MARKET INSIGHTS

Third Quarter — 2019

BROKEN RECORD, NEW APPROACHES

Frank Jasper, Chief Investment Officer

Interest rates continued to fall in the third quarter of 2019. While they can always go lower — we have learnt that 0% is not the boundary that many of us once thought it was — the thirty-year trend of falling rates is inexorably drawing to a close. This will mean we need to rethink how we build and manage long-term wealth. Being clear on long-term investment objectives, accepting and profiting from the variable returns that accompany taking more investment risk and creating excess returns from active management are key elements needed to deliver future investment success.

Sometimes I sound like a broken record. So excuse me if you have heard this before but falling interest rates, particularly in New Zealand, were, once again, a dominant theme for the quarter. After years of falling rates that starts to sound repetitive.

The game is ending.

The ten-year New Zealand government bond stands at 0.99% as I write this. While interest rates can go lower — we have ample evidence of that happening in Europe and Japan — the arithmetic for long-term investors gets even worse if they do.

It's the end of an era. For as long as most of us can remember, we have been able to invest in low risk assets yet earn a healthy real return. That is extremely unusual. I believe the last thirty years will prove to be an anomaly. Low interest rates offering a meagre real return will likely come to be seen as the norm. It would require a significant increase in economic growth or inflation for that not to be the case (and if its higher inflation we should be careful what we hope for!!)

An environment with low interest rates and low real returns from fixed income will require a major shift in mindset and approach if we are to achieve our investment goals.

Don't forget fixed income!

This may seem like a strange place to start given the preamble.

Fixed income still has an important role in portfolios even if it generates a lower return. Fixed Income dampens overall portfolio variability — it makes portfolio returns more stable year by year.

Think of it as an insurance policy. Fixed income tends to perform best when risky markets are performing worst. Any asset that generates a different return profile, and hence provides diversification, is very valuable when we build portfolios.

It is important that investors don't forget the role that fixed income can play when considering the right long term strategy for growing and managing their wealth. It is there for a reason.

Manage true long term risk

The risk that too many investors, in my view, focus their energy on is the risk of the here and now. There are always things to worry about so I can see the allure of this. Will there be a recession in the United States? How much is the New Zealand economy slowing down? How will the trade war affect the global economy?

While these are genuine concerns, they are not the most material risk we face.

The risk we should concentrate our energy on is the risk that we don't accumulate enough savings or the risk that we don't manage our wealth appropriately, given the low interest rate environment, to achieve our long-term goals.

For most of us that means saving enough money to fund our retirement although there any other objectives that investors may have with their money. Our primary focus should be managing the risk of not meeting those objectives, not on what the Federal Reserve's next interest rate move will be.

If we focus too much on the near term, particularly if this leads us to get too defensive, we could miss meeting our long run objective. That is by far and away the most risky thing we can do.

Reducing short-term risk too much, in response to the "crisis of the day" can be much more risky in the long run, as counter intuitive as that may seem.

Accept more variable returns

With the demise of "free" money — high risk adjusted real returns in the fixed income market — many investors will need to accept more short-term risk, through investing more in shares and property, to meet long-term objectives.

This can be uncomfortable. More risk means more years where portfolios perform poorly — of course this will be more than balanced out by the bumper years.

This is where a mind set shift needs to happen. With more investment risk we need to train ourselves to think and act long-term. If we undermine strategies by responding to short-term negative news, long run objectives will be jeopardised.

As highlighted earlier this is the definition of real risk. To manage this risk we all need to learn to get comfortable about sometimes feeling uncomfortable.

Embrace volatility

I would go one step further. Much of the financial advice that has been handed out in the past is based on a set and forget approach — decide your risk tolerance, set your objective, determine an asset mix and stick with it through thick and thin.

We can be smarter than this. With the modest returns on offer in markets, we have to be.

Market variability gives us choices that we can use to our advantage. This is common sense.

Let's say my objective is to save $100,000. I invest in a portfolio of shares that do well and I now have in excess of my $100,000. Why would I not pivot to a lower risk strategy? I have achieved my objective. I should now focus on staying wealthy not getting wealthy.

Similarly, if things go poorly I may need to consider a change to my approach by either buying more risky assets, at what are hopefully great prices, or by saving more.

