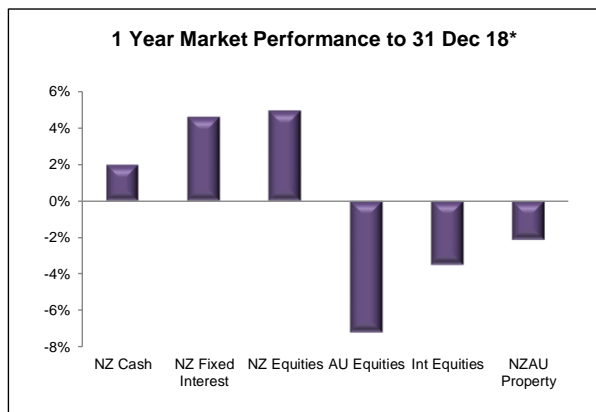
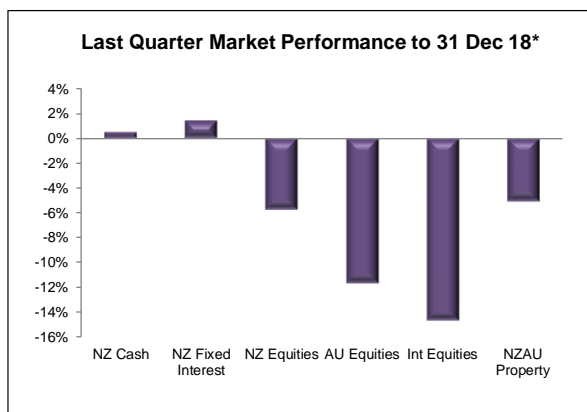


IWIinvestor Market Review, December 2018

Tirohanga ki te makete mō Hakihea 2018

He moana pukepuke e ekengia e te waka: A choppy sea can be navigated

Market Overview



*Benchmarks; NZX 90 Day Bank Bill, NZX Composite A Grade, NZX50, ASX200 (NZD), MSCI World (NZD), NZX Prop/ASX200 Prop comp

Share market returns were negative in the December quarter as trade tension and political issues, created uncertainty, affecting the outlook for global growth and weakening investor confidence. The fixed interest market finally responded as a diversification benefit as the longer-term securities welcomed the weaker economic outlook.

The US/China trade tension is the major economic adversity and there was a brief respite after the respective presidents agreed on a 90 days ceasefire, avoiding imminent implementation of more tariffs.

Political issues don't appear to be abating for Trump with the Mueller investigation leading to the imprisonment of his former lawyer, the resignation of the Secretary of Defence and the partial government shutdown after Congress refused to approve funding of the 'border wall'.

Across the Atlantic, the Brexit debacle continues, and the Italian Budget was finally approved after their politicians agreed to lower their deficit targets for the next 3 years. Further the European Central Bank President announced the end of the Euro 2.6 trillion bond purchase scheme and commented that 'the balance of risk is moving to the downside'.



Quarter Benchmark Performance:



NZ Fixed Interest: up 1.4%



NZ Equities: down -5.8%



Australian Equities: down -11.7% (NZD), down -8.2% (local currency)



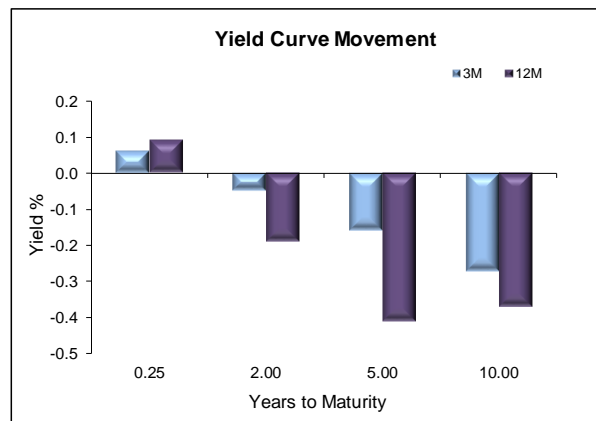
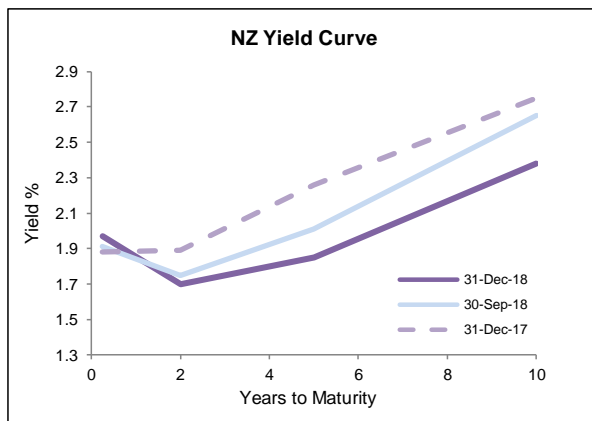
International Equities: down -14.7% (NZD), down -13.1% (local currency)

NZ Cash & Fixed Interest

Bonds (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX 90 Day Bank Bill	717	0.5%	1.0%	2.0%	2.2%	2.6%	2.8%	4.4%
NZX Govt Bond Index	1,749	1.5%	3.1%	4.6%	4.5%	5.4%	5.1%	5.8%
NZX Composite A Grade	4,854	1.4%	2.9%	4.6%	4.6%	5.4%	5.3%	5.9%

The Official Cash rate remains pegged at 1.75% and the RBNZ maintains its expectation of holding that rate till into 2020, great for mortgagees but not for savers.

