# MARKET INSIGHTS

June 2022 Quarter

## A TURBULENT JOURNEY, BUT A BETTER DESTINATION

**Ashley Gardyne, Chief Investment Officer**

*The first half of 2022 has been tough for investors in almost all asset classes. But, while the recent journey in markets has been painful, the destination is shaping up to be much more attractive.*

So far in 2022, we've seen global share markets drop 21%[1], typically resilient government bonds have fallen 15%[2], house prices are falling, and talk of a potential recession has escalated. This is now one of the worst ever starts to a year for equity markets, and the worst start on record for bond markets. With equity and bond markets falling in tandem, there has been nowhere to hide from the downside.

### We're working in a vastly different investment environment

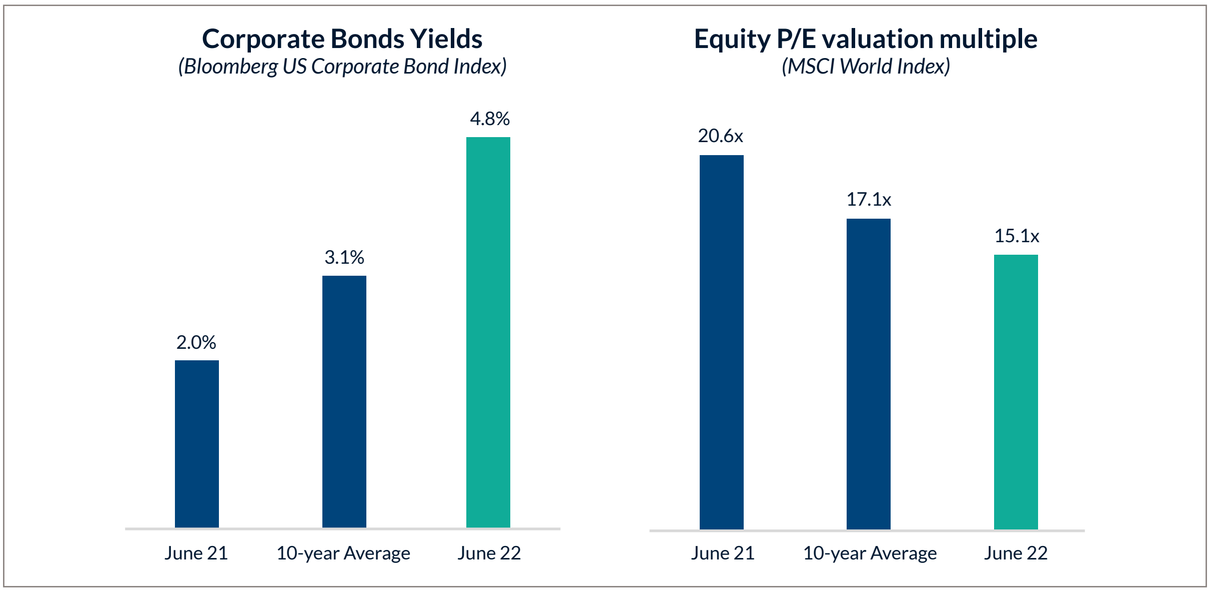
The economic landscape has changed drastically over the last 12 months. This time last year, New Zealand's inflation rate was running at 3.3%, the Reserve Bank hadn't started hiking interest rates, and global central banks were still describing inflation as transitory.

Fast forward to today, and inflation is running at 6.9% (the highest rate in 40 years), a war is raging in Europe, and central banks around the globe are hiking interest rates aggressively to head off inflation. Rapid interest rate hikes and the prospect of skyrocketing mortgage costs have also spurred recession concerns.

Financial markets have swung aggressively to reflect this new economic backdrop, and the investment outlook is very different from a year ago. Interest rates have more than doubled over the last year. As an example, the running yield on the Fisher Institutional New Zealand Fixed Interest Fund has risen from approximately 1.8% a year ago to 4.2% today. Where bond yields were once unlikely to outstrip inflation, investors can now expect to earn a significant premium over medium-term inflation.

Equity valuations have also decreased materially. A year ago, global equity market valuations were trading well above long-term averages. Today, they trade at a discount. We believe a few great businesses will deliver attractive long-term returns from today's depressed valuation levels.

