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. 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 US dollar 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	0.69%	0.52%	0.17%
3 months	2.56%	1.99%	0.57%
6 months	0.14%	0.50%	-0.37%
1 year			
2 years (pa)			
3 years (pa)			
5 years (pa)			

Fund size

NZ$2.4 million

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation

Sector	Fund	Benchmark
NZ Cash Fund	10.1%	10.0%
NZ Bond Fund	14.9%	15.0%
Corporate Bond Fund	9.9%	10.0%
Option Fund	4.9%	5.0%
Global Bond Fund	29.8%	30.0%
Core Equity Fund	7.6%	7.5%
Property Fund	4.9%	5.0%
Global Equity Funds	12.9%	12.5%
Multi-Strategy Fund	4.9%	5.0%

[1] Global Bond Fund 100% hedged

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

Currency exposure

Percentage of the Fund held in unhedged foreign assets: XX%

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	0.28%	0.16%	0.78%	0.49%						
NZ Bond Fund	0.63%	0.49%	1.93%	1.35%						
Corporate Bond Fund	0.70%	0.49%	2.00%	1.35%						
Option Fund	0.26%	0.50%	3.74%	1.50%						
Global Bond Fund	0.00%	0.05%	0.87%	0.77%						
Core Equity Fund	1.77%	0.82%	6.22%	5.08%						
Property Fund	-0.60%	-0.58%	1.41%	1.60%						
Global Equity Funds	2.86%	2.30%	7.17%	6.27%						
Multi-Strategy Fund	0.35%	0.37%	2.26%	1.12%						

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.

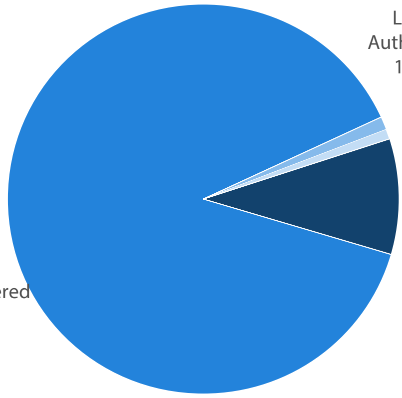
Global Bond Fund – Bloomberg Barclays Global Aggregate Index (100% hedged into NZD)

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

NZ Cash

Asset allocation (% of fund)



S&P Rating	Fund
AAA	1.3%
AA	72.0%
A	26.7%

Top 5 issuers	Fund
Westpac Banking Corporation	20.9%
Kiwibank	16.0%
ASB Bank Limited	14.5%
ANZ Bank	12.2%
Bank of New Zealand	11.3%
Number of issuers in portfolio **18**	

Duration	Fund 109 days versus benchmark 45 days
Yield	Fund 2.87% versus benchmark 1.91%

Market commentary

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 March the 90-day rate was unchanged at 2.00% and the 1-year swap was down 2 points to 2.07%.

The Reserve Bank of New Zealand (RBNZ) left the OCR unchanged at 1.75% at the March review. As expected the RBNZ maintained a broad neutral tone. Earlier in March Governor Wheeler stated that the probability of future OCR movements are equally weighted, this reflects balanced risks around inflation. Global monetary policy, the level of the NZ Dollar and the impact of tradable inflation, CPI inflation, the housing market and the maturity of this economic cycle will all help determine the direction and extent of the next move.

The housing market has moderated in recent months. Even though bank funding costs have been stable, mortgage rates have been going up, providing a tightening to credit and the housing market. Investor LVRs also appear to have had an impact.

GDP growth slowed at the end of 2016, but this appears to be due to temporary factors and growth outlook remains positive. Dairy prices continue to recover. Tourism, construction and migration all remain positive. New Zealand's economic expansion is mature, but is ongoing.

We expect the next OCR move to be up, but this is not imminent. We are of the view that the next tightening of monetary policy will not have to go as far as it may have in the past to have the same effect of balancing the economy.

