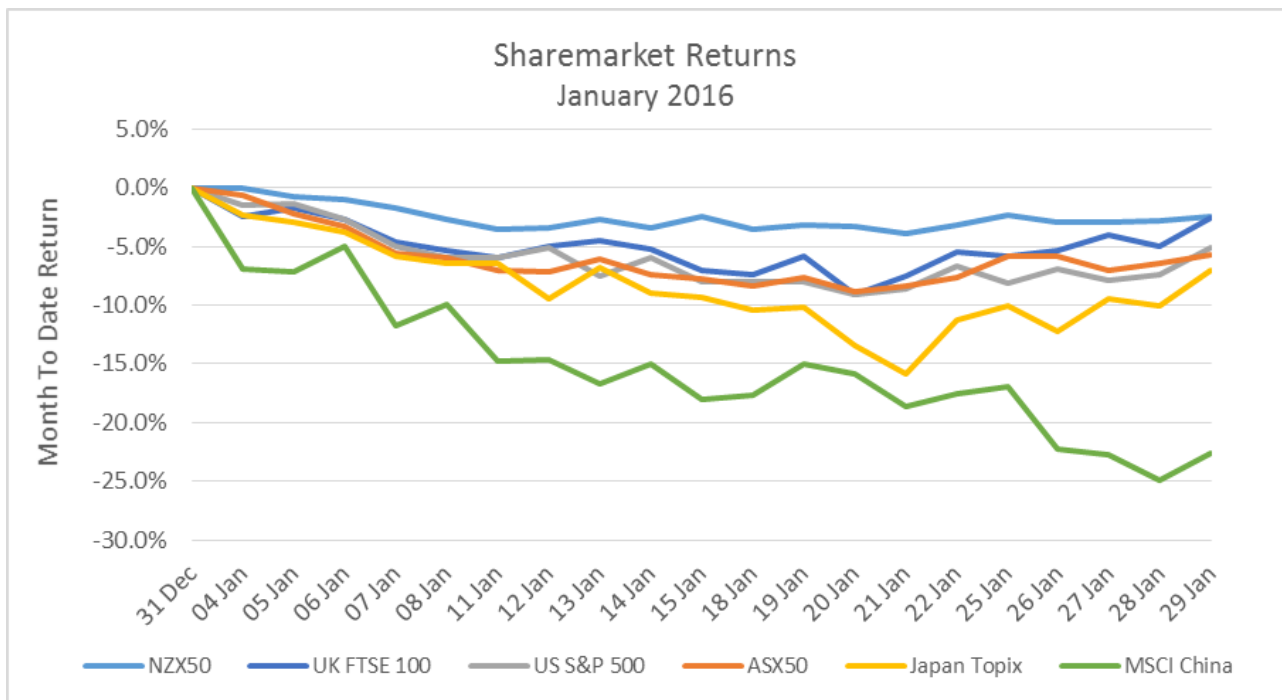


Market & Portfolio Update – January 2016

- ❖ With the exception of very defensively oriented portfolios, most portfolios with some exposure to shares were down a bit for the month (by between 1% and 2.5%). Notably though, gains on the fixed interest portion of portfolios provided a good diversifier and helped to offset some of the 5% share market falls.
- ❖ The Chinese share market was the worst performer, down more than 20% as investors expressed concerns about softer economic growth data and indicators, particularly from the US (see below for more commentary). The NZ share market was one of the better relative performers, down just 2.5%, reflecting stronger overall economic conditions.
- ❖ The New Zealand Dollar fell by around 5% against most major currencies, which also helped to offset the impact on overall returns from the decline in the overseas shares in the portfolios.
- ❖ Interest rates around the world were generally lower, partly in response to the share market volatility, but also because of continuing falls in the price of oil. The low oil price is keeping both headline inflation and inflation expectations down.

Chart of the Month



It is useful to note that Chinese shares were partly spooked by weaker economic data published in the US. The Chinese economy is heavily reliant on the US and needs them more than the US depends on China. This weaker US data raised concerns about the potential downstream effects on Chinese growth, which is already on a downward path.

Once Chinese sentiment turned sour, it had a flow-on effect to other markets, as China remains a key trading partner to many nations.

Nevertheless, China should fare well enough, provided the US doesn't go into 'recession', a word that has popped up recently. But with interest rates remaining very low and government policies stimulatory, there is continued support for economic and jobs growth worldwide.

As the chart above shows, markets did actually rebound at the end of the month, a reflection that the early new-year sell-off may have been a little overdone, providing some buying opportunities.

Summary of Key Portfolio Monitoring Decisions

Global Shares

- With global shares down 6% early in January, some gains from the options protection have been crystallised (approx. 0.4% of the sector), while keeping the majority of protection in place for any more significant declines.
- Near the end of the month, we removed the overweight exposure to (currency-hedged) European shares, a profitable position that has been in place for 18 months, with Europe outperforming the MSCI by around 10% over that time. The proceeds have been reallocated back to the Vanguard Hedged International Shares Fund. Although the European Central bank is still in Quantitative Easing mode, the outlook from here is more mixed and less supportive of a continuation of the position.

NZ Shares Income Portfolio

- Late in January we removed Hallenstein Glasson Holdings, as they face increased pressure from a number of global fashion retailers who have recently entered the New Zealand market. To offset this, we added Chorus, as the company is forecast to reinstate their dividend following the completion of the Commerce Commission review of their copper lines pricing. 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.