Portfolio review

Prepared for:
South Waikato District Council
(the Client)

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Registration Number:
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For the period:
December 2021 to March 2022

BNZ469764-001/DK

Contents

Portfolio performance

	Last 6 Months to 31 March 2022	Last 12 Months to 31 March 2022	Last 36 Months to 31 March 2022
Opening portfolio value (NZD)	**$22,729,048.84**	**$23,773,792.30**	**$20,055,592.51**
Capital in	$0.00	$0.00	$0.00
Capital out	$0.00	-$2,000,000.00	-$2,000,000.00
Securities in	$0.00	$0.00	$0.00
Securities out	$0.00	$0.00	$0.00
Realised gain/loss	$7,172.42	$128,608.05	$923,755.74
Unrealised gain/loss	-$928,867.53	-$61,272.72	$2,616,061.14
Gross interest	$727.30	$1,016.39	$249,294.20
Gross dividends	$0.00	$0.00	$192,863.36
Tax	$0.00	$0.00	-$34,758.08
Fees	-$32,429.52	-$66,492.51	-$188,274.29
Rebates	$0.00	$0.00	$16,765.13
Change in accrued interest	$0.00	$0.00	-$55,648.20
Closing portfolio value (NZD)	**$21,775,651.51**	**$21,775,651.51**	**$21,775,651.51**
Net gain/loss	-$953,397.33	$1,859.21	$3,720,059.00
Return before tax and after fees	-4.19%	0.01%	19.20%
Return after tax and fees	-4.19%	0.01%	18.99%

Please Note: The "Opening Value" for this review may differ from the "Closing Value" shown in your previous review. This is due to different unit prices (because the previous review may not have used the unit prices as at the review date that were finally struck by the relevant manager(s) of your investment(s)) and exchange rates being used. Settlement of trades/transfers of holdings on the date of your last review may also affect the "Opening Value" in this report.

Portfolio valuation as at 31 March 2022

Investment		Units	Unit price	Current value	% of portfolio
NZ cash					
Cash Management Account	A	208,869.91	1	$208,869.91	0.97%
Private Wealth Series Cash Fund[1]	A	1,026,239.19	1.0796	$1,107,927.83	5.13%
				$1,316,797.74	**6.10%**
NZ fixed interest					
Private Wealth Series NZ Fixed Interest Fund[1]	A	1,981,341.42	1.0802	$2,140,245.01	9.91%
				$2,140,245.01	**9.91%**
Australasian equities					
Private Wealth Series Australasian Equity Fund[1]	A	2,460,928.77	1.7183	$4,228,613.91	19.59%
				$4,228,613.91	**19.59%**
International fixed interest					
Private Wealth Series International Fixed Interest Fund[1]	A	5,102,753.32	1.0959	$5,592,107.36	25.90%
				$5,592,107.36	**25.90%**
International equities					
Private Wealth Series International Equity Fund[1]	A	4,980,691.14	1.6685	$8,310,283.17	38.49%
				$8,310,283.17	**38.49%**
Total				**21,588,047.19**	

[1]Unlisted Portfolio Investment Entity (PIE)

A = Asset held in custody

The above prices are those available at the time the report was generated and may be subject to confirmation.

Please Note: Unit prices are in New Zealand Dollars.

Return by asset class

Asset class	Realised gain	Unrealised gain	Income	Gross return
NZ cash	$1,893.71	$5,541.69	$1,016.39	0.47%
NZ fixed interest	-$221.18	-$127,914.66	$0.00	-6.87%
Australasian equities	$8,447.03	-$91,403.37	$0.00	-1.93%
International fixed interest	$3,516.79	-$325,144.66	$0.00	-5.48%
International equities	$114,971.69	$477,648.28	$0.00	7.05%
Total	**$128,608.05**	**-$61,272.72**	**$1,016.39**	**0.01%**

Market commentary

3 months to March 2022

New Zealand Cash

Market commentary

The New Zealand Cash benchmark returned 0.2% over the review period.

