MARKET INSIGHTS

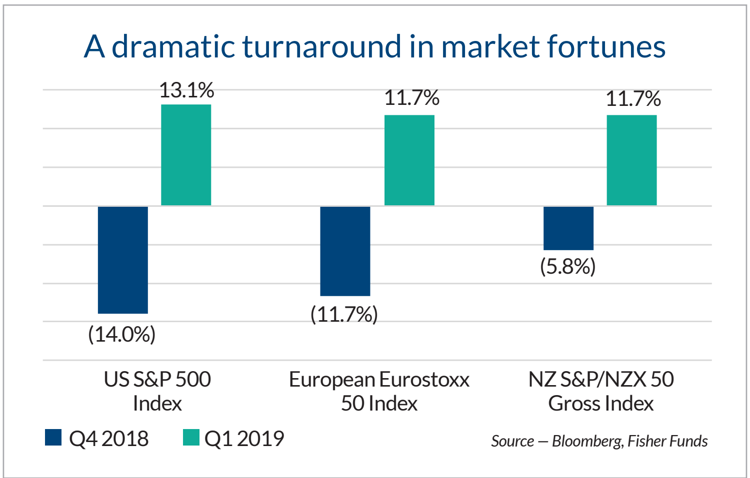
First Quarter - 2019

BEWARE OF DR JEKYLL AND MR HYDE

Frank Jasper, Chief Investment Officer

It's enough to give you whiplash. The swing in share market sentiment from the last quarter of 2018 to the first quarter this year feels like more like the fictional battle between the good Dr Jekyll and the evil Mr Hyde than the behaviour of sophisticated share market investors. The evil Mr Hyde well and truly ruled the fourth quarter of 2018. Almost any news, good or bad, was greeted negatively, the market couldn't find its feet and companies, almost regardless of their quality, were savagely sold off.

In an early Christmas present markets bottomed on December 24 just as the US share market had put a toe into official bear market territory. Since then Dr Jekyll has been in control. Good news has been met almost euphorically and bad news has been ignored. Share prices have soared.



While trying to understand exactly what drives the mood of the market can be difficult there have been four key factors, in our view, that acted as safety valves releasing the bearish tensions that gripped the market in Q4.

1. The Powell Pivot

Jerome Powell is the Chairman of the US Federal Reserve. During most of 2018 Mr Powell adopted a "hawkish" tone suggesting US short term interest rates were likely to go higher. Investors rightfully viewed this as a risk to economic growth and company earnings. In fact he had arguably lit the torch to the market's bearish Q4 fire with comments in October that interest rates were still a long way below neutral. How things have changed. The commentary from the US Federal Reserve in recent months has pivoted to clearly "dovish" with the Fed removing any guidance that rates will rise. The market has priced this in, having gone from expecting a further three interest rises from the Fed over the course of this year to now modest hopes of a cut.

2. European Central Bank also eases

Along the lines of the changed narrative at the US Federal Reserve, the European Central Bank has flipped from slowly trying to normalise interest rates to embarking on another round of stimulatory policy designed to keep credit flowing and to arrest the sharp fall in economic growth being experienced in the Eurozone.

3. China stimulates its economy

The Chinese economic engine stalled in 2018 which flowed through into the share market. A key measure of the performance of Chinese shares, the CSI 300 index, fell 25.3% for the year making China one of the worst performing markets in 2018. To combat this the Chinese government has put in place a range of targeted stimulus measures aiming to support small and medium size companies and to drive domestic consumption. There is now clear evidence that this stimulus is stabilising the economy and helping offset one of the biggest concerns we had at the beginning of the year.

4. Trade tensions ease

While it's certainly not a done deal there have been clear signs of progress on negotiations between Washington and Beijing. This includes the extension of a "truce" that at least holds tariffs at current levels and explicit statements of optimism that talks will be resolved from senior Chinese and US officials, including President Trump.

That's four major concerns that have been assuaged in the first quarter. No wonder shares rallied.

The problem, as far as we see it, is that while each of these developments have been good for sentiment it's a lot harder to see a positive impact in the fundamentals that will drive longer run returns. Maybe this rally in shares is not built on the stoutest foundation?

