Nikko AM Wholesale Balanced Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ$5 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms. We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Fund launch

October 2007 – a similar portfolio has been operated by Nikko AM since September 1992

Investment objective

To achieve a return which exceeds the Fund's benchmark return by 1.5% per annum over a rolling three year period before fees.

Benchmark

Benchmark performance is calculated on a pro-rata basis against the relevant sector index

Distributions

At any date for any period fixed by the Manager

Currency management

Currency hedging contracts, if any, are held in the sector funds listed in the asset allocation.

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investor Rate. The Fund invests directly into PIEs for the New Zealand sectors and directly in appropriate vehicles for the global sectors. The Fair Dividend Rate approach applies to global equities and alternative investments. Information is provided to the IRD and unit holders on an annual basis.

Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund. Nikko AM, as manager of the Nikko AM NZ Funds, will directly meet all costs required for the operation of the Funds, including, but not limited to, trustee fees, custody and sub-custodial fees, and administration fees. There is no investment management fee charged to the Nikko AM Wholesale Balanced Fund by other Nikko AM NZ Funds forming the Nikko AM Wholesale Balanced Fund composite.

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: 10% of returns above US 3-month T-Bill after all fees accrued on a monthly basis, payable annually, subject to recovery of any previous period negative returns before entitlement.

Buy/sell spread

0.1050% / 0.1050%

Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-1.27%	-0.46%	-0.82%
3 months	1.87%	1.55%	0.32%
6 months	4.26%	3.54%	0.71%
1 year	8.86%	5.65%	3.21%
2 years (pa)	12.26%	9.20%	3.07%
3 years (pa)	12.22%	9.11%	3.11%
5 years (pa)	10.91%	9.03%	1.88%

Fund size

NZ$241 million

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation

Sector	Fund	Benchmark
NZ Bond Fund	7.14%	7.00%
Corporate Bond Fund	7.17%	7.00%
Option Fund	9.92%	10.00%
Global Bond Fund[1]	14.21%	14.00%
Core Equity Fund	7.06%	7.00%
Property Fund	5.20%	5.00%
Concentrated Equity Fund	14.16%	14.00%
Global Equity Funds[2]	25.46%	26.00%
Multi-strategy Fund	9.68%	10.00%

1 Global Bond Fund 100% hedged

2 Global equities 50% hedged prior to 31 Aug 08, 25% hedged from 1-Sep-08 to 31 March 2015, from 1 April 2015 50% hedged

Currency exposure

NZ dollar exposure of the Balanced Fund: 83.3%

Sector performance (NZD gross returns)

	1 month		3 months		1 year		3 years pa		5 years pa	
	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
NZ Bond Fund	0.80%	0.93%	2.07%	2.15%	7.73%	8.04%	6.97%	6.20%	7.12%	5.87%
Corporate Bond Fund	0.75%	0.93%	1.78%	2.15%	7.15%	8.04%	7.13%	6.20%	7.27%	5.87%
Option Fund	-0.74%	0.53%	1.96%	1.60%	16.14%	7.07%	13.12%	7.33%	7.61%	7.16%
Global Bond Fund	1.52%	1.99%	2.68%	2.94%	9.69%	10.05%	8.20%	8.30%	7.59%	7.67%
Core Equity Fund	-2.47%	-1.95%	3.00%	2.29%	23.09%	21.89%	19.60%	17.31%	17.38%	16.41%
Property Fund	-0.11%	-1.30%	3.31%	2.70%	19.15%	18.58%	16.29%	15.67%	15.56%	15.10%
Concentrated Equity Fund	-2.91%	0.58%	2.08%	1.76%	19.73%	7.62%	21.17%	7.91%	16.53%	7.75%
Global Equity Funds	-3.44%	-3.22%	0.45%	0.10%	-1.33%	-5.14%	11.62%	9.44%	11.28%	9.75%
Multi-strategy Fund	-0.09%	0.41%	2.48%	1.22%	1.53%	5.48%	7.00%	5.75%	7.35%	5.57%

Indices used:

NZ Bond Fund – Bloomberg NZ Bond Govt 0+ Yr Index

Option Fund – Bloomberg NZBond Bank Bill Index+ 4.0% p.a.

Core Equity Fund – S&P/NZX 50 Index Gross with Imputation Index

Concentrated Equity Fund – RBNZ Official Cash Rate plus 5.0% p.a

Global Bond Fund – Barclays Capital Global Aggregate Index (100% hedged into NZD)

Corporate Bond Fund – Bloomberg NZ Bond Govt 0+ Yr Index

Multi-strategy Fund – Bloomberg NZBond Bank Bill Index + 2.5% p.a.