Fund commentary

The Fund outperformed its benchmark over the quarter. The higher yield was the main contributor with the longer than benchmark duration also adding value. 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. Credit margins on fixed and floating rate bonds have contracted and our recent buying activity in this space has added to performance.

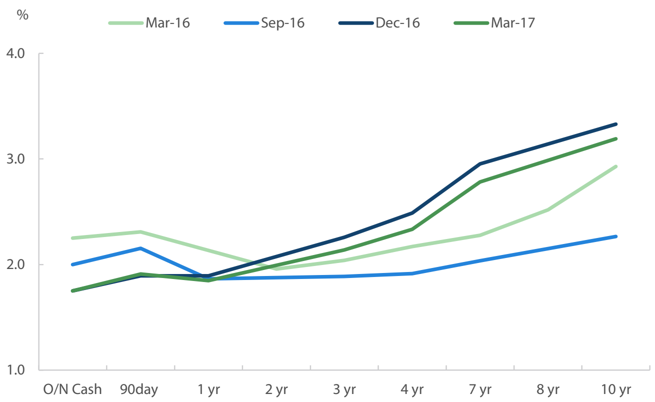
NZ Bond Fund

Sector allocation	Fund
Government stock	28.2%
SOE and local authority	19.0%
NZ registered banks	38.7%
Corporate debt	14.1%

S&P Rating	Fund
AAA	11.1%
AA	66.0%
A	18.6%
BBB	4.3%

Top 5 corporate issuers	Fund
NZ Local Government Funding Agency	12.2%
Bank of New Zealand	7.7%
Westpac Banking Corporation	7.4%
RaboBank	6.3%
Fonterra Co-Operative Group	6.0%

New Zealand yield curve



Duration	Fund 4.04 years versus benchmark 4.46 years
Yield	Fund (gross) 3.52% versus benchmark 2.56%

Market commentary

It was a good start to the 2017 year for NZ Bonds as interest rates finished the March quarter lower in yield following similar moves in offshore bond markets and credit margins contracted in spread. Perhaps surprisingly given some of the events that were of concern leading into last years close (the inauguration of Trump and geopolitical concerns) the level of volatility in financial markets have been low so far this year. The range of yield movements in NZ interest rate markets (around 25 basis points) has been subdued in comparison to the monthly movements in yield experienced through late 2016 when interest rates moved much higher.

We have seen some tentative unwind of the 2016 move higher in interest rates that was driven by optimism over pro-growth policies in the US and recovering inflation and growth in the global economic environment.

The NZ Government 2019 bond moved lower in yield by 13 basis points, the NZ Government 2021 bond was 21 basis points lower, and the NZ Government 2027 finished 17 basis points lower in yield.

Markets have recalibrated how much "optimism' should be reflected in interest rate levels given Trump has been frustrated in his efforts to fully instigate his policy changes and subsequently there has been a shift to downgrade the lift in US growth and inflation due to the new administration's policies.

NZ credit margins have been slower to contract than offshore credit margins so far this year; however this is not unusual as NZ credit has historically been less volatile in margin fluctuations than offshore markets. New bond issuance to the local market has been relatively limited so far this year, but bond issues have received strong buy volume demand which should be supportive of future performance. We continue to have a positive view on credit and expect having a higher portfolio running yield will be one of the main attributors to outperformance over the course of this year. We prefer to hold more mid curve maturity (4-7 years) credit rather than longer government bonds that have a lower yield and greater interest rate risk.

The NZ economy continues to perform well although forecasters expect some slowing of activity with capacity constraints in sectors such as construction. The Reserve Bank has indicated they see stable cash rates with risks evenly balanced at present, this should help anchor the front end of the yield curve at current levels. Credit/housing related excesses are being more actively curtailed, which lessens the odds of imbalances building. Numerous support factors remain, which should allow annual GDP growth to hover around 3% over 2017.

