MARKET INSIGHTS

March 2022 Quarter

WAR, INFLATION AND INTEREST RATES TAKE THEIR TOLL ON MARKET SENTIMENT – BUT CORPORATE FUNDAMENTALS PAINT A SILVER LINING

Ashley Gardyne, Chief Investment Officer

It has been a historically tough start to the year for financial markets - rocked by war, inflation and rising interest rates. Understandably market sentiment is weak. Digging deeper however, the fundamentals for many businesses are still strong. Lower share prices are therefore generating a more attractive investment opportunity set. For long term investors, we see this market volatility as coming with a silver lining.

A historically tough start to the year

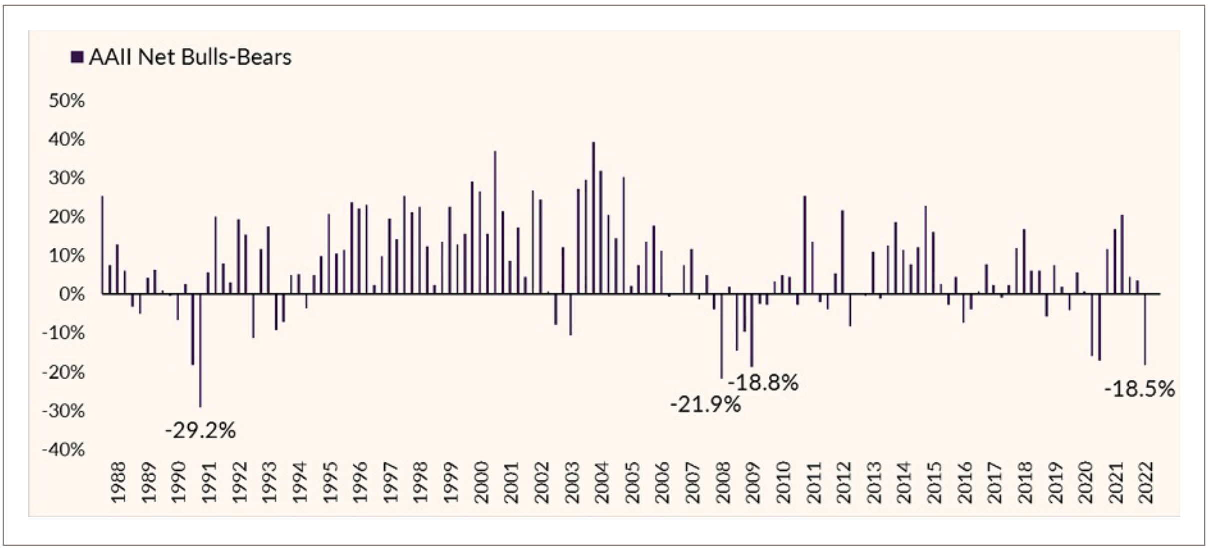
If you are feeling a bit shaken by financial markets this year, then you are not alone. Outside of the COVID sell-off in 2020 and the Global Financial Crisis, last quarter was the worst start to the year in global markets in over 20 years. The MSCI World Index fell 5.5% during the quarter, but at one point was down over 13% from its highs. Technology heavy indices fell far more, with the US Nasdaq Composite Index down over 20% - briefly entering bear market territory.

It wasn't just equity markets. Typically stable bond markets had the worst start to the year ever, with a leading index of global investment grade bonds falling 6.2% in the first quarter.

While the backdrop certainly isn't as bleak as it was during the COVID sell-off or Global Financial Crisis, there are still a lot of uncertainties that investors are grappling with. Many of these concerns haven't been confronted in decades. We have the terror of war in Ukraine; stubbornly high inflation; central banks removing monetary support (potentially too quickly); and oil price and mortgage rate increases starting to hit the consumer in the pocket. The unease investors are feeling is therefore understandable.

This unease is also reflecting in investor sentiment and market volatility. The chart below shows a measure of investor sentiment from the American Association of Individual Investors. It shows that US investors feel as bearish (i.e. negative about markets) as they did during the COVID sell-off, and surprisingly almost as bearish as they were during the Global Financial Crisis.

Sentiment check: Investors are as bearish as during the Covid sell-off



Source: *American Association of Individual Investors*

With this backdrop of bleak headlines and turbulence, it was also a tough quarter for our portfolios. But you will also hear from our portfolio managers about the underlying fundamentals of the companies in our portfolios. We are long term investors, and fundamentals are what drives share prices over the long term. After speaking with our companies, analysing their results, and reviewing our investment cases, we remain confident in our companies and their ability to grow and deliver strong results in the years ahead.