We would highlight two things that stand out.

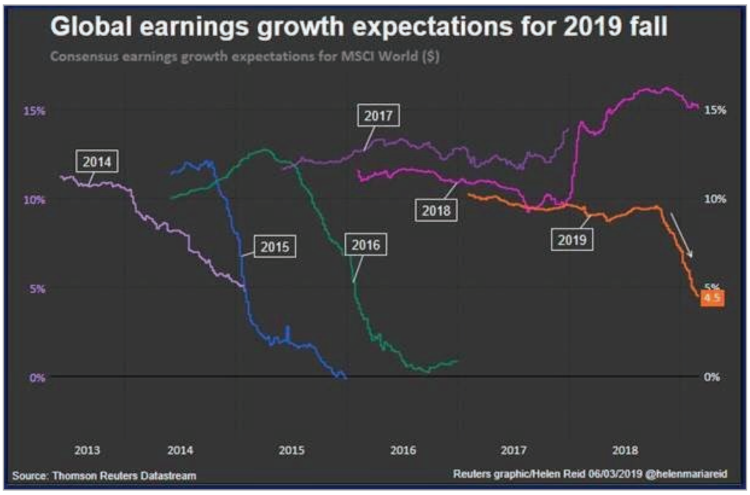
First and most importantly long-term interest rates have continued to fall even as the share market rallied and central bankers became more accommodative. In fact interest rates in Europe and Australasia have approached or are at, all-time lows. New Zealand's ten-year Government bond yields finished the quarter at 1.8%. That's an all-time low and is going to make life difficult for investors relying on fixed income to fund their retirement.

Falling interest rates point to a very different message than you would draw looking solely at the share market — long-term interest rates fall when investors think economic growth is going to be disappointing. That is almost the exact opposite inference than you would draw from the strong share market enjoyed in Q1.

Company analysts are sending a similar message. One measure of this is the direction of changes to their expectations for company profits. Analysts, in general, are an overconfident bunch. Each year they start off boldly predicting healthy profit growth and then as time passes, and reality asserts itself, analysts typically downgrade their forecasts.

As the chart below shows this is the pattern that occurs most years. 2017 and 2018 are notable exceptions where forecasts were revised higher over the year. We know this resulted in great returns for share investors.

Despite the strong market so far this year the old pattern of downgrades is very much the case for 2019 earnings expectations. In fact the downgrade cycle seems worse than normal. Like the interest rate picture this doesn't exactly gel with the strong rally in shares since the beginning of the year.



So how do we make sense of all of this?

Our advice is for investors to take a balanced perspective. We should be neither Dr Jekyll, looking for the good in everything nor should we be the evil Mr Hyde only seeing the bad.

Right now, in our view, a balanced perspective requires caution. Economic growth is softening, company earnings will come under pressure and asset prices aren't exactly cheap.

Yet, despite that cautious backdrop, and possibly because of it, opportunities abound. The asset class commentaries that follow will give you a flavour of that by highlighting some of the opportunities that volatile markets have thrown up. As it turns out the evil of Mr Hyde will often throw up opportunities that the more thoughtful Dr Jekyll can take advantage of.

FIXED INTEREST

David McLeish, Senior Portfolio Manager — Fixed Interest

New Zealand Cash & New Zealand Fixed Interest

An unchanged Official Cash Rate (OCR) during the quarter masked what has been a sea change in the Reserve Bank's outlook for monetary policy in New Zealand.

There was no misconstruing their language this time. Accompanying the bank's decision to keep the OCR unchanged in March was the comment that "the more likely direction of our next OCR move is down". This clear pivot towards "easier" monetary policy took many off guard, with economists across the market racing to adjust their expected path for the cash rate post the release. Hat tip to ANZ Chief Economist Sharon Zollner, for her prior deeply out-of-consensus rate cut call.

As you would imagine, interest rate markets move even quicker than your average economist does. So it was no surprise to see the rally in New Zealand fixed interest assets take interest rates to yet new all-time lows within minutes of the statement.

Our key tactical decision to manage our cash and fixed interest portfolios from an overweight duration (i.e. interest rate exposure) position throughout the past two years contributed most to the strong outperformance of the Cash and the New Zealand Fixed Interest Funds against both our benchmarks and our peer group over this period.