Either way volatility can be an ally, helping to achieve long term investment objectives if we take a more dynamic approach and vary our risk exposure over time.

This does need to be done in a thoughtful way and in response to major market moves, not just normal variability, but it can be an important tool in our arsenal for achieving investment success.

Active management is more important than ever

Interest rates are sending a message. The message is clear. Expect low inflation and low economic growth over the foreseeable future, for much of the world.

While current interest rates might be overly pessimistic, and could go a little higher if data improves, the broad signal is not wildly wrong in my view. With a tepid growth backdrop and with company pricing power remaining weak there will be clear winners and losers.

Companies with wide competitive moats, with pricing power and a secular growth tail wind will be big winners. Companies offering me-too products in highly competitive, low growth industries will struggle.

For active managers an environment where company fortunes are clearly differentiated is fertile ground for generating excess returns. In a low return environment, these excess returns become even more valuable to investors and an important contributor to help achieve long-term investment objectives.

The thirty-year trend of falling interest rates is drawing to a close. This means we need to think carefully about how we build and manage long-term wealth.

We believe being clear about long-term investment objectives and adopting a true long term perspective on getting there, being prepared to take on more investment risk and making the most of the opportunities in active management will be important in achieving success in tomorrow's investment environment.

As always I hope you enjoy the quarterly and if you have any questions, thoughts or insights please get in touch either via email frank@fisherfunds.co.nz or on 021 398 886.

Frank Jasper | **Chief Investment Officer**

NEW ZEALAND SHARES

Sam Dickie, Senior Portfolio Manager

Pain, taking medicine and ice-cream and jelly

How I learnt from my son that there are bumps in the road but it is important to focus on the big picture. This involves taking a long term perspective and ensuring investment decisions are not impacted by human emotions. Sticking to our process even if things feel painful from time to time.

A tonsillectomy is a surgical procedure to remove the tonsils. An adenoidectomy is a surgical procedure to remove the adenoids. Both are fairly common procedures for children, but they are nonetheless painful.

My nine year old son Jack had both operations recently. During the recovery period, when we woke him each night at 2a.m to give him his pain killers, he could have easily slipped into a quagmire of complaint and self-doubt — am I ever going to get better? He however seemed to ride it out with a surprising lack of complaint and a somewhat grimaced smile on his face.

Jack's fortitude reminded me that while there are always bumps in the road, as long as you keep your eye on the bigger picture things will be OK. Of course some ice-cream and jelly, and two weeks off school, along the way do help. Whatever gets you through the pain!

The September quarter was also painful, and while ice cream and jelly were in short supply, we believe these bumps in the road point to better long term outcomes.

a2 Milk guided for an unexpected retraction in profit margin and gave only vague revenue guidance of "continued growth". The company specifically called out investment in higher levels of marketing and organisational capability. Since then, the share price has fallen 22%.

Vista sharply downgraded its revenue guidance for the 2019 calendar year from "around 20% revenue growth" to "10-12%". The company's share price fell 29% on the day of the release because the shock reduction in revenue guidance after "around 20%" which had been reiterated as recently as the AGM in May. Vista also signalled that it is accelerating development towards a 'multi-tenant Software as a Service (SaaS)' product offering. While we think this has merit it carries the sticker shock of higher up-front investment in product. There is also uncertainty of what impact it will have on revenue and profitability in the short term versus the status quo. This was not well communicated to the market.

When stocks react sharply to unexpected news, human nature means market participants suffer the full range of emotions. Those might range from self-doubt (do I still believe in the company?) to anger with the management (how could you possibly do this to me?).

To ensure our investment decisions are not impacted by these human emotions, we stick to our process.

We take a step back and ask ourselves: Has the big picture thesis changed? We pay particular attention to any change in the breadth of the firm's moat, those attributes that protect a company from competition, and any change in our view on management. Do customers still love the product? Has the medium term earnings power of the company changed?

The key metric we use to judge whether a2's customers still love their product in China is infant formula market share. For the six months ended June 2019, market share accelerated at the fastest pace in almost two years. Revenue growth in liquid milk in the US also accelerated from 140% for the six months ended December 2018 to ~175% for the six months ended June 2019. Customers love a2 Milk's product!