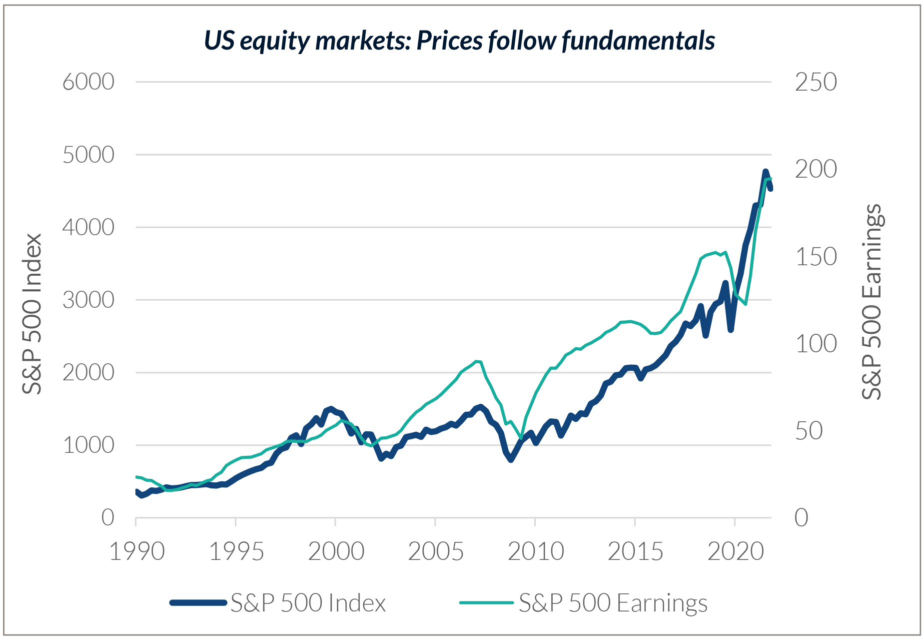
Focusing on fundamentals is critical when markets are volatile

While the inflationary environment poses near-term challenges, companies and consumers so far seem to be muddling through. The fundamentals may be better than the headlines suggest.

Taking a large economy like the US for example, unemployment is low and debt levels have come down a lot over the last decade. This puts the consumer in a good position to manage higher interest rates and inflation. We see evidence of this in consumer spending, travel and leisure data – which is still strong (although it may moderate in the coming quarters). Likewise corporate profitability is rebounding from its COVID-driven slump and looks set to continue growing. US corporate earnings grew 30% in the final quarter of 2021 and are expected to grow by approximately 15% in 2022.

Zooming in closer we also see this strength in our portfolio companies. Taking the largest active positions in our equity portfolios as an example, we see strong growth prospects for the year. Mainfreight continues to deliver strong organic growth while delivering record profitability metrics. Xero has seen its growth accelerate in recent quarters, all while improving its underlying profitability and investing significantly in building its capabilities. Similar trends are at play with logistics software solutions provider WiseTech, the largest active position in the Australian equity portfolio. In our Select international equity portfolio, Alphabet (Google) and Meta Platforms (Facebook) will also grow revenues at double-digit organic rates this year, as they continue to capitalise on the structural growth in digital advertising. Looking at the underlying fundamentals of our portfolio companies provides us with confidence in the outlook.

In the short-term markets can be driven by sentiment, but fundamentals are what matter over the long term. Share prices and markets ultimately follow earnings, as can be seen from the chart below..



Source: *Bloomberg*

Every cloud has a silver lining

After the recent market correction, we believe the investment opportunity set has improved. Prices are lower, for some companies materially so, while fundamentals for many companies are still strong. As a result, we feel better about the outlook and prospective returns of the portfolios. We are also finding what we believe are attractive new investment opportunities.

As you will read in the individual fund updates, our teams have been actively repositioning portfolios. For example, in the Select International Fund we have recently made new investments in Salesforce, Netflix and Microsoft. In our Australian Equity Fund, we have recently invested in the global hearing implant market leader, Cochlear. And in relation to New Zealand equities, the team has used this market volatility to add to our positions in Summerset and Xero.

While the press headlines may be gloomy, it is a good time to reflect on the lessons we all learnt during the Global Financial Crisis and the COVID sell-off. You want to be buying when sentiment is negative, and when the list of market worries is long. This storm too shall pass.

Ashley Gardyne, **Chief Investment Officer**

NEW ZEALAND EQUITIES

Sam Dickie, Senior Portfolio Manager

We continue to back quality growth companies

During the March quarter the stock market behaved like a voting machine, tallying up which stocks were more popular than others. But we continue to bank on companies that will prove their real value over time.

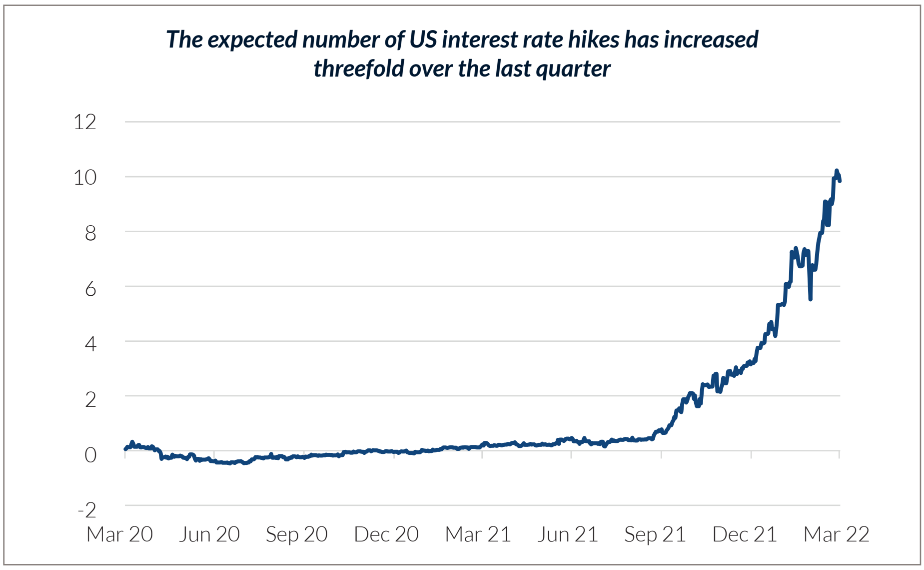
The American economist Benjamin Graham was one of the great investing minds. A key principle of his was that in the short run, the stock market is like a voting machine, tallying up which stocks are popular and unpopular. In the long run, the market is like a weighing machine, assessing the real value of a company.