The Reserve Bank of New Zealand (RBNZ) has increased the Official Cash Rate (OCR), (the primary driver of cash returns) from 0.25% to 1.50% since the beginning of October 2021, with the latest move, a 0.50% increase occurring in April. Economic recovery, strong consumer demand, global supply chain disruptions and higher energy prices are flowing through into higher consumer prices.

The RBNZ has two key objectives to consider when setting monetary policy: 1) to keep inflation within a target band of 1.0% to 3.0%, and 2) to support maximum levels of employment.

The inflation rate was 6.9% for the year to March 2022, significantly above the RBNZ's target band. The labour market continues to strengthen, with unemployment in New Zealand falling to 3.2% in December 2021.

Strategy performance

Over the review period, the BNZ Private Bank New Zealand Cash Strategy, which is invested in the Private Wealth Series Cash Fund, returned 0.2%, in line with its benchmark.

Market outlook

Recent labour market data, supply chain disruptions and surging energy prices following the Russian invasion of Ukraine are resulting in higher and more persistent inflation than originally anticipated. This has strengthened the case for further tightening throughout 2022 and beyond. The market is currently pricing in multiple rate rises throughout 2022. Another 50-basis point increase in May remains a very real possibility. The RBNZ is projecting an OCR of 3.4% by late 2024.

Cash returns are on track to improve over the coming year as interest rates rise. However, the economic outlook remains highly uncertain, consumer and business confidence low, and household budgets are coming under pressure due to rising mortgage rates, high inflation, and negative real wage rates. As such, there is the possibility that rates do not rise as much as expected. By increasing rates earlier the RBNZ may have lessened the need for further rate rises in the future and the level at which interest rates peak.

New Zealand Fixed Interest

Market commentary

The New Zealand Fixed Interest benchmark returned -3.6% over the review period.

NZ interest rates rose over the review period, with the 10-year NZ government bond yield closing at 3.24% at the end of March (versus 2.38% at the end of December 2021).

NZ inflation rising to 6.9% (year on year) to March 2022 and the unemployment rate falling to 3.2% has supported the increase in interest rates. The Russian invasion of Ukraine and the economic sanctions that followed have seen a surge in energy and other commodity prices. This has put additional pressure on prices and has further raised expectations of further monetary policy tightening by the RBNZ.

The RBNZ has increased the OCR from 0.25% to 1.50% since the beginning of October 2021, with the last move being an increase of 0.50% in April. The US Federal Reserve increased the Fed Funds rate by 0.25% in March and has signalled further increases are likely in the coming months.

Strategy performance

Over the review period, the BNZ Private Bank New Zealand Fixed Interest Strategy, which is invested in the Private Wealth Series NZ Fixed Interest Fund, returned -3.8%, underperforming its benchmark by 0.2%.

The key driver of this under-performance over the quarter was the positioning of the portfolio. The portfolio managers were positioned for a more gradual increase in interest rates than what has occurred. The Strategy's exposure to credit and security selection partially offset this underperformance.

Market outlook

The recent strong inflation and labour market data points to inflation being more persistent than originally thought. The invasion of Ukraine and sanctions imposed on Russia have added additional inflationary pressure to the global economy, which will likely push the peak in the rate of inflation higher and further into the future. Supply chains remain under pressure and the conflict in Ukraine has only exacerbated this further.

Expectations are high that central bank interest rates will increase significantly this year, with the market pricing at least a 0.25% increase in the OCR at each RBNZ meeting throughout 2022. However, the economic growth and inflation outlook remain highly uncertain. Higher consumer prices, as well as higher mortgage rates, are likely to constrain household budgets and result in cuts to discretionary spending, which may make it more difficult for the RBNZ to increase interest rates as aggressively as they have projected. Should the pace of interest rate increases disappoint the market's high expectations, longer-term interest rates could re-price lower, which would support fixed interest performance. Although fixed interest has performed poorly recently, interest rates are higher now, which increases the likelihood of higher returns from this asset class in the future.

