nikko am
Nikko Asset Management

Nikko AM Wholesale Conservative Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manage around 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

July 2016

Investment objective

To achieve a return which exceeds the weighted composite benchmark return by 1.00% p.a. over a rolling three year period before fees, expenses and taxes (if any).

Benchmark

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

Distributions

Generally does not distribute but may do so at the Manager's discretion.

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.

Buy/sell spread

0.0473% / 0.0473%

Structure

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed Investor Rate. The Fund invests directly into PIEs for the New Zealand sectors and either directly or indirectly via an appropriate vehicle(s) for the global sectors. Information is provided to the IR and investors 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 NZ as manager will directly meet costs required for the operation of the Nikko AM NZ funds, including, but not limited to, trustee fees, custody and sub-custodial fees, and administration fees (All administration fees for underlying Nikko AM funds will be met by the Manager with the exception of the Nikko AM NZ Corporate Bond Fund). There is no investment management fee charged to the Nikko AM Wholesale Conservative Fund by other Nikko AM NZ funds forming the Nikko AM Wholesale Conservative Fund composite. Management fees and administration costs charged by JP Morgan Alternative Asset Management Inc (JPMAAM) are included in the unit price of the Nikko AM Wholesale Multi-Strategy Fund that the Nikko AM Wholesale Conservative Fund invests in. Contact Nikko AM NZ for more details.

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

- 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 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, 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.

Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.26%	0.34%	-0.08%
3 months	-2.37%	-1.46%	-0.91%
6 months			
1 year			
2 years (pa)			
3 years (pa)			
5 years (pa)			

Fund size

NZ$2.2 million

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation

Sector	Fund	Benchmark
NZ Cash Fund	10.0%	10.0%
NZ Bond Fund	14.9%	15.0%
Corporate Bond Fund	9.9%	10.0%
Option Fund	5.1%	5.0%
Global Bond Fund	30.0%	30.0%
Core Equity Fund	7.5%	7.5%
Property Fund	5.0%	5.0%
Global Equity Funds	12.7%	12.5%
Multi-Strategy Fund	5.0%	5.0%

[1] Global Bond Fund 100% hedged

[2] Global equities 69% hedged on gross basis.

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 Cash Fund	0.26%	0.18%	0.76%	0.56%						
NZ Bond Fund	-0.63%	-0.61%	-3.40%	-3.33%						
Corporate Bond Fund	-0.46%	-0.61%	-2.16%	-3.33%						
Option Fund	1.21%	0.51%	-8.21%	1.56%						
Global Bond Fund	0.43%	0.39%	-1.66%	-2.02%						
Core Equity Fund	0.02%	-0.17%	-6.37%	-6.40%						
Property Fund	-0.94%	-1.01%	-6.22%	-6.23%						
Global Equity Funds	1.72%	3.02%	0.09%	4.82%						
Multi-Strategy Fund	0.49%	0.38%	0.55%	1.18%						

Indices used:

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

Corporate 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 Credits

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

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

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

Global Equities – MSCI ACWI, with net dividends reinvested unhedged in NZD and MSCI ACWI, with net dividends reinvested 139% hedged to NZD

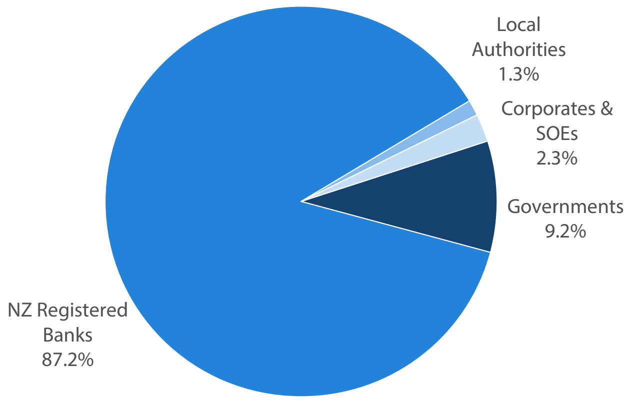
New Zealand cash, bonds and options

Duration and yield

Duration	Fund 124 days versus benchmark 45 days
Yield	Fund 3.00% versus benchmark 1.89%

S&P Rating	Fund
AAA	0.7%
AA	71.2%
A	28.1%

Asset allocation (% of fund)



Top 5 corporate issuers	Fund
Westpac Banking Corporation	23.9%
Kiwibank	17.1%
ASB	14.2%
Bank of New Zealand	12.0%
NZ Government	9.1%
Number of issuers in portfolio	

Commentary

Over the month of December the Fund returned 0.26%, compared to the 90-day Bank Bill Index return of 0.18%. The Fund remains a high credit quality, low interest rate risk portfolio. The average credit rating is targeted around AA- S&P, the duration of the portfolio is currently 124 days.