The targeted investment a2 is undertaking in both China and the US will widen a2 Milk's moat. If the company hadn't materially stepped up its investment, it could have harvested more profit in the next 1-2 years than it is now going to. However, with the step up in investment it is likely to harvest materially more profit in years 3-10 than it could have otherwise. That is classic long-term thinking and is a classic Fisher Funds company. We are taking advantage of the short-term weakness and are buying shares in a2 Milk.

Vista continued to grow market share to 50% for its core cinema product outside of China. It is multiple times the size of its next biggest global competitor. Vista recently entered Japan, the third largest cinema market globally, and has already landed the largest customer in that market. Customers still love Vista's products and the moat around its core business is intact. We also expect Vista's move to deliver its software in the cloud, SaaS, will help drive long term profitability of the firm. We continue to buy shares in Vista.

Navigating bumps in the road

For long term investors, these bumps in the road will inevitably come and go. While the share prices of a2 and Vista are not yet on the road to recovery they have endured some pain, removed their metaphoric tonsils and adenoids, and are making sound long term decisions. Over time these decisions will lead to sounder, much larger businesses and underpin solid share price performance.

AUSTRALIAN SHARES

Robbie Urquhart, Senior Portfolio Manager

Preparation, process and winning at Eden Park

Following a sensible investment process through time is likely to deliver a better outcome than trying to time the next downturn.

Japan's upset victory over Ireland in the Rugby World Cup sparked a debate amongst friends of mine over the value of 'home ground advantage'. This conversation inevitably gravitated to the All Blacks stellar record at 'fortress' Eden Park where they have not lost since 1994. The discussion highlighted that it is a mugs game predicting when the All Blacks will lose at Eden Park. We do know that at some point it is likely to happen. The longer the record is held, the closer we get to that day. We just don't know when it will happen.

I was reminded of this as I read a paper released in September by the Federal Reserve Bank of St Louis discussing the sustainability of growth in the United States. July heralded the 121st month of consecutive economic growth for the world's largest economy — the longest on record. At some point this growth streak will be broken. Predicting when this will happen is not straightforward. To explore this, the authors looked at comparisons to the Australian economy.

Has the worst of Australia's 'recession' already passed?

This paper,noted that in considering the sustainability of US economic growth, people often look to the Australian experience for insights. This is because Australia has not technically had a recession for 28 years (since 1991). The inference being that this is an example of why it may be possible for the US expansion to continue.

The paper argues that the Australian example may be misleading. It argues that Australia has had a higher population growth rate (helped by immigration) than large developed economies including the US, Japan and Germany. This has boosted economic growth and masked the effect of significant economic slowdowns. When economic growth is calculated on a per head basis, they calculate that Australia has had three recessions since 1991. The most recent one started in the second quarter in 2018 and has run through the first part of 2019.

The obvious question is what happens now. Arguments can be made both for and against an Australian economic recovery.

There are some early signs that the Australian economy might be improving. House prices have stabilised, and the resources sector remains buoyant. The Australian Reserve Bank Governor noted that a 'gentle turning point' might have been reached. A survey of leading Australian economists suggests that economic growth may pick up from here over the next year or two. So the worst of this recession may already have passed us by.

Conversely, global economic growth seems to be slowing. Global interest rates remain near all time lows and trade disputes seem a long way off from resolution. So this tough period could also possibly go on for some time.

The benefit of adopting a sensible investment process

Rather than worrying about 'when the record will be broken', we suspect that the All Blacks coach Steve Hansen and his team will focus on preparing as well as they can for each test at Eden Park. This way they maximise their chances of repeated success even if the odd loss is recorded once every 25+ years.

Similarly, we focus on investing in high quality companies according to our tried and tested STEEPP philosophy. Through time, we think this process will continue to deliver superior returns even if we encounter the odd market wobble along the way.

Strong reporting season for our Australian companies

We believe the blend of companies in our portfolio are well positioned to grow their earnings and deliver strong returns over the long term. We're also constantly working to optimise and improve the portfolio mix of companies to maximise returns. We touch on a few of the standout performances below.

Retirement community owner **Ingenia Communities (+26% over the quarter in A$)** and was our best performing company. It benefitted as investors sought companies with defensive characteristics following the collapse in interest rates.

