

NIKKO AM CONSERVATIVE STRATEGY

Assets are held in the Nikko AM Wholesale NZ Conservative Fund. The Nikko AM Conservative Fund (retail) and Nikko AM KiwiSaver Scheme Conservative Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Market commentators have been increasingly vocal around the ongoing deterioration in sentiment, and indeed a number of hard economic indicators continue to be weak.
- Amid this global uncertainty, the perceived relative stability in NZ means that although sentiment domestically is weak, foreign interest in NZ assets remains high.
- We expect the uncertainty in markets to persist, and that interest rate policy will remain low across all major economies.

Fund Highlights

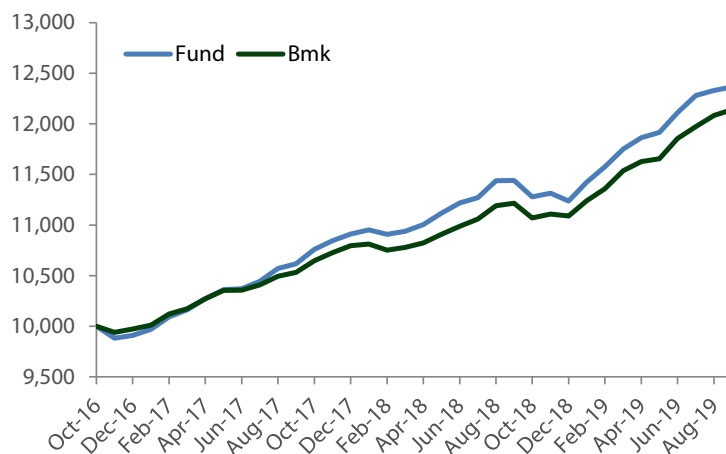
- The strategy underperformed benchmark, but returned positive performance for the month.
- With bond yields stabilising, following the large movements in August, equity markets had a strong month and bond markets gave back a small amount of the gains generated in August.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.29%	2.09%	8.07%			
Benchmark ²	0.49%	2.43%	8.27%			
Retail ³	0.20%	1.93%	7.66%			
KiwiSaver ³	0.24%	2.04%	8.02%			

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.



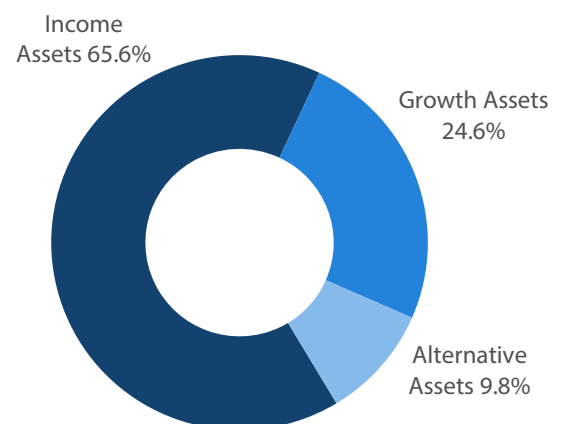
Overview

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	0.17%	0.10%	0.68%	0.39%	2.83%	1.82%			15.1%	15.0%
NZ Bond Fund	-0.22%	-0.04%	2.97%	2.45%	9.93%	8.55%			18.2%	17.5%
NZ Corporate Bond Fund	-0.01%	0.04%	2.71%	2.10%	9.28%	7.58%			17.4%	17.5%
Option Fund	3.48%	0.43%	-6.78%	1.40%	-13.54%	5.96%			5.2%	5.0%
Global Bond Fund	-0.52%	-0.55%	2.63%	2.47%	11.17%	9.96%			14.9%	15.0%
Core Equity Fund	1.56%	1.79%	4.43%	4.36%	11.49%	17.96%			7.4%	7.5%
Property Fund	1.95%	2.02%	8.21%	8.75%	30.72%	35.99%			5.0%	5.0%
Global Shares Funds	0.38%	2.36%	1.51%	2.79%	8.80%	3.50%			12.2%	12.5%
Multi-Strategy Alternative	-0.38%	0.10%	0.58%	0.32%	2.04%	1.61%			4.6%	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

Market commentators have been increasingly vocal around the ongoing deterioration in sentiment, and indeed a number of hard economic indicators continue to be weak. However, there seems to be some very large underlying forces (namely the actions of Government and central banks) which are overpowering some of the more typical bottom-up drivers of short-term market movements (e.g. company and sector specific factors). Whilst this applies in some small way to the political mess in Europe, it mostly applies to the ongoing power struggle between the US and China which is playing out in a number of ways, the most obvious of which is the trade war, but other less publically discussed areas are no less significant. Amid this global uncertainty, the perceived relative stability in NZ means that although sentiment domestically is weak, foreign interest in NZ assets remains high. The NZ dollar has generally weakened in recent weeks not least due to the expectations around the lower Official Cash Rate (OCR). Consequently, investors whose overseas assets weren't hedged experienced better returns (in NZ dollar terms) than those who had hedged their currency exposure.

As noted in last month's commentary, we expect the uncertainty in markets to persist, and that interest rate policy will remain low across all major economies. All other things being equal, forward looking return expectations for all the diversified funds are therefore lower than they were previously and we would be surprised if the next 3-5 years generated the same level of returns as the previous 3-5 years.

Fund Commentary

The strategy underperformed the benchmark. With bond yields stabilising, following the large movements in August, equity markets had a strong month and bond markets gave back a small amount of the gains generated in August. This broad pattern was true both in New Zealand and overseas.

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 6.43%	KiwiSaver: 0.74%, refer PDS for more details.		
Performance fees	Buy / Sell spread	Strategy size	Strategy Launch
Performance fees (if any) are recognised in the unit price of the Conservative Fund for the following sector fund:	0.04% / 0.04%	\$39.4m	August 2016
<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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