

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

- Despite the continuing stream of negative news about inflation, business sentiment, higher costs of living and geopolitical tensions, investors enjoyed a strong month of positive investment performance across most major sectors during the month of October. This is unlikely to be the beginning of an asset price recovery, but rather the playing out of the current patterns of volatility whereby we'll observe bouts of weakness followed by a bit of a bounce back.

Fund Highlights

- The Conservative Fund provided a positive return for the month, led by the equity markets, and all sectors except NZ bonds outperformed their respective benchmarks. The fund's overall returns were tempered slightly by small losses on global bonds, NZ corporate bonds and the listed property exposure.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.69%	-3.37%	-8.16%	0.38%	3.01%	0.69%
Benchmark ²	0.63%	-2.93%	-7.24%	-0.07%	2.58%	0.63%
Retail ³	0.64%	-3.28%	-8.61%	-0.21%		0.64%
KiwiSaver ³	0.64%	-3.26%	-8.59%	-0.22%		0.64%

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.



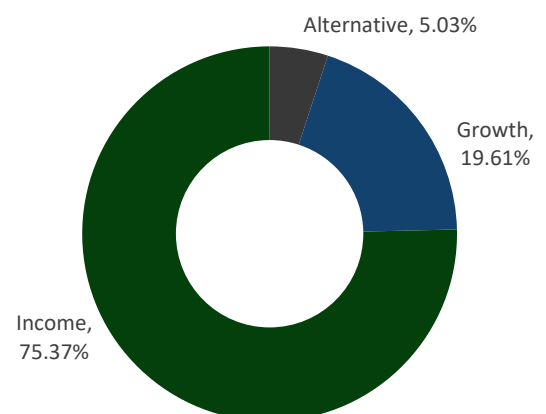
Overview

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	0.33%	0.30%	0.88%	0.80%	2.10%	1.78%	1.60%	0.95%	20.12%	20.00%
NZ Bond Fund	0.09%	0.49%	-3.85%	-3.22%	-5.74%	-5.63%	-2.23%	-3.10%	15.13%	15.00%
NZ Corporate Bond Fund	-0.29%	-0.13%	-2.70%	-2.43%	-3.68%	-3.53%	-0.79%	-1.09%	20.08%	20.00%
Global Bond Fund	-0.08%	-0.33%	-6.85%	-6.39%	-13.70%	-12.37%	-2.77%	-3.28%	20.04%	20.00%
Core Equity Fund	2.80%	2.46%	-0.73%	-1.03%	-10.89%	-12.74%	3.79%	2.38%	5.06%	5.00%
Property Fund	-0.50%	-1.65%	-8.00%	-8.38%	-18.55%	-18.25%	-2.35%	-3.92%	4.83%	5.00%
Global Shares Funds UnH	3.31%	3.24%	-1.21%	-0.32%	-3.43%	-1.40%	12.06%	8.36%	5.04%	5.00%
Global Shares Fund Hedged	8.09%	7.04%	-10.71%	-8.89%	-25.11%	-22.49%	5.97%	3.54%	4.68%	5.00%
Multi-Strategy Alternative	1.63%	0.55%	1.81%	1.54%	-1.79%	4.83%	3.71%	3.98%	5.03%	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

Despite the continuing stream of negative news about inflation, business sentiment, higher costs of living and geopolitical tensions, investors enjoyed a strong month of positive investment performance across most major sectors during the month of October. This is unlikely to be the beginning of an asset price recovery, but rather the playing out of the current patterns of volatility whereby we'll observe bouts of weakness followed by a bit of a bounce back. Equity markets globally rose around 6-7% in local currency terms, with particular strength being seen in the US and Europe, and the outlier being China which fell nearly 8%. Bond markets were generally flat with variations arising from the different compositions of credit and duration in the various indices. Assets that were currency hedged back to the NZ dollar provided some protection against the rise in the NZ dollar, but this was relatively modest in the context of the significant falls in the NZ dollar in recent months (as noted in previous commentaries). Listed property markets continue to perform poorly for a variety of reasons and are generally down by approximately 20% over the past 12 months, and this stands in marked contrast to unlisted property funds which in some cases are showing positive returns. We've seen this phenomenon before where listed and privately held assets diverge in valuations, and note that such disparities even out over time and so either we'll see listed property valuations improve, or (more likely) directly held property portfolios will have to lower their valuations. Long term investors should avoid the temptation of getting distracted by these short-term pricing variations.

Fund Commentary

The Conservative Fund provided a positive return for the month, led by the equity markets, and all sectors except NZ bonds outperformed their respective benchmarks. The fund's overall returns were tempered slightly by small losses on global bonds, NZ corporate bonds and the listed property exposure. The allocation to alternatives via the Multi-strategy Fund helped with the positive returns, and has been the strongest performing sector over the past three months which is pleasing that this strategy is performing the role expected of it – namely to provide a lower volatility return profile that has a low correlation with the broader equity and bond markets. Cash returns continue to increase as interest rates push higher, and are now running comfortably above 4% p.a. and will continue to edge higher for the foreseeable future. As interest rates begin to stabilise investors will benefit from the higher yields now being embedded in the bond 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 5.57%</p> <p>Buy / Sell spread Click to view</p>	<p>Estimated annual fund charges (incl. GST) Wholesale: Negotiated outside of fund Retail: 0.71%, refer PDS for more details KiwiSaver: 0.71%, refer PDS for more details. Performance fee: Not charged in these funds.</p> <p>Strategy size \$76m</p> <p>Strategy Launch August 2016</p>
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Compliance

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

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