Property Fund – S&P/NZX All Real Estate (Industry Group) Gross with Imputation Index

Global Equities – MSCI ACWI, with net dividends reinvested (50% hedged into NZD)

New Zealand bonds and options

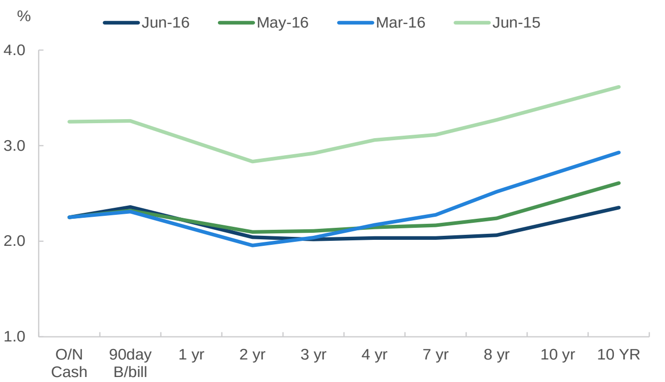
New Zealand bond

Sector allocation	Fund
Government stock	27.8%
SOE and local authority	16.2%
NZ registered banks	41.8%
Corporate debt	14.2%

S&P Rating	Fund
AAA	13.1%
AA	59.6%
A	22.9%
BBB	4.4%

Top 5 corporate issuers	Fund
NZ Local Government Funding Authority	9.8%
Bank of New Zealand	9.1%
Rabobank	7.3%
Westpac Banking Corp	6.7%
Fonterra Co-operative Group	5.5%

New Zealand yield curve



Duration	Fund 4.0 years versus benchmark 4.43 years
Yield	Fund (gross) 3.25% versus benchmark 2.09%

Commentary

Over the month NZ Government bond and swap rates performed strongly as interest rates moved lower in yield. The NZ Government bond index produced a return of 0.93% for the month while the All Swap index returned 1.09% and the NZ Corporate A Index returned 0.68%.

For the month the Fund's shorter duration with higher holdings of credit detracted value. Under performance over the quarter was mainly attributed to credit as longer interest rate exposures and higher percentage holdings of government bonds and swaps performed better as New Zealand interest rates moved sharply lower in yield

following the Brexit vote by the UK to leave EU membership. Before the vote the NZ Government 2033 bond had moved higher in yield (close to 3%) with expectations the UK would stay, subsequently the NZGS 2033 bond fell approximately 30 basis points in yield to 2.67% at the end of June.

Similar maturities of swap rates performed better than government bonds as swap rates decreased more in yield narrowing their spread to governments. Also longer maturity bonds had greater decreases in yield outperforming shorter maturities. For example the 10-year swap rate moved 28 basis points lower in yield over the month, whereas the 2-year swap decreased by 7 basis points. The NZ yield curve has flattened significantly in shape with the 2-10 year swap spread narrowing from 64 basis points to 43 spread led by long maturities as uncertainty increases and expectations for global growth is revised downwards. An important point is that Brexit has little direct impact on NZ, however the financial markets have been relatively volatile and this may increase the likelihood of a further reduction in the NZ cash rate. The actual process of exit will develop over a period of years rather than months and market sentiment will likely have moments of complacency and bouts of overreaction as events unfold. NZ interest rates are at new historic lows, but rates are generally much lower in other developed countries. We continue to expect a reasonable amount of interest in NZ assets with attractive yields and the currency showing some stability.

Credit markets didn't perform as well as other bond sectors in the "risk off" environment, uncertainty as to where pricing should be saw two local bond issuers delaying their deals. Subsequently there have been some relatively large corporate issues globally that have received good pricing support. New issuance levels locally should offer reasonable value and we are happy continuing to extend the duration of the Fund's credit holdings to take advantage of higher credit margins. Over our 3-year investment horizon we expect credit to add value over lower yielding Government and swap bond investments. The accrual trade of having a higher yielding portfolio should ultimately be of benefit with a positive shaped yield curve as bonds roll down the yield curve and move lower in yield as they become closer to maturity.

