NIKKO AM WHOLESALE BALANCED FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages around US$200 billion globally, including around NZ$5 billion in New Zealand.

Benchmark

Weighted composite of the benchmarks for the underlying sector funds. See overleaf.

Performance objective

The aim is to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three year period.

Risk indicator

Based on the standard deviation of gross returns over a rolling 5 years to the last calendar quarter

Portfolio management

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 and was previously Head of Distribution and a Director at AMP Capital.

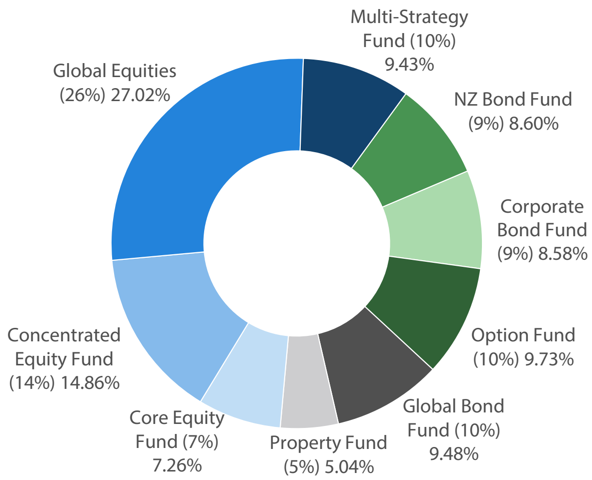
George is Chair of the Investment Committee, responsible for the strategic asset allocation of the Nikko AM NZ diversified funds.

Performance returns

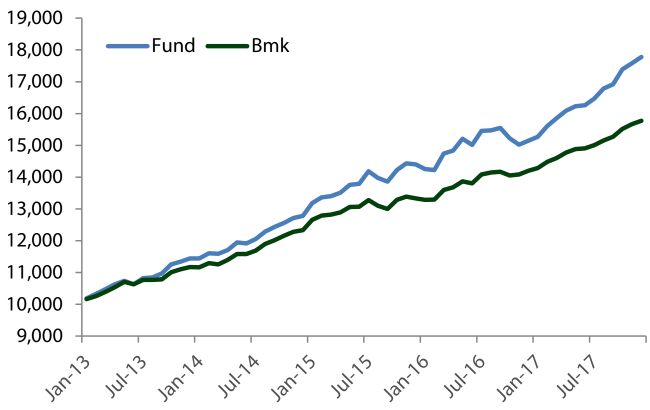
	Gross[1]	Benchmark
1 month	1.17%	0.69%
3 months	5.07%	3.29%
1 year	17.42%	11.06%
2 years (pa)	11.11%	8.77%
3 years (pa)	11.63%	8.54%
5 years (pa)	12.20%	9.54%
10 years (pa)	8.27%	6.69%

1. Gross Returns are before tax and before the deduction of fees

Asset allocation (benchmark in brackets)



Five year cumulative performance (gross) [1]



Sector performance (NZD gross returns)

	1 month		3 months		1 year		3 years p.a.		5 years p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Bond Fund	0.28%	0.36%	1.81%	1.69%	6.91%	5.43%	5.64%	4.79%	5.29%	3.98%
Corporate Bond Fund	0.31%	0.36%	1.79%	1.69%	7.42%	5.43%	6.17%	4.79%	5.97%	3.98%
Option Fund	1.21%	0.49%	3.65%	1.50%	12.65%	6.13%	9.63%	6.80%	9.53%	6.96%
Global Bond Fund	0.27%	0.27%	1.08%	0.98%	3.93%	4.02%	5.05%	4.76%	5.62%	5.48%
Core Equity Fund	2.70%	2.63%	8.21%	6.07%	30.98%	23.60%	19.31%	16.12%	19.45%	17.07%
Property Fund	2.74%	3.25%	7.41%	6.77%	14.07%	13.89%	11.34%	11.02%	12.74%	12.38%
Concentrated Equity Fund	3.82%	0.56%	12.36%	1.66%	35.34%	6.75%	21.32%	7.36%	20.22%	7.54%
Global Equity Funds	0.27%	0.33%	5.84%	6.31%	25.09%	21.46%	14.34%	12.41%	15.72%	15.01%
Multi-Strategy Fund	0.13%	0.37%	0.17%	1.12%	4.59%	4.56%	4.15%	5.21%	6.86%	5.37%

Indices used:

NZ Bond Fund – Bloomberg NZ Bond Govt 0+ Yr Index
NZ Corporate Bond Fund – Bloomberg NZ Bond Govt 0+ Yr Index
Option Fund – Bloomberg NZBond Bank Bill Index+ 4.0% p.a.
Multi-Strategy Fund – Bloomberg NZBond Bank Bill Index + 2.5% p.a.
Core Equity Fund – S&P/NZX 50 Index Gross with Imputation Credits
Property Fund – S&P/NZX All Real Estate (Industry Group) Gross Index with Imputation Credits
Concentrated Equity Fund – RBNZ Official Cash Rate plus 5.0% p.a.
Global Bond Fund – Bloomberg Barclays Global Aggregate Index (100% hedged into NZD)
Global Equities – MSCI ACWI, with net dividends reinvested unhedged in NZD and MSCI ACWI, with net dividends reinvested 139% hedged to NZD

