

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 reversed some of the gains experienced during July. The exception to this was the NZ equity market which posted a positive return for August.
- Market dynamic remains in tension between the desire for interest rates to push higher in order to crush inflation and the world adjusting to a lower growth, lower consumption period whilst supply side policies repair.

Fund Highlights

- Losses were experienced in both the income sector (domestic and global bonds) and growth sector (global equities) over the month.
- The multi-strategy fund (which we use as an alternative defensive portfolio), demonstrated its ability in behaving in an uncorrelated way to bond and equity markets, and is down just 1.3% over the past 12 months thereby mostly preserving nominal value in difficult market conditions.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-1.68%	-0.53%	-11.98%	2.68%	5.42%	8.69%
Benchmark ²	-1.18%	0.07%	-5.62%	3.30%	5.27%	7.29%
Retail ³	-1.18%	-0.58%	-12.29%	1.95%		
KiwiSaver ³	-1.18%	-0.59%	-12.29%	2.00%		

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.



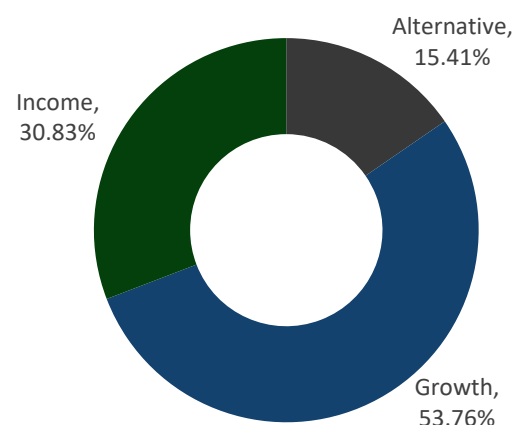
Overview

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	-2.46%	-2.38%	-0.12%	-0.71%	-7.70%	-8.36%	-1.99%	-3.06%	10.26%	10.00%
NZ Corporate Bond Fund	-1.48%	-1.35%	0.33%	0.32%	-5.06%	-4.81%	-0.51%	-0.81%	10.34%	10.00%
Global Bond Fund	-2.82%	-2.67%	-2.20%	-1.73%	-11.59%	-9.97%	-1.53%	-2.27%	10.23%	10.00%
Core Equity Fund	1.44%	0.96%	3.34%	2.70%	-9.35%	-11.62%	4.66%	3.25%	13.13%	12.00%
Concentrated Equity Fund	-0.33%	0.63%	2.38%	1.80%	-11.39%	6.21%	6.89%	5.71%	6.37%	5.00%
Property Fund	-0.77%	-0.70%	2.15%	1.88%	-15.28%	-14.89%	0.14%	-1.58%	5.16%	5.00%
Global Shares Funds UnH	-2.94%	-1.49%	0.81%	0.18%	-7.23%	-3.43%	11.32%	9.06%	14.32%	15.00%
Global Shares Funds Hedged	-5.64%	-3.50%	-5.47%	-5.69%	-20.54%	-16.50%	8.23%	7.14%	13.16%	15.00%
ARK Fund	-4.49%	0.80%	-1.16%	2.41%	-59.16%	10.00%			1.62%	3.00%
Option Fund	1.48%	0.57%	-6.25%	1.62%	-16.34%	5.34%	-12.20%	4.86%	5.03%	5.00%
Multi-Strategy Alternative	1.64%	0.49%	-0.23%	1.37%	-1.34%	4.33%	3.64%	3.85%	10.39%	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

During August we saw markets reverse some of the gains experienced during July. The exception to this was the NZ equity market which posted a positive return for August. Overall, the general market dynamic remains in some tension between the desire for interest rates to push higher in order to crush demand and the inflationary pressures faced around the world, and the fact that the world needs to adjust to a lower growth, lower consumption period whilst supply side policies repair and improve the damage from border closures, lockdowns and the more recent disruptions from Russia's invasion of Ukraine. Unsurprisingly, many economies are experiencing 'inverted' yield curves on their sovereign debt – in other words rates are higher at the shorter end (acknowledging higher policy rates to deal with inflation), and lower at the longer end (acknowledging the prospect of lower growth over time). Whilst this state of affairs can persist for a considerable period of time, it is not particularly healthy for economies to operate in this way because it doesn't encourage investors to provide longer term financing, and it's a tacit admission that things will get worse economically before they get better. On the positive side, acknowledging a problem is the first step to solving it and nothing mentioned above is a surprise to markets and therefore there is a trajectory forward, but consumers (and that generally also means voters in the western democracies) will need to come to terms with the reality of being poorer relative to where they were before the COVID pandemic and war.

Fund Commentary

Losses were experienced in both the income sleeve of the portfolio (both domestic and global bond yields rose thereby reducing the value of the assets held) and global equities. The exception was NZ equities which provided a solid return for the month. Also pleasing was the role of the alternative sectors which both provided positive returns for the month. The Option Fund benefitted from yields rising following the large yield falls during July and will continue to provide positive returns so long as US treasury yields trade around the current levels. The Multi-strategy Fund (which we use as an alternative defensive portfolio rather than adding more bonds to the fund), demonstrated its ability in behaving in an uncorrelated way to bond and equity markets, and is down just 1% over the past 12 months thereby mostly preserving nominal value in difficult market conditions. As has been mentioned on previous occasions in these updates, we specifically hold foreign currency via having a portion of the global shares portfolio unhedged, and this diversification has proved beneficial as the NZ dollar weakened over the month. It's worth reiterating that this is not due to a particular view on the relative strength/weakness of the NZ dollar, but rather a recognition that this will fluctuate over time and therefore help to smooth the returns from offshore assets and provide a better journey albeit that we expect the end result to be the same.

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 18.6%.

Buy / Sell spread

[Click to view](#)

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.

Performance fee: Not charged in these funds.

Strategy size

\$358.2m

Strategy Launch

April 1994

Compliance

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

Contact Us

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