fisher institutional

Snapshot

Market insights for investment professionals from Fisher Institutional — June 2017

Bruce McLachlan
Chief Executive Officer

To the Finance Department, with love ...

As your new Chief Executive, the Fisher Funds roadshows have been an excellent introduction to the business; and everyone I have met so far has been very supportive and welcoming. Less welcome, however, were the scammers that kicked into gear within my first two weeks in the role! Realistic looking, but fictitious, emails and invoices were supposedly sent by me, as Chief Executive, to the Fisher Funds Finance team authorising all kinds of payments for all kinds of services. Fortunately, our team were onto the scammers quickly and both our reputation and bank accounts remain intact.

In 2016, the US Federal Bureau of Investigation (FBI) warned about a dramatic increase in these so-called "CEO fraud" email scams — in which the attacker spoofs a message from the boss and tricks someone at the organisation into wiring funds to the fraudsters. At the time, the FBI estimated these scams had cost US organisations more than $2.3 billion in the previous three years.

Typically in the US, after a company discovers that the wire fraud was not a legitimate request from the real CEO, the finance employee who wired the funds is often dismissed and the financial losses are reported internally. Investigations to identify the attackers are conducted, officials contacted, and boards informed. Many companies are required to publicly disclose their losses, and the revelations lead to damage in brand reputation.

This serves as a reminder that there are whole industries employed to try and convince us all to part with our hard-earned cash, by legitimate means or foul, but most often not with our own best interests at heart. Unfortunately, the investment world is also littered with such people and industries.

The Financial Markets Authority (FMA) provides an excellent investor service by publishing warning notices, international regulator alerts, businesses to be wary of and also a list of unregistered businesses. You can find these prominently displayed on the fma.govt.nz website under WARNINGS! These are obvious businesses to avoid.

But not all opportunities to avoid are either illegal or scams. Of as much concern is the legitimate, but risky, "investment opportunities" that always appear in certain market circumstances. Currently, the world is in a sustained historically low interest rate environment and that has driven many investors on fixed incomes to chase yield. These so-called opportunities are everywhere and are typically accompanied by words like Guaranteed or Secured. Having worked through quite a number of disastrous periods in the past of investors getting burnt, it always amazes me that the basic fundamentals of investing (like understanding risk) are quickly forgotten in the search for apparent higher returns.

In this context I am very proud to be leading a reputable, responsible and successful funds management company that genuinely has the best interests of clients at the heart of everything we do. It is very important to me that we are active fund managers that make well-researched investment decisions not only based on the inherent quality of companies, but also screening via a thorough environmental, social and corporate governance lens. And we are particularly careful at checking the validity of emails from the Chief Executive. You cannot be too careful these days!

FundSource Awards 2016 | Fund Manager of the Year — Winner

Three cheers for Simon Challies

Sam Dickie
Portfolio Manager
— New Zealand

At last month's annual results briefing, **Ryman Healthcare** Managing Director Simon Challies announced he'd be standing down on June 30 for health reasons. Simon was diagnosed with Parkinson's disease in 2011 but has continued in the CEO role since then with the full support of the board.

Simon joined Ryman as Chief Financial Officer in 1999, and took over as Chief Executive in 2006 from Ryman co-founder Kevin Hickman.

Fisher Funds have enjoyed being shareholders of this extraordinarily successful New Zealand company.

Under Simon's leadership, Ryman's portfolio of retirement villages has grown from 12 to 31 and the company has won the Most Trusted Brand in the retirement village industry accolade three years in a row. Simon led the company through the Global Financial Crisis, the Christchurch earthquakes (which destroyed their offices) and oversaw its expansion into Melbourne. The company has been a consistently high performer on the NZ Stock Exchange and was recognised for its growth strategy in the 2011 Management Magazine Top 200 Awards, with Simon also being recognised as an outstanding leader in 2014, winning the Deloitte top 200 CEO award.