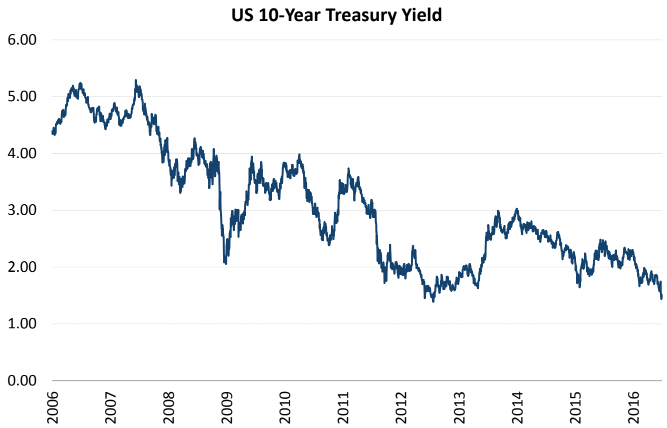
New Zealand corporate bond

Sector allocation	Fund
Corporate bonds	33.0%
NZ registered banks	48.7%
Local authority	11.2%

Credit rating profile S&P rating	% portfolio	Number of holdings
AAA	2.6%	6
AA	49.0%	49
A	21.0%	23
BBB	27.4%	29

Top 10 issuers			
Westpac Banking	9%	Rabobank	6%
Bank of New Zealand	9%	Transpower	5%
ANZ Bank NZ	9%	Fonterra	5%
ASB Bank	7%	Powerco	3%
NZ Government	7%	Kiwibank Limited	3%

Options



Commentary

The Nikko AM Wholesale Option Fund fell by 0.74% in June. The month was eventful, delivering surprises that produced widely ranging and volatile markets. The event that was most unexpected by financial markets was the UK public voting to leave the EU in the 23 June referendum. Markets assumed the "remain" vote would carry the day, however as votes were being counted and the reality of a "shock" result began to set in, chaotic trading conditions ensued with wild swings in illiquid asset markets, especially in currency markets.

The GBP/USD traded in a 17 cent range, reaching a 30-year low and having its largest one-day fall under the free-float regime. In this "risk off" environment there was strong buying of US Treasury bonds with the 10-year bond yield falling from 1.74% before the poll closed to an intraday low of 1.4% as the UK result became more certain. The monthly trading range was 1.85% to 1.4%. The sharp fall in yields meant a number of call options were exercised resulting in the negative returns for June.

Earlier in the month, the US May non-farm payrolls report rose by just 38,000 – much weaker than anticipated and confirmed a slowdown in US employment. Soon after, US Federal Chair Yellen seemed to back off her previous guidance that a tightening in monetary policy was likely in coming months. Later the Fed's Open Market Committee (FOMC) confirmed with the Fed saying there is no urgency to raise rates. The UK vote to exit the EU is also further confirmation that the Fed will be slow and cautious in any policy tightening. The general consensus is that Brexit will lead to marginally slower global growth and more geopolitical tensions as a number of countries ready themselves for general elections over the next year. With heightened investor anxiety surrounding these events little upward movement in interest rates is likely over 2016 and into 2017.

Even though the Option Fund registered a negative return in June, conditions remain favourable for an acceptable level of performance over the months ahead.

Global bond

Credit quality rating	
AAA	40.4%
AA+, AA. AA-	13.2%
A+, A, A-	29.1%
BBB	18.2%
BB	0.3%
Unrated	-1.2%

Sector allocation	Fund	Index
Governments	42.3%	52.5%
Agency	8.2%	9.4%
Credit	20.8%	20.3%
Collateralised & MBS	25.5%	11.7%
Emerging market debt	4.4%	6.1%
Cash, derivatives, other	-1.2%	0.0%
Governments	42.3%	52.5%

Duration	Fund 6.38 years versus benchmark 6.76 years
Yield	Fund 3.37% versus benchmark 3.12%

Commentary

Government bonds rallied broadly across developed markets over the quarter. US 10-year rates were down 30bps to 1.47%, UK 10-year down 55bps to 0.87%, and German down 28bpts to -0.13%.

Over the quarter the **Fund** marginally underperformed, returning 2.68% versus the benchmark of 2.94%. Country allocation detracted the most value (-14bps), followed by duration management and stock selection within government stock and swaps (-8 bps each). Cross sector allocation added the most value (+14bps).