Unfortunately, during the last quarter, with interest rates rising sharply, our high-quality growth portfolio proved unpopular. At times like this, we ask ourselves three questions. Why the poor performance? What are we doing about it? What have we learned?

Rising interest rates prompted a market move away from growth stocks

During the quarter's reporting season, most of our companies reported better-than-expected results and maintained a solid outlook.

The key factor behind the poor performance was sharply rising interest rates on the back of stubborn inflation. At the end of last year, the market was expecting the US Federal Reserve to raise interest rates twice in the upcoming 12 months. Today, the market is expecting ten rate hikes in the upcoming 12 months!



The market implied number of US interest rate hikes in the next 12 months
Source: *Bloomberg; Morgan Stanley; Fisher Funds*

The pace of interest-rate moves was bad for share markets generally as it reduced the value investors place on future cash flows. It also resulted in the outperformance of defensive companies like utilities, and cyclical companies –like energy and banks – over quality growth companies for the first time in a while. Defensive and cyclical companies typically have narrower moats and shorter growth runways.

We've examined our investments – and added to stocks with attractive valuations

As long-term investors, we constantly review our portfolio companies and question whether anything has changed the width of the moat, the length of the growth runway, or the quality of the management team. And we scrutinise inflationary pressures on costs and the extent to which our companies can use their pricing power to maintain profit margins.

For most of our companies, nothing has changed. Cost inflation is present but hasn't got worse since late last year. Logistics or supply chains remain disrupted but haven't got worse. Our companies are putting through price increases to offset inflation.

The good news is we are starting to see more attractive valuations in the portfolio. That is a function of both the price falls and the continued earnings growth of these companies.

We have started to deploy cash into the most attractive opportunities where our assessment of the investment hasn't changed or the long-term picture hasn't altered, but the stock price has fallen sharply. We have bought shares in Xero, Summerset and Fisher & Paykel Healthcare for example.

Portfolio update – still heading in the right direction

Despite the poor price performance, the companies in the New Zealand portfolio had an encouraging reporting season.

Most of the companies' results or trading updates beat expectations. We are always on high alert for any deterioration in the outlook, especially if it relates to underlying demand. That wasn't the case. The handful of companies that fell short of expectations were either directly affected by COVID – for example, travel companies – or deliberately cautious because of the uncertain macro environment.

Our largest position, Mainfreight, illustrated a common theme: lacklustre share price performance despite a positive update and continued progress against its long-term agenda. It provided a trading update to the end of January, the first 43 weeks of its fiscal year. Profit growth was ahead of expectations. The company is seeing a continuation of tailwinds in its international freight forwarding division. It also continues to execute well in transport and warehousing, taking further market share and improving efficiency and margins.

Infratil performed well. The company started the year by reporting an increase in the valuation of Canberra Data Centres, its largest asset. At its investor day in February, Infratil announced strategies for two of its investments which we expect to add value in the short-to-medium term. Vodafone is investigating the sale of a stake in its mobile phone towers business. Renewable electricity developer, Longroad Energy, is looking for a co-investment partner which will allow it to pursue a much bigger growth trajectory than previously indicated.

Auckland Airport's share price rallied late in the quarter as the New Zealand Government accelerated the removal of border restrictions and isolation requirements. These have been a key barrier to people booking flights, and we expect demand for travel to increase as a result.

Software companies Xero, Vista, Serko, and Pushpay were drags on the quarter's performance. The Xero share price was very weak during the quarter on no material developments, similar to software companies globally. We think the weakness relates to macro factors versus company specific risks and increased our target weighting during the quarter.

Fisher & Paykel Healthcare updated investors on expected revenue for the year to March 2022 which was around 10% short of expectations in the second half. This was due to a sharp slowdown in sales of hardware and consumables in its hospital division because of the lower severity of the Omicron COVID variant. This was likely exacerbated by high stock levels in the US. We have seen apparent demand over short periods vary significantly since the onset of COVID in conjunction with waves of COVID patients and associated stocking and destocking. The company continues to see signs that the larger installed base of its hardware is well utilised in the absence of COVID related demand, which we expect will drive stronger consumables sales over time.

AUSTRALIAN EQUITIES

Robbie Urquhart, Senior Portfolio Manager

A tough quarter, but volatility creates opportunities

It has been a tough start to 2022. But we've taken advantage of volatile markets and the wide spread of share price movements during the quarter to make portfolio changes. We remain enthusiastic about the future for our portfolio companies.

