Summary of Key Portfolio Monitoring Decisions:
Six Months to 31 March 2017

October 2016

Global Shares Portfolio

- We increased the allocation to global Value stocks from 10% to 30%, through the use of ETFs, positioning the portfolio to take advantage of a medium-term turn in the cycle of 'Value' vs 'Growth' stocks. This overweight position was funded by selling down the Vanguard index fund.

November 2016

Reduction in Global Fixed Interest investments

- We made a tactical asset allocation change reducing Global Fixed Interest investments in favour of an increased cash allocation. This results in a Balanced MIA portfolio being 6% underweight Global Fixed Interest, with the proceeds allocated to the Enhanced Cash Portfolio. We are monitoring opportunities to potentially increase this further. The main drivers for this decision are:

  a. A Trump Presidency will result in a fiscal boost to the US economy on the back of an existing stimulatory monetary policy environment and an economy that is showing some signs of picking up;

  b. Zero and negative interest rate markets like Japan and parts of Europe mean that much of the non-US portfolio yield is largely delivered through the premium earned via foreign exchange hedging, which effectively equates to the yield on NZ cash;

  c. US interest rates have broken through long-term down trends, signalling a momentum shift.

December 2016

Australian Shares Portfolio:

- Given the prospect of continued competition in the Australian supermarket sector, we further reduced investments in Woolworths and Wesfarmers (the owner of Coles supermarkets) from 5% to 3% of the portfolio. With the proceeds we increased the allocation to the quality consumer business InvoCare (up from 1% to 3%). InvoCare was added to the portfolio in February last year and the business continues to be a market leader in Australasian funeral services.

- At the end of the month travel insurer Cover-More received a takeover bid almost 50% above its last price. The bid was supported by the board and the portfolio has sold its shares in Cover-More and reallocated the proceeds across the broader insurance sector.

Global Direct Shares Portfolio:

- We added Alphabet to the portfolio at a 7% weight, offset by the removal of the portfolio's broader global technology ETF. Alphabet is most known through its Google brand, which provides a web-based search engine, however the business also spans advertisements, maps, software applications, mobile operating systems, consumer content, enterprise solutions, commerce, and hardware products. Alphabet's monopolistic position will allow them to continue the strong history they have of innovating, disrupting and monetizing their divisions like YouTube, Chromebook, and Android.

- We removed hearing aid manufacturer Sonova from the portfolio, as a recent review of business suggests new product innovation is slowing, which reduces the conviction in future outperformance. This has been offset by the addition of Novo-Nordisk, who provide diabetic solutions for over 100 million people around the world. Novo-Nordisk provide over half of the insulin used globally and the company's diabetic treatments serve more than 25% of all diabetics. They are continually innovating through the development of more modern pens, new insulin formulations and oral medication.

Global Shares Portfolio:

- After working closely with international fund manager Vanguard, we switched all holdings in the Vanguard International Shares Index Fund into a new Vanguard "select exclusions" fund. The new fund excludes investments in companies that produce controversial weapons such as cluster bombs, landmines, chemical and biological weapons, and components of nuclear weapons, while still providing a broad diversified allocation to global shares.

January 2017

New Zealand Shares Portfolio:

- We increased the holding in Contact Energy, offset by removing Mercury Energy from the Portfolio. The rationale behind the switch was largely due to current dividend yields, with Mercury having performed well over the past year on the back of high lake levels in Lake Taupō. In contrast, Contact Energy is much less reliant on hydro levels having a much more diversified generation base.

- We also sold shares in Chorus. Chorus had performed well within the portfolio, however its dividend outlook now looks less strong than previously thought.

Australian Shares Portfolio:

- At the start of the year we sold some of the shares held in the big four Australian banks. The banks had risen 20% over the second half of 2016, with the wider market rising just 8%. Investors have finally come around to our way of thinking on the unlikely risk of increased capital requirements, and with this, the banks' valuation gap had closed.

- This has been offset by increasing the allocation to real estate companies. As interest rates globally rose, Australian listed real estate companies suffered falling 7% since July, 15% behind the wider market. With income yields and valuations are now closer to long term averages we are more supportive of owning more of the real estate sector in the portfolio.