The Global Manufacturing Purchasing Managers Index (PMI) rose marginally to 50.4 in June, from 50.0 in May, signaling modest expansion in global manufacturing. The average pace of expansion over Q2 2016 as a whole was the weakest since Q4 2012.
The extent of recent rallies in US Treasuries, as well as relatively loose financial conditions, signs of improvement in US economic data and resilient risk asset performance is expected to put some pressure on rates to retrace higher. GSAM believe the Bank of England will likely cut rates in the wake of the UK referendum on EU membership, while recent comments from European Central Bank President Mario Draghi suggest the ECB is unlikely to use the rate channel further.

The Fund is short Europe versus long the UK in Country strategy. The Fund maintained its short position in US rates and neutral position in European rates over the quarter. The UK referendum has increased uncertainty in European growth forecasts and fueled concerns about higher loan losses from Italian banks. Japanese rates rallied on the Brexit result. Prime Minister Shinzo Abe has pledged to use all available policy tools to minimize the uncertainty caused by Brexit in the Japanese market. The Fund maintains its short position in Japan.

Agency **mortgage-backed** securities (MBS) underperformed duration-neutral US Treasuries by 30bps in June, and outperformed by 3bps over the quarter. US Treasuries rallied to a post-financial crisis low after the UK referendum to leave the EU, contributing to the underperformance of agency MBS. However, agency MBS outperformed most other risk assets following Brexit due to their superior liquidity and a scarcity of positive yielding assets globally. The Fund is underweight agency MBS, on the expectation of bank demand weakening due to a decline in agency MBS yields and expectations for increased prepayments and increased supply.

Investment grade **corporates** weakened over the month of June, largely as a result of uncertainty arising from the UK referendum. Spreads on the Barclays Global Aggregate Corporates Index widened 8bps to 154bps over sovereigns over the month, and tightened 3bps over the quarter. US corporates and European corporates both weakened with Sterling corporates the most affected. UK banks were impacted the most, delaying their recovery and creating a headwind for earnings. The UK referendum also had a strong dampening effect on primary markets. Gross new issuance for the month around $72bn in the US and $23bn in European markets, significantly lower from the previous month.

The Fund position moved to a modest underweight in corporate credit. Uncertainty around the impact of the UK referendum result and nearing US elections are likely to result in some volatility, while the extent of spread tightening from earlier in the year provides an attractive entry point. Additionally, summer seasonals and late cycle trends tend to be negative for credit. However, GSAM expect the UK referendum outcome will most directly impact UK and European banking sectors. Within the credit quality spectrum, GSAM maintain a down-in-quality bias to triple-B rated credit as well as a preference for the intermediate part of the corporate term structure. GSAM see value in consumer products, tobacco and pipelines, mainly as a result of single-security, bottom-up views rather than thematic sector-level decisions. The Fund is underweight the insurance, media non-cable and energy industries.

Core Equity

Sector allocation	Fund	Index
Consumer discretionary	10.9%	9.8%
Consumer staples	4.9%	3.4%
Energy	6.5%	4.6%
Financials	5.3%	12.9%
Healthcare	24.7%	17.1%
Industrials	12.2%	14.4%
Information technology	1.6%	1.7%
Materials	8.2%	9.1%
Telecommunications	7.9%	10.4%
Utilities	16.3%	16.6%
Cash	1.7%	0%

Attribution

What helped		What hurt	
Air New Zealand	UW	NZ Refining	OW
Sky TV Network	UW	Japara Healthcare	OW
Aristocrat Leisure	OW	Z Energy Limited	UW

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

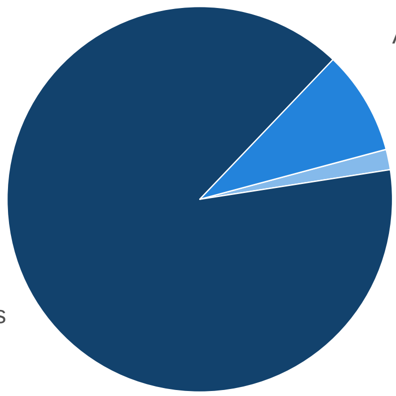
Largest deviations from index

Overweight	Underweight
Contact Energy	Ryman Healthcare
Infratil Ltd	Mighty River Power
Fisher & Paykel Healthcare	Kiwi Property Group

Top 10 holdings

Fisher & Paykel	Infratil Limited
Contact Energy	Sky City Entertainment
Fletcher Building	Summerset Group Holdings
Spark New Zealand	Metlife Care
Auckland International Airport	Restaurant Brands
Number of holdings in fund	**35**

