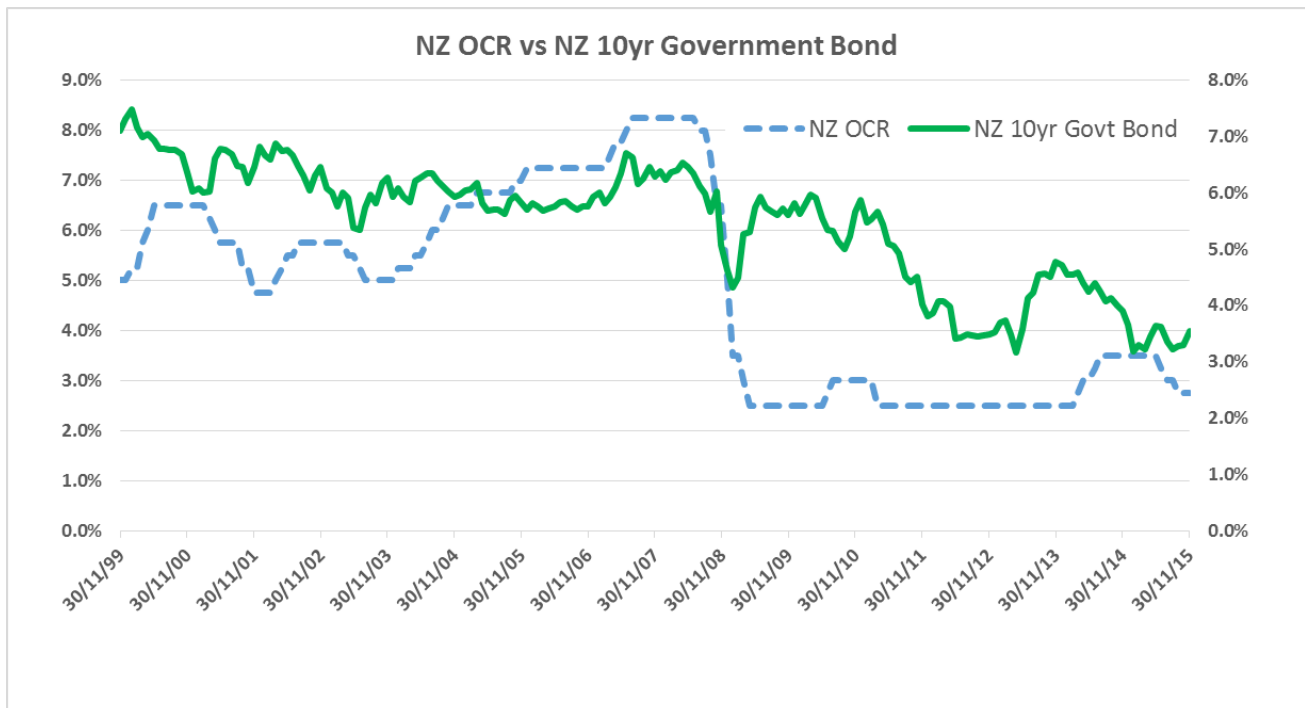


Market & Portfolio Update – November 2015

- ❖ Solid positive returns across all portfolios for the month, with most share markets up around the world. European markets led the gains, with Germany up 5%.
- ❖ Australia, China, Hong Kong and some Emerging Markets were the exception. They fell a little as the prices of some key commodities, such as iron ore, oil and gold, continued to drop.
- ❖ The New Zealand Dollar fell against most major currencies, particularly against the Australian Dollar (down 4%). This helped to boost the overall returns from the overseas investments in the portfolios.
- ❖ Interest rates were fairly steady, although longer term rates in New Zealand were up by about 0.25%. This was caused by some expectations that the Reserve Bank might not lower the official cash rate (OCR) any further.

Chart of the Month



The Reserve Bank of New Zealand (RBNZ) have a mandate to target domestic inflation within a 1-3% band. Due to inflation being below the target range, the RBNZ has been decreasing the OCR to stimulate the economy to get inflation back within that ideal range. Positive and controlled inflation is a hallmark of a well-functioning and growing economy, hence why it is targeted by many central banks around the world.

Since decreasing the OCR in June from 3.50% to its current 2.50% level, both term deposit and mortgage rates have fallen considerably, making it relatively cheaper to take out a home loan. This

has been a factor in the rising Auckland house prices, in conjunction with high net immigration.

Given the very latest December 0.25% cut in the OCR, there may be some further downward pressure on term deposit and mortgage rates. Inflation remains below the targeted band and one of NZ's main exports, the dairy industry, remains under pressure with the recent falls in global milk prices. The next Central Bank in the spotlight will be the US Federal Reserve, who next week may well announce the first increase in rates since 2006!

Summary of Key Portfolio Monitoring Decisions

NZ Shares Portfolio

- At the end of October the socially responsible investment filter over the core portfolios was lifted following the creation of three explicit Socially Responsible Investment fund options. As a result a small initial allocation to SkyCity was added to the NZ Shares Portfolio at a 1.5% weight, 2.0% underweight the benchmark index. SkyCity operates a number of casinos with monopoly licences in New Zealand and Australia, with their key asset being SkyCity Casino in Auckland.
- To offset the addition of SkyCity, the Portfolio's position in Stride Property Limited was reduced. The reduction was predominantly driven by a combination of concern in Stride's increased debt levels, following the acquisition of a \$290 million supermarket portfolio, and the relative income offered by the New Zealand listed property sector becoming less attractive.

Australian Shares Portfolio

- During November Ansell Limited was added to the portfolio at a 2.0% weight. Ansell is a global business providing safety and protective products for healthcare, industry and sexual wellness. To offset the addition of Ansell, Ramsey Healthcare Limited and CSL Limited were both reduced by 1%. Ansell offered a more attractive valuation relative to both Ramsey and CSL after they have returned 22% and 21%, respectively, over the past year.