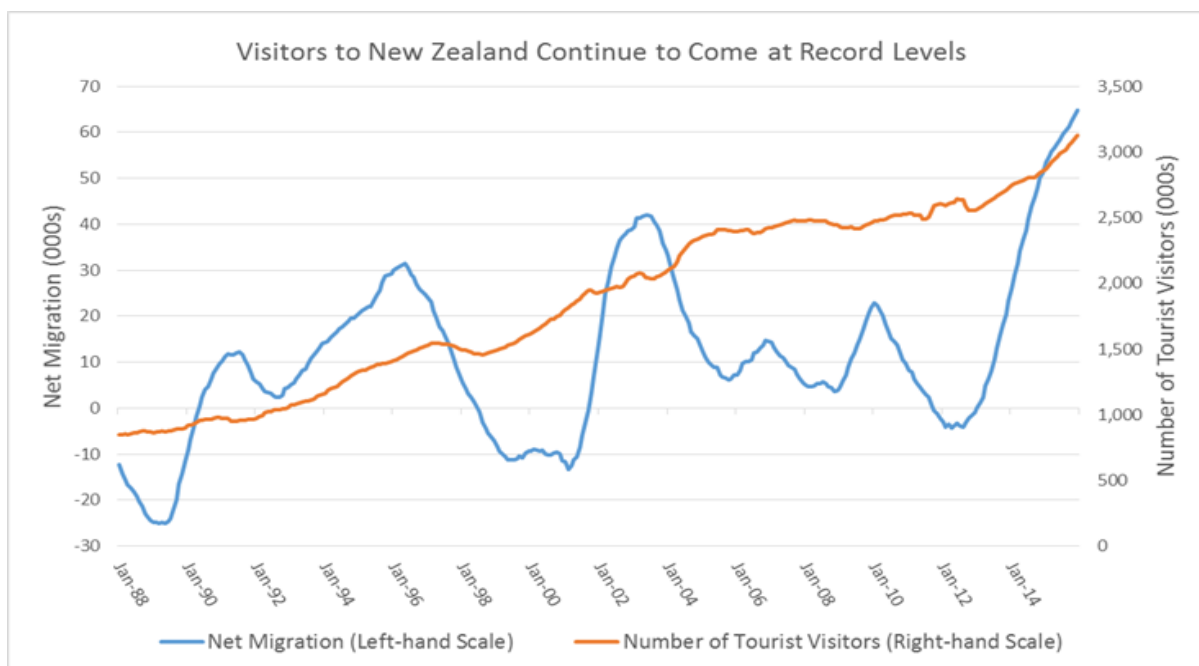


## Market & Portfolio Update – February 2016

- Despite an encouraging rebound during the second half of February, share markets still ended the month down around 1.5%. Fixed interest markets again acted as a good diversifier within the multi-sector portfolios and helped to partially offset the share market losses. This resulted in gains for conservative portfolios and relatively small declines for portfolios with more exposure to shares.
- The New Zealand share market was one of the few markets to post a positive gain for the month (along with the UK), continuing a trend which has been in place for around two years now (see article below for some commentary relating to this).
- The New Zealand Dollar also gained around 1% on a weighted basis, but this disguised a 2% gain against the US Dollar and a 5% fall against the Japanese Yen. This is despite the Japanese government announcing negative interest rates late last month to further stimulate their economy.

## Chart of the Month



New Zealand shares have continued their strong performance relative to global share markets during February. This is in large part due to the signs of strength the New Zealand economy showed late in 2015.

Despite the fall in dairy prices, a number of economic indicators continue to remain positive, including the confidence of both consumers and businesses. One key driver of this confidence is the record number of foreigners coming to New Zealand, both as tourists and to live permanently.

A large proportion of the growth in the number of visitors is made up of Chinese, with New Zealand being an ongoing beneficiary of the increasingly wealthy Chinese middle-class population and their desire to travel.

The number of foreigners coming to New Zealand provides a significant tailwind for the economy, as the money brought to our shores by foreigners is spent across New Zealand businesses. Likewise, permanent arrivals continue to contribute to economic activity.

# Summary of Key Portfolio Monitoring Decisions

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## NZ Shares Portfolio

- During the month a number of changes were made to the NZ Shares Portfolio. The holding in **Xero** was increased to 2% of the portfolio, while we also added **A2 Milk Corporation** added at a 2% weight.
  - Xero's valuation had fallen to attractive levels amidst the general global volatility, which offered a good opportunity to increase the portfolio's allocation.
  - A2 Milk Corporation recently upgraded their earnings forecasts, reflecting continued solid business growth, as well as making their first profit. This consequently offered a more attractive and visible valuation basis on which to add the company to the Portfolio, despite recent impressive share price performance.
- To offset these changes we reduced the weights of **TradeMe Group** and The **Warehouse Group**, and removed holdings in **Stride Property Group** and **Property for Industry**. The property companies in particular having performed well on a relative basis as market volatility has increased.

## Australian Shares Portfolio

- During the month we added **InvoCare Limited** to the portfolio at a 1% initial weight. InvoCare is the Australasian market leader in funeral services with over 30% market share in both Australia and New Zealand. They are also the largest provider in Singapore and have recently starting offering crematorium services in California.
- This addition has been offset by a reduction to the major supermarket chains, **Woolworths** and Coles parent company **Wesfarmers**, where increasing competition will continue to weigh on profit margins which clouds the visibility for earnings.