The short end of the yield curve is upward sloping, indicating the market believes the rate cutting cycle has likely finished for now with the Official Cash Rate at an all-time low of 1.75%.

Over December the 90-day rate closed down 19 points to 1.85%, 1-year swap was up 7 points to 2.18%.

Global interest rates have moved higher. On the face of it Donald Trump's Presidency will mean a larger fiscal spending in the US, which should generate economic growth and inflation. Global Central Banks seem to be stepping away from further monetary easing, albeit cautiously. The US Fed hiked rates as expected in December. The Committee members surprised the market with their projections for a faster pace of rate rises, being more aggressive than previously indicated. The US Dollar strengthened and rates lifted further as a result.

The interest rate market in New Zealand is pricing in a rate hike towards the end of 2017. This is an indication of the confidence the market has regarding the end of the recent cutting cycle. There is potential that the RBNZ starts a hiking cycle earlier than indicated. New Zealand economic data continues to provide us with confidence, the housing market appears to have slowed but is still at elevated levels, and capacity is constrained in several areas. The strengthening USD and the re-emergence of inflation and inflation expectations all point towards needing to lift rates from all-time lows. The RBNZ has indicated that they see rates on hold for some time and stated that numerous uncertainties remain, particularly in respect of the international outlook.

The Cash Fund has a higher yield and a longer duration than the 90-day Bank Bill Index. The higher yield should lead to continued strong performance of the Fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. Margins on 12-month term deposits remain attractive. Highly rated short term fixed and floating rate securities have become more readily available lately, at attractive levels.

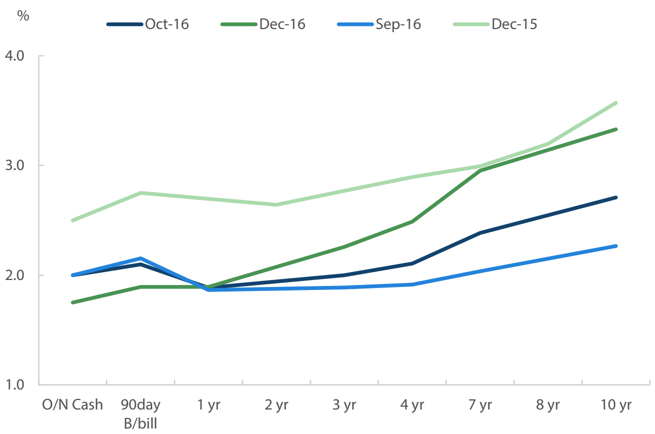
New Zealand bond

Sector allocation	Fund
Government stock	27.5%
SOE and local authority	17.7%
NZ registered banks	40.0%
Corporate debt	14.8%

S&P Rating	Fund
AAA	12.9%
AA	62.9%
A	19.5%
BBB	4.7%

Top 5 corporate issuers	Fund
NZ Local Government Funding Authority	10.8%
Bank of New Zealand	8.5%
Westpac Banking Corp	7.0%
Rabobank	6.6%
Fonterra Co-op Group Ltd	6.2%

New Zealand yield curve



Duration	Fund 4.46 years versus benchmark 4.50 years
Yield	Fund (gross) 3.70% versus benchmark 2.67%

Commentary

The Nikko AM Wholesale NZ Bond Fund returned -0.63% for December and -3.40% for the quarter. Returns from the NZ bond indices were negative as interest rates moved higher in yield. For the month the Bloomberg NZ Government Bond Index produced a return of -0.61% while the All Swap index returned -0.69%, and the NZ Bond Corporate A Index returned -0.72%.

The Bond Fund had a negative return for the month as interest rates continued to move higher through December. Overall it was a poor quarter for bonds as market sentiment remained negative for bonds on the perception that President elect Trump's expansionary policies of tax cuts and a higher fiscal spend will promote growth, higher inflation and larger borrowings for the US. With more protectionist trade policies there will also likely be "winners and losers" which could impact our major trading partners.

