fisher institutional

Snapshot

Market insights for investment professionals from Fisher Institutional — June 2018

Recycling — worthy cause or waste of time

Frank Jasper
Chief Investment Officer

You may have seen a "keep cup" on sale at your local café, or you may even have one from last year's roadshow. A glass or plastic cup that means we no longer have to use a disposable cup for our daily takeaway, and at least in my case, desperately needed shot of coffee.

It turns out that your keep cup has become even more important.

In waste management circles they refer to the three Rs — reduce, reuse and recycle. The third R, recycling, has become a lot more challenging in recent times.

Recycling feels good. Like many of you, I dutifully sort my rubbish into piles, some going to landfill and some into the recycling bin. It makes me feel good when I wheel out that recycling bin knowing I am doing my bit for the world. Unfortunately my good vibes have been a little misguided.

According to the US EPA, and the situation is worse in New Zealand, about one-third of material to be recycled is exported to China for reprocessing. A recent law change in China has changed all of this. Since Jan 1st 2018, the Chinese government has banned the import of a range of materials that were previously recycled there (this includes commonplace plastics like PET used in soft drink bottles) and has reduced imports across a number of other categories. We can no longer rely on China to deal with our waste.

The means that the 41m tonnes of plastic wastes that, as Kiwis, we had loaded onto ships last year and sent overseas, will now begin to accumulate in storage centres or be diverted to landfill. That is not what I, or I suspect any of us, have in mind as we wheel out that bin each week.

The use of plastics and other materials that end up in landfill, or worse our oceans, is of concern to us as investors. This is something we have begun to consider through our responsible investing framework.

While there is still a lot to be done, it is pleasing to see a number of companies beginning to get active in this space.

Amazon, for instance, has set strict rules around packaging for companies wanting to sell on its retail platform. Its sustainable packaging initiatives have eliminated 244,000 tonnes of packaging over the past decade and it reduced waste, including its own packaging use, by 16% in 2017 alone.

Both Nike and Adidas is moving towards 3D printed shoe technologies which dramatically reduce waste. Nike, in an investor roadshow, noted that it spends $1b on materials that end up on the cutting room floor. Adidas has launched a shoe range, Adidas x Parley, that is made from recycled ocean waste.

Initiatives like these help and we, as one factor in our investment decision making, favour companies with a proactive approach to waste mitigation. This is just good business. Waste is going to be an increasing cost for business and importantly speaks to a firm's brand with consumers.

Our fourth R, responsible investing, can of course only go part of the way to helping. Reducing and reusing are by far and away the most critical element in reducing waste volumes, reducing the need for recycling and protecting the environment. We all have a role to play in changing how we live.

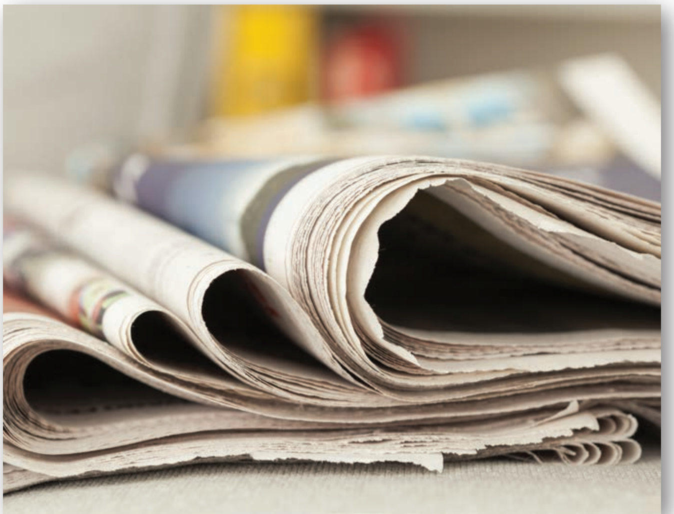
This is important for all of us. So last year it was keep cups at the roadshow, maybe this year it should be recycled bags for picking up the weekly shopping? Time for me to talk to the marketing team!!

Bruce McLachlan
Chief Executive

Front page or business page

Based on some of the many conversations I have had, I know that many of you reading this may have particularly high blood pressure right now. If you have been taking an active interest in your investments or KiwiSaver account day to day, or seen the headlines in the media, you are most likely aware that 2018 has been five months of disruptive global events, all seemingly having the potential to correct highly priced global asset markets.

Not a week goes by when there is not something new on the horizon that has the potential to make investors nervous — Most recently there has been rising global interest rates, North Korean missile threats, developing trade wars and of course the very recent instability with Italy and the downstream potential risks to the European Union. In this part of the world we have also had the initial impacts from the Financial Services Royal Commission in Australia. Any one of these in isolation has had the potential to drive mass market selling, however put them together and there is good reason why many of you may be feeling the pressure!



Despite all of the headlines, occasional panic and tweets, I would encourage you to reflect on the 2018 reality for investors. The Dow Jones industrial index started 2018 at 24,719 and at 31 May was 24,415. Virtually unchanged. Similarly, the ASX200 started the year at 6,065 and finished May at 6011. The NZX50 started the year at 8,398 and at 31 May was 8,658, a 3% gain. Even in the United Kingdom where they are dealing with the uncertainty of Brexit in addition to all of the international dynamics, the FTSE 100 has broadly retained its value having been 7,687 at the start of the year to 7,678 at the end of May. It is fair to say the reality has been totally different than the headlines. Stock markets have been very resilient.