Global Direct Shares Portfolio:

- During January the portfolio's holding in global power and automation giant ABB was removed. ABB is a stable blue-chip business; however with its share price rising almost 50% in the past 12 months, it is trading at premium with little performance catalysts to drive the share price further in the near term.

- This has been offset by the addition of Swiss manufacturer Geberit, who make concealed-tank toilet systems and other technology based ceramics for bathrooms. They have won numerous awards for design, innovation and sustainability, and have an acute focus on the efficient use of water. Pleasingly they also generate high levels of free cash flow that enables the company to pay attractive dividends, and Geberit's management continue to do an excellent job of creating shareholder value through high returns on invested capital.

February 2017

Global Shares:

- During February we removed the Platinum International Fund, offset by the introduction of California-based Fisher Investments' Global Focused Strategy.

- The removal of Platinum's International Fund brings to a close a relationship we have had with the manager since 2005. Platinum's International Fund's investment philosophy has evolved to include a large, structural geographic tilt towards emerging markets. While this tilt may add value, our preference is to invest in managers who are focused on a concentrated basket of global companies, rather than macro tilts which are easily accessed through index funds. Platinum's underlying stock picking philosophy is still executed within their country specific funds, and to this end we may look to access these investment funds at a future point in time, although they do not provide a full global solution.

- Fisher Investments' Global Focused Strategy is based on a stock selection process that aims to invest in quality companies that have strategic attributes, competitive advantages, and attractive relative valuations, while avoiding any unintended risks that push against the manager's high level strategy. The current portfolio has around 30 holdings including companies like Amazom.com, Walt Disney, L'Oreal, Daimler, Visa, and Pfizer.

- Based in Woodside, California, Fisher were founded by Ken Fisher in 1979. Ken was born in 1950, and is the son of the late Phillip A. Fisher who authored Common Stocks and Uncommon Profits, which has been frequently mentioned by legendary investor Warren Buffett, as one of the top three investment books all investors should own. Ken too has become an acclaimed author in his own right, authoring 11 books with his first book, Super Stocks, first published in 1984.

- Overall Fisher Investments are an experienced, independent and focused fund manager, and they stand out against other managers in terms of philosophy and investment style. The strategy's inclusion will complement the portfolio's current active positions with Magellan and Rothschild and Booster is currently the only Australasian based manager with access to the strategy.

NZ Fixed Interest Portfolio:

- During February we added a 4% weight to a new ASB Bank senior bond maturing in 2022 and reduced the portfolio's holdings of Local Government Funding Authority bonds by 4%, helping maintain the portfolio's overall yield. We expect to continue to reduce local government authority bonds in favour of senior ranking bank bonds where yields are higher, while still offering strong security.

NZ Shares Portfolio

- We added 2% to the portfolio's SkyCity holding during the month. The main reason behind the decision was a return to growth in their Auckland business. They should also be one of the beneficiaries from the upcoming Lions rugby tour of New Zealand.

March 2017

Global Opportunities Portfolio

- During March, we sold the portfolio's shares in the oil "supermajors" (BP, Chevron, Exxon, Shell and Total). The supermajors position was added in February 2015, replacing some of the portfolio's commodity investments, and since then had outperformed the broader commodities sector by 18%. With this level of performance, and following the recovery in oil prices, the potential for further upside from here has fallen; particularly relative to general share markets.

NZ Shares Portfolio

- We reduced the portfolio's investment in Fletcher Building shares during the month, following a poor result in their construction division. The construction sector right across New Zealand has been booming and as a result inflation of building products and labour costs have increased significantly which impacted Fletcher Building's construction division.

NZ Fixed Interest Portfolio:

- We further altered the mix of corporate bonds in the portfolio, increasing the allocation to bank and corporate bonds whilst decreasing exposure to local council bonds. We also reduced the average term to maturity by half a year to 4 years. Over time, we expect to continue to reduce holdings in local government bonds in favour of bank bonds where yields are higher while still offering strong security.