NZ longer term interest rates are typically highly correlated with movements in US interest rates, whereas shorter maturities are more influenced by local factors with low cash rates anchoring the front end of the yield curve. Longer maturity bonds have been the worst performing bond assets with greater movements higher in yield than shorter maturities. Swap spreads widened relative to government bonds over the month which was a negative for credit versus similar maturities of government bonds. The NZ Government 2019 bond moved higher in yield by 13 basis points, the NZ Government 2021 bond finished 20 basis points higher, and the NZ Government 2027 finished 23 basis points higher in yield. Funds that were positioned with shorter durations (less exposure to changes in interest rates) performed better as their prices declined less when interest rates moved higher in yield. Corporate bonds also moved higher in yield although credit margins were relatively stable, and the higher running yield of corporate holdings will help benefit the Fund over the medium term.

Longer term interest rates in NZ have been under some pressure over the past three months as domestic and offshore economic news has generally been on an improving trend. The sentiment bias has been for higher interest rates, however there is now a lot of "positive sentiment" factored in with a higher and steeper yield curve and the market may want to see some more solid proof of improvement before taking yields higher - which could see some stability in rates or an unwind of the move. There remains a lot of debt in the world and large areas of the global economy are still underperforming. We have seen a large move higher in interest rates in a short amount of time and this has been steepening yield curves as longer term interest rates rise on the transition from a very limited inflation outlook to the prospects of recovering inflation. With a positive shaped yield curve bonds roll down the yield curve and move lower in yield as they become closer to maturity. We expect credit to outperform lower yielding government and swap bond investments over our three year investment horizon. The accrual trade of having a higher yielding portfolio is helping to offset some of the move higher in interest rates.

New Zealand corporate bond

Sector allocation	Fund
Corporate bonds	38.9%
NZ registered banks	47.8%
Local authority	5.8%
NZ government and government equivalent	7.5%

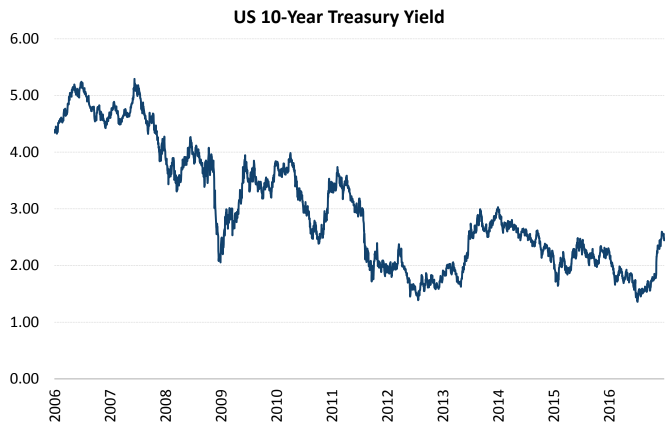
Credit rating profile S&P rating	% portfolio	Number of holdings
AAA	3.6%	11
AA	48.2%	58
A	21.8%	22
BBB	26.4%	32

Top 10 issuers			
Westpac Bank	10.2%	Rabobank	6.0%
ANZ Bank	9.1%	Fonterra Coop	6.0%
BNZ	7.4%	New Zealand Gov	5.7%
ASB	6.7%	Powerco NZ	4.2%
Inland Revenue	6.3%	AK Intl Airport	4.0%

Duration and yield

Duration	Fund 3.58 years versus benchmark 4.50 years
Yield	Fund (gross) 4.05% versus benchmark 2.67%

Options



The Option Fund returned 1.21% for December. It was pleasing the Fund had a positive month given the poor performance over the quarter as US interest rates moved much higher in yield through November following Donald Trump's victory. The US 10-year interest rate remained relatively volatile in December spiking higher in yield by 25 basis points to 2.63% before unwinding most of the move and closing the year at 2.44%. The Fund coped much better with the volatility through the month given the options have now been reset around the new range of the US 10-year and premium income was much higher following the large moves in interest rates.

US interest rates increased significantly over the quarter with the US 10-year yield moving from 1.60% to 2.44%. Large interest rate movements over a short period of time is the primary risk the Option Fund is exposed to, however with bond market volatility at elevated levels the income the Fund generates from writing options has increased significantly. Option premium income is currently approximately 2.5 to 3 times the levels received prior to Trump's victory. If US Treasury bonds return to trading more modestly and volatility stays elevated the Fund should trade well over the next 6 to 9 months.