Key fund facts

Strategy launch date
October 2007

Strategy FUM
$267.6m

Fund structure
PIE Fund

Performance Fees
Performance fees (if any) are recognised in the unit price of the Balanced Fund for the following sector funds:

- Nikko AM Wholesale Concentrated Equity Fund – 10% of excess return over benchmark, accrued on a daily basis, payable annually, subject to recovery of any previous period negative returns before entitlement.
- Nikko AM Wholesale Option Fund – 15% of returns in excess return over benchmark, accrued on a daily basis, payable annually, subject to recovery of any previous period negative returns before entitlement.
- Nikko AM Wholesale Multi-Strategy Fund (indirectly via investment in JPM Multi-Strategy Fund II, Ltd). A performance fee of 10% of US dollar returns above US 3-month T-Bill + 3% after all fees accrued on a monthly basis, payable annually, subject to recovery of any previous period negative returns before entitlement, is charged by JP Morgan Alternative Asset Management Inc in the JPM Multi-Strategy Fund II, Ltd. There are no direct charges or fees in the Nikko AM Wholesale Multi-Strategy Fund.

Buy/sell spread
0.105% / 0.105%

Distributions
Generally does not distribute

Benchmark
Benchmark performance is calculated on a weighted composite of the relevant sector indices.

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 16.37%

Compliance

The Fund complied with its investment mandate and Trust Deed during the month

Contact us

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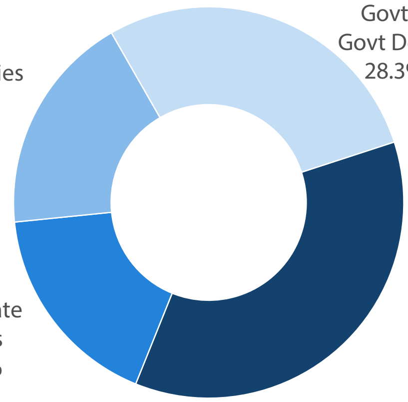
Important Information
This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.

NZ Bond Fund

Asset allocation



Credit quality (% of fund)

AAA	10.0%
AA	67.6%
A	19.7%
BBB	2.7%

Top 5 corporate issuers (% of fund)*

NZ Local Government Funding Agency	12.4%
Bank of New Zealand	7.6%
ANZ Bank New Zealand Limited	6.4%
Fonterra Co-operative	6.3%
Westpac Banking Corporation	5.5%

* excludes central government

Duration and yield

Duration	Fund 4.16 years vs benchmark 4.73 years
Yield	Fund (gross) 3.05% vs benchmark 2.29%

Market commentary

The Bloomberg NZ Government Bond Index returned +0.36 % for December. The Bloomberg Credit Index returned +0.23% and the Bloomberg 1-10 year swaps returned -0.11%.

NZ bonds have performed well over the 2017 year; interest rates moved lower in yield and credit performed well due to a higher running yield and a reasonable contraction in credit margins as demand for yield remained strong.

Over December performance was mixed across the different sectors of the NZ bond market. NZ government bonds were generally the best performers as yields moved slightly lower, swaps underperformed as they moved marginally higher in yield widening in spread relative to similar maturities of government bonds.

In yield movements, NZ government bonds finished 7 basis points lower in yield, the mid curve 5-7 year maturities and the 2037 maturity were the better performers, whereas the 10 year was unchanged. Swaps moved higher in yield with the 1 year rate 3-basis points higher and longer maturity swap rates 7-10 basis points higher in yield. This move has expanded swap margins to similar maturities of government bonds out to spreads of around 45 basis points which is the widest level for some time. The positive shape of the yield curve was little changed with a spread of 0.93% between the 2 year and 10 year swap rates.

The NZ Government Bond Index extended duration mid-month by approximately 0.4 years which may have also added to demand. Credit has had a very good year and it would be optimistic to expect much more margin contraction from current levels, although we don't expect margins will expand significantly while the demand/supply dynamics remain supportive.

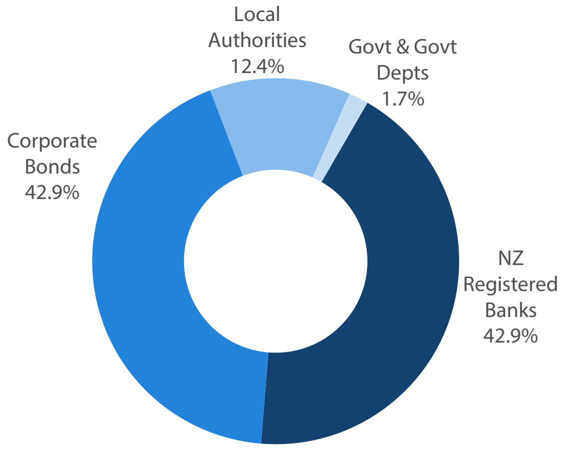
The sentiment on NZ had been surprisingly negative through the last quarter although we note the NZ dollar had a reasonably strong recovery into year-end and NZ bond yields finished close to annual lows. The global economic outlook continues to improve and commodity prices have had a reasonable recovery. There is no longer an expectation of additional monetary easing and central banks are on hold, or moving to a slow and cautious approach for reducing stimulus. There has been strong growth from the Euro area and the US Fed is beginning to unwind their bond buying program and have signalled a gradual approach to further rate increases. With the growth outlook improving, one of the big questions for bond markets will be expectations for inflation but so far lower than expected inflation outcomes have reduced expectations for higher interest rates. NZ may be more vulnerable to higher inflation expectations if the NZD is lower and we start to see an increase in wage inflation.