The fixed interest market ended the year at its lowest yield with 10 year Government bond at 2.37% as the economy slows and the favourable Budget position entice international investors and demand from KiwiSaver. Offshore bond yields declined for the quarter given the weakening global economic outlook. US 10-year bond yield ended the year at 2.72%, above the NZ yield given the relatively favourable NZ economic position.



New Zealand & Australian Equities

Equities (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX50	8,811	-5.8%	-1.5%	4.9%	11.7%	13.2%	12.5%	8.9%
ASX200 (Local)	58,710	-8.2%	-6.8%	-2.8%	6.7%	5.6%	9.0%	8.3%
ASX200 (NZD)		-11.7%	-10.5%	-7.2%	6.1%	5.0%	7.6%	7.7%

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The NZ share market was 5.8% weaker in the quarter but achieved a 4.9% gain for the year, one of few markets to remain positive globally. Corporate earnings remain in line with expectation while the attractive yield in the defensive sector and some significant corporate activity helped the market.

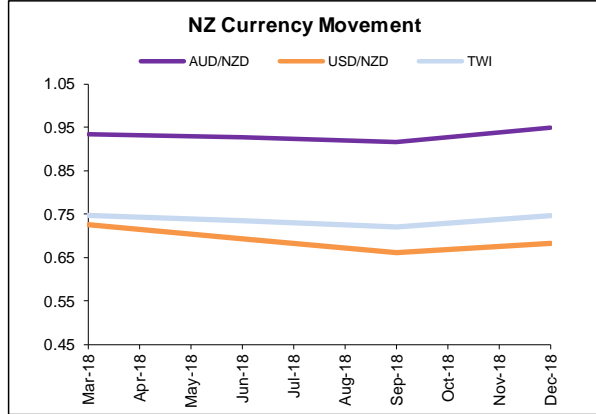
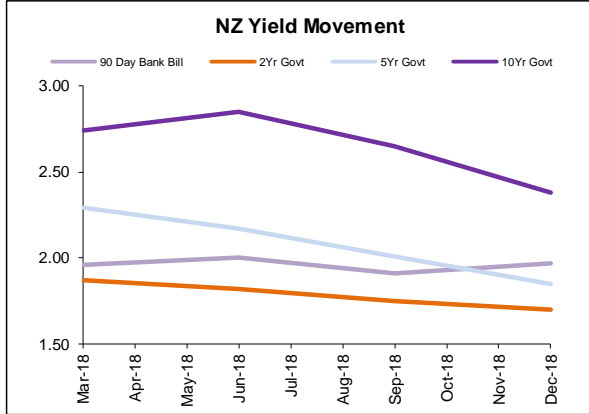
The Australian share market was 8.2% weaker in the quarter and the NZ dollar strength against the Australian dollar accentuated the loss for NZ investors (down 11.7%). The banking sector continues to be under pressure from the Royal Commission inquiry, the slowdown in the housing market and the proposed increase in capital requirement by the RBNZ for NZ banks. The energy sector was affected by the significant fall in oil price during the quarter (WTI crude fell from year high of \$76 in early October to close at \$45 at year end).

International Equities

Equities (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
MSCI World (Local)	4,140	-13.1%	-8.6%	-7.4%	6.2%	6.0%	10.1%	6.3%
MSCI World (NZD)		-14.7%	-8.7%	-3.5%	6.9%	8.9%	8.0%	6.0%

The traditional Santa rally never eventuated in December and the substantial falls in the major international share markets over the quarter erased the gains of the preceding 3 quarters. Politics being the driving factor as trade tensions and uncertainties undermined business and consumer confidence weakening the global economic outlook and hence investor confidence. There was a 'Boxing Day' bounce with the MSCI rising 10%, however volatility is expected to continue as the major political issues remains unresolved.

Property (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX Property	1,297	0.5%	5.3%	4.7%	6.1%	11.2%	10.6%	9.2%
ASX200 Property (Local)	3,149	-7.3%	-6.4%	-4.7%	1.6%	6.6%	4.2%	-0.7%
ASX200 Property (NZD)		-10.8%	-10.2%	-9.0%	1.1%	5.9%	2.8%	-1.2%
Currencies (% change)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZD / AUD	0.9520	3.9%	4.1%	4.7%	0.5%	0.6%	1.3%	0.6%
NZD / USD	0.6713	1.5%	-0.4%	-5.4%	-0.6%	-4.0%	1.5%	0.2%
NZ TWI	73.5	1.9%	1.4%	-1.1%	-0.4%	-1.0%	2.7%	0.8%
Commodities (% change)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
Oil Prices (US\$/WTI)	45.41	-38.0%	-38.8%	-24.8%	7.0%	-14.3%	0.2%	2.2%
CRB Index	169.80	-13.0%	-14.0%	-12.4%	-1.2%	-9.5%	-3.0%	-2.7%



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