There remains a fair amount of uncertainty around what the Trump presidency will mean for the US economy and the world in general, and we expect option premiums will remain elevated benefiting the Fund.

We have likely seen the low in longer-term interest rates in this economic cycle. The large move higher in interest rates has seen steepening yield curves, as longer-term interest rates rise on the transition from a very limited inflation outlook to the prospects of recovering inflation and growth which is a good thing. However there is now a lot of "positive sentiment" factored in with a higher and steeper yield curve. The market may want to see some more solid proof of improvement before taking yields higher, which could see some stability in interest rates or unwind of the move. There remains a lot of debt in the world and large areas of the global economy are still underperforming this should help moderate the pace of sustainable moves higher in interest rates.

Global bond

Credit quality rating	
AAA	36.0%
AA+, AA. AA-	9.1%
A+, A, A-	37.2%
BBB	17.5%
BB	0.2%

Sector allocation	Fund	Index
Governments	36.4%	51.2%
Agency	4.8%	9.0%
Credit	21.1%	21.2%
Collateralised & MBS	31.4%	12.5%
Emerging market debt	3.7%	6.1%
Cash, derivatives, other	2.6%	0.0%

Duration and yield

Duration	Fund 6.67 years versus benchmark 6.75 years
Yield to Maturity	Fund 3.27% versus benchmark 3.07%

Commentary

The Fund out performed its benchmark over the month and quarter. Over the quarter stock selection in governments and swaps added the most value of 0.13%, followed by sector allocation adding 0.07%, duration strategy, country allocation and stock selection within the securitized sector added 0.06% each.

US **Treasury yields** continued to trend higher in December, with a notable rise in shorter-dated bonds following the Fed's decision to proceed with its hiking path. Government bond yields diverged between the US and Europe over the month, with the US 10-year yield rising 7bps (+85bps for quarter), closing the year at 2.43%, while the yields on UK and German 10-year government bonds fell 17bps and 7bps (+49bps and +33 bps for the quarter), ending the year at 1.24% and 0.20%, respectively. The Japanese 10-year yield increased by 2bps (+14bps for the quarter), remaining relatively range-bound since the introduction of the Bank of Japan's (BoJ) 'yield curve control' and ended the month at 0.04%.

The portfolio has an underweight **duration** position in US rates and remains neutral in European and Japanese rates. While a hike in US interest rates in December was expected, the revision to interest rate projections, which point to a slightly steeper trajectory of interest rates, took markets by surprise. Three hikes are implied for 2017 and forecasts for growth and inflation were revised upwards, while the unemployment rate was revised down. US government yields have trended higher following Donald Trump's election victory, on expectations for fiscal stimulus and less regulation. Contained financial conditions and reasonable payroll employment gains will bolster the case for a rate hike in March.

Investment grade corporate spreads concluded the year tighter. Markets strengthened over December, with spreads on the Bloomberg Barclays Global Aggregate Corporates index tightening by 5bps to 125bps over sovereigns.

Regionally, US and UK corporates outperformed their European counterparts, as spreads on the Bloomberg Barclays US Aggregate Corporate index and the Bloomberg Barclays Sterling Corporate index tightened by 6bps to end the year at 123bps and 143bps respectively, while the Bloomberg Barclays Euro Aggregate Corporate index tightened 3bps to 123bps over sovereigns.

The portfolio is modestly overweight investment grade credit. Factors supporting a more positive stance on the asset class include an improvement in corporate fundamentals, a pick-up in earnings, stabilizing leverage and positive seasonals. That being said, GSAM are cognisant of late-stage credit cycle characteristics, as well as the impact of a more hawkish stance by the Fed. As such the positioning is modest and GSAM are selective in their exposures. Within the portfolio, there is a down-in-quality bias (overweight BBB rated bonds), as GSAM continue to see scope for modest compression within the high quality spectrum. GSAM also prefer the intermediate part of the corporate term structure. Accommodative central bank policy supports the tactical overweight in European corporates, as does GSAM's view that European corporates are not as late in the credit cycle as US corporates. GSAM see value in the consumer products, pipelines and electrics industries, and are underweight media and automotive issuers.

