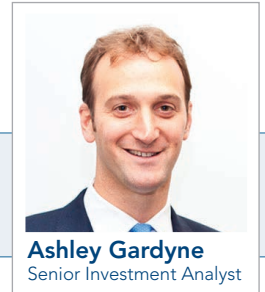


Snapshot

Market insights for investment professionals from
Fisher Institutional — February 2017



Short term focus not the driver of long term results

Did you hear the one about the hedge fund using satellites to spy on car parks to gain an investment edge?

Sorry, there's no punchline; that was a genuine question. The hedge fund is fighting to remain one step ahead of competitors by using satellites to check car park occupancy at retailers like Walmart. The gist is they are willing to do anything to get a better read on quarterly sales and position their portfolios accordingly. While this could work for a couple of quarters, it won't be long before competitors replicate the first mover's advantage, install the same technology and compete those gains away.

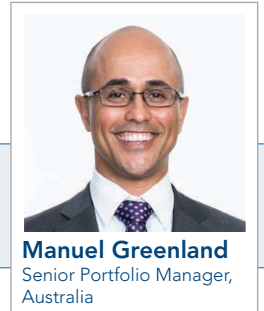
It's not just hedge funds that engage in this short term gaming. As investors increasingly focus on quarterly results, the pressure on CEOs to deliver earnings growth rises every quarter and there are numerous examples of companies demonstrating the same short-sighted behaviour.

The shocking part is that time and time again we have seen this end badly. Before the global financial crisis, we saw it with banks — loosening lending standards for homeowners to drive short term growth — we know how that played out. Closer to home we saw this with Woolworths in Australia. After years of steady growth and margin expansion, it turned out this was at the expense of refreshing their stores and keeping prices sharp. Ultimately, it resulted in an uncompetitive business, market share losses, and a dramatic drop in its earnings and share price.

In contrast, **Port of Tauranga** invested heavily to deepen its shipping channel and expand the port — allowing it to attract larger ships and take market share. **Michael Hill** is rolling out its new Emma & Roe interchangeable jewellery offering, leveraging its expertise to target a new and rapidly growing market opportunity. **Infratil** has set up new platforms in renewable energy, data centres and student accommodation to provide the next leg of growth.

To generate an investment edge you don't need to correctly pick quarterly earnings. On the contrary, we seek to identify factors that are missed by short term investors and look for superior business models, long growth runways and management teams with a long term focus.





The lucky country for whom?

Do these famous opening lines of a nineteenth century novel describe Australia today?

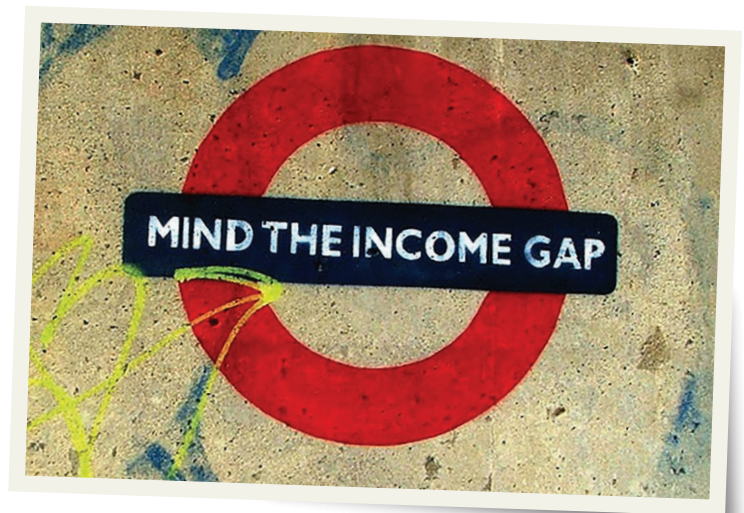
"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness... it was the spring of hope, it was the winter of despair. . . ."

Referring to Europe just before the French Revolution, the lines from Charles Dickens' *A Tale of Two Cities* depict a moment where popular discontent with wealth inequality was about to drive a major change in politics (peasants versus the aristocracy). Is history repeating itself?