We want to pay tribute to Simon, a CEO who we admire, respect and have very much enjoyed working with over the years. As our team recently discussed Simon's tenure as Ryman CEO, words like passion, honesty, good humour and dedication came to mind.

Gordon MacLeod, Ryman's Deputy Chief Executive and CFO, will take over as Chief Executive on June 30.

Simon will continue as an advisor to the Ryman board until December 2018.

Big bank tax is a tax on all Australians

Manuel Greenland
Senior Portfolio Manager
— Australian Shares

The biggest news on the back of Australian Treasurer Scott Morrison's latest Budget was an unexpected tax on the big Australian banks. The market value of the banks fell by A$14 billion as sharemarket investors anticipated the negative effect of the tax on banks' profits.

The banks themselves cried foul. Head of Australia's largest bank, the Commonwealth Bank of Australia (CBA), said "this is bad policy"; while NAB's chief executive moaned it was "very unfortunate"; and Westpac's boss declared the move "disappointing". The Treasurer remained unsympathetic, saying the interest rates at which the banks borrow depends on the financial strength of Australia, so it was only right they should pay up to support the Budget.

Earlier in the year we had noted increasing headwinds to bank profits. In addition to the cost of their deposits rising, interest rates in foreign markets — where the Australian banks borrow — had also gone up. In an effort to strengthen the banks' financial positions regulators were pushing them to take on expensive long-term debt and to hold higher levels of even more expensive share capital. So the series of mortgage rate increases that banks had recently implemented was not at all surprising; they were seeking to recover rising costs through higher lending rates to borrowers. This extra tax will now add more pressure on profits, and will likely be another reason to raise interest rates.

What does it mean for Aussies?

Rising mortgages and weak income growth have left Australian households with high levels of debt. Over the decade to 2016, Australian housing debt almost tripled to A$1.4 trillion. Borrowers have taken on this debt because of rising house prices and falling interest rates; not because they are earning more. High debt levels and weak incomes mean that household budgets will quickly feel the impact of any increase in interest rates. An important implication of this is that companies that sell products and services to Australian consumers will suffer if households have to use more of their income to service debt.

At the moment electoral polls in Australia are very close. As this tax is pretty popular with voters, it is likely to be approved by the major political parties. The tax is therefore a reality, and for all their grumbling, the Australian banks are going to have to pay it in addition to their other rising costs. In our view they will do so in part by raising interest rates on borrowers, in part by reducing service levels to customers to cut costs, and in part by reducing profits and returns to shareholders. Borrowers, customers and shareholders will all share the pain; many ordinary Australians are all three.

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Frank Jasper
Director

Investing responsibly by investing wisely

Imagine a company that dumps 200,000 tons of waste into its local rivers every day, systematically bribes local police forces, and shows utter disregard for the lives of the indigenous people who live near it.

Not only is this a bad investment — abusing your stakeholders is rarely profitable in the long term — you wouldn't even want to be associated with it.

Responsible investing involves avoiding these sorts of companies — selecting investments that generate sound returns in a way that does not cause widespread harm to society or the environment.

Fisher Funds is committed to investing your money responsibly — ensuring we all feel comfortable with the investments you own.

> "We look at responsible investing in two ways — avoiding the bad and embracing the good."

"Avoiding the bad" ensures we don't invest in companies that are poor performers from an environmental, social or corporate governance (ESG) perspective.

We have, for some time, not invested in the tobacco industry or in companies that manufacture weapons that cause indiscriminate and disproportionate harm. The rationale for these exclusions is simple: these industries cause only harm and have no redeeming benefits. This includes not having investments in companies like Textron which makes land mines, but also more well-known companies like Boeing, which makes components used to produce nuclear weapons.

We have decided to add thermal coal producers to our list of product exclusions. This is because of the impact of thermal coal on man-made climate change.

The second group of exclusions is for those companies that have exhibited widespread and severe corporate misbehavior.