Fund commentary

The fund underperformed over the month as credit holdings failed to keep pace with the move lower in government bond yields. Credit margins generally narrowed, however swap rates moved higher expanding margins relative to governments over the month. These movements made it difficult for the fund to keep pace with the index. The shorter duration positioning was a small detractor to performance as yields moved lower. The higher running yield and some credit margin contraction remained a positive. Over the month we added some new corporate holdings. Performance over the 2017 year was very strong.

Corporate Bond Fund

Asset allocation



Credit quality (% of fund)

AAA	2.6%
AA	51.5%
A	22.6%
BBB	23.3%

Top 5 corporate issuers (% of fund)

Westpac New Zealand Ltd	9.62%
Bank Of New Zealand	7.02%
ANZ Bank New Zealand Ltd	6.49%
Fonterra Cooperative Group	6.31%
Kiwibank	5.63%

Duration and yield

Duration	Fund 3.70 years vs benchmark 4.73 years
Yield	Fund (gross) 3.36% vs benchmark 2.29%

Fund commentary

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Option Fund

US 10-year treasury yield

Market Commentary

The US Federal Reserve raised the Fed Funds rate for the third time in 2017 at its December meeting. This rate rise was well anticipated by the market and did not cause any disruption when it was delivered. Soft US inflation data also helped keep bond yields stable. Despite revising downwards its unemployment rate forecasts, the Fed's Open Market Committee kept its interest rate and inflation forecasts unchanged for 2018. This is perhaps a less hawkish signal than expected and may indicate future interest rate hikes will occur at a modest rate.

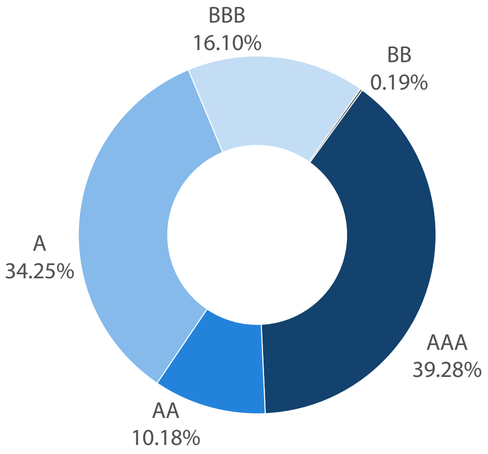
International rate movements may also be having an influence on US rates. In the second half of the month the US 10-year Treasury bond hit 2.50%, its highest level since March. This coincided with upwards pressure on German 10-year rates which hit a two month high of 0.43%. A number of factors may have influenced the move higher including some hawkish talk from some ECB council members, US tax reform getting close to being implemented and more signs of improving economic growth across Europe and the US.

Fund Performance

The Option Fund returned 1.21% over December. The US 10- year Treasury bond opened and closed the month at a yield of 2.41% and traded in a 19 basis point range. The high in yield was 2.50% and a reached a low of 2.31%. The narrow trading range benefitted the fund as no options were struck meaning all income from selling options was retained by the fund. Selling options with a two month expiry date remains more attractive than selling options with shorter terms however low volatility levels means option income remains modest

Global Bond Fund

Credit Quality



Sector Allocation

	Fund	Index
Governments	37.8%	50.9%
Agency	9.9%	9.0%
Credit	17.4%	21.6%
Collateralised & MBS	30.6%	12.3%
Emerging market debt	3.2%	6.2%
Cash, derivatives, other	1.1%	0.0%

Duration and yield

Duration	Fund 6.70 years vs benchmark 6.84 years
Yield	Fund (gross) 2.93% vs benchmark 2.70%

Market commentary (source: GSAM)

In the US, the Federal Open Market Committee (FOMC) raised the federal funds target range by 25bps to 1.25%-1.50%. Projections continue to show three rate hikes in 2018 and just over two in 2019. The ECB kept policy rates unchanged and the Governing Council's economic assessment was more upbeat on economic growth. Central banks in the UK, Norway and Japan kept monetary policy unchanged.

In our duration strategy we are underweight US rates and marginally underweight Japanese rates. We held a modest underweight position in UK rates over the course of the month. The UK yield curve remains relatively flat and UK rates have recently outperformed relative to Europe. We are overweight rates in Europe versus Sweden and the UK.

Agency MBS closed 2017 on a strong note outperforming duration-neutral Treasuries by 16 bps in December, 14bps in the fourth quarter, and 52bps for the full year. Agency MBS spreads were supported by firm investor demand and low interest rate volatility for the remainder of the year. Other securitized sectors also performed well due to strength in economic data and firm demand for spread assets. Low consumer debt-to-income levels has been particularly supportive for asset backed securities (ABS) sectors, including credit card, auto and student loan ABS. Non-agency MBS returns were also positive in 2017 given house price gains and an improvement in borrower fundamentals. We are underweight agency MBS. We expect spreads to widen as the pace of Fed reinvestment slows and amidst a seasonal increase in MBS supply. We expect net MBS supply to remain elevated in 2018, driven by continued strength in the US housing market. Within the agency MBS sector we are overweight higher coupons. We are also overweight high quality floating rate securitized credit and remain overweight residential mortgage credit.