In a 2014 report, Oxfam found the top 1% of the wealthiest Australians own more than the country's poorest 60%; resulting in a tale of two countries. It may well be that rising inequality and social polarisation drove the surprise results in both the US election and the Brexit referendum.

While politics again seem on the precipice of change, the impacts have already been felt in Australia. Politically, a string of Prime Ministers have left their terms in office prematurely. The economy, once buoyed by a strong mining sector, has had to rely on other industries to drive growth. Jobs have shifted back from West to East. Investors have to choose between growth or value stocks; volatile or stable industries; and domestic or export sectors. With sharp changes in what the market likes, these choices have had a dramatic impact on share prices. Yesterday's losers can easily become today's winners.

While share prices may swing around with sentiment, the capacity of companies to generate earnings does not. Earnings power depends on a company's strengths versus its competitors, suppliers and customers — in a word, its quality. Our focus remains on selecting the best quality companies for our Australian portfolio.



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Market Movements

As at 31 January 2017

Stock Markets*	Closing Values	Changes over:			
		1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P Developed LargeMidCap - (Local Curr)	629	1.3	7.0	7.2	17.2
S&P Developed LargeMidCap (\$NZ)	N/A	1.3	9.8	10.8	8.8
S&P Global LargeMidCap (\$NZ)	N/A	-2.3	3.2	3.4	4.6
USA - S & P 500	4360	1.9	7.8	6.0	20.0
USA - Nasdaq	6387	4.3	8.5	9.4	23.2
Japan - Topix	2169	0.2	9.4	16.2	8.6
UK - FTSE100	5791	-0.6	2.7	7.4	21.4
Germany - DAX	11535	0.5	8.2	11.6	17.7
France - CAC40	11728	-2.3	5.6	7.5	11.6
HK - Hang Seng	60682	6.2	2.0	7.8	23.3
Australia - S & P 300	52943	-0.8	6.4	3.0	17.3
NZ-S&P/NZX 50 Gross Index (inc imp credits)	8302	2.5	1.4	-3.4	15.6
NZ-S&P/NZX 50 Gross Index (excl imp credits)	7051	2.5	1.3	-4.0	14.3
Market Volatility - VIX	12.0	-14.6	-29.7	1.0	-40.6

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate	1161.7	2.5	0.5	-4.0	6.2

Ten Year Bonds	%	Yield Changes			
USA	2.43	-0.06	0.67	0.93	0.34
Japan	0.09	0.05	0.14	0.26	-0.01
United Kingdom	1.41	0.32	0.27	0.73	-0.15
Australia	2.71	-0.05	0.37	0.83	0.13
New Zealand	3.36	0.09	0.78	1.28	0.14

90 Day Interest Rates	%	Yield Changes			
USA	0.52	0.01	0.19	0.22	0.26
Japan	0.06	0.00	0.00	0.00	-0.11
United Kingdom	0.36	-0.01	-0.05	-0.14	-0.23
Australia	1.77	-0.04	0.03	-0.09	-0.51
New Zealand	1.99	-0.01	-0.15	-0.29	-0.71

Bond Indices		%	%	%	%
S&P/NZX Bank Bills 90-Day	690.85	0.17	0.54	1.12	2.44
S&P/NZX NZ Government Bond Index	1586	0.12	-1.92	-3.26	1.86
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	-0.23	-1.39	-2.03	3.76

Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1209	0.5	2.2	2.4	5.9
DJ-UBS Commodity Index Total Return	177	0.1	3.3	4.1	13.8
Gold (US\$/ounce)	1208.60	5.1	-4.9	-10.4	8.3
Oil (US\$/barrel)	55.25	0.5	19.6	35.5	66.7

Currencies		%	%	%	%
NZD / USD	0.7332	5.1	2.5	1.7	13.3
NZD / EUR	0.6784	2.6	4.0	5.2	13.5
NZD / GBP	0.5828	3.3	-0.5	7.3	27.8
NZD / AUD	0.9658	0.3	2.7	1.8	5.6
NZD / YEN	82.54	1.5	9.8	11.7	5.4
Trade Weighted Index	78.55	0.6	2.2	2.9	9.2

*Total Return Indices. Indices are net of offshore tax.

Source: Thomson Reuters Datastream

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