While it may be tempting to consider reducing the allocation diversified portfolios have to New Zealand fixed interest, we caution against such a move at this juncture. We appreciate the magnitude of the recent move suggests some retracement to mildly higher yields is indeed quite possible. However, this must be considered against the backdrop of a continued deterioration in both global and domestic economic indicators which suggest growth and inflation are likely to be pressured lower throughout 2019 – typically a very bullish set-up for fixed interest assets.

International Fixed Interest

While the previous quarter saw a flight to quality that benefitted bonds, the March quarter delivered strong bond returns in a completely different and much more buoyant environment for shares.

This change to a positive correlation between bonds and shares was driven by a view that bad news for the economy was actually good news for asset markets because central banks would be prompted to ease policy to support growth. Expectations for two more rates hikes from the US Federal Reserve over the coming year have been replaced with hopes for almost two rate cuts which is a dramatic change in the market's outlook.

Japanese and German 10 year yields have recently moved into negative territory and the grand total of global bonds with negative yields has surpassed US$ 10 trillion. The spread between the US 3 month and 10 year yields turned negative creating a much-discussed yield curve inversion. Such inversion has preceded many of the US recessions of the past 60 years although they have usually occurred after a greater degree of tightening in short term rates.

Although PIMCO does see global growth slowing, they put a low probability on a recession because greater government spending is likely to support growth and inflation. In this scenario, US short rates are likely to flat line for the near future. PIMCO sees attractive opportunities in inflation-protected bonds, mortgages and in the front end of yield curves. They are cautious on Japanese bonds, corporate credit, and Italian and British bond markets. PIMCO's returns were slightly ahead of the benchmark over the quarter.

Wellington matched the benchmark over the quarter. They benefitted from the shift in central bank attitudes outside the US, which saw the Bank of Canada and the Reserve Bank of Australia pivot toward a more accommodative stance. Wellington has a conservative position in corporate credit, which was a small drag on returns as spreads tightened. They have remained overweight the Japanese yen which typically benefits from safe haven flows in time of turmoil.

NEW ZEALAND EQUITIES

Sam Dickie, Senior Portfolio Manager — New Zealand Shares

We welcome dispersion and the opportunities it presents

The New Zealand share market had its best quarter in more than two years and fourth best quarter since the global financial crisis, based on returns for the S&P/NZX50G.

There has been a major change in market dynamics in late 2018 and 2019 with single stock dispersion, essentially the difference in returns between the weakest and strongest performers, increasing sharply after several quarters of very low dispersion in late 2017 and into 2018.

We welcome dispersion with open arms as it provides an opportunity to beat the market and allows the high quality companies we invest in on your behalf to shine.

During the March quarter portfolio heavyweights like **The a2 Milk Company**, **Fisher & Paykel Healthcare** and **Mainfreight** delivered significantly higher returns than the market. Of course dispersion is a two-way street. Thankfully we avoided some of the weaker performers over the quarter. In particular it was satisfying that companies we have either previously exited (Metro Performance Glass, Abano Healthcare Group and Sky TV) or had run through our process and actively chosen not to invest in (Metlifecare, Comvita) returned significantly less than the market.

Dispersion was also evident in the recent company earnings reporting season. We had twice as many companies that beat consensus earnings expectations as those that missed them. The broader NZ stock market on the other hand had a ratio of 0.3 to 1, meaning that 3 times as many companies missed earnings expectations as beat them.

Keeping our eye on the ball — long-term thinking, like a business owner

You have heard us say before many times that we are long-term thinkers and approach investing like business owners, not financial analysts.

a2 Milk and Fisher & Paykel Healthcare by their very nature are ultra long-term growth stories. Fisher & Paykel Healthcare is currently treating between two and three million patients with their Optiflow Nasal High Flow Therapy product. We think the total addressable market here could be as large as 40 to 50 million patients. This is a growth runway that can extend for decades.

a2 Milk has less than 4 percent market share in the huge Chinese infant formula market. We think this is a market the company can dominate. We also think a2 can take a meaningful market share in the US liquid milk market where its market share is currently negligible. With the scale of opportunity these companies have ahead of them, it is critical not to get lost in the short-term noise and keep our eye on the long-term prize.