Spreads on the Bloomberg Barclays Global Aggregate Corporates index tightened over sovereigns in December. We think **investment grade corporate credit** valuations are stretched and we see risks as skewed toward wider spreads from current historical lows. We are overweight intermediate maturity part of the credit curve, and we are overweight Financials versus Industrials.

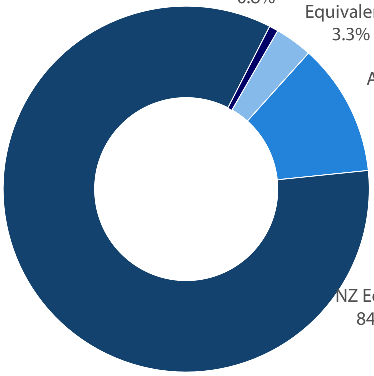
We are overweight US Banks and Insurance companies which may benefit from a looser regulatory backdrop and higher rate. We are underweight Media due to secular challenges posed from a change in consumer demand, lower advertising revenues and subscriber losses. We are also underweight Electrics due to the sectors tendency to underperform in a rising rate environment.

Fund commentary

Fund performance matched the benchmark this month, returning 0.27% and 1.08% vs benchmark of 0.98% for the quarter. Duration strategy contributed the most to performance with 5bps over the month and10bps over the quarter. Stock selection within government and swaps added 6bps over the quarter. The largest negative impact was from security selection of securitized debt (-3bps for month and -7 bps for quarter) and emerging market debt (-1bps for the month and -5 for the quarter).

Core Equity Fund

Asset allocation



Stock performance relative to index (quarter)

What helped		What hurt	
A2 Milk	OW	Ryman Healthcare	UW
Xero	UW	Fisher&Paykel Healthcare	UW
Fletcher Building	UW	Pacific Edge	OW

OW: overweight; UW: underweight; NH: no holding – at month end position

Sector allocation (%)

	Fund	Index
Health Care	19.46%	18.33%
Utilities	16.59%	15.30%
Consumer Discretionary	12.22%	7.42%
Telecommunication Services	10.80%	9.20%
Industrials	9.85%	14.70%
Consumer Staples	8.51%	9.93%
Energy	4.88%	3.98%
Real Estate	4.51%	8.91%
Materials	3.75%	5.38%
Financials	3.49%	3.60%
Cash	3.32%	0.00%
Information Technology	2.62%	3.25%

Top 10 holdings

Name	% of Fund
The A2 Milk Company	8.51%
Spark New Zealand	8.25%
Contact Energy	7.58%
Fisher & Paykel Healthcare	6.87%
Metlifecare	5.91%
Infratil Limited	5.89%
Auckland International Airport	5.65%
Restaurant Brands	4.78%
Summerset Group	4.49%
Aristocrat Leisure	4.10%
Number of holdings in fund	**31**

Market commentary

Equity markets ended the year strongly with the S&P 500 index up 6.1% for the quarter, the FTSE 100 index up 4.3%, the Nikkei 225 index up 11.8% and the MSCI World index up 5.3%. Over the year these indices were up 19.4%, 7.6%, 19.1% and 19.8% respectively. The New Zealand equity market continued its strong run with the S&P/NZX 50 index (including imputation credits) up 6.1% for the quarter and 23.6% for the year. While the Australian market had a strong final quarter, up 7.6% as measured by the S&P/ASX 200 Accumulation index it still underperformed most international markets over the year, up 11.8%.

Fund commentary

The fund had a strong final quarter returning 8.2% (gross) which was 2.1% ahead of the S&P/NZX50 Index for the period. This capped off a strong year where the fund returned 31.0% exceeding the benchmark by 7.4%.

Over the quarter, an overweight position in **A2 Milk Company** (ATM) performed exceptionally well +25.5%. **Aristocrat Leisure** (ALL) +15.6% (in AUD), **Xero** (XRO) + 11.5% also performed well while the fund held them. Other stocks which helped relative performance included **Eroad** (ERD) and **PushPay Holdings** (PPH), while the fund's underweights in **Fletcher Building** (FBU) and **Air New Zealand** (AIR) added value.

Ryman Healthcare (RYM) - a nil holding, detracted from performance following a solid half year earnings announcement and additional site acquisitions. **Fisher & Paykel Healthcare** (FPH) performed strongly over the quarter gaining ~13% which detracted from the fund's performance given the fund's underweight position. FPH benefitted primarily from inclusion in the MSCI Global Index. **Contact Energy** (CEN) was removed from the same MSCI index and the overweight position detracted from performance as the stock eased back in price.