Fund commentary

The higher portfolio running yield and a moderate contraction in credit margins were the main contributors to the outperformance. Longer maturity corporate bond issues were added to the portfolio and funded by cash and selling some shorter-to-maturity bonds. We favour credit to perform better than similar maturities of governments and we are currently holding closer to minimum levels of NZ Government bonds. The portfolio has a small underweight duration position which was a slight detractor from performance.

NZ Corporate Bond Fund

Sector allocation	Fund
Corporate bonds	40.4%
NZ registered banks	48.9%
Local authority	6.2%
NZ government and government equivalent	4.5%

Credit rating profile S&P rating	% portfolio	Number of holdings
AAA	3.2%	9
AA	46.8%	45
A	22.4%	20
BBB	27.6%	29

Top 10 issuers			
Westpac	10.9%	Fonterra Coop	6.2%
ANZ Bank	8.7%	Transpower	4.9%
BNZ	7.5%	Power Co	4.6%
ASB	6.5%	NZ Government	4.5%
Rabobank	6.3%	Auck Intl Airport	4.2%

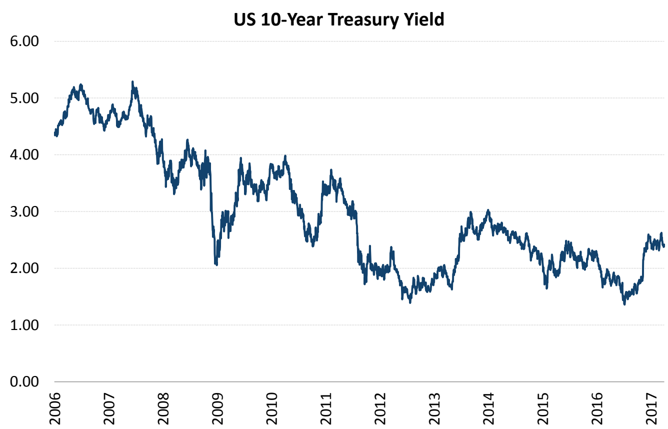
Duration and yield

Duration	Fund 3.38 years versus benchmark 4.46 years
Yield	Fund (gross) 3.84% versus benchmark 2.56%

Fund commentary

The higher portfolio running yield and a moderate contraction in credit margins was a positive for outperformance. Longer maturity corporate bond issues were added and funded by cash and selling shorter maturity bonds. The moderate underweight duration position was a detractor. The Corporate Bond Fund will typically be positioned around 3.5 years in duration with less interest rate risk than the NZ Government Bond benchmark.

Option Fund



Fund Performance

The Option Fund returned 0.26% over March. The US 10-year Treasury bond traded to a high of 2.63% and an intraday low of 2.35% over the month before closing at a yield of 2.39%. The month's performance was negatively impacted by the Fund protecting against a larger increase in bond yields than eventuated, however a modest monthly return was still generated. Income that the Fund received from writing options continues to be at the lower end of historical income levels but should provide the basis for an acceptable level of performance over the months ahead.

Market Commentary

Much of the focus over the past month was on the Federal Reserve's guidance towards a March increase in the Fed Funds Rate. A 25 basis point increase was expected and delivered. This rate rise was the third in this cycle and the forecasts surrounding the announcement were largely unchanged, with the Fed having no particular concern about the inflation outlook. The yield on US 10-year bonds peaked at 2.63% immediately prior to the FOMC rates meeting and subsided immediately after. After the rate rise US politics took centre stage. President Trump's healthcare bill to unwind Obama-Care did not proceed due to the lack of support within the Republican Party. This bill was expected to deliver over $340b in savings over the next decade to help offset the costs of future tax cuts. Financial markets took the view that the prospects for meaningful US fiscal stimulus had diminished. Trump's failure to pass the healthcare bill highlighted the gridlock often seen in Washington and the difficulty that Trump's administration will have in fully achieving their policy agenda. With the magnitude of US economic stimulation being dimmed, bond yields look to remain within recent trading ranges.