Wisetech (+25.4%) was another star performer. Its financial result was in line with market expectations. It guided to high recurring revenue growth for 2020. Software adoption by logistics companies continues to rise as companies seek to reduce their costs and improve efficiency. Wisetech's growth outlook looks bright for many years to come.

The **Dominos (+24.9%)** result was below guidance yet the outlook is more positive. and the company is off to an encouraging start in the 2020 fiscal year. Improved in-store management and momentum in rolling out new stores is driving growth in Japan. In the key European division, the integration of acquired stores has been completed. Along with new management initiatives, this sets the division up for future growth. The Australian division has been a drag on overall performance. Initiatives are underway to improve performance in the medium term, such as purchasing stores from underperforming franchisees (and running them better).

Outdoor advertising company, **oOH! Media (-26%)** was our worst performing company in the quarter. It downgraded earnings guidance for the December 2019 year end. Echoing the soft domestic economic conditions of the last year, forward bookings for outdoor advertising spending for the September quarter were particularly weak. This led to the earnings downgrade. In line with tentative signs of optimism elsewhere in the economy, the forward bookings for the December quarter seem to have improved. We are confident that longer term, oOH! Media's earnings will recover as and when domestic economic conditions pick up.

PWR Holdings off to a flying start

New addition, PWR Holdings returned (+13.9%) for the portfolio across the quarter.

Founded around the year 2000 PWR makes cooling parts for motorsport teams, including specialist radiators for water and engine cooling, heat exchangers and intercoolers for turbochargers. Today, it supplies the vast majority of Formula 1 teams as well as all NASCAR and the electric car powered Formula-E teams. Cooling products are critical to car performance, yet make up a fraction of the cost of the car. PWR's products have a strong reputation for excellence and have been building markets outside of motorsport with leading high end car manufacturers.

PWR commands healthy profit margins based on its high quality, often customised, products. The know-how and expertise is difficult for potential competitors to replicate. This dynamic, coupled with the high risk to customers of switching to a competing supplier, protects PWR's profitability. It acts as an economic moat around the business and is one of the key reasons we have invested in the company.

PWR is an innovative and growing business run by passionate hardworking people who are aligned with shareholders. We are excited to have added it to our portfolio.

SELECT INTERNATIONAL SHARES

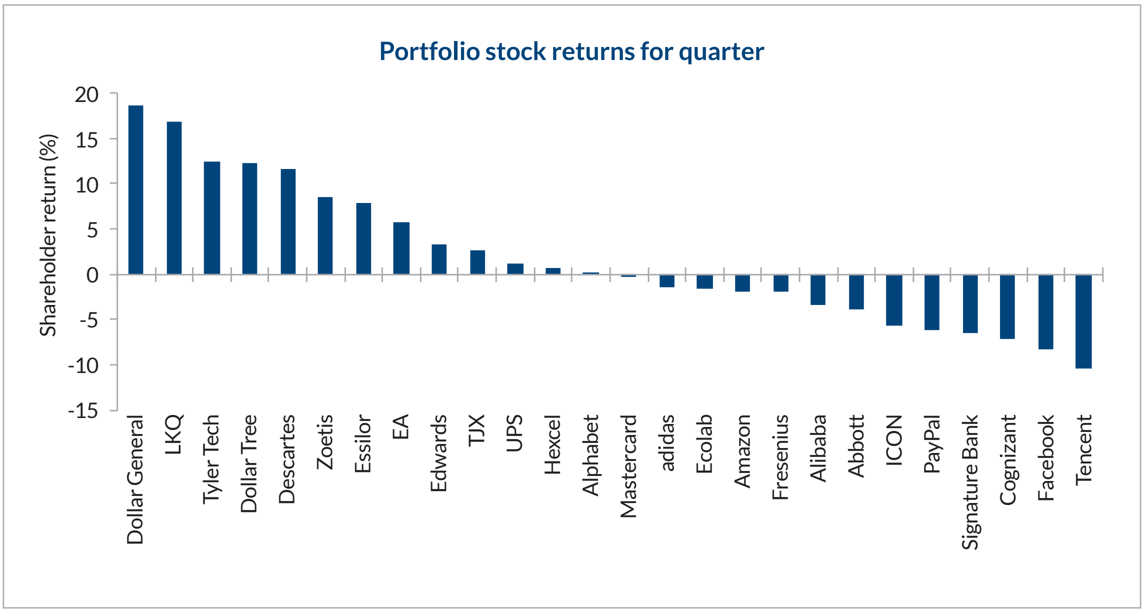
Ashley Gardyne, Senior Portfolio Manager