Close followers of a2 will understand what we mean when we say there is an enormous amount of noise that comes with the territory. This is normal with exciting consumer growth stories in the huge and opaque Chinese market. The key for us is to sift through the mountain of day-to-day noise and to identify the important information that helps us get clarity on the long-term story.

In recent months a2's share price has been battered by various fears. Firstly, the market grappled with concern that sweeping regulatory changes in China may impact a2, but as it turned out common sense prevailed, and the government did not block Chinese mothers from using offshore infant formula as many in the market would have us believe.

Secondly, the CEO sold a parcel of shares she had just received, prompting many in the market to suggest she must know something we didn't. As it turned out, like many sellers of shares, the CEO had personal reasons for selling that had nothing whatsoever to do with the health of the company. Thirdly, slowing consumption growth in China as the economy slows came onto investor's radars, but as it turns out, the huge total addressable market and low penetration allow a2 to prosper despite any broad slowdown in consumption. Fourthly, a sales 'miss' relative to consensus expectations led many to think the growth story was over, but the shortfall was due to a change in their infant formula labelling, which proved a temporary, hiccup has not impacted the long-term earnings power of the business at all.

We have added to our a2 position in several of those situations, which have all proved to be transitory and reflect the market's short-term focus.

After all of this noise, a2 reported a strong earnings result in February, well ahead of our expectations (which were also ahead of consensus)! Growth has essentially accelerated and based upon the company's in-depth data-driven work on customer loyalty and behaviour, management were confident enough to provide more upbeat and longer-term guidance than they have ever given before.

Attending a meeting with the Fisher & Paykel Healthcare management team is like, excuse the pun, a breath of fresh air for us. The company thinks in decades, not quarters. This is the exact opposite of many investors who myopically focus on short-term issues such as the annual flu cycle and whether it will impact current earnings. Our view is that the flu cycle has years with lots of flu and years that it is less of an issue but any one year's outcome does not impact the long-term earnings power of Fisher & Paykel Healthcare one iota.

When we meet the management team, we spend almost no time focussing on the previous half yearly earnings. We spend almost the entire time focussing on the 5 to 20-year outlook. We focus on the long-term production capability of the Mexico facilities, we focus on the very large and untapped opportunities Fisher & Paykel Healthcare has with Optiflow outside the intensive care unit, and we focus on the super long-term opportunity of using Optiflow or high flow nasal therapy in the home.

When the story changes, be prepared to change your mind

During the quarter we exited our longstanding holding in jewellery business, Michael Hill.

Over the last two years the investment case has changed meaningfully. During the last year or so, the company exited the US and its relatively new Emma & Roe 'demi-fine' jewellery concept, significantly changed its pricing strategy and then subsequently reversed that strategy.

With the structural shift to online sales and the pressure shopping malls around the world are facing to attract foot traffic and the fact that the underlying category growth of fine jewellery is flat at best, Michael Hill requires near flawless execution to navigate that tricky backdrop.

During these turbulent times, it became clear to us that the strength of the business and the moat around the business is not what it once was. The recent share price recovery on the back of the new CEO's turnaround plan presented an attractive time to exit the position.

There are higher quality investment options where we can deploy our capital and we have begun to do that, adding to our positions in Mainfreight, a2 Milk and Xero.

AUSTRALIAN EQUITIES

Robbie Urquhart, Senior Portfolio Manager

A Tale of Two Quarters

In the first three months of 2019 the Australian share market posted a strong start to the year rising +10.9% in A$ terms for the quarter. All sectors, led by Information Technology (+20.7%) and Materials (+17.8%), finished in the green.

Given the sharp contrast between this return against the tough December quarter of 2018, you might well ask — what has changed?

As Frank highlighted in his overview, there have been some key global macro developments which have positively impacted financial markets and shifted risk sentiment. This includes signs of Chinese stimulus that helped buoy the materials sector in Australia.

The iron ore industry was also an indirect beneficiary of the tragic collapse of a tailings dam wall at one of Brazilian miner Vale's mining sites in Brazil. This came with a high human and environmental cost. This tragic event disrupted the seaborne iron ore market of which Brazil and Australia are the dominant players pushing iron ore prices higher and underpinning solid returns in the quarter for the Australian mining industry.