Asset allocation



Hedging

Australian listed stocks are unhedged

Commentary

In the immediate aftermath of the Brexit “Leave” decision the NZ equity market fell sharply, down 3.4%, although most of this was made back in the final days of the quarter. Aristocrat Leisure (ALL) which was introduced during the quarter rose 28.8% after a strong result driven by solid market share gains in both the US and Australian markets. The company’s innovation and strong R&D pipeline has driven these share gains. Restaurant Brands (RBD) continued its strong run from the end of the March quarter and rallied ~14% with a strong earnings result to follow their recently announced acquisition in NSWs

Our nil position in Air NZ was beneficial as the stock fell 26%. A combination of their previously announced loan to Virgin Australia and announcements from other airlines about further competition on AIR routes, drove the price reduction. Additionally our nil position in EBOS added value as the stock drifted lower.

NZ Refining (NZR) fell further over the quarter primarily on a mild deterioration in expected refining margins and hence profits, together with a planned shutdown of the hydrocracker. This detracted from performance materially our large relative weight. We expect the price to improve with confirmation of good operational performance for the remainder of the year.

Japara Healthcare (JHC) fell during the quarter on the release of the Australia Federal Budget. The budget has been incorrectly interpreted in our opinion and we remain confident of a reason medium term return supported by very strong demand for aged care beds in Australia.

Eroad (ERD) detracted from performance over the quarter at the company re-organises their North American business and deals with a period of lower business growth despite very supportive regulatory change. Our underweight position in Ryman Healthcare (RYM) detracted from performance especially during June. The performance is somewhat unexpected given usually strong headwinds for FY17.

During the quarter we exited Western Areas, Vista Group, Rio Tinto, Metro Performance Glass and ANZ Bank as our outlook for these stocks became more negative. We successfully traded our position in Sky Network Television but ended the quarter with a nil holding. Stocks added during the quarter were Aristocrat Leisure, NextDC and Tegal Group Holdings, which all performed as expected. (Bold denotes stock held in portfolio.

Concentrated Equity

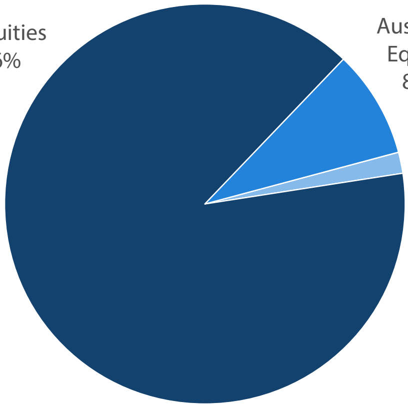
Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure Limited	NZ Refining Company Limited
NEXTDC Limited	Japara Healthcare
Contact Energy Limited	ERoad Limited

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer Discretionary
Japara Healthcare	Healthcare
Number of holdings	**17**

Asset allocation



Hedging

ASX exposure	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	8.7%
	(i.e. the Fund is currently unhedged)

Commentary

The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3% over the quarter while the Australian market (S&P/ASX 200 Index) was stronger at 3.9%. Global equity markets generally posted solid returns for the quarter with the exception of the Europe and Japan. In the immediate aftermath of the "leave" decision in the Brexit referendum the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter.

Global equity markets posted generally solid returns for the June quarter with Europe and Japan being the few exceptions. Earlier in the period post recent Fed statements many global economists have brought forward their expectations for the next Fed rate hike from late 2016 to either June or July but by quarter end this had pushed out into next year.

Late in the quarter, the looming Brexit decision resulted in market uncertainty and the final vote for "Leave" initially upset markets but they bounced strongly with the UK market up 5.3% for the quarter with most of this coming from the +4.4% rise in June. The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3%. In the immediate aftermath of the "Leave" decision the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter. The Australian market (S&P/ASX 200 Index) was stronger, up 3.94% for the quarter.

The strongest contribution to performance over the quarter was from recent Fund entrant **Aristocrat Leisure** which rose 28.8% after a strong result driven by solid market share gains in both the US and Australia. The company's innovation and strong research and development pipeline has driven these gains. Other strong performers included data centre **NEXTDC** (+20.1%), the recent addition of fresh milk and infant formula company **A2 Milk** (+23.3%) and retirement operator **Metlifecare** (+14.7%). The Fund's largest position, **Contact Energy** rose a solid 3.6% over the month and was the best performing generator retailer over the period.