Much of this weak performance occurred in January. The portfolio rebounded in March, helped by a strong earnings season from our companies and an improvement in market sentiment. But it was not enough to offset the negative start to the year.

A move away from high-growth sectors hurt our relative performance

Inflation concerns and hawkish central bank rhetoric globally contributed to interest rates rising sharply at the start of the year. These concerns were magnified by the war in the Ukraine, which drove energy and commodity prices higher. The 10-year Australian government bond rate rose from 1.67% to 2.84% over the course of the quarter.

These factors lifted the energy and materials sectors, along with the banks – that benefit from rising interest rates – leading the ASX200 Index higher. Investors gravitated to these sectors and sold companies in the high growth information technology and healthcare sectors. Companies in these sectors fell substantially. We do not have any materials or energy companies in our portfolio and this divergence in performance across sectors hurt our relative performance.

We have increased our weighting in some companies and added two new ones

Some of our portfolio companies are also facing headwinds but on the whole, they are performing well operationally. We have sought to capitalise on this sell-off in share prices by increasing our weighting in some of our high-quality businesses at these lower valuations. And we were delighted to add two new companies to the portfolio.

Periods of share market volatility and poor performance can be unsettling. However, over longer time horizons, our investment process has stood our investors in good stead.

As always, we remain focused on investing in high quality, growing companies with durable competitive positions in their industries. These businesses tend to grow their earnings under their own steam. They're less susceptible to boom-bust cycles that we see with commodities, and which lie outside of any one company's control. They typically have pricing power which helps protect their profitability in both inflationary and deflationary environments. These characteristics are, in the longer term, reflected in their share price performance.

Portfolio companies continue to deliver good operational results

PWR Holdings (+10.0% in A$) was one of our best performing companies in Q1. It reported strong growth across all its divisions and is benefitting from the return of motor racing competitions that had previously been suspended due to COVID. It has also started some long-awaited luxury car contracts. And its research and development is bearing fruit with its emerging technology division growing sales by +40% in the period.

Our bank shareholdings have also done well: Westpac (+13.5%), National Australia Bank (+12.2%), CBA (6.6%) and ANZ (+0.3%). Rising interest rates should boost their interest margins, adding to profit growth. However, the competitive environment, and the impact of rising rates on bad debt charges, may dampen the benefits for banks.

Despite all posting strong financial results, REA (-18.7%), Carsales (-15.6%) and SEEK (-8.3%) all fell during the March quarter. SEEK grew core Australian revenues +72% as hiring conditions rebounded from the pandemic and also raised its full year earnings guidance. REA and Carsales likewise delivered strong results with the latter delivering revenue growth of +21.8% in the year, with strong contribution from all key divisions.

Several of our high growth companies including Fineos (-47.7%), Nanosonics (-36.9%) and Audinate (-24.9%) had particularly weak share price performance. Each business has been impacted by company specific factors. Fineos has been slower winning new customers than expected – partly because of COVID disruption. Supply chain disruption has impacted availability of silicon chips for Audinate's products. And Nanosonics has decided to distribute its key disinfection products into the US itself rather than rely on a third-party distributor. This switch in distribution will negatively impact its sales for a few months.

These factors may persist in the near term, but we believe they'll eventually fade away. The longer-term outlook for these companies is sound.

Taking advantage of opportunities presented by divergent share price performance

We like the prospects of our technology, healthcare and classified advertising businesses. Following the share price sell-off at the start of the year, their valuations looked attractive.

In contrast, our financial services companies, having performed relatively better, were closer to fair value in our view. They also intrinsically have less scope to grow earnings relative to these tech/online and healthcare companies.

We therefore reduced our weighting in the banks and also reduced our Sonic Healthcare weighting (as the benefits from COVID testing start to recede alongside the pandemic).

We used the money from these sales to add to the likes of CSL, Nanosonics, SEEK, REA Group, Next DC, Fineos, oOH!Media and Domino's.

Cochlear and Xero are two great new additions to our portfolio

The share market volatility resulted in the share prices of Cochlear and Xero falling approximately 30-40% respectively from recent highs. This provided us with a great opportunity to add both high quality businesses to our portfolio.

Cochlear supplies implants and devices to over 60% of all people globally who are treated for profound hearing-loss. It has a dominant market position. Cochlear is solving a significant unmet need that is expected to continue to underpin the long-term growth of the business. Testing for severe hearing loss at birth is well established in developed markets. But testing is still nascent in developing markets. This offers

Cochlear opportunity to grow. Also, it is estimated that less than 3% of adults who would benefit from a Cochlear implant have received one. An increasing number of studies also suggest that severe hearing loss in adults exacerbates the onset of dementia and other illnesses. So, the adult market is another large untapped opportunity for Cochlear.