[1] MSCI World Index
[2] Bloomberg Global Aggregate Treasuries Index




Source: Bloomberg

## Tail risks exist, but some of them are already priced

While a lot of risks still abound in the market, recent declines mean some risks are already reflected in market prices. The twelve US recessions since World War II resulted in a median decline of 24% for the S&P 500. A mild recession this year or next may only mean another 10-15% downside. On the other hand, if we avoid a recession and inflation slows, then markets are likely to be materially higher in a year's time.

Historically, in the twelve months after entering a bear market in the US, the S&P 500 has delivered a median positive return of 24% (and markets have gone up two-thirds of the time). This kind of positive return is no guarantee, but history suggests the odds are in investors' favour.

## Current investment opportunities are much more attractive

We like the investment opportunity set we're currently facing. We're using present volatility to gradually reposition client portfolios and capitalise on the great investments our team is finding. We can't guarantee this will result in gains over the next three or six months. But, over the long term, we're confident that our portfolios will deliver good outcomes for clients.

We believe that, ultimately, investors who hold tight through the turbulence will be rewarded.

Ashley Gardyne, **Chief Investment Officer**

NEW ZEALAND EQUITIES

Sam Dickie, Senior Portfolio Manager

# A stark divide between share prices and underlying earnings

*Stock prices have fallen sharply, but the real-time earnings picture for most of our portfolio companies continues to hold up well.*

As always, the market is forward-looking, but share prices seem to be factoring a fairly severe economic slowdown which we may not see. The onus is shifting to the bears to prove that a recession is imminent or already here – and, importantly, to prove that there are sharp corporate earnings cuts to come.

Whilst we expect some of the companies in our portfolios to experience earnings downgrades as economic growth slows, the yawning gap between share prices and underlying earnings expectations means a sharp slowdown is already at least partially reflected in share prices.

## Portfolio update – scant signs of a growth slowdown in corporate earnings so far

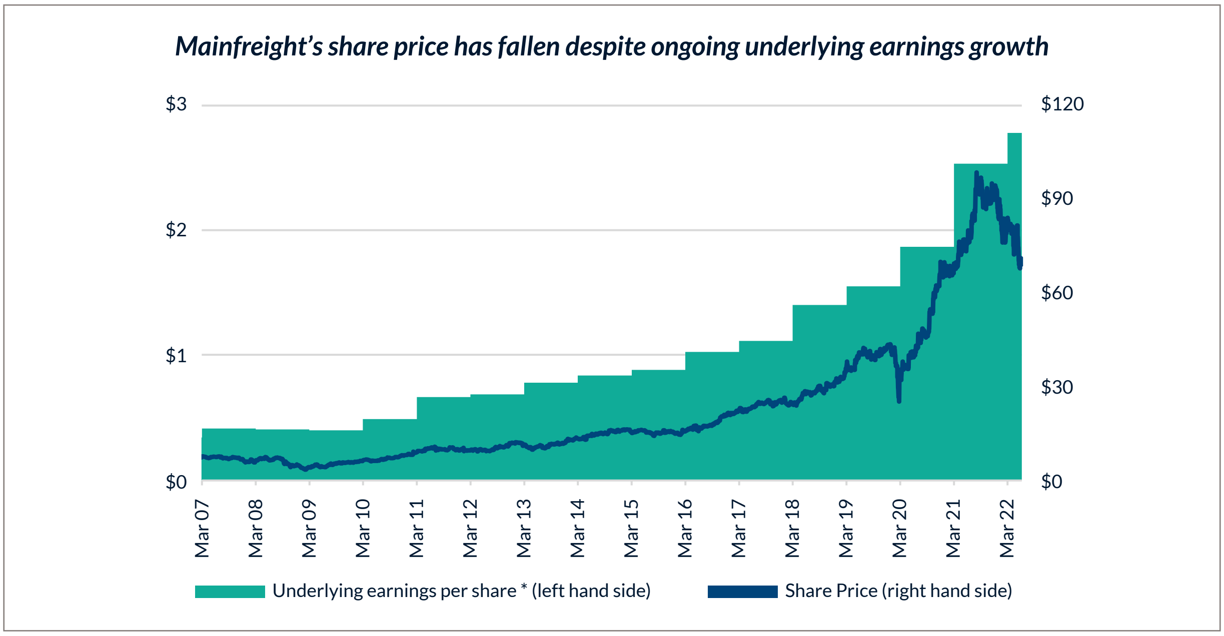
We're seeing signals across our portfolio that buck the slowdown trend. Here's how things are tracking across Mainfreight, Summerset, Xero, and Fisher and Paykel Healthcare.

