

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

- The New Zealand equity market has continued to surge upwards, with a further 3.4% uplift in July taking the year-to-date return to well in excess of 20%.
- Global shares were solid over the month, but during the past three months have fallen slightly and only look more positive when allowing for the weakened NZ dollar which results in a boost to assets held in foreign currencies.
- The gold price during the month of July reached highs not seen in over six years, and the US federal funds rate (equivalent to our OCR) was reduced for the first time in ten years - seen as increasing signs that markets are anticipating a period of ongoing weakness.

Fund Highlights

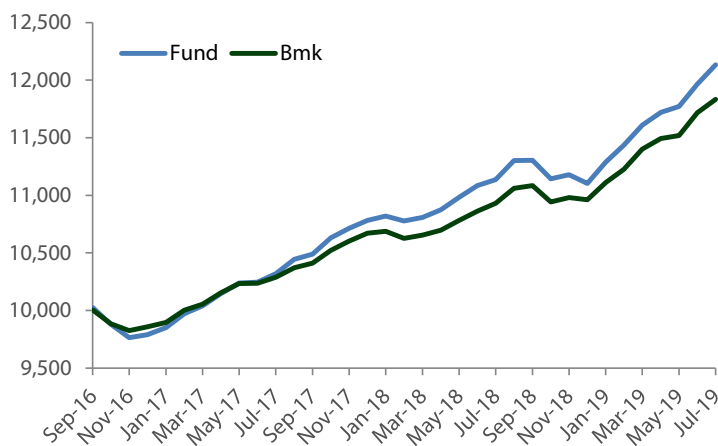
- Nikko AM diversified funds have enjoyed another month of strong returns and this has contributed to gross returns for the past 12 months.
- We will continue to maintain good diversification across sector, geography and strategy and will maintain our search for opportunities to add value over and above general market returns and reiterate that our mind-set continues to focus on the longer term.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.39%	3.51%	8.95%			
Benchmark ²	1.00%	2.97%	8.26%			
Retail ³	1.45%	3.50%	8.65%			
KiwiSaver ³	1.48%	3.57%	9.03%			

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^{1,2}



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.



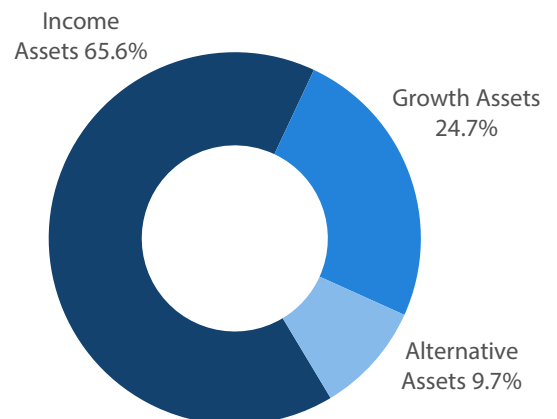
Overview

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	0.24%	0.15%	0.74%	0.45%	2.86%	1.89%			15.7%	15.0%
NZ Bond Fund	0.97%	0.71%	3.35%	2.66%	9.18%	7.88%			17.5%	17.5%
NZ Corporate Bond Fund	0.99%	0.80%	3.28%	2.58%	8.76%	7.38%			17.5%	17.5%
Option Fund	2.84%	0.48%	-3.27%	1.46%	-2.79%	6.04%			5.0%	5.0%
Global Bond Fund	0.72%	0.73%	3.72%	3.47%	9.14%	8.02%			15.0%	15.0%
Core Equity Fund	4.15%	3.41%	7.85%	8.58%	13.91%	22.92%			7.5%	7.5%
Property Fund	2.85%	3.29%	11.85%	14.10%	29.40%	34.52%			4.9%	5.0%
Global Shares Funds	2.21%	1.28%	5.45%	0.69%	13.60%	4.46%			12.3%	12.5%
Multi-Strategy Alternative	0.96%	0.13%	0.48%	0.39%	3.44%	1.75%			4.7%	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

Market Commentary

It's been four months since we wrote in this commentary that the market was undecided between whether recent market rallies were pointing towards an impending correction (a euphemistic term used to describe a sudden drop in prices), or the foundations for further expansion. The ongoing strong returns investors have enjoyed in the diversified funds could suggest that any nervousness at that time was unfounded, but it may be that the headline figure is a little misleading.

The New Zealand equity market has indeed continued to surge upwards, with a further 3.4% uplift in July taking the year-to-date return to well in excess of 20%, but given the weakening business and consumer confidence this probably tells us more about the ongoing demand (locally and offshore) for our higher dividend paying companies than a reassessment of the fundamental valuation of NZ businesses. This line of thinking is perhaps strengthened when considering that during the month bond yields fell further leading to gains for investors of around 0.7% (both domestically and on the broader global aggregate bond market). Global shares were solid over the month, but during the past three months have fallen slightly and only look more positive when allowing for the weakened NZ dollar which results in a boost to assets held in foreign currencies. When also noting that the gold price during the month of July reached highs not seen in over six years, and that the US federal funds rate (equivalent to our OCR) was reduced for the first time in ten years, there are increasing signs that markets are anticipating a period of ongoing weakness.

Fund Commentary

Overall, investors in the Nikko AM diversified funds have enjoyed another month of very strong returns and this has contributed to gross returns for the past 12 months that are higher than our long term assumptions, but looking forward we are anticipating a future period of lower returns. We will continue to maintain good diversification across sector, geography and strategy and will maintain our search for opportunities to add value over and above general market returns and reiterate that our mind-set continues to focus on the longer term.

Key Fund Facts		
Distributions	Estimated annual fund charges (incl GST)	
Generally does not distribute	Wholesale: Negotiated outside of fund	
Hedging	Retail: 0.80%, refer PDS for more details	
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%	KiwiSaver: 0.74%, refer PDS for more details. Fee of only 0.13% until 30/09/2019	
Performance fees	Buy / Sell spread	Strategy size
Performance fees (if any) are recognised in the unit price of the Conservative Fund for the following sector fund:	0.04% / 0.04%	\$30.9m
<i>Nikko AM Wholesale Option Fund</i>		Strategy Launch
15% of returns in excess return over benchmark, subject to recovery of any previous period negative returns before entitlement		August 2016

Compliance

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

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