Founded in New Zealand, and listed on the ASX, Xero has developed a dominant position in supplying small and medium sized businesses in Australia and New Zealand with accounting software. It has a substantial and strongly growing presence in the UK as well as an emerging presence in North America and other selective countries around the world. Businesses across the globe are being encouraged to complete tax returns and regulatory filings online – and many will use software like Xero's to do this. This structural change to regulation adds to Xero's substantial growth prospects.

fisher funds

SELECT INTERNATIONAL EQUITIES

Ashley Gardyne, Senior Portfolio Manager

Global turbulence framed a tough first quarter

It was a tough, turbulent quarter with most global markets falling as Russia invaded Ukraine, inflation increased, and a cycle of interest rate hikes got underway. Growth sectors such as tech and consumer discretionary bore the brunt of the sell-off.

What a difference a quarter makes. After a strong end to 2021, the start of this year has been dominated by market declines and increased volatility as investors grapple with a more uncertain outlook. Russia's invasion of Ukraine has exacerbated existing inflationary pressures – both are major commodity producers – and increased expectations for a more aggressive hike in interest rates.

Investors moved away from growth stocks and embraced cyclicals

The combination of commodity inflation and rising interest rate expectations has also driven a rotation out of growth stocks, with more cyclical sectors such as banks and resources leading performance after years of sluggishness. The MSCI World Growth Index declined 10% this quarter, compared with a 1% decline in the more cyclical MSCI World Value Index.

High growth and unprofitable tech names were hit particularly hard – as seen in the ARK Innovation ETF that invests in secular growth companies and was down 30% for the quarter.

Market turbulence has created pockets of opportunity

While economic data is holding up, there is some deterioration on the margins. Consumer sentiment has declined as higher prices and interest rates start to hurt what was an otherwise healthy consumer, with US unemployment back to pre-pandemic levels and wage growth at historic highs. Corporates are cautiously optimistic despite the headwinds from input cost inflation and ongoing supply chain concerns, and earnings estimates for the major indices continue to rise.

The indiscriminate swings in the market are creating pockets of investment opportunity, as high-quality companies get sold-off alongside their more speculative counterparts. We have taken advantage of this dynamic to add three new names to the portfolio.

Performance was driven partly by overreactions to news from Meta and PayPal

While the Select International Equity Fund has materially outperformed its benchmark over the medium and long-term, we do expect that there will be periods of underperformance from time to time. That said, we are disappointed at the level of underperformance this quarter. In addition to the wider rotation out of growth stocks, our underperformance was driven by what we believe is the markets' overreaction to disappointing results from Meta Platforms and PayPal.

Despite these challenges, we still believe in the fundamentals of our businesses. And while sentiment moves markets in the near-term, long-term performance is driven by these fundamentals. We have revisited our investment thesis for each of our holdings and are confident in the long-term prospects for our portfolio companies. The portfolio should grow earnings at a significantly faster rate than the market, but it is trading at historically low levels relative to the wider index.

PayPal (-40%) and Meta (-35%) both fell following weaker than expected guidance. In both cases, we believe the market has overreacted to what we see as temporary headwinds.

PayPal fell following their earnings announcement, where the company removed their aspirational long-term target of having 750 million users. As rapidly acquiring new users is costly, the company would rather focus on driving revenue growth by deepening engagement with their existing users. While they are still targeting close to 10% annual user growth, investors were looking for more. The stock is now back at pre-COVID levels despite the business generating over 40% more revenue today. We believe the company has an organic growth profile that is still largely intact, it owns very attractive payments assets, and is exposed to strong secular e-commerce tailwinds.

Meta (formerly Facebook) reported 20% revenue growth for Q4 2021 – ahead of market expectations – but their commentary on growth for this year disappointed the market. They are seeing some headwinds in advertising demand after changes from Apple that impact ad tracking. Users are also spending more time on Meta's new Reels (short video product) and Meta haven't put much ad load on this new product yet.

All considered, this means revenue in 2022 is likely to grow at about 11%, compared to the 17% growth previously expected. While the result was disappointing, Meta is still the dominant social media platform with close to 3 billion users globally and will continue to benefit from the structural growth of digital advertising. We expect revenue growth to improve throughout the second half of 2022 as some of these headwinds subside.

On the positive side of the ledger, Dollar Tree (+12%) shares were up during the quarter. The firm reported it has completed the 25% price increase to $1.25 in its fixed price banner ahead of schedule, with a positive impact on store sales. More importantly, the company appointed Richard Dreiling, ex-Dollar General CEO, as the new Executive Chairman. Details around any potential shift in strategy are still limited, but given Dreiling's phenomenal record at Dollar General, we are not surprised this is being viewed positively by the market.

Hexcel (+13%) shares rose in the quarter as unparalleled demand for air travel post COVID and increasing fuel prices have increased expectations for airlines to resume their purchase of new, more fuel-efficient aircraft. As one of the leading suppliers of carbon-fibre components for new aircraft, Hexcel is a key beneficiary of ramping aircraft production levels.

Portfolio activity – we have added three new companies

We added three new companies to our portfolio this quarter: Netflix, Salesforce, and Microsoft. We exited our positions in Adidas and Hilton to fund these additions. One of the benefits of active management is the ability to take advantage of any short-term irrationality in markets to invest in high quality businesses that are oversold. Hilton was added to the portfolio during the 2020 COVID sell-off, and its share price has since doubled as global travel has resumed.