A2 Milk, **Aristocrat Leisure**, **Fisher & Paykel Healthcare**, **Sky City**, **Restaurant Brands** and **Investore** were added to the portfolio over the quarter. Inter-quarter trades were also made in Westpac and Tegel but these stocks were not held at quarter end. The Fund finished the month with a higher than normal seventeen stock holdings.

On the economic news front, the release of the Budget provided surprisingly robust news on the state of the New Zealand economy. The NZ dollar rose 6.08% against the Australian dollar detracting from Fund performance due to Australian dollar investments currently being unhedged. Against the US dollar, the NZ dollar rose 3.0% during the quarter with one of the consequences seen as most likely from the UK Brexit vote is for the US Federal Reserve to be on hold for an extended period. While the RBNZ still has concerns that lower interest rate settings will further drive recent momentum in housing activity, recent moves in the NZ dollar will not be welcomed and may see the RBNZ cut rates by 25 basis points to 2.0% at their 11 August MPS in spite of the local economy not appearing to need further stimulus.

(**Bold** denotes stock held in portfolio)

Property

Attribution

What helped		What hurt	
Stride Property Limited	OW	Vital Healthcare Prop	UW
Arvida Group Ltd	OW	Kiwi Income Property	UW
Property for Industry	UW	Argosy Property	OW

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

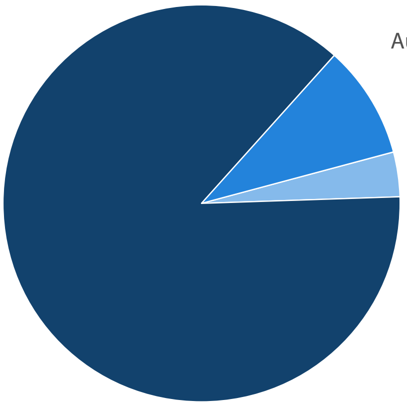
Top 5 holdings

Stride Property Limited	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ Limited
Kiwi Property Group	
Number of holdings in fund	**20**

Hedging

Australian listed stocks are 94.2% hedged to NZD

Asset allocation



Commentary

Over the quarter both the NZ Property index and Australian Property index outperformed their broader markets. The NZ Property sector posted a 2.7% return for the period vs the NZX 50 index which was up 2.3%. The Australian property index was particularly strong, up 8.0% compared to the S&P/ASX 200 index which rose 3.9%.

The Fund had relatively strong end to the quarter, finishing up 3.0%, 0.50% ahead of the benchmark. The largest positive contributors to relative return were overweight positions in Stride Property (STR) and Arvida Group (ARV) along with an underweight position in Property for Industry (PFI). STR (up 7.8% over the quarter) benefited following the announcement of a new capital structure along with a demerger and initial public offering while ARV (up 22.1%) benefited following the announcement of an acquisition along with releasing their financial result for the year ended March. PFI fell 2.9% on no specific news. The largest detractors from relative performance were underweight positions in Vital Healthcare (VHP) and Kiwi Income Property (KPG) and an overweight position in Argosy Property (ARG) which were returned 11.3%, 6.0% and -1.9% respectively.

Despite announcing a $160m equity raising, VHP was a strong performer while KPG benefited from a strong revaluation.

Key portfolio changes over the quarter included adding to the Fund's positions in STR, ARG, Ingenia Communities (INA) and Summerset (SUM) while reducing weights in Precinct Properties (PCT), 360 Capital Industrial Fund (TIX), KPG and Goodman Property Trust (GMT).

Seven of the Fund's holdings reported results for the year ending March during the quarter. Key portfolio metrics remain strong with low vacancy, long weighted average lease term, middle or below their target gearing range, low debt costs and manageable near term lease expiries. Falling capitalisation rates continue to be the driver of valuation increases rather than rental growth which is anemic - reflective of the low inflation environment we are in. Recycling continues to be the strategy for the property vehicles, with non-core properties being sold and reinvested in existing properties or developing new properties with the result generally being higher quality portfolios. There was little that was unexpected in the result announcements apart from STR announcing a proposed new capital structure and ARV announcing a new retirement village acquisition. STR's proposal is to create a stapled security structure which will enable STR to retain its PIE status while growing its real estate investment management business. ARV continues to grow its portfolio of retirement villages with the latest acquisition being a retirement village and aged care facility in Masterton. This takes ARV's number of facilities up to 22 from the 18 that it had at the time of the initial public offering.