The other major news for the quarter was the long-awaited release of the final report from the Royal Commission into the banking and finance sector. Relative to expectations, the benign recommendations of the report removed a key risk for the banks and sparked a relief rally in their share prices.

While periods of extreme volatility can be stressful, we weren't overly concerned by the sharp sell-off late in the year given that our fundamental research indicated that things weren't that bad. To some extent the market rebound this quarter reflects that view.

However, we are a little more cautious as we look forward from here. The recent profit reporting season in Australia underlines the reason for this caution. While results for the companies in our portfolio were solid, operating conditions for Australia Inc. are not getting easier, especially for domestic focussed businesses. The fall in house prices continues to weigh on consumers. The pending general election (likely in May) introduces policy uncertainty and this also weighs on activity.

To be clear, Australia is not in a recessionary environment. The economy is still growing, albeit at a slower rate. A slower growth warrants caution.

Key Portfolio News

Walt Disney apparently once said: *"I've heard there's going to be a recession. I've decided not to participate."*

Our investment process is focussed on investing in high quality companies with long runways of growth and strategic advantages against competitors. In short, we are seeking to unearth companies that embody the Disney attitude.

Through reporting season, it was pleasing to see how well our portfolio companies are weathering the tepid operating environment. In fact many of our companies are showing no signs of slowing down at all. Nowhere was this more evident than in the results and share price performance of **Nanosonics** which returned a staggering +53% in the quarter.

Nanosonics' profit result was a good number. Revenue was up +36% and healthy profit margin expansion was evident as the company was able to leverage investments made in previous years.

Nanosonics provides a globally leading disinfection solution for ultrasound probes. The company has been in our portfolio since December 2009 and over that time has gone from being a small firm with an emerging technology and a few customers in Australasia, to the leading global provider of ultrasound disinfection technology. Its business partners are the who's who of global medical companies.

The company has executed well against a clear and consistent strategy for years. The share price performance however, has been volatile. The share price is up +580% since December 2009, equating to an annualised gain of +23% pa.

However, in that time it has had one fall in price of more than 55% and on top of that had 4 further declines of more than 24% with 2 of those falls being more than 35%.

As history now shows these were all buying opportunities. Without knowing the fundamentals of the company well, or if one did not have a long-term, patient perspective, it would have been easy to panic and sell. Doing so would have led one to miss out on the wonderful gains that followed.

We kept this lesson in mind when considering the performance of another core portfolio holding, **ResMed**, over the quarter. The company's share price fell 22% after it reported results in January. It has since recovered some of this but was still down 9% across the quarter.

ResMed is a global leader in supplying products to people that suffer from sleep-disordered breathing and is building a position in an adjacent respiratory disease market. It is a high-quality business with significant untapped potential in both these markets. More recently the company has been investing in software businesses focussed on the management and delivery of services to patients in the out-of-hospital care setting.

In ResMed's report, the market was disappointed by two things:

1. some weakness in the sales of sleep-disordered breathing devices; and
2. the lack of profit contribution from ResMed's software businesses.

The weakness in device sales was impacted by one-off medical funding price changes in some of its markets. This is temporary and ultimately does not change the core economic drivers of the division. There are millions of people suffering from sleep-disordered breathing who aren't yet being treated. What's more, demographic trends (ageing population and obesity) mean this market will grow in time. As the largest supplier globally, ResMed is in the box seat to keep growing its supply of products to meet this demand.

The software business does drag on near term earnings which we had already factored into our thinking . However, it adds a significant potential new source of predictable, recurring revenue for ResMed. Linked as it is to servicing a healthcare driven need, like the device sales, this software revenue is not at the whim of economic cycles.

We think Mr Disney would like these characteristics!

We invest with a long-term view. We understand that the journey, particularly from a share price perspective can be bumpy at times as we highlight with Nanosonics. However, with patience we will be rewarded for owning high quality, growing companies.

In line with this thinking we took advantage of the fall in ResMed's price post the result and added to our position.

