# Market & Portfolio Update – April 2016

- Portfolios were up slightly in April, with share markets and fixed interest investment markets both delivering modest gains. As a result, both defensive and growth-oriented portfolios saw a similar level of returns.

- Australian shares were a standout performer, with mining and oil companies up 15% on average. Commodity prices have recently risen solidly (iron ore up 7% and oil up 20% in April), as confidence levels in China have increased due to government support.

- Both New Zealand and Australia's Reserve Banks have recently lowered interest rates, with Australian rates now at a new all-time low of 1.75%, and NZ's Official Cash Rate (OCR) not much higher at 2.25%. While lowering income levels moving forward, this has helped returns on existing investments that provide an income yield, such as fixed interest investments and listed property company shares held in portfolios.

Chart of the Month
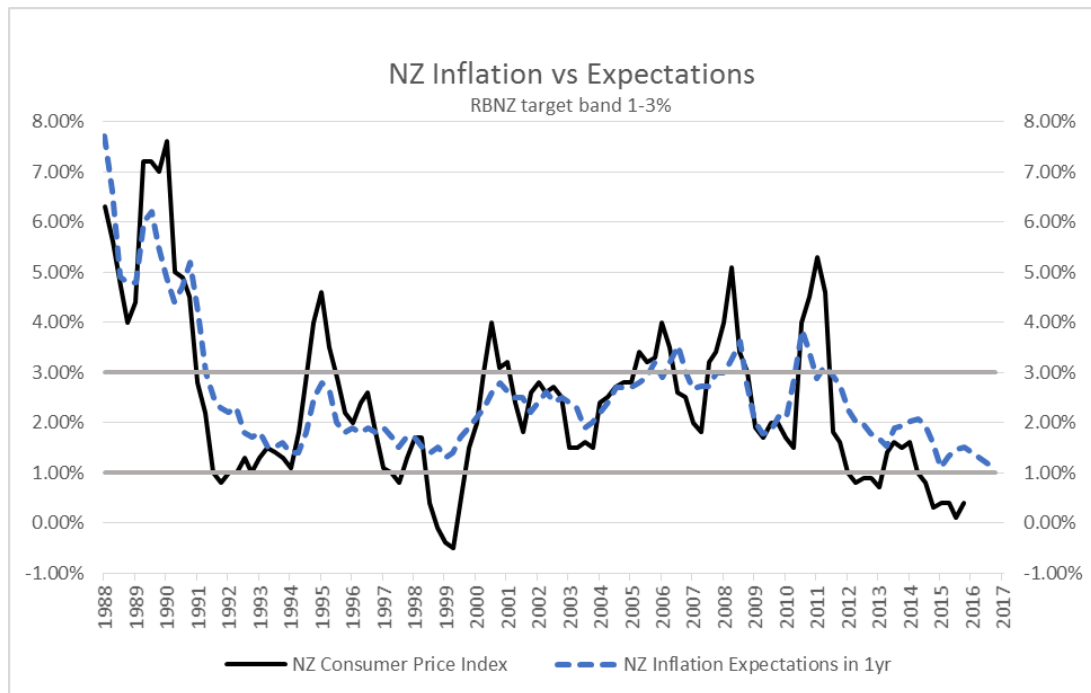
Most developed countries target a modest amount of inflation to promote sustainable growth within their economies. Moderate inflation encourages consumer spending and business investment. The Reserve Bank of New Zealand targets annual inflation of 1-3% per annum. However, it is currently at 0.4%, well below the target band. This is the predominant reason the OCR has been reducing, in an attempt to promote higher inflationary pressures.

The chart shows the current inflation rate (NZ consumer price index) and where businesses in NZ expect inflation to be in 1 year.

Recently, inflation expectations have been falling again, which is a concern for the Reserve Bank. Low and falling inflation expectations can potentially become a self-fulfilling prophecy, risking deflation (prices actually falling). Deflation causes spending to slow down significantly and business investment to be put on hold.

Low and falling inflation is happening all around the developed world. Until higher inflationary pressures and expectations increase, we will likely see interest rates on bonds, term deposits and mortgages remaining low.

Summary of Key Portfolio Monitoring Decisions

NZ Shares Portfolio

- During the month **Comvita and Orion Healthcare Group** were <u>added</u> to the portfolio. Comvita sells a range of manuka honey-based health products and is the largest manufacturer of manuka honey in the world. Orion Healthcare operates a suite of software to centralise clinical information for the use of medical providers and funders with an aim to make the medical industry more efficient.

- Offsetting these purchases, **Sky Network Television**, **Freightways**, **ANZ Banking Group** and **Westpac Banking Corporation** were <u>reduced</u>, and **The Warehouse Group** <u>removed</u>. Sky TV's monopoly position in pay-television is under threat from technological advancements in online subscription television, while Freightways was reduced in the portfolio following a strong run over the last six months, returning 23%.

NZ Shares Income Portfolio

- **Fletcher Building** and **Precinct Properties** were <u>added</u> to the portfolio. Fletcher Building's addition increases the exposure to the strong construction cycles in both New Zealand and Australia, while the dividend yield on the company's shares is also attractive compared to the general market. Precinct Properties was also added to increase exposure to the high-yielding property sector. Precinct has a strong growth outlook over the coming years as they begin construction of the downtown office development in central Auckland.

- Offsetting these purchases, **TeamTalk** and **Sky Network Television** were <u>removed</u> from the portfolio. There have been concerns about the sustainability of TeamTalk's rural broadband business which continues to drag on their profitability. The recent resignation of CEO and founder, David Ware, adds to concerns regarding the investment case.

Corporate Bond Portfolio

- Chorus (rated BBB by Standard and Poors) issued a new fixed rate bond which matures in May 2021, at an interest rate of 4.12%. We have included a 2.5% allocation, while reducing the holding of NZ Post bonds which mature in October 2016.