

# 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 saw a modest decline in August of 0.9%, and the NZD weakened against all major currencies.
- Other developed equity markets fell around 2-4%.
- A sharp fall in bond yields saw bondholders receive significant mark-to-market gains in the value of their assets with sovereign bonds performing the best (up more than 2% over the month), and credit markets also providing strong performance notwithstanding the widening of credit spreads in response to equity market falls.

## Fund Highlights

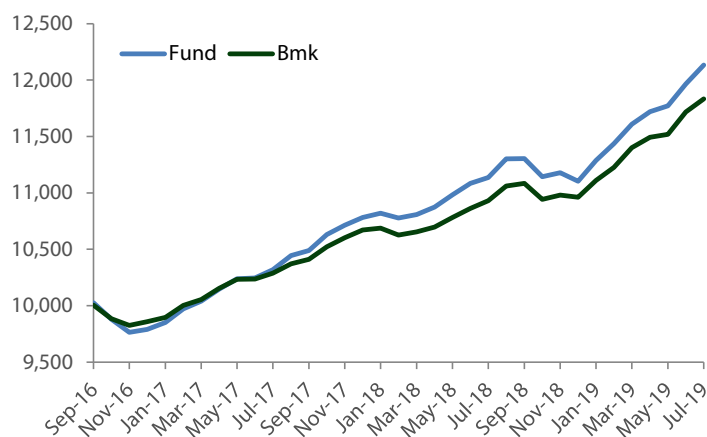
- The strategy underperformed benchmark, but returned positive performance for the month.
- We expect uncertainty and market gyrations to remain elevated, but note that unless investors' objectives or timeframes have changed, it's generally unwise to make changes in strategy at such times.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.41%	3.47%	7.79%			
Benchmark <sup>2</sup>	0.92%	3.67%	7.98%			
Retail <sup>3</sup>	0.27%	3.12%	7.30%			
KiwiSaver <sup>3</sup>	0.31%	3.21%	7.66%			

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.



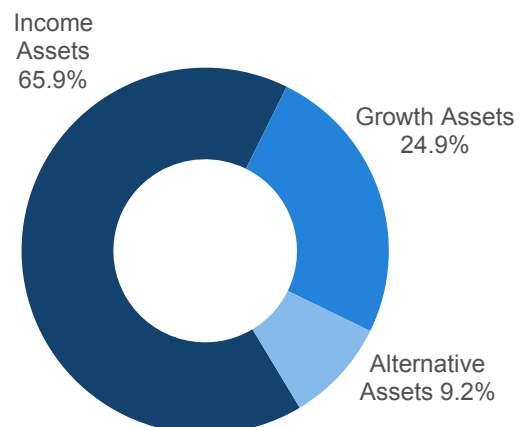
## Overview

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	0.27%	0.15%	0.76%	0.43%	2.89%	1.88%			16.2%	15.0%
NZ Bond Fund	2.21%	1.77%	4.04%	3.29%	10.16%	8.43%			17.5%	17.5%
NZ Corporate Bond Fund	1.72%	1.25%	3.53%	2.70%	9.37%	7.38%			17.4%	17.5%
Option Fund	-12.40%	0.48%	-12.26%	1.44%	-16.19%	6.03%			4.9%	5.0%
Global Bond Fund	2.43%	2.30%	4.76%	4.38%	11.49%	10.15%			14.8%	15.0%
Core Equity Fund	-1.28%	-0.85%	5.25%	6.49%	9.24%	16.66%			7.7%	7.5%
Property Fund	3.19%	3.20%	11.86%	13.24%	31.31%	36.63%			4.9%	5.0%
Global Shares Funds	-1.06%	-0.84%	7.31%	5.39%	7.49%	1.67%			12.3%	12.5%
Multi-Strategy Alternative	0.00%	0.10%	1.64%	0.35%	2.83%	1.67%			4.3%	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

Last month we talked about the indicators pointing towards expected economic weakness, and therefore it comes as no surprise that this ended up being reflected in equity market falls in August. Whilst not our base case, there is still the potential for further and larger falls given the continuing deterioration of global economic conditions.

Amongst the very lacklustre global data, from the slowdown in China, to the US inventories, to manufacturing in Germany, New Zealand is doing relatively well. However, that belief may not be widely held given the worsening of both business and consumer sentiment from surveys and the RBNZ cutting interest rates by 0.5% taking it to a record low of 1.0%. Nevertheless, New Zealand is still intricately linked with global markets so we saw the NZX50 fall in value by a modest 0.9%. This was a far better outcome than the falls in other developed markets of around 2-4% depending on country and index being looked at.

By contrast, the sharp fall in bond yields saw bondholders receive significant mark-to-market gains in the value of their assets with sovereign bonds performing the best (up more than 2% over the month), and credit markets also providing strong performance notwithstanding the widening of credit spreads in response to equity market falls. Investors who held assets in foreign currency enjoyed a significant increase in value of these assets in NZ dollar terms as the NZD fell in value against all major currencies, -4.4% vs US Dollar, -6.6% vs Japanese Yen and -3.4% against the Euro.

### Fund Commentary

The strategy underperformed benchmark but returned positive performance. Underperformance against benchmark was compounded by the Option Fund which was down 12.4% in its worst monthly performance in 8 years following the collapse of yields in US treasuries (separate commentary has been provided on this strategy). Looking forward, we expect uncertainty and market gyrations to remain elevated, but note that unless investors' objectives or timeframes have changed, it's generally unwise to make changes in strategy at such times.

<b>Key Fund Facts</b>	
<b>Distributions</b> Generally does not distribute	<b>Estimated annual fund charges (incl GST)</b> 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
<b>Hedging</b> 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%	<b>Buy / Sell spread</b> <b>Strategy size</b> <b>Strategy Launch</b> 0.04% / 0.04%      \$37.4m      August 2016
<b>Performance fees</b> Performance fees (if any) are recognised in the unit price of the Conservative Fund for the following sector fund: <i>Nikko AM Wholesale Option Fund</i> 15% of returns in excess return over benchmark, subject to recovery of any previous period negative returns before entitlement	

### Compliance

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

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