Responsible Investing in Action

We sold our BHP position in March because we deemed it to be in contravention of our Responsible Investing Policy by virtue of being a significant producer of thermal coal.

One of our core investment beliefs at Fisher Funds is to only invest in companies that act responsibly. As articulated in our Responsible Investing Policy, this means that we will not maintain an investment in a company that engages in behaviour that compromises acceptable environmental, social or governance standards. This includes companies that are significant producers of thermal coal.

When we built our positions in BHP and Rio Tinto in 2016, both companies were producers of thermal coal. At the time it looked to us as if they were actively exiting their thermal coal operations. For this reason, both companies were permissible holdings under our Responsible Investing Policy.

Since then, Rio Tinto has exited thermal coal completely, selling its last mine in 2018 and we continue to maintain a shareholding in the company.

While BHP had exited a number of thermal coal assets when it demerged the South32 operation in 2015, it has however, hung onto its remaining assets in Colombia and Australia. Recent commentary from the company indicates that it is happy with its remaining thermal coal exposure. This was a big red flag for us.

So, notwithstanding that we still regard BHP's portfolio of businesses and management team highly, we have drawn a line in the sand. Until the remaining thermal coal assets are disposed of, we will no longer be investing in BHP's shares.

SELECT INTERNATIONAL EQUITY FUND

Ashley Gardyne, Senior Portfolio Manager — International Shares

In January we had just witnessed the biggest quarterly drop in global markets in seven years. Market sentiment was very negative, and we talked about how we were trying to capitalise on some of the opportunities this was creating.

Without much change in the fundamental economic backdrop, the first quarter of 2019 was the polar opposite, with US stocks registering their best quarterly gains in almost a decade.

Markets have responded to an accommodative Federal Reserve, which signalled an end to rate hikes, and apparent progress in the US-China trade negotiations. Sentiment has shifted quickly as evidenced by the market for Initial Public Offerings also springing back to life, with the recent $24 billion IPO of ride-sharing company Lyft, and talk of potential IPO's by Uber, Airbnb and Pinterest.

While the bipolar nature of markets can cause concern among investors, it also creates attractive investment opportunities. Some of the changes we made to the portfolio and discussed following the drop in markets last quarter have contributed significantly to performance this quarter. These include the acquisition of Chinese technology giant, **Tencent Holdings**, and the increase in our holdings in **MasterCard**, **TJX Companies**, **Alibaba** and **PayPal**.

This market strength has come despite global economic growth slowing in recent quarters, and valuations are again looking elevated relative to growth prospects. As valuations climb and we move further through the economic cycle, we have been looking to add to our holdings of more defensive businesses. As an example, we recently added to our position in healthcare company **Fresenius Medical Care** and added **Dollar General** to the portfolio.

