10.89%	-13.50%	3.22%	1.86%	13.11%	13.00%
Concentrated Equity Fund	-4.34%	0.56%	-10.61%	1.61%	-13.48%	5.82%	4.21%	5.64%	8.00%	8.00%
Property Fund	-2.96%	-2.71%	-12.33%	-12.22%	-13.95%	-13.15%	0.41%	-1.00%	4.91%	5.00%
Global Shares Funds UnH	-2.89%	-4.13%	-4.15%	-5.65%	-5.91%	-5.32%	11.70%	8.98%	13.49%	13.00%
Global Shares Funds Hedged	-7.93%	-9.04%	-16.42%	-17.53%	-17.57%	-16.50%	6.34%	4.65%	12.53%	13.00%
ARK Fund	-5.38%	0.80%	-30.01%	2.41%	-63.53%	10.00%	-	-	1.57%	3.00%
Option Fund	-6.17%	0.50%	-14.00%	1.39%	-15.56%	4.94%	-15.18%	4.81%	4.92%	5.00%
Multi-Strategy Alternative	-1.51%	0.42%	-3.89%	1.15%	-4.47%	3.93%	3.03%	3.80%	10.32%	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

June provided little change to the general market trend we've observed throughout 2022 as markets continue to digest and price in the consequences of central banks needing to crush demand so that inflation can be reigned in. As we observed last month this painful medicine is a necessary consequence of the pandemic responses, but there seems little appetite for governments around the world to acknowledge this cause-and-effect phenomenon. The preferred route out of this problem would be for growth to return to the global economy, but this is going to be very difficult to achieve given the geopolitical environment. In short, a world which is less keen to work together collaboratively to achieve more effective, efficient and smooth supply chains and production is going to have lower output and higher priced goods than one in which mutual growth and benefit is prioritized. The optimal outcome requires all sides to desire that outcome and in today's environment that isn't happening. The war in Ukraine is probably the most visible outworking of these tensions, but the Western-Sino relationship has soured considerably with a significant economic cost to all parties (of course whether or not this economic price is acceptable is a political judgement and it's quite rationale to make the argument it's a price worth paying – the point being made here is that there is a price, not whether or not it's appropriate). At a more granular level, equity market falls of 4-9% during the month take the year-to-date losses to 16-20%, and bonds have also participated in the value destruction, with cash being the only sector to preserve nominal (but not real – i.e. inflation adjusted) value.

Fund Commentary

The fund has generally fared well in the face of such market headwinds, but with a number of sectors being measured against 'cash' or 'absolute return' benchmarks, the overall performance is behind the blended index for the fund. The most helpful relative attribution came from global shares which outperformed the broader equity market (as measured by MSCI AWCI) by over 1% over the month and quarter, but even so the sector was still negative. Investors who held some foreign currency received some protection from the market sell off in NZ dollar terms as the NZ dollar weakened and hence those foreign currency holdings became more valuable, but clearly that benefit wasn't received for those who had hedged their portfolios in NZ dollar terms; we reaffirm the comment that some exposure to foreign currency remains a valuable component of a well-diversified portfolio. Within our 'alternative' sectors, the JPMAAM multi-strategy fund of hedge funds provided posted a negative return but performed better than equity markets, while the Option fund performed more in line with global equities falling by around 14% over the quarter. Similarly, the ARK disruptive innovation exposure also sold off broadly in line with global equities (down circa 5% for the month and 30% for the quarter). Going forward we expect that bonds will stabilise as the markets get confidence around how far central banks will tighten monetary policy, and this will result in the higher yields flowing through to overall higher returns which will be positive for performance. This in turn should also enable equity markets to stabilise and find a firm footing on which to contribute positively via dividends and capital growth.

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 18.80%.

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

\$367.1m

Strategy Launch

April 1994

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

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