Global Bond Fund

Credit quality rating	
AAA	32.8%
AA+, AA. AA-	21.3%
A+, A, A-	33.6%
BBB	12.1%
BB	0.2%

Sector allocation	Fund	Index
Governments	49.4%	50.7%
Agency	4.5%	9.1%
Credit	16.7%	21.1%
Collateralised & MBS	33.2%	12.8%
Emerging market debt	2.0%	6.3%
Cash, derivatives, other	-5.8%	0.0%

Duration	Fund 6.77 years versus benchmark 6.78 years
Yield to Maturity	Fund 3.21% versus benchmark 3.03%

Market commentary

Over the quarter rates moved to varying degrees across regions. The US 10-year rate fell 6bps to close at 2.39%, UK fell 10bps to close at 3.01% while the French rate rose 29bps to close at 0.97% and German rose 12 bps to close at 0.33%.

At its March meeting, the US Federal Reserve (Fed) tightened monetary policy for the third time since the global financial crisis, raising the target range for the federal funds rate 25bps, to 0.75-1%. The minutes raised expectations that the Fed will start reducing its balance sheet around year end. The fund is underweight US rates and agency mortgage-backed securities (MBS).

European political risk remains contained, as markets weathered the official start of Brexit negotiations and the far right lost to centrists in the Dutch elections. Improved economic data and the European Central Bank's (ECB) upward revisions to its growth and inflation targets have raised speculation that the central bank may raise interest rates this year. GSAM don't anticipate a rate hike before 2019 and expect the ECB will first unwind its quantitative easing (QE) program, starting in early 2018. The fund is overweight European rates versus US rates.

Fund commentary

The fund outperformed its index over the quarter. Stock selection within the government/swaps sector added the most value (12bps) followed by country allocation and cross sector allocation (7bps each). Stock selection within the securitized sector detracted the most value (7bps), followed by duration strategy (detracting 5bps).

The fund is overweight rates in Australia versus the US based on divergent monetary policy outlooks. GSAM expect the Reserve Bank of Australia (RBA) to maintain an accommodative policy stance as the economy continues to transition from dependence on the mining sector. In contrast, GSAM see inflation rising amid a tightening labor market in the US, thereby supporting monetary tightening. The fund is also underweight long-end UK rates—predominately versus European rates— on the belief that risk premiums do not adequately reflect Brexit negotiation uncertainties.

Agency mortgage-backed securities (MBS) underperformed over the quarter by 27bps. Performance fluctuated amid evolving news around the Fed's future pace of rate hikes and its strategy for reducing its balance sheet holdings of both agency MBS and US Treasury securities. GSAM expect agency MBS spreads to widen this year due to increased interest rate volatility and rising concerns over the Fed's strategy for reducing its balance sheet. The fund is underweight agency MBS, and within the sector, predominately in Ginnie Mae securities, and underweight lower coupon securities and overweight higher coupons. GSAM continue to believe senior CLOs and Federal Family Education Loan Program (FFELP) ABS offer attractive spreads with strong credit protection, and therefore remain among the most compelling sectors in securitized products. GSAM are also positive on residential mortgage credit, particularly legacy non-agency MBS. These securities are supported by negative net supply and show improving collateral performance.

Investment grade corporate credit was relatively unchanged. The fund is modestly underweight with GSAM preferring securitized credit for yield. Factors supporting investment grade credit include stabilization in corporate leverage and fundamentals, and positive seasonal trends. That being said, GSAM remain cautious due to stretched valuations and headwinds posed by positioning signals, as well as policy challenges in the US and political uncertainties in Europe and the UK. The fund is overweight US dollar-denominated credits, due to a positive near-term US growth outlook and underweight euro-denominated credits, in part due to excessive valuations which perhaps a consequence of QE. Among sectors, GSAM see value in US Banks, which may benefit from an unwind of regulations and rising US rates. For similar reasons the fund is overweight Life Insurance. GSAM are also constructive on Pipelines, which stand to benefit from a pick-up in US activity, while we are underweight Pharmaceuticals and Media industries.

