

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

- September was a tough quarter for investment returns.
- Both bond and equity markets suffered a broader market decline with interest rates expected to be higher for longer.
- We are likely near the terminal peak in cash rates, but uncertainty remains high.

Fund Highlights

- The fund return was negative over the quarter with both absolute and relative performance suffering.
- Both the Core Equity Fund and Global Shares Fund absolute returns were disappointing.
- Bond returns were negative as rising rates negated the positive income accrual.
- ARK started on a strong note but suffered in August and September with broad market risk off moves.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Wholesale ¹	-3.24%	-3.03%	5.24%	0.04%	2.84%	7.16%
Benchmark ²	-2.06%	-1.56%	7.55%	2.54%	4.19%	6.56%
Retail ³	-3.05%	-2.85%	4.75%	-0.50%	2.14%	
KiwiSaver ³	-3.05%	-2.84%	4.73%	-0.50%	2.25%	

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, \$10,000 invested^{1, 2}



Portfolio Manager

Stuart Williams is Managing Director of Nikko AM New Zealand, he joined in 2014. He has over 20 years' experience across all aspects of investment management.



Stuart has extensive experience in conducting detailed research and developing investment recommendations on listed companies in both New Zealand and Australia. He holds a Bachelor of Commerce degree from the University of Auckland and is a Chartered Accountant.

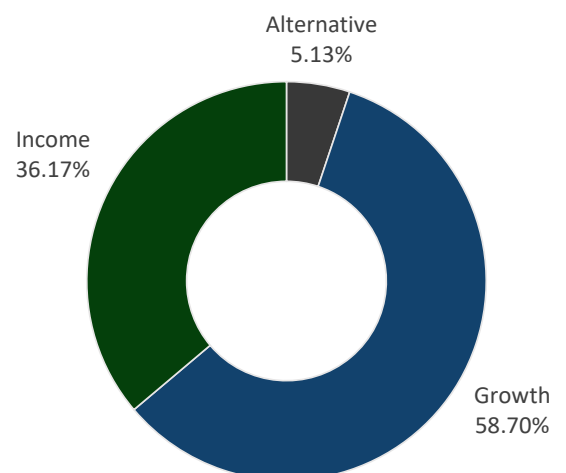
Overview

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 Cash Fund	0.50%	0.46%	1.58%	1.42%	5.48%	4.96%	2.72%	2.25%	4.77%	5.00%
NZ Bond Fund	-1.73%	-1.42%	-1.84%	-1.62%	1.39%	0.25%	-4.28%	-4.97%	12.16%	12.00%
NZ Corporate Bond Fund	-0.93%	-0.65%	-0.42%	-0.08%	2.90%	3.25%	-1.98%	-1.65%	8.25%	8.00%
Global Bond Fund	-1.82%	-1.71%	-1.58%	-1.82%	3.52%	1.67%	-3.85%	-3.93%	10.98%	11.00%
Core Equity Fund	-2.27%	-1.87%	-4.72%	-4.82%	5.12%	3.01%	1.44%	-0.53%	13.07%	13.00%
Concentrated Equity Fund	-3.85%	0.82%	-3.97%	2.55%	6.94%	9.76%	1.52%	7.13%	4.96%	5.00%
Property Fund	-3.31%	-3.09%	-5.15%	-5.29%	-2.44%	-3.72%	-3.32%	-4.29%	5.98%	6.00%
Global Shares Funds UnHdg	-5.53%	-5.00%	-3.37%	-1.51%	7.37%	13.73%	7.88%	10.35%	15.90%	16.00%
Global Shares Funds Hdged	-3.99%	-3.40%	-4.37%	-2.38%	15.94%	20.88%	3.65%	6.05%	16.02%	16.00%
ARK Fund	-10.41%	0.80%	-7.61%	2.41%	3.26%	10.00%			2.78%	3.00%
Multi-Strategy Alternative	-0.14%	0.70%	0.09%	2.17%	6.28%	8.10%	3.92%	5.31%	5.13%	5.00%

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

September finished a tough quarter for investment returns, ironically a more resilient economic backdrop hasn't been helpful as inflation concerns remain elevated which in turn keeps pressure on interest rates. On the inflation front steeper supply curves particularly a resurgence in oil prices have also been unhelpful. Equity markets started the quarter on a positive note but suffered negative returns in both August and September as sentiment soured with a shift in focus to rising cost pressures challenging profitability, weakening demand, and higher borrowing costs which resulted in a broad market decline which proved difficult to avoid. Bond returns were negative as moves higher in interest rates resulted in capital losses negating the positive income accrual from fixed income. The re-pricing of higher cash rates for longer and increased supply of government bond issuance weighed heavily on bond markets both here and offshore and yield curves are now a lot higher and flatter in slope. A positive is that cash and bonds look a lot more attractive as an investment, but this isn't helpful for equities when comparing forward earnings versus the higher yield to maturity on cash and bond funds. An improving inflation profile remains the key to lower rates but if economies and consumers remain more resilient it looks likely we will have to wait longer for validation. In general, risk appetite has taken a backwards step with market liquidity much lower as investors reassess. The markets want to move forward but there is a surprising degree of uncertainty as to the evolution of economies and inflation especially considering we are arguably close to the terminal peak in cash rates. Even though assets prices have cheapened investors may be following the mantra of central banks which is to wait, watch and worry until they have more conviction regarding where to from here?

Fund Commentary

The fund performance was disappointing in terms of absolute return and relative returns for the September quarter with both equities and bonds struggling with the interest rates needing to be higher for longer theme. NZ bonds and global bonds had a reasonable month in July but the rise in yields was the main driver of negative returns in the following two months. Credit holdings have performed better than lower yielding government bonds on a sector basis with margins stable to slightly narrower. Government bonds underperformed due to an increased supply profile as deteriorating government fiscal positions need to be funded. ARK had a good start to the quarter but gave back their strong performance, however this remained in context of what we would expect from the fund during a broad equity market decline. On a positive note, ARK's top contributors were Archer Aviation (ACHR), Nvidia (NVDA) and Spotify (SPOT). The NZ dollar depreciated by around 2% over the quarter in line with risk-off sentiment and a stronger US dollar. The Multi Manager, Property, NZ equity and global shares sectors also suffered the fate of the wider market delivering negative returns. The global shares managers commented "we are continuing to improve our portfolio's weather-proofing by adding companies with a proven track record of delivering good growth and returns, even when the economic cycle is less in their favour". They expect that spending on energy infrastructure will remain a real imperative for many countries in the coming years. Our investments in this area (including Worley Limited, Schlumberger Limited and ChampionX Corporation) have enjoyed improving relative performance in recent months and we expect this to continue in the future. Unfortunately returns were disappointing over the quarter, but the fund remains well diversified and the Managers are cognisant of delivering performance over the medium 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 21.2%.

Strategy Launch
April 1994

Strategy size
\$282.4m

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.

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

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