This is because fundamentals have offset the more dramatic political headlines that have grabbed media attention so far this year. Notwithstanding high global asset prices at the start of the year, the Fisher Funds investment team did call out that global corporate earnings have been particularly strong, and with good economic growth almost everywhere, the immediate prospects for corporate earnings remain favourable.

Of course none of us know what is just around the corner, however the challenge of trying to understand and read the impact of global events on global markets is evident. Materially bad events have always happened, are still happening, and will keep on happening. They are also newsworthy and falling markets will always create spectacular headlines. Who will forget the New Zealand Herald's front page from February 2018, with the one word "Bloodbath" taking up the whole page? The fact that the NZX has not only recovered those falls and is ahead of that market level is not newsworthy. Market falls are front page; market rises are business page. The future has to start with getting New Zealanders to look at long-term realities, not short-term headlines.

Improving your long-term future

Right now there is an opportunity for many New Zealanders to improve their future and grow their personal wealth by taking on more risk with their investments, particularly where they have genuinely long-term investment horizons. As a country, we are underprepared for retirement, not saving enough and are frequently invested in the wrong (conservative) assets. Remember while bank deposits are safe for the long term they also have a very large opportunity cost. The fear of near-term global events has driven this conservative view of New Zealand investors and KiwiSaver account holders, rather than the long-term market reality.

It's time for all of us to truly embrace long-term decision making and smart investing. The first five months of 2018 is a case in point. Bad news will occur. Market corrections will happen. Quality companies will grow their earnings over time. Markets eventually recover. Smart investors needn't worry; they will welcome the inevitable market correction rather than fear it knowing that others reading the front pages will make impromptu decisions. The Fisher Funds investment team has done an excellent job in recent times focussing on drivers of long-run investment value, and you our investors have profited. If only more New Zealanders had benefitted from this conviction.

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Market Movements

As at 31 May 2018

Stock Markets*	Closing Values	1 Mth %	Changes over: 3 Mths %	6 Mths %	12 Mths %
S&P Developed LargeMidCap - (Local Curr)	749	1.2	1.0	2.3	11.0
S&P Developed LargeMidCap ($NZ)	N/A	1.2	3.5	-0.4	11.8
S&P Global LargeMidCap ($NZ)	N/A	0.6	2.0	-0.2	13.7
USA - S & P 500	5318	2.4	0.2	3.2	14.4
USA - Nasdaq	8595	5.5	2.6	8.8	21.3
Japan - Topix	2568	-1.7	-0.3	-1.4	13.8
UK - FTSE100	6644	2.8	7.6	7.0	6.3
Germany - DAX	12605	-0.1	1.4	-3.2	-0.1
France - CAC40	14070	-0.5	3.8	3.0	5.5
HK - Hang Seng	83188	-0.4	-0.3	5.7	23.5
Australia - S & P 300	60351	1.2	1.1	2.9	10.0
NZ-S&P/NZX 50 Gross Index (inc imp credits)	10370	2.6	3.8	6.3	18.1
NZ-S&P/NZX 50 Gross Index (excl imp credits)	8659	2.5	3.4	5.8	16.7
Market Volatility - VIX	15.4	-3.1	-22.3	36.8	48.2

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate (inc imp credits)	1299.2	3.2	5.7	3.9	9.7
S&P/NZX All Real Estate (exc imp credits)	1263.7	3.1	5.5	3.5	8.8

Ten Year Bonds	%	Yield Changes			
USA	2.83	-0.12	-0.04	0.48	0.53
Japan	0.03	-0.02	-0.02	0.00	-0.01
United Kingdom	1.23	-0.19	-0.27	-0.10	0.18
Australia	2.65	-0.13	-0.13	0.15	0.26
New Zealand	2.90	-0.12	-0.05	0.17	0.12

90 Day Interest Rates	%	Yield Changes			
USA	1.93	0.06	0.28	0.68	1.03
Japan	0.07	0.00	0.00	0.00	0.01
United Kingdom	0.61	-0.10	0.03	0.09	0.32
Australia	1.98	-0.05	0.18	0.24	0.25
New Zealand	2.02	0.00	0.10	0.11	0.05

Bond Indices	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	709.15	0.17	0.48	0.96	1.96
S&P/NZX NZ Government Bond Index	1687	0.68	1.37	1.31	2.87
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	0.39	0.87	0.29	1.80
Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1267	0.3	-0.6	0.1	2.9
DJ-UBS Commodity Index Total Return	186	1.4	3.4	6.7	11.0
Gold (US$/ounce)	1300.10	-1.2	-1.2	2.1	2.2
Oil (US$/barrel)	76.45	0.7	15.7	20.3	54.8
Currencies		%	%	%	%
NZD / USD	0.7016	-0.4	-2.9	2.2	-1.1
NZD / EUR	0.6011	3.1	1.5	4.4	-4.8
NZD / GBP	0.5273	3.1	0.6	4.0	-4.1
NZD / AUD	0.9273	-0.7	0.0	2.6	-2.7
NZD / YEN	76.23	-1.1	-1.1	-0.7	-2.9
Trade Weighted Index	73.01	-2.5	-2.8	-0.1	-3.3

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

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