

Factsheet 28 February 2023

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

- After the strong upturn in January, markets eased back in February.
- Negative returns were largely driven by ongoing uncertainty around inflation and how central banks will navigate such a tricky period.
- As is typical when markets are 'risk off' the NZ dollar weakened.

Fund Highlights

- The posted a negative return over the month with both equity and bond markets falling in value.
- ARK bucked the trend and had positive month and the JPMAAM multi-strategy hedge fund provided the downside protection expected from this strategy.

Performance

| | One month | Three months | One year | Three years (pa) | Five years (pa) | Ten years (pa) |
|------------------------|-----------|--------------|----------|------------------|-----------------|----------------|
| Wholesale ¹ | -1.09% | 0.55% | -6.02% | 2.01% | 4.01% | 7.73% |
| Benchmark ² | -0.53% | 0.77% | -1.56% | 3.05% | 4.72% | 6.83% |
| Retail ³ | -0.39% | 1.39% | -6.39% | 0.97% | | |
| KiwiSaver ³ | -0.39% | 1.39% | -6.41% | 1.00% | | |

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.



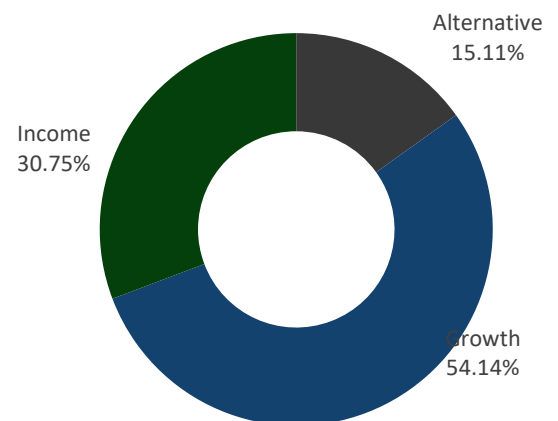
Overview

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 | -1.59% | -1.46% | -0.22% | -0.58% | -4.30% | -5.16% | -2.41% | -3.53% | 10.21% | 10.00% |
| NZ Corporate Bond Fund | -1.15% | -0.90% | 0.39% | 0.35% | -1.98% | -1.84% | -0.88% | -1.04% | 10.31% | 10.00% |
| Global Bond Fund | -1.95% | -1.71% | -0.45% | -0.74% | -9.01% | -8.75% | -2.87% | -3.62% | 10.22% | 10.00% |
| Core Equity Fund | -1.21% | -0.61% | 2.45% | 3.04% | 0.68% | 0.12% | 3.89% | 2.54% | 12.84% | 12.00% |
| Concentrated Equity Fund | -1.68% | 0.69% | -0.13% | 2.21% | -3.32% | 7.81% | 4.26% | 6.16% | 5.45% | 5.00% |
| Property Fund | 0.57% | 1.62% | 0.96% | 1.55% | -12.34% | -13.05% | -3.03% | -4.48% | 5.03% | 5.00% |
| Global Shares Funds UnH | 1.28% | 1.32% | -0.33% | 0.25% | 0.64% | 0.21% | 10.67% | 8.85% | 15.33% | 15.00% |
| Global Shares Funds Hdged | -3.73% | -3.21% | -1.20% | -0.92% | -10.01% | -10.56% | 9.11% | 7.68% | 13.86% | 15.00% |
| ARK Fund | 3.38% | 0.80% | 6.22% | 2.41% | -35.69% | 10.00% | | | 1.63% | 3.00% |
| Option Fund | -2.60% | 0.68% | 2.98% | 2.09% | -28.74% | 7.04% | -13.91% | 5.33% | 4.63% | 5.00% |
| Multi-Strategy Alternative | 0.44% | 0.60% | 2.16% | 1.85% | 1.66% | 6.01% | 3.76% | 4.32% | 10.49% | 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

Perhaps not surprisingly after the strong upturn in January, markets eased back in February. Of note is the continued high degree of correlation between equity and bond returns with both sectors posting negative returns; and both being driven largely by ongoing uncertainty around inflation and how central banks will navigate such a tricky period. We need to get poorer collectively to meet the costs of the global COVID shutdown, but civil unrest is present when peoples' spending power is continually eroded by inflation. The current process is clear however, with central banks doing what is necessary to hit their inflation targets and leaving governments to deal with the inevitably unhappy voters. Ultimately the world will recalibrate to (arguably a healthier) higher interest environment, and debt-fuelled asset price increases will unwind somewhat for the benefit of 'buyers'. Areas where governments are likely to increase real spending will include their military capability as the world braces itself for some tense posturing between East and West – a situation which isn't conducive to improved trade, and will also require nations to choose which side they're backing. This is particularly relevant for New Zealand which is trying to simultaneously be friendly with its largest trading partner (China – which is a huge 1/3 of total trade and larger than the next 4 highest trading partners combined), and also be supportive of its traditional allies and intelligence partners in the 'five eyes' (US, UK, Canada and Australia). As is typical when markets are 'risk off' the NZ dollar weakened which meant that investors with unhedged global assets found some protection in their foreign currency exposure.

Fund Commentary

Overall performance of the fund was negative with both equity and bond markets falling in value over the month. The ARK strategy bucked the general equity trend with another strong month, and there was some protection provided by the foreign currency exposures, but these weren't enough to counter the overall market falls. Within the alternative strategies, the Option Fund struggled as interest rates moved materially higher, but conversely the JPMAAM multi-strategy hedge fund provided the downside protection desired from it. Looking forward, we expect that following a re-setting of equity valuations that are adjusting to a higher interest rate/higher cost of capital world, equity returns should, all other things being equal, be higher than previously expected over the medium term, and similarly the higher bond yields will flow through to improved expected returns from fixed interest securities too.

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 17.1%.

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

\$340m

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.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.