Global markets continued to track higher in the third quarter, despite a short sell-off in August driven by an escalation in the US-China trade war and lingering economic growth concerns. The US market has now notched up gains every quarter this year, bringing the year-to-date gain to 18.7% and making it the strongest start to a year since 1997.

The end result masked a lot of turbulence during the quarter. In addition to the trade war induced market volatility in August, economic data continued to weaken — most notably in Europe, but also in the manufacturing sector across most of the globe. This economic weakness has seen interest rates fall globally and created a lot of talk about what investors should do in a lower growth and lower return environment. We provide some thoughts on this topic below.

Portfolio developments

Despite the weaker economic backdrop during the quarter the companies in our portfolio continued to report solid financial results. As shown in the chart below, the majority of our holdings contributed positively to portfolio performance in the quarter.



Our largest portfolio holding **Alphabet** (+13% during the quarter) was one of our top performers after announcing results that showed continued strong growth in its digital advertising business. The company delivered 22% revenue growth in the second quarter, driven by rapid growth in mobile advertising and YouTube. Our research on Alphabet continues to highlight good returns for advertisers shifting their advertising budgets to Google and YouTube and away from traditional media. Alphabet's only major competitor is another of our portfolio holdings, Facebook, which is benefiting from the same trend and seeing strong advertising growth on both the Facebook and Instagram platforms. We still see many years of growth ahead for both companies.

New portfolio holding **Dollar General** (+18%) rallied sharply following strong second quarter earnings. Dollar General's scale (16,000 stores) and huge footprint allows them to offer both convenience and prices that are materially better than local grocery stores. The recent results demonstrate that the company continues to capture greater share of low and middle-income consumers' budgets, while its internal initiatives including DG Fresh and Fast Track are showing promise. DG Fresh is helping lift gross margins as it brings the distribution of fresh and frozen products in-house, lowering procurement costs and fees paid to distributors. Fast Track involves using shelf-ready containers to reduce the time required to stock shelves and reduce out-of-stock occurrences. Early results have shown a 20% increase in item availability. We continue to be impressed with management's execution and believe Dollar General still has a long growth runway ahead.

Tyler Technologies (+22%) reported 39% growth in software subscription revenue in the second quarter, having recently booked the two largest subscription orders in the company's history. Tyler is a new portfolio holding that we discussed last quarter and it provides software applications to US local authorities. These applications help local government manage a range of functions including finance, property appraisal and taxes, payroll, court and prison management, and emergency response. This is an underserved end-market, with the majority of local authorities well behind the curve on technology adoption.

Investing in a low growth environment

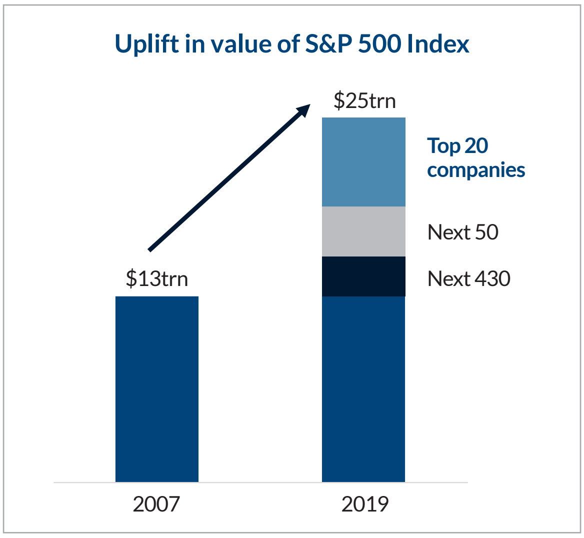
Many developed markets are witnessing lower levels of productivity and population growth. Aging populations and high debt levels (consumer and government debt) also create headwinds for consumption and economic growth. This sub-par economic environment and low interest rates mean that investors should expect more moderate returns going forward.