Freeport McMoran, the company referred to in the introduction, is an example of a company on our conduct exclusion list. Freeport has faced serious criticism over its environmental practices at its Grasberg gold and copper mine in West Papua, Indonesia. The company has also been involved in widespread human rights abuses of the local indigenous populations.

For us, responsible investing is more than just excluding the worst companies. Whenever we look at a company, we look at its financial performance, its strategy and the experience of its management team. We also explicitly consider its performance through a responsible investing lens. This involves looking at its treatment of stakeholders, the environment and the sustainability of its business model.

Considering these factors in addition to the traditional financial ones gives us a greater insight into the quality of a company and makes us better investors. You will be hearing more from us about our responsible investing policy and how we're applying it. Watch our video on our responsible investing approach. fisherfunds.co.nz/responsible-investing.

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Market Movements

As at 31 May 2017

Stock Markets*	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P Developed LargeMidCap — (Local Curr)	675	1.7	4.1	11.8	18.1
S&P Developed LargeMidCap ($NZ)	N/A	1.7	9.7	15.4	16.4
S&P Global LargeMidCap ($NZ)	N/A	-1.0	7.4	13.7	12.8
USA — S & P 500	4649	1.4	2.6	10.8	17.5
USA — Nasdaq	7083	2.7	6.7	17.1	26.8
Japan — Topix	2257	2.4	3.1	7.9	16.1
UK — FTSE100	6249	4.9	4.7	13.1	25.5
Germany — DAX	12615	1.4	6.6	18.6	22.9
France — CAC40	13337	2.0	11.1	18.2	21.4
HK — Hang Seng	67338	4.8	8.8	13.8	27.8
Australia — S & P 300	54872	-2.7	1.4	7.3	10.8
NZ-S&P/NZX 50 Gross Index (inc imp credits)	8781	0.6	4.0	8.2	6.7
NZ-S&P/NZX 50 Gross Index (excl imp credits)	7419	0.5	3.5	7.6	5.4
Market Volatility — VIX	10.4	-3.8	-19.4	-21.9	-26.6

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate	1183.9	1.5	2.2	3.4	-1.1

Ten Year Bonds	%	Yield Changes			
USA	2.30	0.00	-0.06	0.16	0.49
Japan	0.04	0.03	-0.01	0.02	0.16
United Kingdom	1.05	-0.04	-0.03	-0.23	-0.38
Australia	2.39	-0.19	-0.34	-0.34	0.08
New Zealand	2.78	-0.30	-0.46	-0.23	0.33

90 Day Interest Rates	%	Yield Changes			
USA	0.90	0.09	0.37	0.45	0.62
Japan	0.06	0.00	0.00	0.00	-0.01
United Kingdom	0.29	-0.03	-0.06	-0.09	-0.29
Australia	1.73	-0.01	-0.05	-0.03	-0.25
New Zealand	1.97	-0.01	-0.03	-0.07	-0.45

Bond Indices	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	695.55	0.17	0.52	1.03	2.24
S&P/NZX NZ Government Bond Index	1640	1.31	2.61	2.84	1.87
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	0.65	1.47	2.60	3.12

Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1232	0.2	0.7	3.2	6.0
DJ-UBS Commodity Index Total Return	168	-1.3	-5.4	-3.4	-2.4
Gold (US$/ounce)	1272.00	0.5	1.5	8.6	4.7
Oil (US$/barrel)	50.72	2.5	-4.9	5.8	3.0

Currencies		%	%	%	%
NZD / USD	0.7098	3.4	-1.9	0.1	4.9
NZD / EUR	0.6312	0.1	-7.3	-5.5	3.9
NZD / GBP	0.5498	3.6	-5.4	-3.1	18.3
NZD / AUD	0.9534	3.9	1.3	-0.6	2.1
NZD / YEN	78.49	2.6	-3.0	-2.8	4.6
Trade Weighted Index	76.91	2.7	-1.8	-1.3	5.6

**Total Return Indices. Indices are net of offshore tax.*
Source: Thomson Reuters Datastream

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