Core Equity Fund

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

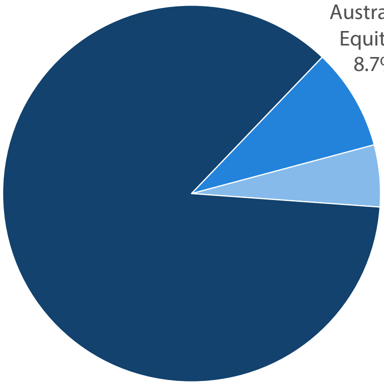
What helped		What hurt	
A2 Milk	OW	Metro Performance Glass	OW
Aristocrat	OW	NZ Refining	OW
Sky Network TV	NH	Aconex	OW

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

Top 10 holdings

Fisher & Paykel Healthcare	Infratil Limited
Contact Energy	The A2 Milk Coy
Spark New Zealand	Summerset Group Holdings
Auck Intl. Airport	Metlifecare Ltd
Fletcher Building	Sky City Entertainment
Number of holdings in fund	**31**

Asset allocation



Hedging

Australian listed stocks are unhedged

Commentary

The S&P/NZX 50 Index rose +0.82% in March 2017 with large-cap stocks underperforming mid-cap and small-cap. Off-shore markets - S&P/ASX200 Accumulation, S&P500 and FTSE100 returned +3.3%, +0.1% and +1.1% respectively (in local currencies). For the quarter, the S&P/NZX 50 returned an impressive but in-line with global markets +5.08% as compared to +4.82% for the S&P/ASX200 Accumulation and S&P500 +5.53%. The main driver for the quarter's performance was the continued 'Trump rally' driven by his 'tweeted' policies impacting investors thoughts on re-inflation, reduced regulation, capital spending and the prospect of tax cuts for many including companies. Interest rates around the world rose with the Fed raising rates as expected and markets were able to absorb this along with the UK triggering Article 50.

The fund outperformed the strong NZ market returning 6.22% for added value of 1.14%. For the quarter **A2 Milk** (ATM) returned 40% hence the overweight position added materially to performance. **Aristocrat** (ALL) also performed very strongly returning ~22% for the quarter on the back of strong earnings guidance for the year ahead issued at the Annual Meeting.

The fund's nil holding in Sky Network TV (SKY) was of benefit to the fund. SKY fell on the back of a weak earnings result as expected and the Commerce Commission rejecting the proposed merger with Vodafone. The stock has been very volatile over the twelve month and fell 13% over the quarter. Both **Summerset** (SUM) and **Contact Energy** (CEN) provided strong returns, around ~11%, based on earnings updates which added to performance over the quarter.

Metro Performance Glass (MPG) and **Aconex** (ACX) both surprised the market with negative earnings updates. Metro fell ~31% and Aconex fell ~18% detracting 0.36% and 0.21% respectively. **NZ Refining** (NZR) was weak post a partial placement of BP stake (selling down from 20.2% to 10.1%) and hence detracted from relative performance.

Propertylink Group (PLG) and **Mirvac Group** (MGR) were added to the fund and provided good result updates during the quarter. Mirvac Group also narrowed its earnings guidance for the full year to the top of its previously provided range.

Chorus (CNU) was sold out of the fund following a strong period of performance and reaching our price target. A number of stocks were reweighted in the fund with the general theme of reducing overweight positions following price movements and increasing cash holdings.