Agency **mortgage-backed securities** (MBS) outperformed duration-neutral Treasuries by 6bps in December due to weakness in US Treasuries following the Fed rate hike, but underperformed by 11bps over the year as post-US election volatility led to extension in agency MBS. Primary mortgage rates increased almost 75bps following the election due to the rise in Treasury rates. Consequently the MBA refinancing index fell 20% in December to a post financial crisis low. The J.P. Morgan collateralized loan obligation (CLO) index returned 5.2% in 2016, marking the strongest year for performance since 2012. The portfolio is underweight agency MBS. Opportunities for positive excess return appear limited given current valuations and the significant extension of mortgage durations following the US election. Within the sector, and predominantly in Ginnie Mae securities, the portfolio is underweight lower coupon securities—where GSAM expect the quality of the outstanding float to continue to deteriorate—and overweight the 4% coupon. GSAM believe senior CLOs and Federal Family Education Loan Program (FFELP) asset-backed securities (ABS) offer attractive spread with strong credit protection and remain among the most compelling sectors in securitized products. GSAM are also positive on residential mortgage credit, particularly legacy non-agency MBS, which continue to benefit from negative net supply and show improving collateral performance.

Core Equity

Sector allocation	Fund	Index
Health Care	20.9	15.8
Utilities	19.0	15.6
Industrials	13.3	15.3
Consumer Discretionary	12.6	9.8
Materials	9.0	9.6
Telecommunication Services	8.9	10.2
Energy	7.6	4.3
Consumer Staples	4.4	4.2
Real Estate	2.5	9.6
Information Technology	1.3	2.3
Cash	0.5	0.0
Financials	0.0	3.3

Attribution

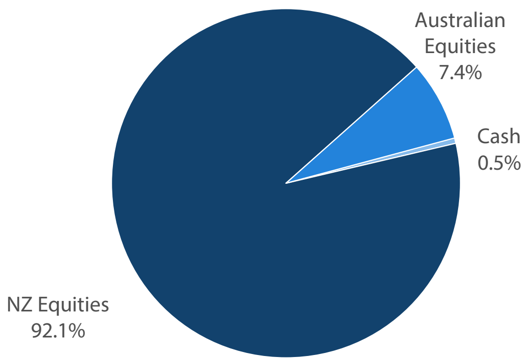
What helped		What hurt	
NZ Refining	OW	Air New Zealand	NH
Ryman Healthcare	UW	Comvita Ltd	OW
Mainfreight Ltd	OW	Infratil Ltd	OW

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

Top 10 holdings

Fletcher Building Ltd	Summerset Group Holdings
Contact Energy Ltd	Infratil Limited
AK International Airport	Meridian Energy
Fisher & Paykel Healthcare	Z Energy
Spark New Zealand	Restaurant Brands
Number of holdings in fund	**31**

Asset allocation



Hedging

Australian listed stocks are unhedged

Commentary

The final quarter of 2016 continued the themes of surprise and volatility prevalent for much of the year. The bond market sell off had a significant impact on the high yielding New Zealand equity market which ended the quarter down 6.4% as measured by the S&P/NZX 50 index. The Australian market significantly outperformed the New Zealand market with the S&P/ASX 200 index up 5.2% and the US and UK markets were also strong, up 3.4% and 3.5% respectively.

The Fund performed in-line with the index over the quarter and out-performed over the month.

The position in **NZ Refining Company** (NZR) which rose 6.1% over the quarter as refining margins improved and the NZ dollar fell assisting the earnings outlook for the company. The Fund's large underweight in **Ryman Healthcare** (RYM) contributed positively to performance with valuation support still a question. **Mainfreight** (MFT) performed very strongly, up 17.8% supported by the company's first investor day and a positive first half result and outlook.

The Funds nil position in Air NZ (AIR) detracted from performance with the share price up 18% notwithstanding the challenging operating environment.

Infratil (IFT) performed poorly over the quarter down 13.1% and detracting value. The performance of portfolio companies, Trustpower and Perth Energy were the main detractors within the half year result released during the quarter. The initial performance of Tilt Renewables (TLT) which was spun out of Trustpower has also disappointed the market.

Comvita (CVT) detracted from performance falling 29%. Sentiment has become negative for Comvita post Chinese regulatory changes and the potential impact for their products' market.

