

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 investment story for November is almost entirely one of equity market strength. The NZX50 was up by nearly 5% with the largest companies leading the upwards charge.
- A strong month for US and European markets helped the MSCI All Countries index to return more than 2% (closer to 3% on a currency hedged basis).
- Bond markets, by contrast, both domestically and globally produced small negative returns for investors.

Fund Highlights

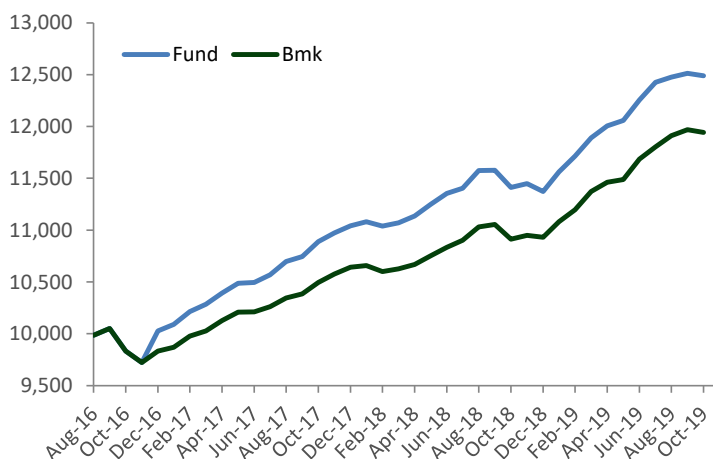
- The fund returned 1.1% for the month, a 12 month return of 10% (before tax and fees), more than double the expected annual rate of return.
- As we look forward to the next few years, not only do we not expect these levels of returns to be repeated, but we are likely to lower our previous expectations as the low interest rate environment results in less income from the defensive assets and less room for capital appreciation from the growth assets.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.05%	1.15%	10.22%	8.06%		
Benchmark ²	0.68%	0.96%	9.81%	7.06%		
Retail ³	1.16%	1.16%	9.95%			
KiwiSaver ³	1.14%	1.19%	10.15%			

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.



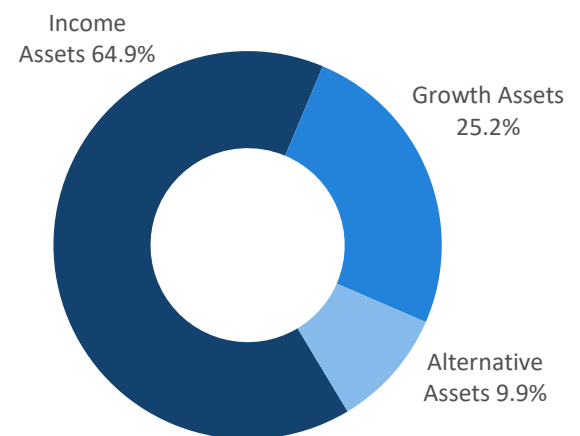
Overview

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%	0.52%	0.28%	2.73%	1.69%	2.88%	1.87%	14.8%	15.0%
NZ Bond Fund	-0.06%	-0.02%	-0.76%	-0.78%	8.89%	7.29%	6.40%	5.18%	17.5%	17.5%
NZ Corporate Bond Fund	-0.09%	-0.10%	-0.50%	-0.35%	8.24%	6.70%	6.46%	4.99%	18.0%	17.5%
Option Fund	1.19%	0.42%	7.22%	1.28%	-11.43%	5.82%	2.71%	6.02%	5.0%	5.0%
Global Bond Fund	-0.04%	-0.17%	-0.47%	-0.96%	11.10%	9.27%	5.38%	4.63%	14.7%	15.0%
Core Equity Fund	6.06%	4.95%	6.42%	5.54%	26.88%	29.46%	19.96%	19.24%	7.6%	7.5%
Property Fund	0.38%	-0.30%	0.36%	-1.14%	29.28%	31.22%	16.92%	17.19%	5.0%	5.0%
Global Shares Funds	4.04%	2.67%	4.35%	6.67%	19.69%	15.79%	16.59%	13.24%	12.6%	12.5%
Multi-Strategy Alternative	0.77%	0.09%	-0.47%	0.29%	4.59%	1.50%	3.27%	2.80%	4.8%	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

The investment story for November is almost entirely one of equity market strength. The NZX50 was up by nearly 5% with the largest companies leading the upwards charge. Whilst the New Zealand market produced returns higher than the major markets, a strong month for US and European markets helped the MSCI All Countries index to return more than 2% (and closer to 3% on a currency hedged basis). Bond markets, by contrast, both domestically and globally produced small negative returns for investors. Last month we observed that the negative sentiment that has been weighing on consumers and businesses appeared to have stopped dropping; if that remains to be the case then it's perhaps unsurprising that equity markets have rallied and bond yields have started to rise slightly (hence the negative returns for bond holders over the past couple of months). From a NZ perspective, there had been some fears earlier in the year for the housing market to fall and this had weighed on public sentiment to some degree. With that fear being unrealised and the housing market picking up momentum again, not only are households feeling a little more confident, but some specific listed companies with property exposure have performed exceptionally strongly in the past couple of months. Globally, it would seem that fears around geopolitical risks have peaked. Although these concerns certainly remain elevated, the fact that the unease has already been priced into markets means any improvement results in a positive outcome for markets – hence why we're observing equity markets being buoyant and bond yields rise modestly.

Fund Commentary

The fund returned 1.1% for the month, and 10% for the last 12 months (before tax and fees) - more than double the expected annual rate of return. As we look forward to the next few years, not only do we not expect these levels of returns to be repeated, but we are likely to lower our previous expectations as the low interest rate environment results in less income from the defensive assets and less room for capital appreciation from the growth assets. This economic environment also encourages us to continue with the well-diversified investment strategy appropriate for the risk profile of the fund and to include a suitable level of exposure to alternative asset sectors.

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 6.45%</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>\$41.9m</td> <td>August 2016</td> </tr> </table>	Buy / Sell spread	Strategy size	Strategy Launch	0.04% / 0.04%	\$41.9m	August 2016
Buy / Sell spread	Strategy size	Strategy Launch					
0.04% / 0.04%	\$41.9m	August 2016					

Compliance

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

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