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

Property Fund

Attribution

What helped		What hurt	
Metlifecare	OW	Argosy Property	OW
Summerset Group	OW	Property for Industry	UW
Mirvac Group	OW	Kiwi Property Group	UW

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

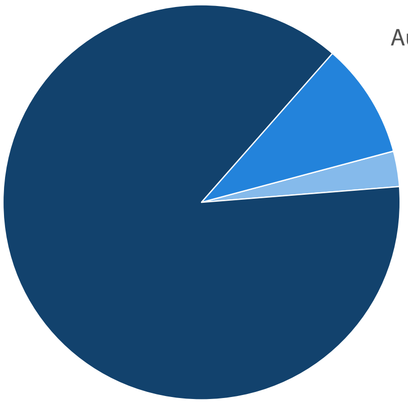
Top 5 holdings

Kiwi Property Group	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ
Stride Stapled Group	
Number of holdings in Fund	**18**

Hedging

Australian listed stocks are 96.8% hedged to NZD

Asset allocation



Commentary

Equity markets globally performed strongly over the first quarter of the year as they continued to benefit from the 'Trump rally'. Property securities tended to underperform the broader market as investors start to contemplate the prospects of inflation and increasing interest rates and the flow-on impact to capitalisation rates and valuations. The New Zealand property index rose 1.6% over the quarter which was well behind the broader market, up 5.1% as measured by the S&P/NZX 50 index. A similar result came out of the Australian property sector with the S&P/ASX 300 Real Estate index falling 0.1% compared to the S&P/ASX 200 index which was up 4.8%.

Despite generally strong performances from out of index holdings, the fund wasn't quite able to match the index return as key index relative positions went against us. The fund ended the quarter up 1.41%, 0.19% behind the index return. The largest positive contributors to relative return were overweight (out of index) positions in **Metlifecare** (MET), **Summerset Group** (SUM) and **Mirvac Group** (MGR). MET and SUM both delivered strong earnings results in the quarter and rose 10.9% and 11.5% respectively. MGR also performed well following a positive half year result, adding 2.8% (in AUD).

The largest detractors to relative performance was an overweight position in **Argosy Property** (ARG) and underweight positions in **Property for Industry** (PFI) and **Kiwi Property Group** (KPG). A drop late in the quarter on no specific news saw ARG finish down 2.0% while PFI and KPG rose 3.8% and 2.9% respectively. PFI benefited from a solid earnings result and portfolio revaluation while KPG received endorsement from the NPT Board for its proposal to acquire the NPT Management contract while vending in two properties and acquiring a 19.9% holding.

Key portfolio changes during the quarter included the divestment of GDI Property (GDI) and MGR following good price movements. Other changes included adding to **Goodman Property Trust** (GMT) and KPG and trading around the edges in ARG.

The quarter saw a number of the fund's holdings report earnings results for the period ending December. Both retirement names in the portfolio, SUM and MET, reported better than expected results with earnings and asset backing growing strongly. PFI, **Vital Healthcare** (VHP) and **Precinct Properties** (PCT) were the New Zealand listed property names in the portfolio that reported results with key metrics such as gearing, occupancy and weighted average lease terms in good shape. All Australian securities in the fund reported results during February. **Ingenia Communities** (INA) and **Propertylink Group** (PLG) had good results as did **Mirvac Group** (MGR) which narrowed its earnings guidance for the full year to the top of its previously provided range. The only slightly negative result came from **Centuria Industrial REIT** (CIP) (formerly 360 Capital Industrial Fund) which, under new management, downgraded earnings guidance based on more conservative assumptions. Other news included GMT releasing its preliminary portfolio revaluation as at end of March which showed an approximate uplift of 5%.

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

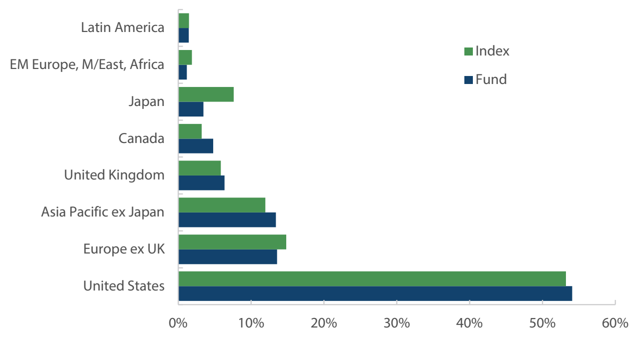
Global Equity

Sector allocation (%)