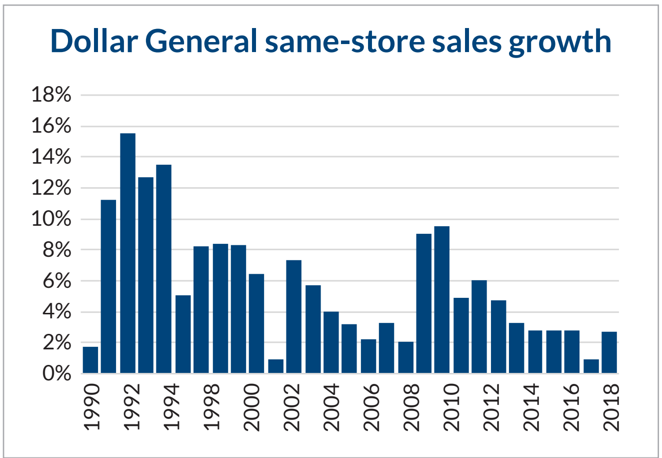
New Portfolio Addition: Dollar General

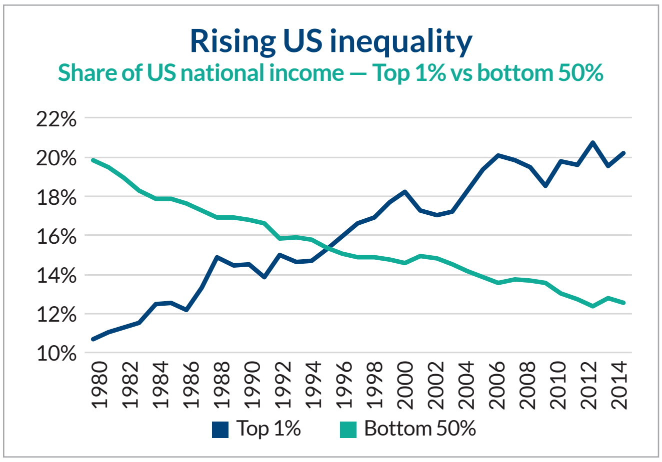
Dollar General is the largest dollar store chain in the US and it sells a range of everyday household items like food and cleaning products, as well as toys, stationery and basic apparel.

Dollar General has been a real success story in US retail, stringing together an unbelievable 29 years of same-store-sales growth. The company's low price points and value proposition support its business in difficult economic environments, with sales growth actually accelerating in the last two recessions as consumers traded down.

Dollar General has a talented management team, strong track record, and a scale advantage over its competitors. It offers both value and convenience — near Walmart prices, but without having to drive halfway across town to get them. Its stores offer an attractive proposition to a growing cohort of US households that are financially stretched and are not well served by traditional retailers. Even though unemployment is near record lows in the US, inequality is a significant social issue and 80% of households are living paycheck-to-paycheck. This is because stagnant wages in many occupations over the last forty years, combined with rising healthcare and living costs, have squeezed household budgets. Dollar General has provided a great service for these lower socioeconomic households, and as a result it has created a loyal customer base.

There are currently 15,000 Dollar General stores across the US and it is rolling out approximately 1,000 new stores every year. We believe the company should continue to deliver low double-digit earnings growth as the company expands its store base at attractive returns, takes market share and repurchases shares.





The addition of Dollar General to the portfolio has been funded by trimming some of our more cyclical holdings, including Hexcel, Descartes and Alibaba. While we have started to make some changes to improve the defensiveness of the portfolio, these changes are at the margin and we typically avoid making decisions due to macroeconomic views. Our strategy for outperforming the market over the long run simply involves finding the right businesses and holding them for the long term.

Edwards Lifesciences

A good example of a business that has delivered significant value over the long-term is healthcare company **Edwards Lifesciences**, which recently delivered some significant news and saw its share price gain 25% during the quarter.

Edwards is the leading manufacturer of replacement heart valves for patients with aortic stenosis, a potentially fatal condition affecting millions of people globally. Edwards pioneered a new type of valve that is implanted with a catheter (without open-heart surgery) and often allows patients to leave hospital the next day. While there are clear benefits for patients, it can also save hospitals money due to shorter patient visits and fewer complications. While initially restricted to the most ill patients, Edwards had a vision of this becoming standard of care for all patients. This vision came closer to reality last month following the conclusion of a clinical trial that demonstrates this minimally invasive technique is superior to surgery for all patients and opens up a new patient group and avenue for growth.

Edwards is a great example of the type of company we are looking for. It is the market leader in a sector with many years of growth ahead, and by investing more in R&D than its competitors, is continually extending its growth runway and strengthening its competitive position. Beyond its products for the aortic valve, Edwards continues to develop new devices to repair the tricuspid and mitral heart valves, which are still largely treated through open-heart surgery.

We also like that management is heavily invested in the company's long-term vision, with CEO Michael Mussallem owning more than US$170 million worth of Edwards shares.

We had the opportunity to add Edwards to the portfolio two years ago following a weak set of quarterly results. At the time, the market became extremely focused on a short-term slowdown in sales growth, rather than focusing on the long-term growth opportunity ahead of the company. Edwards' share price has more than doubled since then and we believe this provides a good example of how the market occasionally provides opportunities to investors willing to look through short-term noise.

Edwards' heart valve and catheter

Portfolio Exit: eBay

We decided to exit long-time portfolio holding **eBay** from the portfolio in February. Despite some poor recent financial results, we have been somewhat lucky with eBay and its share price has gained over 30% this year on news that activist investors Elliott Management and Starboard Value have taken stakes in the company. These activist investors are pushing for eBay to sell its ticketing business (StubHub) and its collection of online classified websites (including Gumtree) and refocus its efforts on growing its core e-commerce marketplace.