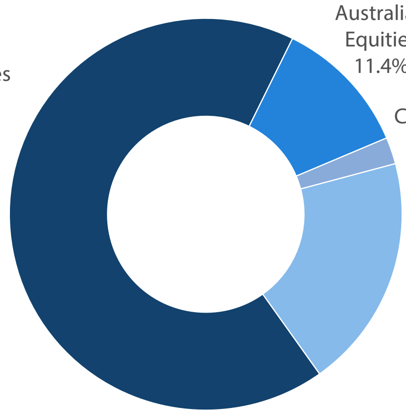
Fund activity was average over the quarter with the modest holding in **Sky Network TV** (SKT) sold for a reasonable profit having collected the dividend payment and **Propertylink Group** (PLG) benefited from a new investor acquiring a position in the company at $1.02, a 9.7% (in AUD) premium to the end of September closing price. The fund's investment **PushPay Holdings** (PPH) was sold on the back of very strong price performance. Stocks where relative weights were reduced over the quarter included **A2 Milk** (ATM), **Fisher & Paykel Healthcare** (FPH) and **Xero** (XRO). The fund remains overweight in **A2 Milk** (ATM) at quarter end.

Stocks that increased in weight include **Aristocrat Leisure** (ALL), **Chorus** (CNU), **Spark** (SPK) and **Stride Property** (SPG).

(bold denotes stocks held in the portfolio)

Concentrated Equity Fund

Asset allocation



Contribution to performance (quarter)

What helped	What hurt
EROAD	Pacific Edge
The A2 Milk Company	Fisher & Paykel Healthcare
Aristocrat Leisure	Stride Group

(At month end position)

Top 10 holdings

Name	% of Fund
Metlifecare	13.14%
Aristocrat Leisure	11.35%
Contact Energy	9.12%
The A2 Milk Company	8.88%
New Zealand Refining Company	7.74%
Xero	7.31%
Eroad	7.27%
Restaurant Brands New Zealand	5.35%
Metro Performance Glass	2.87%
Precinct Properties	2.20%
Number of holdings in fund	**14**

Market commentary

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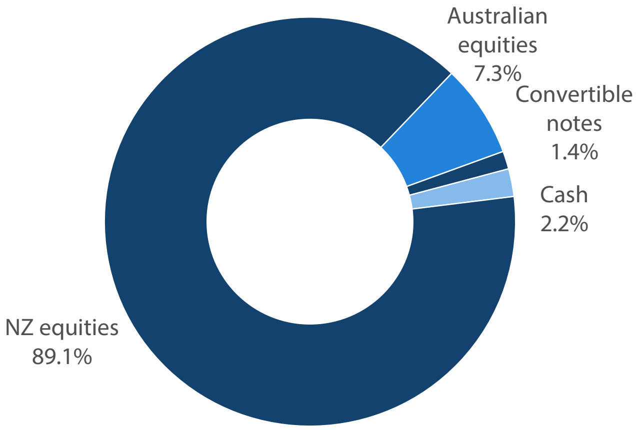
Stocks that increased in weight include **Aristocrat Leisure** (ALL), **Chorus** (CNU), **Spark** (SPK) and **Stride Property** (SPG).

(bold denotes stocks held in the portfolio)

Property Fund

Asset allocation



Attribution to performance

What helped		What hurt	
Property for Industry	UW	Goodman Property	UW
Vital Healthcare Property	UW	Precinct Properties	UW
Property Link Group	OW	Metlifecare	OW

OW: overweight; UW: underweight; NH: no holding - at month end position

Top 10 holdings

Name	% of Fund
Kiwi Property Group	17.99%
Stride Group	14.38%
Argosy Property Ltd	14.22%
Goodman Property Trust	12.00%
Precinct Properties	10.80%
Investore Property	5.76%
Property for Industry	4.05%
Ingenia Communities	3.96%
Metlifecare	3.89%
Vital Healthcare Property Trust	3.73%
Number of holdings in fund	**16**

Market commentary

Equity markets ended the year strongly with the S&P 500 index up 6.1% for the quarter, the FTSE 100 index up 4.3%, the Nikkei 225 index up 11.8% and the MSCI World index up 5.3%. Over the year these indices were up 19.4%, 7.6%, 19.1% and 19.8% respectively. The NZ property index also had a strong quarter, up 6.8% and ahead of the broader market which was up 6.1% as measured by the S&P/NZX 50 index.

The Australian property sector also outperformed the broader market with the S&P/ASX 300 property index up 7.8% compared to the S&P/ASX 200 index which was up 7.6%.

Fund commentary

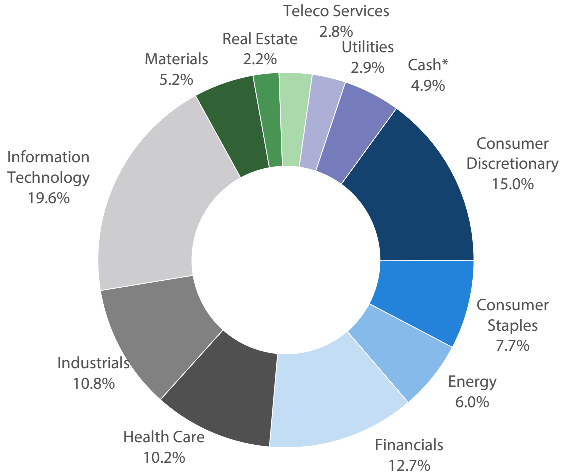
The fund had a strong final quarter, up 7.4% and 0.7% ahead of the benchmark return of 6.8%. The largest positive contributors to relative return were underweights in **Property for Industry** (PFI) and **Vital Healthcare** (VHP) and an overweight position in **Propertylink Group** (PLG). PFI underperformed the index, up only 1.2% as it digested the completion of its capital raising while VHP only rose 0.4% on no material news. PLG benefited from a new investor acquiring a position in the company at $1.02, a 9.7% premium (in AUD) to the end of September closing price. At this price we saw limited near term upside and sold our entire holding. The largest negative contributors to relative return were underweight positions in **Goodman Property Trust** (GMT) and **Precinct Properties** (PCT) and an overweight position in **Metlifecare** (MET). GMT reported a good half year result and rose 9.4% while PCT continues to make good progress on its large developments in Auckland and Wellington and rose 7.9% over the quarter. While MET rose 5.1% over the quarter it underperformed the strong index return and therefore was a drag on relative performance.