However, the economic picture I have just painted creates opportunities for active investors. While many businesses will struggle in this environment, others may be immune and even thrive. Overlaying technological change makes the picture even more interesting. Department store chains are in decline, while ecommerce companies like Amazon and Alibaba are thriving. Global banks are struggling in a low interest rate environment, but digital payments companies like MasterCard and PayPal are growing rapidly. Cable and satellite TV providers are losing subscribers, while Netflix is adding millions of new subscribers a quarter. While market returns may well be lower going forward, a dynamic business environment (albeit a lower growth one) creates opportunities for active investors.

To illustrate this point, consider the period since 2007 in the US. Economic growth has been muted since 2007 (less than 2% per annum) and share market returns have averaged just 5.5% a year. Many businesses have performed poorly in this environment, while a handful have done exceptionally well.

In fact, **since 2007 half of the uplift in the value of the US S&P 500 Index has come from just 20 companies.** The bottom half of the companies in the index created no value in aggregate over the same period. For investors, picking the right businesses has been critical.

The best performers over this period were generally companies with structural growth drivers supporting their businesses. They were often founder-led and had wide moats that helped keep competition at bay. Many also had pricing power or some form of competitive edge that allowed them to take market share and grow steadily despite the lacklustre environment.



If bought well, we believe businesses with these characteristics will continue to deliver good returns for investors over the long term — even in a low growth world. Our process is designed to try to identify these businesses and hold them for the long term. While finding them at reasonable valuations is an ongoing challenge, we believe it is possible to identify a handful of these investments a year by turning over lots of rocks. A few new investments a year allows us to create a portfolio of 20-30 investments that we think will deliver good long-term results for investors.

PROPERTY & INFRASTRUCTURE FUND

Sam Dickie, Senior Portfolio Manager

Making global property & infrastructure investments in a low return world

A wide moat protecting profits from competition, sustainable earnings and pricing power are critical.

In August, New Zealand bond yields fell the most in a single month in percentage terms……..ever.

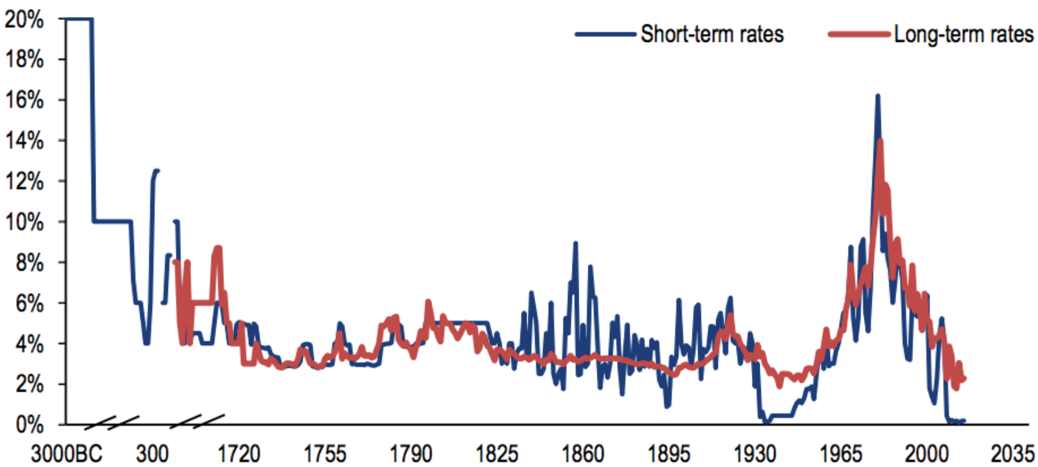
And global bond yields are at the lowest level in 5,000 years!

Low bond yields are telling us that inflation and commensurate returns are likely to be low in the future. Low interest rates have profound implications for investing in property and infrastructure assets given the relationship between the two asset classes. Typically when interest rates are falling, property and infrastructure assets are rising and vice versa.

With the low interest rates we now have investors need to think more carefully about the property and infrastructure investments that they are making.

We look for three key attributes in any global property & infrastructure investment — a moat, sustainable earnings and pricing power. These attributes are always important but are critical in a low return world.

Still the lowest interest rates in 5000 years!



Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"
Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

Napier Port is a great example of this. “We added Napier Port to the portfolio when it listed on the New Zealand share market recently.

Napier Port exhibits a rare case of minimum efficient scale moat given its relatively small economic catchment and the cost to replicate the infrastructure. To paraphrase Pat Dorsey, the author of *The Five Rules for Successful Stock Investing*, and *The Little Book that Builds Wealth*, Napier Port can dominate import and export volumes for the Hawke’s Bay region with high minimum efficient scale relative to the total addressable market. In other words, there is probably not going to be a competing port built anywhere near Hawke’s Bay for a long time.

Napier Port is essential infrastructure and has an attractive catchment in Hawke’s Bay given its geographic isolation. ~85% of its exporters are located within 100km of the Port, providing a nearby, cost effective route to market. Customers are largely captive. There are no major railway links around the Hawke’s Bay region and Port of Tauranga is ~ 290km away. The next best alternative port involves either additional road or rail transport, with costs 6-8x that of transporting to Napier Port. This advantage versus competitors means that earnings are likely to be more predictable and sustainable.

Napier Port has achieved average price growth of more than 3% per annum since 2010. This is significantly higher than Port of Tauranga or Port of Auckland and this has been achieved despite the drag of logs growing faster than other cargo and logs are at a lower price point than other cargo. Napier Port has this pricing power versus its competitors because of its geographic isolation. Pricing power is always valuable but especially in a low inflation world. Simplistically, you can get an annual return on a New Zealand Government 10 year bond of 1.06% today. Napier Port’s 3% pricing growth plus volume growth compares favourably to that 1.06%!

FIXED INCOME

David McLeish, Senior Portfolio Manager

Interest rates, both at home and abroad, have been setting new lows almost every week for the last eighteen months now (in fact zooming out more like the last thirty years!!).

Understandably, this is creating quite a stir for investors. After all, the ramifications of these all-time low interest rates are profound and will undoubtedly impact each and every one of us.

As the saying goes, no good ending can be expected in the absence of the right beginning. So I aim to take on one of the more confronting questions we have heard from investors.

Are we in the midst of a bond bubble? I look at this question through a number of different lenses.

Always question what you read in the media

It is always important to be thoughtful about the motivations of market commentators.

Talk of a bond bubble has come in and out of mainstream media for a number of years now. Understandably when these headlines hit it creates quite some consternation with our investor base.

We must recognise that the people making these claims are often incentivised by their desire to attract attention and eyeballs. We all know that the news has often become less about insight and more about attention. Outlandish claims get attention.

Let's also not forget that the financial media first started calling bonds a bubble back in 2013. That was patently wrong.

What does a bond bubble really mean?

An asset bubble is when a rapid rise in the price of an asset is not justified by the fundamental supply and demand factors for that asset.

With this in mind, it's important to understand what a bond bubble really means. Because the price of most bonds are derived from the prevailing interest rate in an economy, our bubble question can be reworked as "have interest rates fallen below what can be justified by supply and demand factors?"

An interest rate is what money costs

Please take a minute to let that sink in. We are not just assessing the 'bubbliciousness' of some esoteric asset here, we're questioning if the cost of money itself is somehow being held meaningfully too low.

Herein in lies the argument of the bond bubble advocates.

It goes something like this. Central banks, who are the only agents remotely capable of this immense feat, have manipulated financial markets by forcing interest rates down to a level well below their natural rate. As a result, causing supply and demand to no longer determine the level of interest rates in an economy.

It just doesn't make any sense

Yes, central banks mostly control overnight interest rates. And yes, they do have a rather terrible track record of deciding the appropriate rate — which in turn has arguably caused economies to experience more meaningful booms and busts in recent times.

But if the cost of money really has been set too low then why isn't everybody falling over themselves to borrow it? If money really is that cheap, investment and consumption would be booming. This is clearly not what is happening. Even in countries with negative interest rates!

Money is the means by which the world values almost every good and service. So if we did have a bond bubble we would also, by association, have an 'everything bubble'. That's because, if the cost of money is being held artificially too low then people would be exchanging their less valuable cash for almost any other asset. This would result in the price of almost all assets across the world rising very sharply.