Sector	Fund	MSCI
Consumer Discretionary	16.9	12.1
Consumer Staples	9.5	9.5
Energy	7.2	6.7
Financials	11.1	18.4
Health Care	11.0	11.1
Industrials	8.8	10.7
Information Technology	18.6	16.4
Materials	6.1	5.3
Real Estate	2.1	3.2
Telecommunication Services	3.7	3.4
Utilities	3.2	3.2
Cash*	1.8	0.0

* includes the sum of the underlying managers' cash allocations

Geographical allocation



Emerging markets **13.0% of Fund**

Top 10 holdings (%)

Company	Fund	MSCI	Country
Amazon.com	2.9	0.9	US
Alphabet Class C	1.9	0.6	US
Facebook	1.8	0.8	US
Wells Fargo & Co	1.6	0.7	US
Encana Corp	1.5	0.0	Canada
Apple	1.2	1.9	US
Taiwan Semiconductor	1.2	0.4	Taiwan
Reckitt Benckiser Group	1.1	0.1	UK
Berkshire Hathaway Class B	1.1	0.5	US
MercadoLibre	1.1	0.0	US

Manager allocations

Manager	Range	Actual
WCM Investment Mgmt	10-30%	25.18%
Principal Global Investors	10-30%	25.19%
Epoch Investments Partners Inc	10-30%	21.94%
Davis Selected Advisors LP	10-30%	25.39%
Nikko AM Limited (Derivatives)	0-10%	3.35%
Nikko AM Limited (Cash)	0-10%	-1.05%

Market commentary

The MSCI All Countries World Index returned 6.64% (NZD, unhedged) and 5.75% hedged to NZD, over the March quarter. That brings the total gain of the "Trump rally" to 17% NZD unhedged. The rotation out of Value into Growth accelerated over the quarter, with Growth outperforming Value by about 400 basis points (bps). As expected, the Information Technology (up 12.7%) and Healthcare (up 8.1%) sectors saw the biggest gains, while Energy (down 4%) was the worst performing sector due to crude oil weakness.

Fund commentary

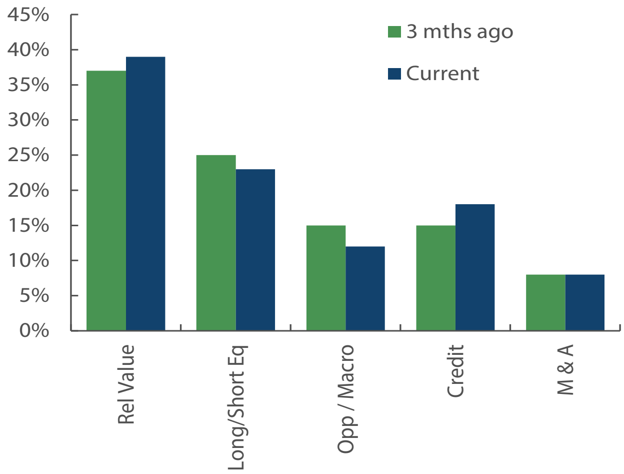
The Fund outperformed its benchmark over the quarter. Most of the value was added by **PGI** (up 7.90%) which outperformed by 126 bps. The manager's growth style benefited from strong performance by its overweights to the Information Technology, Consumer Discretionary and Healthcare sectors. Apple (up 23%) and Facebook (up 22%) were the big winners among tech stocks, while Amazon (up 17%) and China Yongda Automobiles (up 84%) added the most value in the Consumer Discretionary sector.