Netflix is the world's leading streaming service with 222 million members in over 190 countries. The company's scale in content creation, and ability to spread this cost over its huge global audience base, gives it a significant cost advantage versus peers. It can create more content than its peers - at a lower cost per subscriber – allowing it to continually improve its user value proposition. We believe this advantage will only get stronger with time.

This scale and content advantage, combined with a large global addressable market (750 million potential subscribers ex-China) and pricing power supports our view that Netflix is a quality business with a wide moat, large growth opportunity, and an exceptional management team. With the sell-off in growth stocks, we were able to buy Netflix at a 45% discount to its November highs.

Salesforce is the dominant global provider of cloud-based customer relationship management (CRM) technology, and its business-critical software offerings are used by 90% of Fortune 500 companies. We see Salesforce as a quality business that is well-positioned to build market share in the fast-growing enterprise software market. The company benefits from high customer switching costs, pricing power, and a brand reputation as a reliable partner for Fortune 500 companies – which helps drive adoption with new customers.

Microsoft is a well-known mega-cap software business that is viewed by many IT departments as their most critical vendor. As businesses globally perform digital transformations and move to the cloud, Microsoft is well positioned to capture this long-term trend through their Azure business. Microsoft's scale gives the company an opportunity to become the premier cloud service provider and offer value for money across products and services which are used by almost all enterprises across the globe.

NEW ZEALAND
CASH AND FIXED INTEREST

David McLeish, Senior Portfolio Manager

Bond prospects brighten despite looming inflation

Inflation is creating risk and uncertainty, but with bond yields at decade highs, the future for this beleaguered asset class looks increasingly bright. Investors will need fortitude in the short term to realise longer term benefits.

It was a tough quarter for both the cash and New Zealand fixed interest asset classes. Inflation continues to run hot and central banks are signalling that more needs to be done to rein it in. As a result, investors continue to raise their expectations for future interest rates, causing bond yields to rise and fixed interest asset prices to fall.

Fixed interest markets remain challenging as inflation becomes more unpredictable.

Rising cash rate expectations have improved the long-term outlook for bonds

The driving force behind the bond market sell-off is the expectation that central banks will need to be more forceful in raising overnight cash rates to rein in inflation.

These expectations for future cash rate rises are now reaching extreme levels in some parts. The most extreme of which looks to be here in New Zealand. Short-term bond yields now embed a series of nine quarter-of-a-percent hikes to the Official Cash Rate in just the remaining seven months of the year. Last quarter this was six similar-sized hikes – even then we thought this was extreme.

It is important to remember that, because of the way bonds work, these future cash rate expectations are now captured inside the lower prices of bonds today. This makes short-dated New Zealand fixed interest assets, in particular, an increasingly attractive proposition in our opinion.

Inflation is complex and unpredictable, making it a huge wildcard

Basing an investment decision purely on something as unpredictable as inflation is not going to be a winning long-term investment strategy. Which is why we don't do it. But that doesn't mean fixed interest assets are unattractive. In fact, we would argue quite the opposite.

The higher bond yields now on offer, which provide greater income to fixed interest investors, are a direct result of this recent inflation spike. It is hard to have higher bond yields without higher inflation. Therefore, to benefit from higher bond yields we must be willing to accept higher inflation, at least in the near-term.

While it is futile to try to predict when inflation will come back down, we are reminded of the adage that 'the best solution for high prices is high prices'. We should expect both higher supply and lower demand for goods in response to higher prices. This will eventually drive these markets back into balance, bringing inflation down with it.

Concerns about growth offer an important silver lining

As expectations for higher cash rates become more extreme, the risk rises that this will cause an economic downturn. This has been a particularly negative development for global corporate bonds of late because their price is impacted by both underlying interest rates and credit risk assumptions. Both have increased sharply in recent months.

We agree that cash rate rises of this magnitude would likely cause many economies to tip over into a downturn. We think it is less likely that this many cash rate rises will ultimately be required to rein in inflation.

Portfolio activity

We have been reducing our holdings in selected New Zealand BBB-rated corporate bonds given their considerable outperformance versus both government bonds and equivalent credit investments offshore.

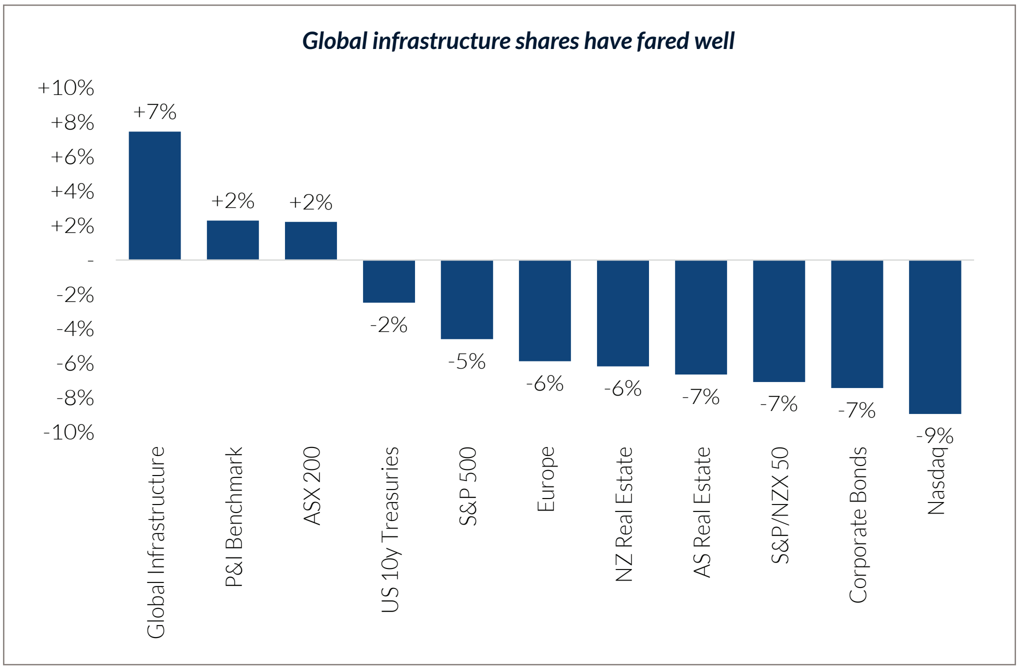
To maintain our overweight duration position within the cash portfolio, we have been reinvesting maturing assets into 1-2 year fixed rate bonds.

