

Factsheet 31 July 2022

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

- Bond markets are currently the driving force behind much of what is happening in broader financial markets. During July, bond markets globally reasoned that economic growth was now more challenged than previously expected, and therefore pulled back expectations around how far central banks will hike rates. This resulted in a large rally in bonds with values increasing by 2-3% over the month.

Fund Highlights

- Given the strength of both the bond and equity markets in July, the fund enjoyed its strongest monthly performance for quite some time.
- The Multi-Strategy fund fulfilled its role as an alternative diversifier providing a return which is lowly correlated with the broader bond and equity markets.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.91%	0.38%	-5.77%	1.70%	4.34%	-
Benchmark ²	2.52%	0.08%	-5.15%	1.33%	3.65%	-
Retail ³	2.65%	-0.25%	-6.56%	1.00%	-	-
KiwiSaver ³	2.64%	-0.26%	-6.55%	1.01%	-	-

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 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.



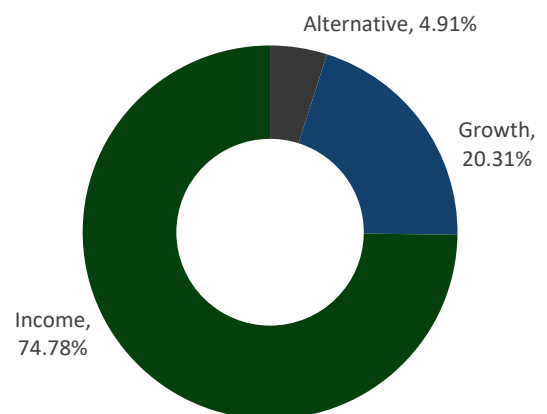
Overview

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	0.26%	0.21%	0.65%	0.52%	1.42%	1.10%	1.51%	0.80%	19.67%	20.00%
NZ Bond Fund	2.91%	2.37%	2.60%	1.93%	-6.18%	-7.08%	-0.45%	-1.71%	15.00%	15.00%
NZ Corporate Bond Fund	2.10%	1.76%	2.14%	1.99%	-4.07%	-3.96%	0.55%	0.05%	19.91%	20.00%
Global Bond Fund	3.37%	2.55%	0.31%	0.82%	-9.06%	-7.68%	0.21%	-0.64%	20.21%	20.00%
Core Equity Fund	5.67%	5.77%	-2.79%	-3.17%	-5.65%	-8.08%	3.72%	2.63%	5.08%	5.00%
Property Fund	6.09%	5.45%	-4.11%	-4.07%	-10.76%	-10.56%	1.46%	-0.31%	5.04%	5.00%
Global Shares Funds UnH	6.96%	6.08%	4.47%	1.52%	-2.45%	-0.36%	13.16%	10.39%	5.05%	5.00%
Global Shares Fund Hedged	8.81%	7.44%	0.41%	-2.48%	-12.88%	-10.89%	8.81%	7.01%	5.15%	5.00%
Multi-Strategy Alternative	-0.33%	0.46%	-2.56%	1.26%	-3.38%	4.13%	2.86%	3.82%	4.91%	5.00%

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

Bond markets are currently the driving force behind much of what is happening in broader financial markets. During July, bond markets globally reasoned that economic growth is now more challenged than previously expected, and therefore pulled back expectations around how far central banks will hike rates. This resulted in a large rally in bonds with values increasing by 2-3% over the month (though this still leaves the markets negative for the year-to-date and over 12 months). Perhaps counterintuitively this acknowledgement by markets of a weaker economic outlook didn't result in equities falling, but rather they too rallied – simply because of the relationship between bond yields and equity valuations (i.e. as bond yields fall the value the market places on expected dividend cashflows and discounted future equity valuations increases). The interesting next stage for equities is the extent to which economic weakness and reduced consumption (due to inflation) will result in lower earnings, lower dividends and lower capital growth. Clearly these factors will result in equity valuation weakness, but only to the extent that they are worse than what is currently expected, and for now equity valuations as a whole are being more influenced by interest rates than underlying fundamental company data. This should allow for a good stock picking environment.

Fund Commentary

Given the strength of both the bond and equity markets in July, the fund enjoyed its strongest monthly performance for quite some time, and resulted in a positive return for the quarter (though still negative over 6 and 12 months). The Multi-Strategy fund has fulfilled its role as an alternative diversifier and not only provided a return which is lowly correlated with the broader bond and equity markets, but it has also positively contributed to the fund's overall returns over 1 and 3 years, showing its value as a low volatility alternative to bonds. The expected outperformance of NZ bonds against global bonds has now probably largely played out with those gains reversing the earlier and heavier losses in the NZ bond market. Both the domestic and global bond funds are now offering much more attractive yields and with cash fund yields now above 3.5%, the income side of the portfolio should contribute meaningfully to the fund's expected returns over the medium term.

Key Fund Facts		
Distributions	Estimated annual fund charges (incl. GST)	
Generally does not distribute	Wholesale: Negotiated outside of fund	
	Retail:	0.71%, refer PDS for more details
Hedging	KiwiSaver: 0.71%, 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 5.74%		
	Buy / Sell spread	Strategy size
	Click to view	\$81m
		Strategy Launch
		August 2016

Compliance

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

Contact Us

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