WCM and **Davis** also both gained more than 7% over the quarter. Adding the most value for WCM's portfolio was its significant exposure to Amazon, Facebook, MercadoLibre (up 34%) and HDFC Bank (up 22%) which all outperformed. For Davis, its overweights to oil companies Encana Corp (down 1.1%) and Apache Corp (down 20%) detracted value, but it had far more winners during the quarter. Adding the most value were New Oriental Education (up 42%), TAL Education (up 50%) and Adient plc (up 23%). New Oriental Education and TAL Education are both Beijing-based and are China's leading tuition companies. Adient plc is the global market share leader in seating and interior components for passenger cars, commercial vehicles, and light trucks. The company recently announced a partnership with Boeing to deliver aircraft seating & interiors. The aircraft interiors market is estimated at about USD 15 billion, compared to the USD 64 billion global auto seating market, however leaders in airline seats have about 18% margins versus only 7% in autos.

Epoch was the only manager that underperformed over the quarter. Although it returned a solid 5.39% over the three month period, it trailed the benchmark by 125 bps. This can be attributed partly to its large underweight to the booming Information Technology sector, and in particular not owning stocks like Apple, Facebook and Samsung which all gained more than 20% over the quarter. While most of Epoch's tech stocks performed well, its largest exposure to the technology sector, Qualcomm, declined 12%. Most of its Energy holdings declined as well, with Exxon Mobil (down 9%) and Occidental Petroleum (down 11%) detracting the most value.

Multi-Strategy Fund

Portfolio composition by strategy



Performance by strategy (absolute)

Strategy	Number of Funds	Latest month	Cal YTD
Relative Value	11	0.18%	0.22%
Long / Short Equities	9	0.56%	1.29%
Opportunistic / Macro	4	-0.04%	-0.03%
Credit	7	0.00%	0.22%
Merger Arbitrage / Event Driven	2	0.02%	0.14%

Commentary

The **Relative Value** strategy was slightly negative for the month, but outperformed the underlying strategy index. Gains related to a Multi-Strategy Fund's settlement with a bankrupt financial institution were offset by losses in Statistical Arbitrage. The biggest losses came from a pair of funds that employ a machine learning approach to trading US equities across market caps. Volatility-related strategies were mixed: a Volatility Arbitrage manager lost money on long volatility positioning, while a Volatility Event fund was able to make money in a challenging environment for the strategy.

The **Opportunistic/Macro** was up for the month and outperformed the underlying strategy index. The largest contributor was a Discretionary Macro manager that made money trading the US and European yield curves and in long US and European equity positions.

These gains were partially offset by another Discretionary Macro fund that lost money in equities (long Japan and short Europe), currencies (long USD/EUR) and from its overall long volatility positioning. Lastly, an Opportunistic fund profited from short rates positions and long European equities.

The **Long/Short Equities** strategy was up solidly for the month and outperformed the underlying strategy index. The biggest contributor was a TMT specialist that continues to have success investing both long and short. On the long side, the biggest contributor was a pharmaceutical company that announced positive results from a Phase 3 study of a sleep apnea drug. On the short side, contributors included a telecom company that was downgraded and a technology company that announced sales would fall more than 50% in Q1. Other gains in Long/Short Equities came from global and non-US managers. In Europe, a manager made money across large and small cap companies. Among large caps, a German industrial machinery company rose on little news, a German defense contractor rose following the announcement of a joint venture and a UK-based insurance company was up on analyst upgrades. Gains in small caps were all in UK-based companies: an advertising agency rose on analyst upgrades, a building product manufacturer rose on strong earnings and a homebuilder was up on little news. Lastly, a global manager made money in an online fashion retailer and an airport operator that rose on little news. On the short side, the manager profited from a telecom company after an analyst report highlighted competition in the industry and questioned the sustainability of the company's dividend.

Merger Arbitrage/Event Driven managers were negative for the month. The only meaningful detractor was a Multi-Event Driven manager that lost money in energy-related positions.

The **Credit** strategy was lower during the month. The biggest detractor was a fund that is seeking to profit from mispricings in the debt of Puerto Rico. During the month, the Fiscal Control Board, which is charged with leading fiscal reform on the island, announced a plan which caused the GO debt of the commonwealth to sell off. Offsetting some of these losses were gains from a Litigation Finance manager and a positive development in a co-investment related to a bankrupt financial institution.