The key portfolio changes during the month included adding to positions in **Stride Property Group** (SPG) and **Investore Property** (IPL) while small down weights in GMT, MET and PCT.

Seven of the New Zealand listed property vehicles reported half year results during the quarter. In general, portfolio metrics remain solid with low vacancy, debt within target ranges and near term lease expiries under control. Outside of the result announcements,. GMT announced the sale of Central Park Corporate Centre in Auckland for $209m (subject to overseas investment office approval) and the Steel & Tube building in Christchurch for $20.4m. SPG was another to make announcements in addition to the half year result numbers. SPG announced that they would be redeveloping one of its properties where there was a material lease expiry and had signed a 25 year lease with a new tenant to move in once the redevelopment completes. In addition it had signed new leases with Bunnings on several properties and will then sell three of the properties to IPL, subject to IPL shareholder approval. A number of the listed property vehicles also raised debt through the retail bond market or announced they would be looking to do this in order to diversify funding away from the banks. (**Bold** denotes stock held in the portfolio)

Global Equity – multi-manager

Asset allocation

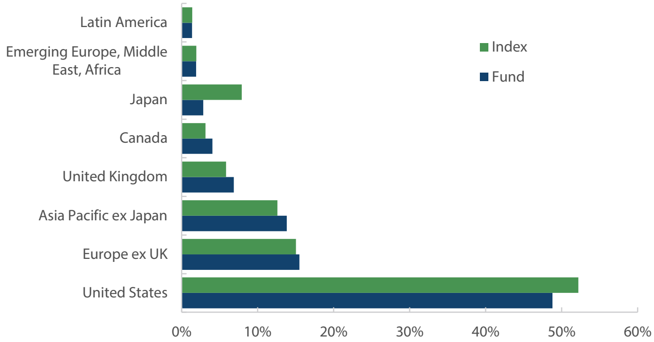


*includes the sum of the underlying managers' cash allocations

Manager allocations

Manager	Range	Actual
Davis Advisors	10 – 30%	26.9%
Epoch	10 – 30%	19.7%
Principal Global Investors	10 – 30%	25.9%
WCM	10 – 30%	26.0%
Nikko AM Derivatives	0 – 20%	0.0%
Nikko AM Cash	0 – 10%	1.5%

Geographical allocation



Emerging markets: 13.8% of the fund

Top 10 holdings

Company	Fund	MSCI	Country
Amazon.com	2.45%	1.04%	US
Alphabet, Class C	2.13%	0.71%	US
Facebook	1.75%	0.91%	US
Naspers	1.75%	0.27%	South Africa
Wells Fargo & Co	1.67%	0.62%	US
Alibaba Group Holding	1.52%	0.43%	China
Capital One Financial	1.42%	0.10%	US
New Oriental Education	1.21%	0.03%	China
Taiwan Semiconductor	1.18%	0.00%	Taiwan
Encana	1.16%	0.03%	Canada

Market commentary

The buoyant mood of the global equity markets carried on through to the final quarter of 2017 with markets remaining on their upward trajectory. The MSCI All Countries World Index (ACWI) returned 7.47% (NZD, unhedged) over the December quarter. Earnings remained robust over the three-month period and broader macro observations are generally for growth to continue.

The agreement of the long awaited US tax reform bill, which announced permanent cuts for corporations, provided a lift for markets over the quarter. While growth expectations remain positive overall, a counter to this is the flattening of the US yield curve, which has opened up the debate of what to expect next.

In recent months we have seen a change in commodity pricing with prices rising in part due to stronger demand from China for hard commodities. An OPEC driven agreement to extend production cuts to the end of 2018 has seen the price of Brent crude surging around 18% in the quarter alone.

Looking at sector performance, the strongest gains were in Information Technology and the Consumer Discretionary. Emerging Asia returned 10.3% and Japan 10.4%. Europe however lagged in relative terms returning a weaker 2.7%, in part a reflection of its strength during the prior quarter. European economic data remained positive however, suggesting a modest acceleration in growth.

Fund commentary*

The Fund trailed the over the fourth quarter, with a return of 7.15% (NZD, unhedged, 4.76% NZD hedged) The Value/Shareholder Yield manager, Epoch, was once again a major drag on performance, trailing the benchmark by 222 bps. WCM's Quality Growth strategy also struggled in December and ended the quarter 67 bps behind the benchmark, but PGI (+38 bps) and Davis (+131 bps) both outperformed. Growth outperformed the benchmark by about 90 bps over the quarter, while Value lagged the benchmark by 90 bps.