PROPERTY AND INFRASTRUCTURE

Sam Dickie, Senior Portfolio Manager

Infrastructure proved a useful defensive play

In a difficult quarter for both equities and fixed interest investments, our infrastructure shares weathered the storm well.



The quarterly returns for various asset classes as at 31 March 2022
Source: *Bloomberg; Fisher Funds*

Interest rates and inflation hurt high-growth sectors

Investors were impacted by sharply rising interest rates on the back of stubborn inflation. At the end of last year, the market was only expecting the US Federal Reserve to raise interest rates twice over the upcoming 12 months. Today, the market is expecting ten rate hikes over the upcoming 12 months! We would expect our portfolio to slightly underperform against this backdrop as the portfolio is tilted towards higher growth companies which are more sensitive to interest rates.

High growth sectors and companies were hit hardest. For example, datacentres (Equinix), cellular towers (American Tower and Crown Castle), and higher growth property companies and utilities (Goodman Group and American Water) had the biggest share price falls.

We have had a modest exposure to energy infrastructure companies compared to the benchmark index. Over time this has assisted relative performance as these companies have underperformed. However, during the period the energy crisis boosted investors desire to own these companies.

We've examined our investments – and added to stocks with attractive valuations

The good news is we are starting to see more attractive valuations in the portfolio. That is a function of both price falls and the continued growth of cash flows for these companies.

As share prices have fallen, we have deployed cash into the most attractive opportunities. These are companies where the long-term picture hasn't altered, but the stock price and price-to-earnings ratio have fallen sharply. We have upgraded target weightings and bought shares in American Tower, Crown Castle, Goodman Group and Norfolk Southern.

Portfolio update – still heading in the right direction

The portfolio had an encouraging reporting season. Almost all of the companies' results updates or trading updates met or exceeded expectations.

US energy infrastructure companies were the standout performers

Kinder Morgan and Enterprise Products delivered strong returns for the quarter. Oil and gas prices have increased sharply in 2022 because of returning demand for fuel, constrained supply plus geopolitical concerns given the war in Ukraine. In the short term, higher commodity prices will likely result in higher production and volumes, and both companies have some direct exposure to the higher commodity prices. If energy prices remain high, it is possible there will be more investment from producers in bringing mothballed or new assets back online which will drive higher volumes.

The companies trade on relatively low multiples of cash flow and the sector has been under-weighted by investors after years of underperformance. These companies are what we describe as "quality on sale" given their high-quality assets.

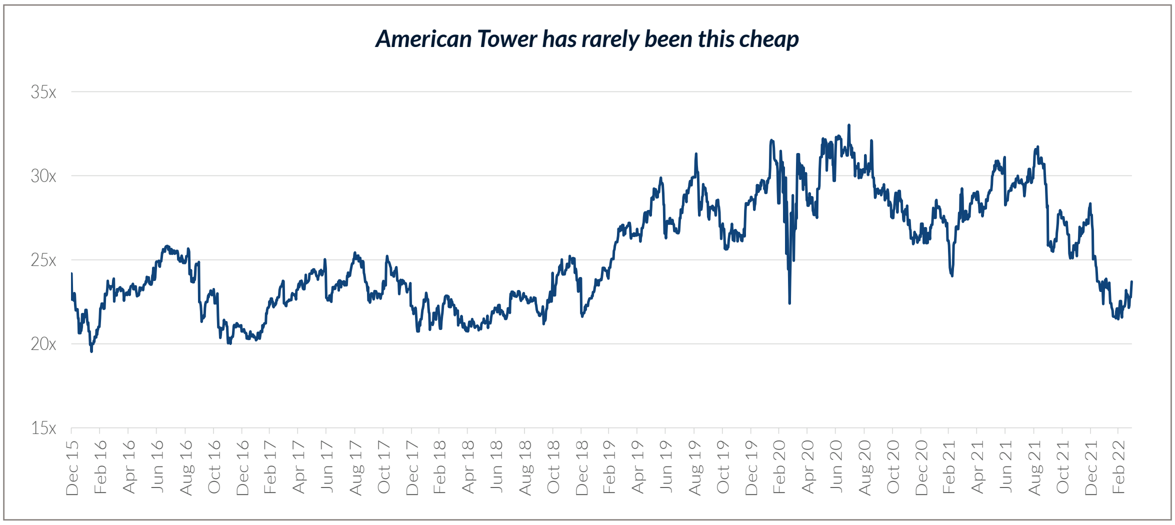
Longer term, the global transition to lower emissions energy is likely to mean volumes do not grow much structurally despite higher energy prices. Kinder Morgan has acknowledged the energy transition as a key theme in its investor day. This structural overlay is why they have not been larger positions in the portfolio.