We maintained our investment in eBay last year as we believed the company was making some credible steps to reaccelerate its e-commerce growth and acquire new users. Its initiatives in payments and advertising also added new and promising high margin revenue streams.
That said, its recent financial results have shown that growth is slowing despite these efforts (in a strong e-commerce market) and this caused us to question our investment. The intervention by Elliott Management was therefore timely and has allowed us to exit our holding at what we think is a fair price.

The first quarter of 2019 was a good one for the Premium International Growth Fund. However, with slowing global growth and the recent rebound in equity market valuations, it is again becoming challenging to find attractive new investment ideas. We continue to turn over plenty of rocks as we search for new investments and remain comfortable with the businesses we do have in the portfolio and their long-term prospects.

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fisher funds

MARKET MOVEMENTS

As at 31 March 2019

Stock Markets*	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P Developed LargeMidCap - (Local Curr)	775	1.6	12.5	-2.1	6.8
S&P Developed LargeMidCap ($NZ)	N/A	1.6	10.7	-4.7	13.1
S&P Global LargeMidCap ($NZ)	N/A	1.3	10.2	-4.6	9.0
USA - S & P 500	5664	1.9	13.6	-1.7	9.5
USA - Nasdaq	9006	2.7	16.8	-3.4	10.6
Japan - Topix	2395	0.1	7.7	-11.2	-5.0
UK - FTSE100	6515	3.3	9.5	-1.1	7.7
Germany - DAX	11526	0.1	9.2	-5.9	-4.7
France - CAC40	14118	2.3	13.4	-2.0	7.0
HK - Hang Seng	81507	1.6	12.8	5.2	0.0
Australia - S & P 300	64216	0.7	10.9	1.6	11.7
NZ-S&P/NZX 50 Gross Index (inc imp credits)	11902	5.9	12.1	5.8	19.6
NZ-S&P/NZX 50 Gross Index (excl imp credits)	9845	5.6	11.7	5.3	18.3
Market Volatility - VIX	13.7	-7.2	-46.1	13.1	-31.3

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate (inc imp credits)	1555.3	5.1	8.7	11.2	25.2
S&P/NZX All Real Estate (exc imp credits)	1498.7	4.9	8.5	10.7	24.0

Ten Year Bonds	%	Yield Changes			
USA	2.41	-0.32	-0.28	-0.64	-0.33
Japan	-0.09	-0.07	-0.09	-0.21	-0.14
United Kingdom	1.00	-0.32	-0.27	-0.57	-0.35
Australia	1.77	-0.33	-0.55	-0.90	-0.83
New Zealand	1.81	-0.35	-0.55	-0.80	-1.12

90 Day Interest Rates	%	Yield Changes			
USA	2.40	-0.05	-0.05	0.21	0.67
Japan	0.07	0.00	0.00	0.00	0.00
United Kingdom	0.85	0.00	-0.06	0.05	0.14
Australia	1.78	-0.09	-0.31	-0.16	-0.26
New Zealand	1.85	-0.04	-0.12	-0.06	-0.11

Bond Indices	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	721.02	0.16	0.51	1.01	2.01
S&P/NZX NZ Government Bond Index	1803	1.85	3.09	4.61	7.38
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	1.73	2.77	4.47	4.63

Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1221	-0.2	2.6	-3.1	-3.3
DJ-UBS Commodity Index Total Return	170	-0.2	6.3	-3.7	-5.3
Gold (US$/ounce)	1293.00	-1.5	1.1	8.5	-2.3
Oil (US$/barrel)	67.62	4.0	33.7	-18.3	-2.0

Currencies		%	%	%	%
NZD / USD	0.6820	0.1	1.7	2.9	-5.5
NZD / EUR	0.6074	1.5	3.5	6.4	3.5
NZD / GBP	0.5234	2.2	-0.6	3.0	1.8
NZD / AUD	0.9601	0.2	0.8	4.8	2.1
NZD / YEN	75.49	-0.5	2.6	0.2	-1.6
Trade Weighted Index	74.24	0.1	-0.7	3.4	-0.6

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