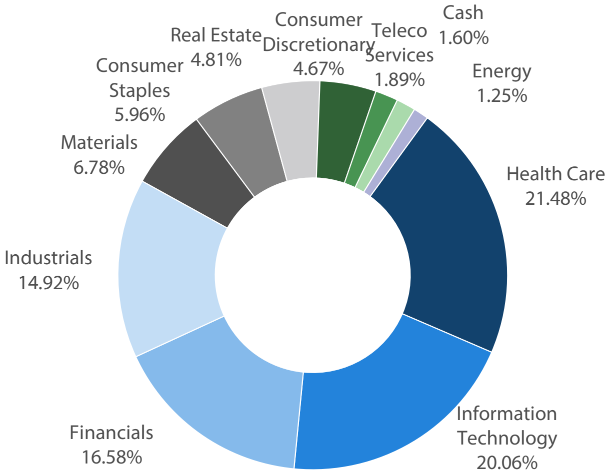
At the aggregate Fund level, the most significant detractor from performance was stock selection within the Healthcare, Materials and Energy sectors. Adding the most value over the quarter were overweights to Information Technology and Consumer Discretionary (which both outperformed) as well as stock selection within those sectors.

Epoch's major detractors from performance were a very large overweight to the high yielding Utilities and Telecoms sectors, which performed poorly over the quarter, as well as a large underweight to the strong performing Information Technology sector. Davis however experienced a very strong quarter in terms of relative performance. Its large underweights to the underperforming Healthcare and Utilities sectors added significant value, while the balance of the outperformance came from stock selection within the Financials and Consumer Discretionary sectors

*all return percentages expressed as unhedged in NZD unless otherwise stated

Global Shares

Asset allocation

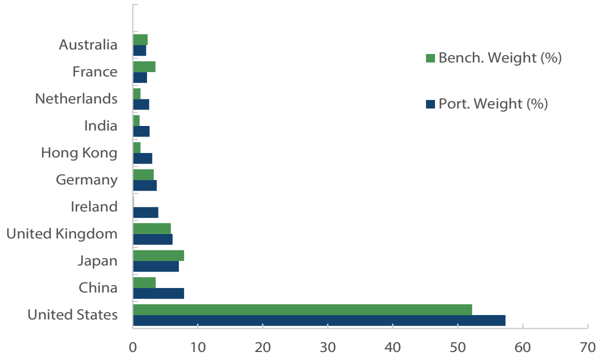


Contribution to performance (quarter)

What helped		What hurt	
Tencent Holdings	OW	Celgene Corporation	OW
SVB Financial Group	OW	Royal Philips NV	OW
Microsoft Corporation	OW	Johnson Matthey Plc	OW

OW: overweight; UW: underweight; NH: no holding – at month end position

Geographical allocation (% of fund)



Top 10 holdings

Company	Fund	MSCI	Country
Microsoft Corporation	5.12%	1.36%	US
LivaNova Plc	4.02%	0.00%	US
Facebook, Inc. Class A	3.85%	0.91%	US
Tencent Holdings Ltd.	3.77%	0.65%	China
Progressive Corporation	3.57%	0.07%	US
TransUnion	3.13%	0.02%	US
Healthcare Services Group	3.06%	0.00%	US
AIA Group Limited	2.99%	0.22%	Hong Kong
American Tower Corp.	2.87%	0.13%	US
Estee Lauder Companies Inc.	2.82%	0.06%	US

Market Commentary

The buoyant mood of the global equity markets carried on through to the final quarter of 2017 with markets remaining on their upward trajectory. Over Q4 earnings remained robust and broader macro observations are generally for growth to continue. The agreement of the long awaited US tax reform bill, which announced permanent cuts for corporations, provided a lift for markets. While growth expectations remain positive overall, to counter this, the US yield curve has flattened and has opened up the debate of what to expect next. Commodity pricing has risen in part due to stronger demand from China for hard commodities. An OPEC driven agreement to extend oil production cuts to the end of 2018 has seen the price of Brent crude surging around 18% in the quarter alone. The strongest sector gains were in the Information Technology and Materials with lower beta sectors such as Utilities, Healthcare and Telecoms. Regionally, a return to favour for the cyclical industrial producers of Asia made those geographies particular winners over Q4. Europe ex UK however lagged in relative terms returning a weaker 2.6%.

Fund commentary

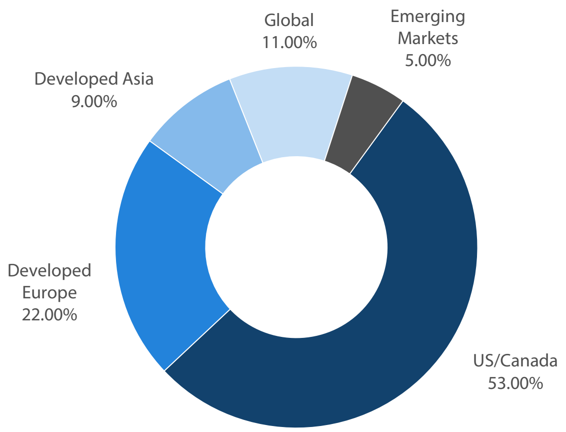
The portfolio underperformed its benchmark by -1.09% in Q4 with a return of 6.38 against the MSCI ACWI return of 7.47% (in NZD terms).