During the quarter the Fund exited its investment in Fonterra, Mirvac Group and Tegel Group. The proceeds were used to add to the investment in **Spark** (SPK), **Aristocrat Leisure** (ALL), **Restaurant Brands** (RBD) and **Pacific Edge** (PEB). The Fund also re-invested into **Fisher & Paykel Healthcare** (FPH) and introduced a small holding in **Tilt Renewables** (TLT).

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

Property

Attribution

What helped		What hurt	
Property Link	OW	Stride Property	OW
Arvida Group	OW	MetlifeCare	OW
Vital healthcare	UW	Property for Industry	UW

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

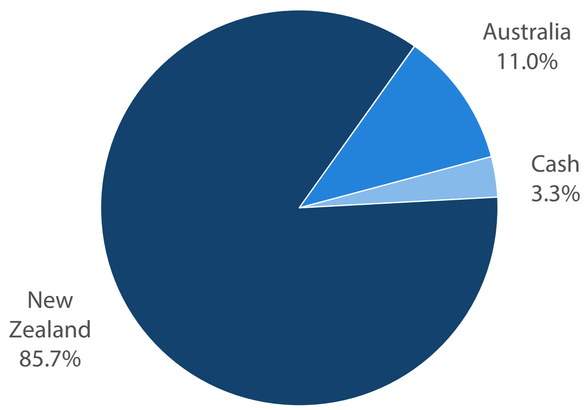
Top 5 holdings

Kiwi Property Group	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ
Stride Stapled Group	
Number of holdings in Fund	**19**

Hedging

Australian listed stocks are 97.3% hedged to NZD

Asset allocation



Commentary

There were a number of significant events driving markets over the quarter including the against the odds US election victory by Donald Trump and the US Federal Reserve raising the Federal Funds Target Rate. Bond Yields were the big mover over the quarter with the US 10-year yield up 85 basis points and the New Zealand 10-year up close to 110 basis points. The bond market sell off had a significant impact on the high yielding New Zealand equity market which ended the quarter down 6.4% as measured by the S&P/NZX 50 index. The property sector ended the quarter down a similar amount to the broader market, closing 6.2% lower.

The Australian market significantly outperformed the New Zealand market with the S&P/ASX 200 index up 5.2% while the S&P/ASX 300 Real Estate index fell 0.7% over the quarter.

The Fund ended the quarter down 6.2%, in line with the benchmark return. A number of the listed property companies had buildings in Wellington affected by the large 7.8 magnitude earthquake that occurred in the middle of November but nothing appears to be material on a portfolio basis.

The largest positive contributors to relative return were overweight positions in **Propertylink** Group (PLG), **Arvida** Group (ARV) and an underweight in **Vital Healthcare** (VHP). PLG which was up 11.4% (in AUD), recovering some of its poor performance since listing while ARV, up 7.2%, gained following its rights issue last quarter along with benefiting from being included in the S&P/NZX 50 index. VHP fell 8.8% on no specific news although was still a very strong performer over the year. The largest detractors to relative performance were overweight positions in **Stride Property** Group (SPG) and **Metlifecare** (MET) and an underweight position in **Property for Industry** (PFI). SPG fell 9.1% on nothing specific although the Chief Executive Officer did resign late in December. MET dropped 11.2%, likely impacted by negative sentiment around the housing market while PFI fell 2.2%, outperforming the index following a strong portfolio revaluation.

Key portfolio changes over the quarter included adding to **Precinct Properties** (PCT) and **Property for Industry** (PFI) while positions in **Argosy Properties** (ARG), **Stride Property** Group (SPG) and **Goodman Property** Trust (GMT) were reduced. The Fund's small holding in Arvida (ARV) was divested.

Eight of the portfolios holdings reported half year results for the period ending 30 September during the quarter. There were no real surprises in any of the results with dividends reiterated for the current year and ARG the only one to talk about next year where they expect to modestly increase it. Key portfolio metrics are solid across the securities with good occupancy, gearing within target ranges or lower and reasonably long weighted average lease terms. Interest in controlling **NPT** (NPT) emerged during the period with **Augusta** (AUG) announcing a proposal which would see them buy the management contract for NPT and then working with NPT to grow its property portfolio. This was followed **by Kiwi Property** Group (KPG) who also released a proposal which would see them buy the management contract and sell NPT two of their properties. The proposals will be put to shareholders at a special shareholder meeting early in 2017. **Summerset Group** (SUM) provided strong third quarter sales number, the highest ever achieved along with earnings guidance which was more than 6% ahead of market consensus and 40% - 46% ahead of last year's underlying profit. Despite these strong numbers, SUM was off 12.2% over the quarter possibly on the back of negative sentiment around the housing market. **Mirvac Group** (MGR) provided an update following its first quarter where they reiterated their earnings and distribution guidance which are backed by earnings growth of 8 – 11% in FY17.