In June VHP announced a $160 million equity raising to fund its development pipeline while STR announced that it intends to split out its large format retail properties into a new vehicle called Investore which will raise equity to purchase additional properties. INA was another holding that raised equity over the quarter - raising $60 million to acquire four new lifestyle parks.

Other announcements made over the quarter included KPG announcing that it has agreed to acquire 50% of The Base shopping centre in Hamilton from Tainui Group Holdings for $192.5m. TIX announced its portfolio revaluation which shows a $33.4m (3.8%) increase since 31 December 2015 along with reaffirming its distribution guidance for FY17 of 21.6cps which equates to a yield of ~8%.

(**Bold** denotes stock held in portfolio. (cpss – cents per share stapled security).

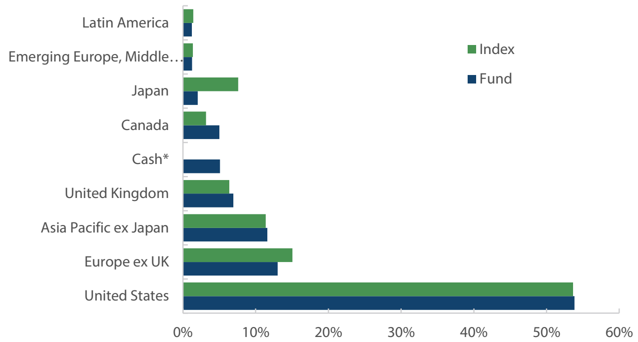
Global Equity

Sector allocation

Sector	Fund	MSCI
Consumer Discretionary	14.9%	12.3%
Consumer Staples	10.6%	10.9%
Energy	7.6%	7.0%
Financials	13.6%	19.7%
Health Care	9.3%	12.4%
Industrials	9.4%	10.2%
Information Technology	17.7%	15.0%
Materials	4.5%	4.9%
Telecommunication Services	3.6%	4.0%
Utilities	3.7%	3.6%
Cash*	5.1%	0.00%

* includes the sum of the underlying managers' cash allocations

Geographical allocation



Emerging markets **11% of Fund**

Top 10 holdings

Company	Fund	MSCI	Country
Amazon.com	3.3%	0.8%	US
Encana Corp	1.6%	0.0%	Canada
Berkshire Hathaway	1.6%	0.5%	US
Facebook	1.4%	0.7%	US
Alphabet Class C	1.4%	0.6%	US
Taiwan Semiconductor	1.4%	0.4%	Taiwan
Alphabet Class A	1.3%	0.6%	US
Wells Fargo	1.2%	0.6%	US
Reckitt Benckiser Group	1.2%	0.2%	UK

Manager allocations

Manager	Range	Actual
WCM Investment Mgmt	10-30%	25.3%
Principal Global Investors	10-30%	25.4%
Epoch Investments Partners Inc	10-30%	21.5%
Davis Selected Advisors LP	10-30%	22.4%
Nikko AM Limited (Derivatives)	0-10%	5.3%
Nikko AM Limited (Cash)	0-10%	0.1%

Commentary

Global equities ended the quarter on a low due to the surprise 'leave' outcome of the EU referendum in the UK and global equities sold off sharply for the two days after. The anxiety however, was short-lived as stocks powered to strong gains during the last three days of June, on expectations of new stimulus efforts by the world's largest central banks. While the MSCI All Countries World Index returned 1.16% in US Dollars (USD) over the quarter, the benchmark return was significantly worse for New Zealand investors, falling -1.55% (NZD, unhedged) after most foreign currencies declined against the NZ dollar. On a fully hedged to NZD basis the index return for the quarter was 1.72%.

US, Swiss and Japanese equities held up relatively well compared to those in Europe. In European markets, Italy, Spain and Germany performed the worst, falling between 8-12%, while large cap UK equities performed surprisingly well in the Brexit aftermath. The FTSE 100 index declined only 4.6% (NZD, unhedged) over the quarter, but the broader FTSE 250 index suffered a loss of 13% (NZD, unhedged).

