

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 divergence we've observed over the past year between global and the local NZ markets (both bond and equity) ceased in November. However, this wasn't a cause for much good news in the equity markets as the NZX50 fell nearly 3% broadly similar to the global equity markets in aggregate where markets in most countries/regions saw material falls.
- This fall means that the NZX50 is now flat for the past 12-month period and around 20% worse than the global markets (as measured by MSCI indices).

Fund Highlights

- The fund's performance was disappointingly behind its benchmark for the month. Global shares materially contributed to the underperformance but our NZ bond fund also struggled to keep pace with the rebound in its index and is now in line with its benchmark over 3 months.
- The 'alternative' sector achieved what it's designed to do in the past 12 months which is to provide some protection against broader equity sell-offs in the short-term but outperform bonds over the longer term.

Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|---------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | -0.34% | -1.99% | 1.37% | 6.18% | 6.51% | |
| Benchmark ² | -0.14% | -1.57% | 1.03% | 5.43% | 5.54% | |
| Retail ³ | -0.10% | -1.94% | 0.87% | 5.70% | | |
| KiwiSaver ³ | -0.13% | -1.96% | 0.85% | 5.74% | | |
| Market index ⁴ | -0.21% | -1.35% | 1.58% | 5.89% | 5.81% | |

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.
4. Market index: See Other material Information document for composite details.

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.



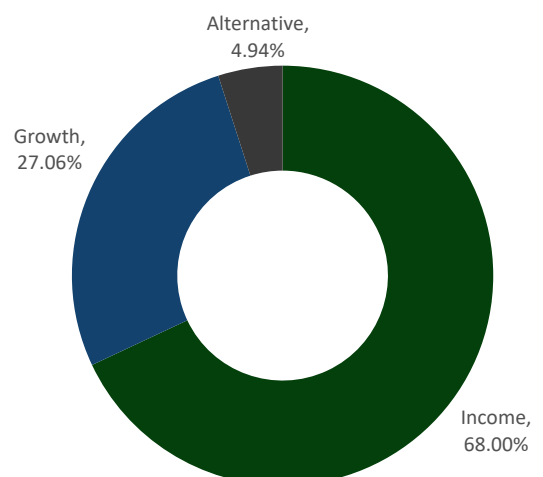
Overview

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 | 0.10% | 0.06% | 0.24% | 0.12% | 0.89% | 0.37% | 1.78% | 0.91% | 15.09% | 15.00% |
| NZ Bond Fund | 0.47% | 0.74% | -3.01% | -3.02% | -6.32% | -6.74% | 2.77% | 1.39% | 17.62% | 17.50% |
| NZ Corporate Bond Fund | 0.32% | 0.28% | -2.35% | -2.13% | -4.33% | -3.90% | 3.28% | 2.42% | 17.63% | 17.50% |
| Global Bond Fund | 0.88% | 0.79% | -0.94% | -0.41% | -1.31% | -0.58% | 6.09% | 4.44% | 17.65% | 17.50% |
| Core Equity Fund | -2.84% | -2.89% | -3.28% | -3.57% | 2.53% | 0.23% | 13.41% | 13.78% | 8.37% | 8.50% |
| Property Fund | -4.05% | -3.78% | -7.47% | -7.58% | 2.60% | 0.09% | 12.21% | 11.17% | 4.76% | 5.00% |
| Global Shares Funds UnH | 1.88% | 2.91% | -0.39% | 1.98% | 23.61% | 23.51% | 21.34% | 16.43% | 7.07% | 7.00% |
| Global Shares Fund Hedged | -4.72% | -3.57% | -4.33% | -1.92% | 19.13% | 19.33% | 18.43% | 13.80% | 6.86% | 7.00% |
| Multi-Strategy Alternative | 0.68% | 0.31% | 1.32% | 0.86% | 6.33% | 3.38% | 5.86% | 3.94% | 4.94% | 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

The divergence we've observed over the past year between global and the local NZ markets (both bond and equity) ceased in November. However, this wasn't a cause for much good news in the equity markets as the NZX50 fell nearly 3% broadly similar to the global equity markets in aggregate where markets in most countries/regions saw material falls. This fall means that the NZX50 is now flat for the past 12-month period and around 20% worse than the global markets (as measured by MSCI indices). Worries about what the Omicron variant may, or may not mean for global growth were certainly a contributing factor; but may have been more of an 'excuse' for markets to sell off when they were nervous anyway from recent strength and rising bond yields and inflation that looks like being more persistent than the central banks were hoping. The bond markets provided some relief for investors with both NZ and global bonds reversing some of their recent losses, and similarly the weaker NZ dollar also meant that the value of unhedged foreign currency assets rose, resulting in a divergence of more than 6% in the month between hedged and unhedged equities, reaffirming our oft-mentioned advice that having some foreign currency exposure in portfolios is another helpful part of good diversification.

Fund Commentary

The fund's performance was disappointingly behind its benchmark for the month. Not only did the broad-based global shares strategy fall by more than the index, but our NZ bond fund also struggled to keep pace with the rebound in its index and is now in line with its benchmark over 3 months. The bond funds did provide the helpful positive performance desired in this environment (though not enough to counter fully the weakness in the equity markets), with the global bond strategy delivering the best performance both in absolute and relative terms. The 'alternative' sector achieved what it's designed to do in the past 12 months which is to provide some protection against broader equity sell-offs in the short-term but outperform bonds over the longer term. The yield to maturity (YTM) for our domestic bond funds are now slightly higher than the YTM in the global bond fund, which means that all other things being equal the relative underperformance of domestic bonds versus global bonds should be behind us and performance should be more similar going forward. A number of headwinds for equities remain, and they do continue to look expensive relative to bonds hence why some commentators believe the current weakness in performance could continue. This is not to imply we believe a market crash is either imminent or likely, and indeed we continue to avoid trying to make any such short-term timing decisions; but nevertheless, we expect volatility to remain elevated and the outlook for overall fund returns to be lower than they have been in recent years.

| Key Fund Facts | |
|---|---|
| Distributions Generally does not distribute | 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. |
| 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 7.58% | Buy / Sell spread Click to view |
| | Strategy size \$94.8m |
| | Strategy Launch August 2016 |

Compliance

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

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