Australasian Equities

Market commentary

The Australasian Equities benchmark returned -6.8% over the review period.

The invasion of Ukraine, high inflation and rising interest rates were dominant factors driving equity markets over the period. The 1-year return for NZ shares to 31 March 2022, is -2.9%, underperforming equity markets in most other developed markets.

The Russian invasion of Ukraine has added a considerable amount of uncertainty to the economic outlook. With strong inflation and employment data in the US as well as a surge in energy prices, the Federal Reserve began raising its policy rate in March with a 0.25% increase, while signalling further increases to come. In New Zealand, the annual inflation rate increased to 6.9% for the year ended March 2022 (the highest annual increase since 1990), the main drivers were supply chain disruptions and an increase in housing and construction-related costs as well as utilities and transportation. The RBNZ has gradually increased the OCR from 0.25% at the start of October 2021 to 1.5% in April 2022. In the Reserve Bank's February Monetary Policy Statement, they forecast an OCR of 3.4% by the end of 2024.

New Zealand continues to ease COVID restrictions and gradually open up, the country moved into the Orange traffic light setting under the COVID-19 Protection Framework in the middle of April. The government has also begun relaxing border restrictions, which started with New Zealand citizens and residents and will begin relaxing restrictions for tourists over the next few months.

Strategy performance

Over the quarter, the BNZ Private Bank Australasian Equity Strategy which invests in the PWS Australasian Equity Fund, returned -7.3%, underperforming its benchmark by 0.4%.

Over the 3-months to March 2022, Mint and Castle Point underperformed their benchmark, while RealIndex slightly outperformed its benchmark. At a sector level, the fund was overweight utilities, materials, and financials. In contrast, it was underweight real estate, industrials, and healthcare. At a stock level, the fund's largest holdings were Fisher and Paykel Healthcare, Auckland International Airport, and Spark. In contrast, the smallest holdings were The Warehouse Group, Laybuy and Orxplore Technologies.

Market outlook

High inflation and rising interest rates are likely to pose some headwinds to the New Zealand economy, as they constrain household budgets due to wages failing to keep pace with inflation and mortgage payments increasing. The gradual reopening of international borders is a positive development for economic activity, especially for the tourism and hospitality sectors, although this could take quite some time to get back to pre-pandemic levels. Volatility in the share market is likely to continue as the market weighs up the reopening against rising interest rate and geopolitical factors.

International Fixed Interest

Market commentary

The International Fixed Interest benchmark returned -4.8% over the quarter (hedged to New Zealand dollars).

Global economies faced an uncertain time during the quarter. In particular with the geopolitical risk stemming from Russia's invasion of Ukraine. This resulted in sanctions against Russia such as banning of Russian oil imports freezing of Russian financial assets. The invasion has magnified existing concerns over inflationary pressures, particularly through the increase in prices of commodities such as food and energy.

The Federal Reserve raised interest rates raised rates for the first time in three years in February 2022 from 0.25% to 0.50% and has forecasted six more rate hikes for the year. The UK and Eurozone interest rate policies. The Bank of England raised interest rates The ECB has thus far been reluctant to tighten monetary policy, especially following the onset of the Russian-Ukrainian crisis, but indicated rate rises were no longer ruled out for 2022.

International Fixed Interest markets declined in the first quarter of 2022 making for a tumultuous start to the year. The US 10-year treasury bond yield increased from 1.51 to 2.35 in the March quarter. The main catalyst for this has been the expectation that global central banks will increase interest rates faster than expected in the face of a significant uplift in inflation. Markets were also spooked by the Russian invasion of Ukraine, as already disrupted supply chains are now anticipated to face further increase in costs and delays. The culmination of these events and the ongoing threat of increased inflation influenced market sentiment negatively.