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

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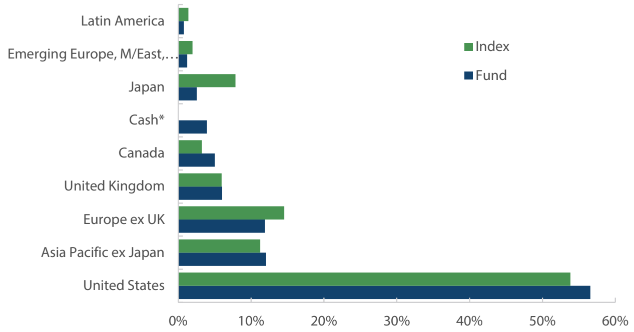
Global Equity

Sector allocation (%)

Sector	Fund	MSCI
Information Technology	17.5	15.5
Consumer Discretionary	16.1	12.1
Financials	11.5	18.7
Health Care	9.9	11.1
Consumer Staples	9.4	9.5
Industrials	9.3	10.6
Energy	8.4	7.4
Materials	5.1	5.3
Cash*	3.9	0.0
Telecommunication Services	3.4	3.6
Utilities	3.2	3.2
Real Estate	2.3	3.1

* includes the sum of the underlying managers' cash allocations

Geographical allocation



Emerging markets **10.9% of Fund**

Top 10 holdings (%)

Company	Fund	MSCI	Country
Amazon.com	2.9	0.8	US
Alphabet Class C	2.0	0.6	US
Wells Fargo & Co	1.7	0.7	US
Encana Corp	1.7	0.0	Canada
Taiwan Semiconductor	1.5	0.4	Taiwan
Facebook	1.5	0.7	US
Berkshire Hathaway Class B	1.3	0.5	US
Apache Corp	1.2	0.1	US
JPMorgan Chase & Co	1.2	0.8	US

Manager allocations

Manager	Range	Actual
WCM Investment Mgmt	10-30%	26.04%
Principal Global Investors	10-30%	25.85%
Epoch Investments Partners Inc	10-30%	21.64%
Davis Selected Advisors LP	10-30%	22.63%
Nikko AM Limited (Derivatives)	0-10%	2.69%
Nikko AM Limited (Cash)	0-10%	1.15%

Commentary

Following the election of Donald Trump as US President and Trump's early proposals of more expansionary fiscal policy in the US, inflation expectations climbed, bond yields rose and equity markets moved higher - in Developed Markets at least. Within these rising markets, there was a meaningful sector and investment style rotation. In sympathy with Government bonds, sectors offering relatively defensive cash-flows were heavily punished this quarter. Healthcare, Telecoms, Utilities and Real Estate underperformed meaningfully as a result. Cyclical sectors were the relative winners, with Energy, Basic Materials and Bank shares performing strongly as hopes for a reflation trade mounted. 'Value' outperformed 'growth', following eight years of underperformance.

For the December quarter, the MSCI All Countries World index gained 5.53% (NZD, unhedged). Value outperformed Growth by a very large margin (about 800 bps), while Quality Growth stocks trailed the benchmark by about 250 bps. While Quality Growth has outperformed for most of the last 3 years, it lagged during the fourth quarter as lower quality stocks surged ahead. Inflationary pressures were also evident in commodities this quarter. Oil prices spiked higher (after OPEC eventually managed to agree a production cut), Copper gained 16% and Iron Ore surged 46%. Part of this recovery was due to a marked reacceleration in Chinese infrastructure investment, along with hopes for increased infrastructure investment in the US.

