

# NIKKO AM CONSERVATIVE STRATEGY

Applies to: Nikko AM Wholesale Conservative Fund, Nikko AM Conservative Fund (Retail), and Nikko AM KiwiSaver Scheme Conservative Fund

## Market Overview

- Since the start of the year, Government bond yields around the world have unexpectedly fallen sharply and this has been a material contributor to the surge in equity prices as well as providing bond investors with significant price gains
- Some investors are now seeking yield in stable, cash generating companies offering attractive sustainable dividends and hence pushing the prices of those companies higher, and in some cases beyond valuation levels that may be considered acceptable on a more fundamental bottom up assessment.

## Fund Highlights

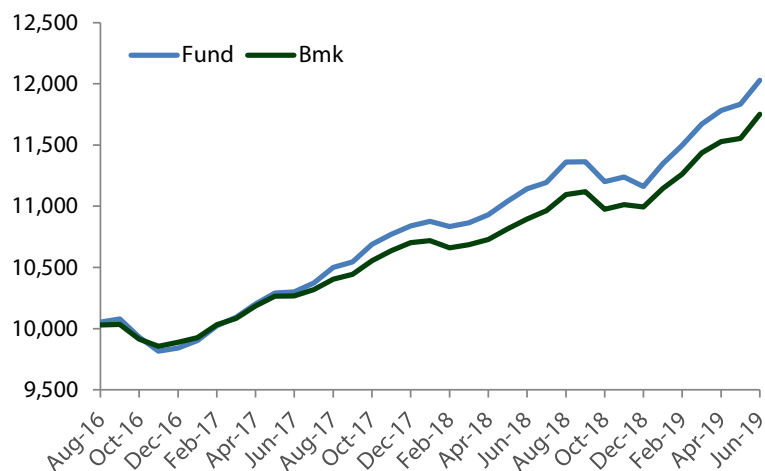
- The month of June saw strong returns across a range of sectors and in aggregate resulted in very good returns for investors in the Nikko AM diversified funds.
- The highest returns came from global equities (which bounced back from losses in May), but New Zealand equity securities continued to rise particularly in the utility and property sectors.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.64%	3.07%	7.95%			
Benchmark <sup>2</sup>	1.71%	2.76%	7.87%			
Retail <sup>3</sup>	1.37%	3.21%	7.52%			
KiwiSaver <sup>3</sup>	1.39%	3.16%	7.92%			

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. See overleaf. No tax or fees  
 3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

## Cumulative Performance since Inception<sup>1,2</sup>



## Portfolio Manager

**George Carter**, is Managing Director of Nikko AM New Zealand, he joined in 2015. He has over 15 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.



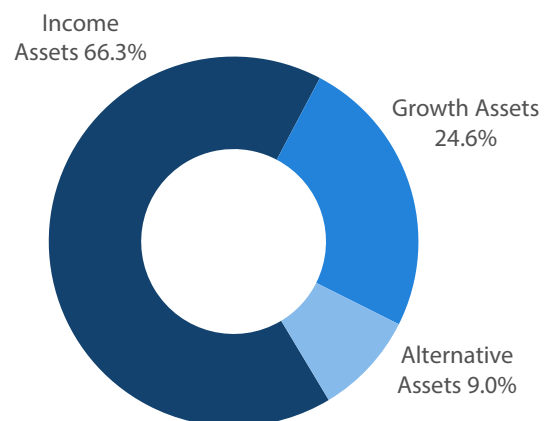
## Overview

This fund has a diversified portfolio which aims to preserve capital and achieve an investment return above bank deposit rates.

## Objective

The fund aims to outperform the benchmark return by 1.0% per annum before fees, expenses and taxes over a rolling three year period.

## Asset Allocation



Sector Performance	1 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	0.25%	0.13%	0.74%	0.45%	2.85%	1.92%			14.8%	15.0%
NZ Bond Fund	0.81%	0.77%	2.19%	1.76%	8.47%	7.56%			17.3%	17.5%
NZ Corporate Bond Fund	0.78%	0.64%	2.29%	1.83%	7.99%	6.97%			19.2%	17.5%
Option Fund	-2.60%	0.47%	-3.79%	1.46%	-4.36%	6.07%			4.8%	5.0%
Global Bond Fund	1.54%	1.30%	3.22%	2.72%	8.55%	7.27%			15.0%	15.0%
Core Equity Fund	2.36%	3.86%	5.36%	6.82%	8.41%	18.60%			7.3%	7.5%
Property Fund	5.39%	6.23%	10.46%	12.41%	27.71%	32.37%			5.1%	5.0%
Global Shares Funds	6.12%	4.94%	7.33%	3.73%	12.82%	6.07%			12.2%	12.5%
Multi-Strategy Alternative	0.68%	0.12%	1.16%	0.41%	2.96%	1.81%			4.2%	5.0%

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](http://www.nikkoam.co.nz)

## Market Commentary

While equity returns tend to dominate the headlines, in the current environment the more dominant factor driving markets and investor behaviour is interest rates (and therefore bond yields). The US 10-year yield has seen a substantial 0.7% fall since the start of the year dropping below 2%, and with longer dated bonds falling in yields around the world, more and more bonds are back in negative yield territory. Softening economic data, geopolitical tensions and late cycle worries all contribute towards this push lower in yields, with investors encouraged in this behaviour by central banks stating explicitly that they are seeing increased likelihood of rate cuts (not just a pause in rate rises). It's therefore unsurprising that we're also observing some investors seeking yield in stable, cash generating companies offering attractive sustainable dividends and hence pushing the prices of those companies higher, and in some cases beyond valuation levels that may be considered acceptable on a more fundamental bottom up assessment. The New Zealand dollar strengthened significantly during June and essentially reversed the May fall, and so assets which were unhedged over the month gave up some of the underlying performance in currency losses, but over the longer timeframe of a year currency hasn't materially impacted returns either way. We continue to see the benefit of having some foreign currency exposure for diversification benefit, but we don't take active currency positions within our diversified funds. Overall at the diversified fund level it was the funds with higher exposures to the equity markets that produced the stronger returns in June. Whilst we expect this to also be the case over the longer term, investors should be aware of market volatility and expect that over shorter time periods the more defensive funds should experience less ups and downs.

## Fund Commentary

The month of June saw strong returns across a range of sectors and in aggregate resulted in very good returns for investors in the Nikko AM diversified funds. The highest returns came from global equities (which bounced back from losses in May), but New Zealand equity securities continued to rise particularly in the utility and property sectors. Since the start of the year, Government bond yields around the world have, unexpectedly, fallen sharply and this has been a material contributor to this surge in equity prices as well as providing bond investors with significant price gains. Unsurprisingly, with bond yields moving so much our Option Fund has experienced losses and this has had a modestly negative impact on the diversified funds via their exposure to this strategy

### 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 7.0%

#### Performance fees

Performance fees (if any) are recognised in the unit price of the Conservative Fund for the following sector fund:

*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: 0.80%, refer PDS for more details

KiwiSaver: 0.74%, refer PDS for more details. Fee of only 0.13% until 30/09/2019

#### Buy / Sell spread

0.04% / 0.04%

#### Strategy size

\$30.9m

#### Strategy Launch

August 2016

## Compliance

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

## Contact Us [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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