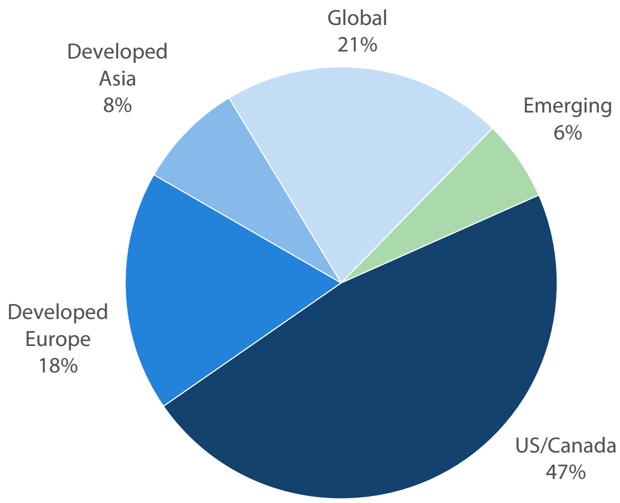
Among the major sectors, Consumer Discretionary fell 6.4%, followed by Financials and Information Technology, both declined by more than 4%. Defensive sectors like Utilities (up 1.4%) and Consumer Staples (up 0.9%) outperformed, while Energy (up 6.6%) benefitted from a 25% gain in the oil price over the quarter, its strongest performance since mid-2009. Most commodity prices were firmer during the 3-month period, though this largely reflected gains prior to the Brexit vote, and a post-Brexit surge in gold price.

The Fund returned -1.27% (unhedged in NZD) in the June quarter, outperforming the benchmark by 28 bps. For the 12-month period, the Fund's return of -5.06% was 351 bps better than the benchmark's return of -8.57% (unhedged NZD). On a fully hedged to NZD basis the Fund returned 1.89% versus the benchmark of -1.90%, giving outperformance of 3.79%. The biggest contributors to performance over the quarter was a significant overweight to Amazon.com which jumped 17%, followed by Canadian oil & gas explorer, Encana, which rose 23%. In the Technology sector, Mercadolibre (up 16%) and Tyler Technologies (up 26%) were two of the Fund's non-benchmark holdings adding value. Texas-based real estate investment trust, Crown Castle International surged 15% and was the Fund's best performing stock from the Financial sector. The disappointments over the quarter were poor performance by some of the Fund's Chinese holdings. Overweight positions in JD.com, YY Inc. and SouFun Holdings hurt performance the most. A significant underweight to the oil major, Exxon Mobil, which gained 10%, also detracted from performance.

Regarding Brexit, the Fund's exposure to UK-listed stocks made a positive contribution to performance. The top three UK holdings (Reckitt Benckiser, British American Tobacco and ARM Holdings) all outperformed, while the Fund had no exposure to some of the worst performing UK names like Lloyds, Banking, Prudential and Barclays.

Multi-Strategy

Portfolio composition by geography

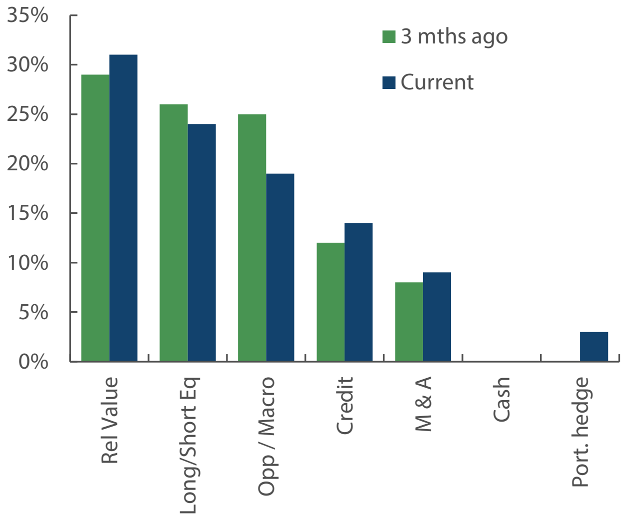


Investment profile

MSF II Ltd currently employs 37 managers

Opportunistic / Macro	10	Merger Arbitrage/Event	2
Long / Short Equities	10	Credit	6
Relative Value	8	Portfolio Hedge	1

Portfolio composition by strategy



Performance of key investments

Name	Strategy	Latest month	Cal YTD
QVT	Relative Value	-1.25%	-2.23%
Deerfield	Long / Short Equities	4.79%	1.22%
Palomino	Opportunistic / Macro	-0.90%	-0.62%
Senator Global Opportunity Fund	Merger Arbitrage / Event Driven	1.06%	0.28%
Tyrus Capital Event Fund	Merger Arbitrage / Event Driven	-0.35%	4.54%
Key holdings as a percentage of the Fund			**16.2%**