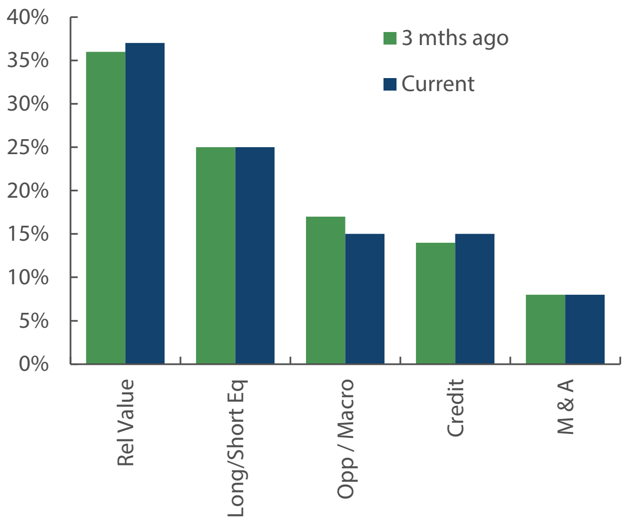
The Fund trailed the benchmark by a significant margin over the quarter. All four managers struggled, with Quality (WCM) getting punished the most. Growth (PGI) also fell out of favour due to style rotation into cyclical sectors. Although Value outperformed, the Value managers (Davis and Epoch) couldn't match the benchmark's return due to underexposure to Financials which performed exceptionally well in November and December, as well as Epoch's large overweight to high-yielding Telecoms and Utilities which underperformed. Looking at individual manager performance over the quarter, WCM (-1.63%) felt the brunt of the rotation away from Quality. While TD Ameritrade (up 30%) and Tractor Supply (up 19%) added value, most of WCM's holdings suffered over the quarter. The largest detractors from performance were Mercadolibre, Cerner Corp, Novozymes and HDFC Bank, all of which declined more than 10% over the 3-month period. While Epoch (3.61%), Davis (3.27%) and PGI (1.89%) all managed positive returns over the quarter, they all lagged the very strong performance by the benchmark. That is largely due to underexposure to cyclical or low quality stocks which performed extremely well during November and December.

Multi-Strategy

Performance by strategy (absolute)

Strategy	Number of Funds	Latest month	Cal YTD
Relative Value	10	0.36%	0.51%
Long / Short Equities	9	0.60%	-0.03%
Opportunistic / Macro	6	0.03%	-4.19%
Credit	6	0.15%	11.35%
Merger Arbitrage / Event Driven	2	1.50%	2.99%

Portfolio composition by strategy



Commentary

The **Relative Value** strategy (December: +0.36% vs. HFRX Relative Value +0.83%) was up for the month, but underperformed the strategy index. An Asian-focused Multi-Strategy manager was a significant contributor with gains in a short position in Japan and, to a lesser extent, equity relative value trades in the US and Europe. Also contributing was a side-pocket consisting of a holding company for biotech and biopharmaceutical companies. The position was marked up for the quarter as one of the underlying companies was successfully IPO'd. Multi-Strategy funds were mixed with gains in one fund's Macro book being partially offset by Stat Arb. Another Multi-Strat had meaningful losses in a futures strategy that positioned short equities in the US and Europe.

The **Long/Short Equities** strategy (December: +0.60% vs. HFRX Equity Hedge +0.18%) was up for the month with several contributors. The largest contributor was a health care focused manager that made money in a specialty pharmaceutical company that received news of an accelerated FDA review for a new drug.

A European focused manager made money in both its large and small cap strategies. Positions that contributed include a German cement company that traded up on analyst upgrades, an amusement park operator whose shares rose after the conclusion of a legal dispute and an industrial machine manufacturer that appreciated on positive preliminary 2016 results. Offsetting some of these gains were losses in a Global manager driven by a business analytics company that fell on weak guidance.

The **Opportunistic/Macro** strategy (December: +0.03% vs. HFRX Macro +0.48%) was flattish for the month and did not have significant contributors or detractors. Gains in a Discretionary Macro manager from fixed income, equity and commodity trades were offset by losses in a dedicated Commodities fund that liquidated during the month.

The **Credit** strategy (December: +0.15% vs. HFRX Distressed +1.87%) was slightly up for the month. Small gains in Corporate-Distressed, Structured Credit and Litigation Finance combined to offset losses in the General Obligation debt of Puerto Rico.

Merger Arbitrage/Event Driven managers (December: +1.50% vs. HFRX Event Driven +1.92%) were up for the month but underperformed the strategy index. The only meaningful contributor for the month was a Multi-Event Driven manager that made money in a Spanish engineering company, a hotel and resort operator and a Canadian gold miner.