Holdings with notable impact on returns included the following: **Tencent** saw further upward revisions to earnings estimates during the quarter as demand for its mobile and PC gaming products was better than originally anticipated. The expectation of tax reform legislation passing and the potential for an improved economic outlook for 2018 led to **SVB** performing strongly during December. **Microsoft** continues to gain traction with its cloud business, Azure. The prospective change in US tax legislation also had a positive impact on the shares. **Sony** shares rose sharply as the company delivered a very strong set of quarterly earnings results. **Progressive** reported strong results in the last quarter. Auto insurance industry pricing remains strong and they continue to win market share in both auto and home insurance. **Celgene** was weak after announcing the failure of a clinical trial, evaluating a promising new treatment for Crohn's Disease. They also lowered their 2020 targets in light of this. **Royal Philips** was down 3% in December on continued profit taking after strength earlier in the year, which had seen the stock re-rate significantly. **Johnson Matthey** succumbed to profit taking again in Q4 after Q3's strength. Until the company announces firm contracts for their new, potentially disruptive material for electric vehicle batteries, they will continue to be seen as losers from the ongoing evolution in global car powertrains. **BAE Systems** shares were hit by on-going rumours about a $20bn black hole at the UK's Ministry of Defence. There is speculation that defence programs will have to be cut and BAE, as the UK's largest defence contractor, is a likely loser. **Cooper Companies** was down on a combination of profit taking in Healthcare's winners into the year end, and on concerns over the potential adverse impact of US tax changes on Cooper's EPS.

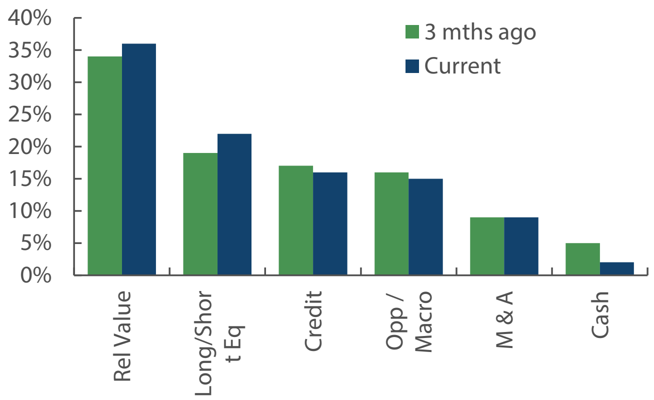
*all return percentages expressed as unhedged in NZD unless otherwise stated

Multi-Strategy

Country allocation



Portfolio composition by strategy



Performance contribution by strategy

Strategy	Number of funds	Latest month	Cal YTD
Relative Value	11	0.01%	1.05%
Long / Short Equities	9	-0.10%	3.41%
Opportunistic / Macro	5	-0.14%	-0.22%
Credit	7	-0.02%	-0.48%
Merger Arbitrage / Event Driven	2	-0.21%	0.20%
Portfolio Hedge	1	0.00%	-0.09%

Fund commentary (source: JPMAAM for underlying USD shareclass)

The **Relative Value** strategy (*December: -0.04% vs. HFRX Relative Value +0.67% / YTD: +2.86% vs. +3.80%*) was slightly lower for the month. The largest detractor was a Volatility Event fund that lost money as several larger positions sold off. Multi-Strategy Funds added to performance overall. Quantitative managers added to performance with gains in machine learning strategies across time horizons, which more than offset losses in a medium-term fund.

The **Opportunistic/Macro** strategy (*December: -0.28% vs. HFRX Macro +0.82% / YTD: -1.70% vs. +2.51%*) was negative for the month. Reinsurance experienced losses from the California wildfires and from the refinement of previous loss estimates. Mostly offsetting these losses were gains in an Opportunistic manager that made money primarily from long equity positioning.

The **Long/Short Equities** strategy (*December: +0.53% vs. HFRX Equity Hedge +1.03% / YTD: +16.43% vs. +9.98%*) was up for the month, finishing a strong year. The biggest contributor was an Activist manager that made money in a US media company that agreed to divest a significant portion of their business, a credit card company that reported strong sales and a data storage company that announced cost cutting exercises. Non-US managers also added to performance. A fund focused on European small caps made money in a food delivery service and a business consulting firm, and an Asian fund profited from a Chinese online marketplace. Partially offsetting these gains were losses in a sector specialist that lost money in a pharmaceutical company and a short position in a Japanese game maker.

The **Merger Arbitrage/Event Driven** strategy (*December: +0.61% vs. HFRX Event Driven +0.39% / YTD: +3.06% vs. +6.48%*) was up for the month. The only meaningful contributor was a Multi-Event Driven manager that made money in a merger arbitrage deal where the spread tightened and in an energy company that called off an acquisition.

Credit managers (*December: +0.16% vs. HFRX Distressed +0.92% / YTD: -2.55% vs. +3.14%*) were slightly higher for the month. Gains came from a litigation finance strategy, a structured credit fund focused on CLO and CMBS markets and a Corporate-Litigation/Liquidation fund. The biggest detractor was a Corporate-Distressed manager that has maintained short exposure to high yield markets.

Finally, our **Portfolio Hedge** manager was negative as the S&P 500 rose +1.1% and the VIX fell modestly from 11.3 to 11.0