Strategy performance

The BNZ Private Bank International Fixed Interest Strategy, which invests in the PWS International Fixed Interest Fund, returned -5.9%, underperforming the Global Aggregate benchmark by 1.1%.

Over the quarter, the Fund underperformed its benchmark. The Fund was overweight in investment grade credit and underweight in government bonds. This detracted from Fund performance as government bonds outperformed credit over the quarter. The Fund's duration was higher than that of the benchmark. This means that it was positioned to be more sensitive (i.e. move up and down) to changes in interest rates.

Market outlook

The Federal Reserve took its first steps towards normalising monetary policy in March 2022 by raising interest rates. Most major central banks now seem to be entering an imminent rate hike cycle. Markets have reacted to this, as reflected in the sharp rise in bond yields over the quarter. The question is no longer if central banks will raise rates, but when and by how much. With global inflation soaring to multi-year highs in most developed countries and inflationary pressures continuing to build due to strained and disrupted supply chains, further bond price volatility in the coming months is expected.

International Equities

Market commentary

The International equities benchmark returned -5.7% over the quarter.

Global economies faced an uncertain time during the quarter. In particular with the geopolitical risk stemming from Russia's invasion of Ukraine. This resulted in sanctions against Russia such as banning of Russian oil imports freezing of Russian financial assets. The invasion has magnified existing concerns over inflationary pressures, particularly through the increase in prices of commodities such as food and energy.

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International equities markets declined in the first quarter of 2022 making for a tumultuous start to the year. The two primary catalysts for the volatility in the markets have been the expectation that global central banks will increase interest rates faster than expected, and the Russian invasion of Ukraine in the latter part of February. The energy sector posted positive returns driven by higher oil and gas prices. Markets were spooked as already disrupted supply chains and now anticipate a further increase in costs and delays. The culmination of these events and the ongoing threat of increased inflation influenced market sentiment negatively.

Strategy performance

Over the quarter, the BNZ Private Bank International Equity Strategy which invests in the Private Wealth Series International Equity Fund, returned -7.3%, underperforming the benchmark by 1.7%.

Over the quarter, the Fund underperformed its benchmark. All of the strategy's underlying managers generated negative returns in absolute terms over the review period. Similarly, on a relative basis, all managers, except Altrinsic (value manager) underperformed the benchmark. At a geographical level, stock selection in North America detracted most value. At a sector level, an underweight allocation to energy detracted the most value for benchmark relative returns. As did stock selection in consumer staples, industrials and materials.

Market outlook

The outlook for markets remains cautiously optimistic for the long term, despite the recent spike in volatility. After recovering from the initial shock of the event, markets appear to be less focused on the Russian invasion of Ukraine. The key concern for the global investment markets at the moment is the overall macroeconomic outlook.

Inflation remains high across the world, making it hard for markets to ignore. Uncertainty about the extent and impact of interest rate increases are causing heightened uncertainty for financial markets. This may lead to a higher level of volatility in returns.

Asset allocation

The table below compares your current portfolio (as at 31 March 2022) against the target investment mix for the Balanced strategy.

Asset class	Current portfolio		Target investment mix		Variance[1]	
	$	%	$	%	$	%
NZ cash	$1,316,797.74	6.10%	$1,079,402.36	5%	$237,395.38	1.10%
NZ fixed interest	$2,140,245.01	9.91%	$1,942,924.25	9%	$197,320.76	0.91%
Australasian equities	$4,228,613.91	19.59%	$4,317,609.44	20%	-$88,995.53	-0.41%
International fixed interest	$5,592,107.36	25.90%	$5,612,892.27	26%	-$20,784.91	-0.10%
International equities	$8,310,283.17	38.49%	$8,635,218.88	40%	-$324,935.71	-1.51%
Total	**$21,588,047.19**	**100.00%**	**$21,588,047.19**	**100%**		

[1]Variances from the target investment mix are due to active asset allocation and fluctuations in value within the allowable investment limits for the strategy.

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