Market & Portfolio Update – July 2017

Adding yield and resilience through unlisted investments

For most investors, lower interest rates have been a key feature of the past 10 years, thanks to the extraordinary policies adopted by the world's central banks. This has particularly reduced income returns on fixed interest investments, raising the question of how best to deliver the "income" part of portfolio returns in the years ahead. Fixed interest investments (like bonds) still have a very valid part to play in providing a promised rate of return and supporting performance when shares are weaker. However, today's environment calls for a wider approach to broaden portfolios' source of returns, while also increasing their resilience to the fluctuations in share markets.

Compared to traditional portfolios focused on "listed" investments, the best opportunity to achieve this comes from adding investments that are not traded on share markets (i.e., "unlisted" investments). History shows that these benefit from an extra return "premium" in exchange for less ability to sell on short notice. This adds to the benefit of having a wider range of investments to choose from - particularly relative to NZ's share market. A more unique feature of unlisted investments is the ability to have greater input into their management (try influencing Google's policies!) The key factors to manage are the appropriate allocation, given unlisted investments' lower saleability (so still only a minority part of overall portfolios) and ensuring the right "due diligence" processes are in place for each investment.

However, a key strength of this approach is the ability to improve investments' overall income yield. While residential property yields remain stubbornly low, carefully targeted investments in direct rural and commercial property, higher-yielding shares in unlisted NZ companies, and infrastructure investments all provide potential ways to achieve this. Importantly, these areas combine the best features of income yield with some protection against higher inflation down the track. Not least, it gives us as investors the ability to do well by doing good – to improve portfolio returns while supporting kiwi businesses taking on the world.

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- ❖ Share markets again rose moderately for the month, which saw investment fund returns resume their gradual upward path. Higher growth funds benefited more from good returns on shares in emerging markets, with Chinese shares now up 25% over the past six months.

- ❖ While political posturing is heating up ahead of the New Zealand election, so far the likely effects for the NZ share market do not appear overly significant, and local shares have also continued to gain.

- ❖ During July, Booster investment funds expanded their unlisted investments with the purchase of Waimea Estates, Nelson's second-largest winery, and its associated vineyards. While still a relatively small part of overall portfolios, this further broadens their scope and provides a land-based investment at an attractive yield, as well the opportunity to grow Waimea's established wine-making and marketing operations.