

# 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

- Equity markets soared on the announcement of a successful vaccine.
- Financial markets are increasingly dependent on interest rates staying low to support current valuations.

## Fund Highlights

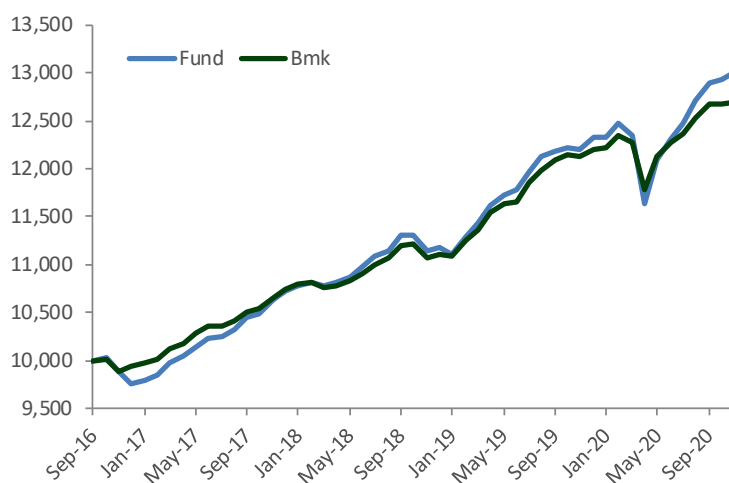
- The fund posted a solid absolute return for the month and broadly in line with its benchmark. The fund continues to deliver above the longer-term expected return.

## Performance

|                        | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale <sup>1</sup> | 1.52%     | 2.37%        | 7.16%    | 7.21%             |                  |                 |
| Benchmark <sup>2</sup> | 1.48%     | 1.73%        | 5.62%    | 6.29%             |                  |                 |
| Retail <sup>3</sup>    | 1.41%     | 2.31%        | 6.47%    |                   |                  |                 |
| KiwiSaver <sup>3</sup> | 1.40%     | 2.29%        | 6.42%    |                   |                  |                 |

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.



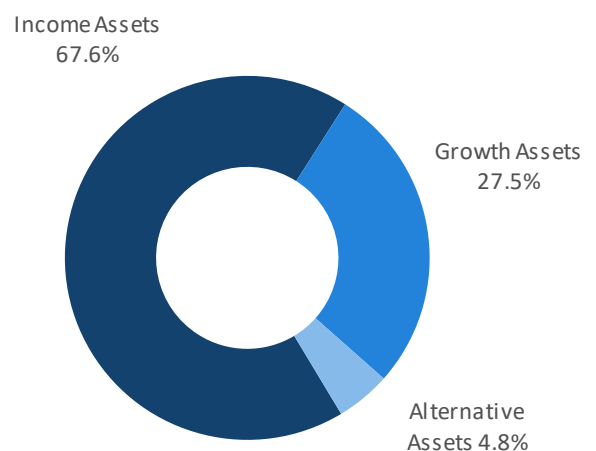
## Overview

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               | 0.07%   | 0.02%  | 0.30%    | 0.07%  | 1.73%  | 0.68%  | 2.43%        | 1.43%  | 14.9%            | 15.0%  |
| NZ Bond Fund               | -1.63%  | -1.47% | -0.79%   | -0.88% | 6.42%  | 4.18%  | 6.56%        | 5.10%  | 18.0%            | 17.5%  |
| NZ Corporate Bond Fund     | -0.91%  | -0.64% | -0.16%   | -0.15% | 6.40%  | 4.77%  | 6.39%        | 5.11%  | 17.4%            | 17.5%  |
| Global Bond Fund           | 1.50%   | 0.54%  | 1.87%    | 0.92%  | 8.90%  | 4.85%  | 6.98%        | 4.87%  | 17.4%            | 17.5%  |
| Core Equity Fund           | 5.47%   | 5.68%  | 6.37%    | 7.19%  | 12.12% | 13.52% | 14.91%       | 16.98% | 8.6%             | 8.5%   |
| Property Fund              | 0.51%   | -0.53% | 8.69%    | 8.17%  | 6.52%  | 4.62%  | 15.68%       | 15.54% | 5.0%             | 5.0%   |
| Global Shares Funds        | 7.24%   | 9.29%  | 6.31%    | 4.20%  | 19.27% | 8.96%  | 14.31%       | 8.26%  | 14.0%            | 14.0%  |
| Multi-Strategy Alternative | 4.25%   | 0.62%  | 3.81%    | -0.91% | 10.56% | -1.12% | 5.06%        | 2.12%  | 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](http://www.nikkoam.co.nz)

### Market Commentary

At first glance, the performance of financial markets during November was exactly what you may expect when there’s an announcement of a successful vaccine during a global pandemic – namely, that equity markets soared, bond returns were anaemic, the price of gold fell whilst oil prices lifted and “risk-on” currencies (such as the NZ dollar) appreciated. It is therefore no surprise that the NX50 index was up nearly 6%, and that appears quite modest with the double digit returns on a number of global stock market indices. The French market was a notable high performer with the CAC40 up more than 20% - but that still wasn’t enough to turn the 12 month return positive with the market still being 7% lower than it was 12 months ago. This highlights the divergence between different markets over the past year where the US S&P500 is up 15% over the past 12 months, and at the bottom of the table is the UK FTSE 100 (down nearly 15% since December 2019).

The surprising aspect of this is that following the COVID sell-off in equity markets in March this year, one of the main reasons that equities have performed so strongly is that bond yields have been manhandled ever lower by central banks. During November we saw bond yields stay largely flat (although they did rise in NZ for other reasons) which means that equity markets lifted on the prospect of an economic uplift. In other words, equity markets rose from April-September on the back of falling bond yields and then rose in November on the back of improving economic data. The consequence of this is that financial markets are increasingly dependent on interest rates staying low to support current valuations, and with huge Government debt burdens needing to be financed for many years to come, most commentators are predicting that central banks have effectively no choice but to keep yields suppressed, and hence we see markets looking through this risk of interest rate increases.

### Fund Commentary

As yields will almost certainly be forced to stay low for a considerable period, returns from portfolios will be much lower than they have been, and in portfolios more weighted towards cash and bonds, it is likely that returns won’t keep up with inflation, and so their role in portfolios is increasingly about managing volatility rather than providing income. So, with both bonds and equities exposed to the risk that yields rise earlier or more quickly than expected, it becomes increasingly important to have non-traditional sources of return in portfolios, and hence we remain highly supportive of our allocation to alternatives in the diversified portfolios.

|  |  |                        |
|--|--|------------------------|
| <b>Key Fund Facts</b>  |  |                        |
| <b>Distributions</b>   | <b>Estimated annual fund charges (incl. GST)</b> |                        |
| Generally does not distribute  | Wholesale: Negotiated outside of fund            |                        |
|  | Retail: 0.71%, refer PDS for more details        |                        |
|  | KiwiSaver: 0.71%, refer PDS for more details.    |                        |
| <b>Hedging</b>   | <b>Buy / Sell spread</b>                         | <b>Strategy size</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 7.41% | <a href="#">Click to view</a>                    | \$58.1m                |
|  |  | <b>Strategy Launch</b> |
|  |  | August 2016            |

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

### Contact Us

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