

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

- The broad themes for the month were generally more positive economic data and improving prospects on the initial trade agreement between China and US.
- Softer performance in NZ was largely due to the specific sell off in the energy sector following uncertainty around Rio Tinto's comments on its commitment to the aluminium smelting plant near Invercargill and associated impact on electricity demand.

Fund Highlights

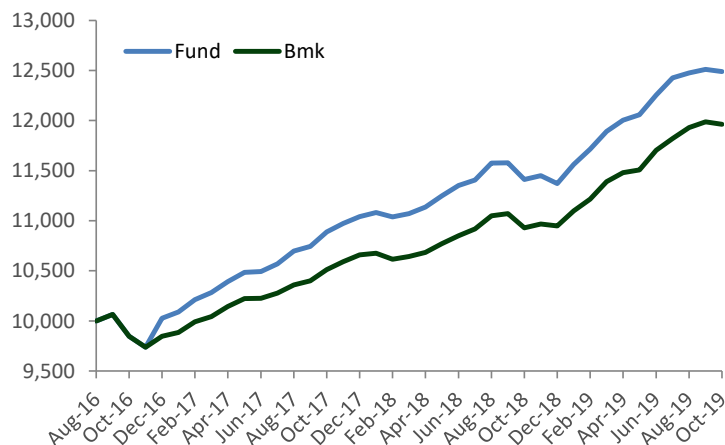
- The strategy underperformed for the month, NZ equities fell back by over 1.2% to hurt the performance and as did the sell-off in bond markets.
- In addition the strength of the NZ dollar over the month meant that any unhedged global asset returns were negatively impacted on a NZ dollar basis.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.18%	0.51%	9.43%	7.27%		
Benchmark ²	-0.21%	1.19%	9.44%	6.61%		
Retail ³	-0.20%	0.27%	9.29%			
KiwiSaver ³	-0.19%	0.36%	9.59%			

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.



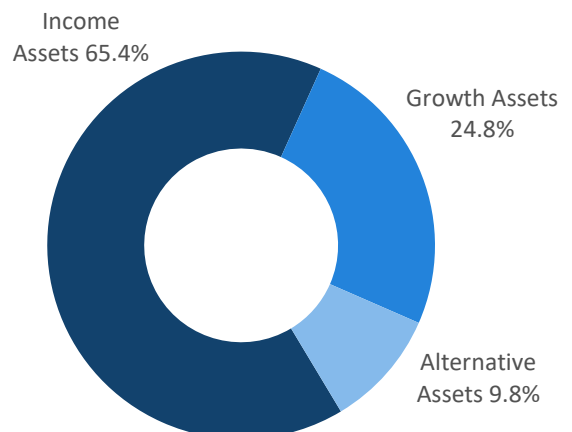
Overview

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	0.18%	0.09%	0.61%	0.34%	2.77%	1.75%	2.90%	1.91%	15.1%	15.0%
NZ Bond Fund	-0.48%	-0.71%	1.50%	1.00%	8.81%	7.32%	5.92%	4.70%	17.4%	17.5%
NZ Corporate Bond Fund	-0.40%	-0.29%	1.30%	0.99%	8.25%	6.81%	6.17%	4.54%	17.6%	17.5%
Option Fund	2.40%	0.43%	-7.18%	1.34%	-11.43%	5.89%	-1.28%	6.05%	5.2%	5.0%
Global Bond Fund	0.09%	-0.24%	1.99%	1.49%	11.65%	9.94%	4.91%	4.15%	15.3%	15.0%
Core Equity Fund	-1.21%	-1.21%	-0.94%	-0.29%	17.94%	24.43%	17.42%	17.00%	7.3%	7.5%
Property Fund	-1.94%	-2.81%	3.17%	2.33%	33.31%	36.83%	16.50%	16.95%	4.9%	5.0%
Global Shares Funds	-0.09%	1.50%	-0.78%	3.01%	16.67%	12.55%	15.36%	13.02%	12.7%	12.5%
Multi-Strategy Alternative	-0.86%	0.10%	-1.23%	0.30%	3.17%	1.55%	3.07%	2.91%	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

Broad themes for the month were generally more positive economic data and improving prospects on the initial trade agreement between China and US helping to explain the increase in bond yields and the subsequent fall in value. Developed global equity markets were generally positive. The US and Japanese markets were up 2.5% and 5.4% respectively, but the UK was down 2.2%. The reason for the softer performance in NZ was largely due to the specific sell off in the energy sector following uncertainty around Rio Tinto's comments on its commitment to the aluminium smelting plant near Invercargill and associated impact on electricity demand. In addition the strength of the NZ dollar over the month meant that any unhedged global asset returns were negatively impacted on a NZ dollar basis.

Previously we've commented on the weak sentiment that's been observed both in NZ and globally from consumers and businesses. Interestingly, some of those sentiment surveys are showing signs of turning, or at least bottoming out (see our Fixed Interest fund fact sheets for more on this), but it remains the case that markets are highly sensitive to, and dependent upon, political positions and policy decisions. One aspect of the recent movements in financial markets which should be reflected on is the lower expected returns in the short-medium term. We have been surprised at the very high returns across multiple sectors over the past year, and note these are not sustainable and well above long run averages. Accordingly, with interest rates at historic lows and market valuations already pricing in a lengthy period of low interest rates, investors should be adjusting their expectations for returns over the next few years.

Fund Commentary

The fund had a negative return for October – NZ equities fell back by over 1.2% to hurt the performance of the funds that have more growth asset exposure, and bond markets sold off to hurt the performance of the more defensive/income orientated portfolios.

Key Fund Facts

<p>Distributions Generally does not distribute</p> <p>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 6.75%</p> <p>Performance fees 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</p>	<p>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.</p> <table border="0"> <tr> <td>Buy / Sell spread</td> <td>Strategy size</td> <td>Strategy Launch</td> </tr> <tr> <td>0.04% / 0.04%</td> <td>\$39.6m</td> <td>August 2016</td> </tr> </table>	Buy / Sell spread	Strategy size	Strategy Launch	0.04% / 0.04%	\$39.6m	August 2016
Buy / Sell spread	Strategy size	Strategy Launch					
0.04% / 0.04%	\$39.6m	August 2016					

Compliance

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

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