While there is evidence of overvaluation in certain asset classes, very few are rising rapidly in response to the recent declines in interest rates. What's more, others are instead going in the opposite direction at quite a rate of knots — look at commodities for example.

Buy bonds, wear diamonds

This is a phrase that a savvy investor I know has been esposing since the start of the year. I hope he doesn't mind I borrowed it.

But he and I share a lot of the same views when it comes to the opportunity that still lies ahead of us in this asset class.

As our regular readers will no doubt recall, we have chosen to be heavily invested in many of the highest quality fixed income assets on the planet since June 2018 for this very reason. Our preference for New Zealand government bonds remains unchanged from the last quarter.

We are lucky enough, if that's the right phrase, to be living through a really interesting period as fixed income investors. I look forward to sharing my thoughts on how to navigate this with you in the coming months.

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fisher funds

MARKET MOVEMENTS

As at 30 September 2019

Stock Markets*	Closing Values	1 Mth %	3 Mths %	6 Mths %	12 Mths %
		Changes over:			
S&P Developed LargeMidCap - (Local Curr)	817	2.5	1.7	5.4	3.2
S&P Developed LargeMidCap ($NZ)	N/A	2.5	8.3	13.9	8.4
S&P Global LargeMidCap ($NZ)	N/A	2.8	7.3	13.0	7.8
USA - S & P 500	6009	1.9	1.7	6.1	4.3
USA - Nasdaq	9371	0.5	0.2	4.1	0.5
Japan - Topix	2418	6.0	3.4	1.0	-10.4
UK - FTSE100	6798	3.0	1.0	4.3	3.2
Germany - DAX	12428	4.1	0.2	7.8	1.5
France - CAC40	15401	3.7	2.7	9.1	6.9
HK - Hang Seng	75358	1.9	-7.5	-7.5	-2.7
Australia - S & P 300	71154	1.9	2.6	10.8	12.6
NZ-S&P/NZX 50 Gross Index (inc imp credits)	13269	1.8	4.4	11.5	18.0
NZ-S&P/NZX 50 Gross Index (excl imp credits)	10926	1.6	4.0	11.0	16.8
Market Volatility - VIX	16.2	-14.4	7.7	18.5	34.0

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate (inc imp credits)	1901.4	2.0	8.8	22.3	36.0
S&P/NZX All Real Estate (exc imp credits)	1824.1	1.9	8.6	21.7	34.7

Ten Year Bonds	%	Yield Changes			
USA	1.68	0.18	-0.32	-0.73	-1.37
Japan	-0.23	0.06	-0.07	-0.13	-0.34
United Kingdom	0.46	0.01	-0.49	-0.63	-1.10
Australia	0.96	0.07	-0.36	-0.81	-1.71
New Zealand	1.09	0.02	-0.48	-0.72	-1.52

90 Day Interest Rates	%	Yield Changes			
USA	1.88	-0.11	-0.24	-0.52	-0.31
Japan	0.07	0.00	0.00	0.00	0.00
United Kingdom	0.76	0.00	-0.02	-0.09	-0.04
Australia	0.95	-0.04	-0.26	-0.84	-1.00
New Zealand	1.15	-0.04	-0.49	-0.70	-0.76

Bond Indices	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	727.26	0.10	0.40	0.86	1.88
S&P/NZX NZ Government Bond Index	1889	-0.07	2.88	4.80	9.63
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	-0.55	2.47	5.26	9.96

Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1260	0.4	1.6	3.2	0.0
DJ-UBS Commodity Index Total Return	165	1.2	-1.8	-3.0	-6.6
Gold (US$/ounce)	1465.70	-3.5	4.0	13.4	23.0
Oil (US$/barrel)	60.99	-0.1	-9.7	-10.2	-26.3

Currencies		%	%	%	%
NZD / USD	0.6271	-0.6	-6.6	-8.1	-5.4
NZD / EUR	0.5752	0.4	-2.5	-5.3	0.8
NZD / GBP	0.5088	-1.7	-3.6	-2.8	0.1
NZD / AUD	0.9297	-0.7	-2.9	-3.2	1.5
NZD / YEN	67.77	1.2	-6.4	-10.2	-10.0
Trade Weighted Index	70.78	-1.4	-2.4	-4.7	-1.4

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