US mobile tower companies were a drag on performance

Our large positions in US mobile tower owners American Tower and Crown Castle were down sharply in the quarter, as were other tower companies and companies with exposure to high growth specialty property. This was disappointing but we put the fall down to a market-wide rotation away from the higher growth companies in the sector rather than a change in fundamentals.

Stepping back, we think these businesses have the widest moats in our investment universe, and the decade long double-digit growth story is intact. Activity levels and leasing remain strong as the major US mobile providers ramp up the roll-out of 5G spectrum.

This quarter, the tower owners hit their lowest levels in over four years, relative to US real estate. This was a painful pullback but an attractive opportunity to add to our positions.



Price to cashflow multiple for American Tower - December 2015 to 31 March 2022
Source: *Bloomberg; Fisher Funds*

Airport investments will benefit from strong pent-up demand for travel

Auckland Airport's share price rallied late in the quarter as the New Zealand government accelerated the removal of border restrictions and isolation requirements. These have been a key barrier to people booking flights, and we expect demand for travel to increase as a result.

When we look around the world, leisure and business travel is picking back up sharply. Delta Airlines' CEO said during March, "Last week was our highest cash sales day in the 100-year history of Delta Airlines. We have never seen demand turn on so quickly as it has after Omicron". United Airlines' CEO said "People want to get back out. They want to connect. Business traffic is booming. The pandemic really does seem to be behind us here in the US, and bookings across most of the network are at normal levels".

People are itching to take overdue trips. And the share prices of most airports are still below pre-COVID levels.

MARKET MOVEMENTS

As at 31 March 2022

Stock Markets*	Closing Values	Changes over: 3 Mths %	6 Mths %	12 Mths %
S&P Global LargeMidCap ($NZ)	N/A	-6.9	0.0	8.0
USA - S&P 500	9527	-4.6	5.9	15.6
USA - Nasdaq	16991	-8.9	-1.3	8.1
Japan - Topix	3142	-1.2	-2.8	2.0
UK - FTSE100	7524	2.9	7.8	16.1
Germany - DAX	14415	-9.3	-5.5	-4.0
France - CAC40	18998	-6.7	2.5	12.3
HK - Hang Seng	67728	-5.7	-10.1	-20.4
Australia - S&P 200	88049	2.2	4.4	15.0
NZ-S&P/NZX 50 Gross Index (inc imp credits)	14955	-6.8	-8.5	-2.9
Market Volatility - VIX	20.6	19.4	-11.1	6.0

Property		%	%	%
S&P/NZX All Real Estate (inc imp credits)	1932.7	-6.1	-4.2	1.3
S&P Global Infrastructure Index (70% Hedged NZD)	6813.6	7.3	12.4	17.6

Ten Year Bonds	%	Yield Changes		
USA	2.32	0.80	0.80	0.58
Japan	0.22	0.15	0.15	0.13
United Kingdom	1.63	0.67	0.69	0.81
Australia	2.83	1.16	1.34	1.04
New Zealand	3.22	0.83	1.22	1.41

90-Day Interest Rates	%	Yield Changes		
USA	0.52	0.46	0.48	0.49
Japan	0.07	0.00	0.01	0.00
United Kingdom	1.04	0.77	0.95	0.95
Australia	0.21	0.13	0.19	0.18
New Zealand	1.61	0.64	0.96	1.26

Bond Indices	Closing Values	Changes over: 3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	738.64	0.21	0.37	0.55
Bloomberg Global Aggregate Index (Hedged NZD)	N/A	-4.83	-4.65	-3.60
Bloomberg NZBond Infl 0+ Yr Index	5673.68	-4.01	-2.62	-1.99
Bloomberg NZBond Composite 0+ Yr Index	1504.88	-3.62	-5.25	-6.28

Hedge Funds & Commodities		%	%	%
HFRX Global Hedge Fund Index (USD)	1412	-1.4	-1.3	0.9
DJ-UBS Commodity Index Total Return	266	25.5	23.6	49.3
Gold (US$/ounce)	1949.20	6.7	11.0	13.7
Oil (US$/barrel)	107.91	39.7	38.7	69.9

Currencies		%	%	%
NZD / USD	0.6956	1.6	0.8	-0.7
NZD / EUR	0.6251	3.8	5.0	4.9
NZD / GBP	0.5283	4.5	3.3	4.1
NZD / AUD	0.9262	-1.6	-3.0	0.7
NZD / YEN	84.42	7.1	9.7	9.1
Trade Weighted Index	74.75	2.1	1.4	1.2

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

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