Mainfreight shares fell during the quarter as concerns about a global economic slowdown overshadowed the strong result it announced at the end of May. The company is winning new customers on its superior service proposition and gaining business from existing customers in new regions.

Mainfreight beat market earnings expectations, noting at the time of the result that year-on-year growth continued into April and May.

We think the share price fall to recent levels is now more reflective of a significant slowdown. It remains to be seen whether a slowdown that justifies this pessimism will actually materialise.

We know that Mainfreight's investment in the network and inbound enquiries from prospective customers currently bode well. Looking back in time, our analysis shows that, aside from the Global Financial Crisis (GFC), Mainfreight's own execution has had more influence on its performance than the economic climate. Even during the GFC, the New Zealand business was able to protect profits with adept cost management.




* Underlying earnings normalises for the currently elevated Air & Ocean (A&O) earnings in the 2022 financial year and first half of the 2023 financial year. A&O earnings may reduce as ocean freight rates subside from elevated levels.

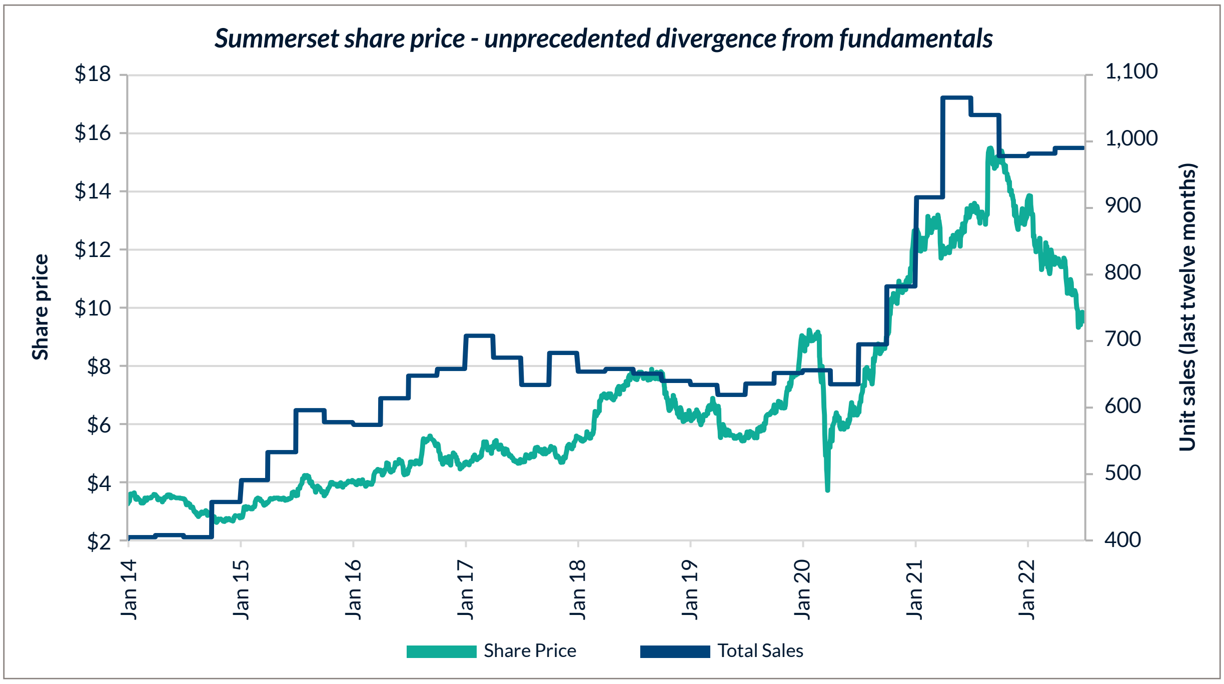
Summerset has significantly underperformed the New Zealand market index year to date as investors are concerned about the local housing market, where the median house price is now 9% below the November peak.

The price buffer between retirement village units and local houses will help offset the impact from a softer housing market. Retirement village units are typically priced at a discount to local house prices. For example, in Auckland, 2-bedroom retirement units are 30% below local house prices. That gives operators scope to increase prices in a falling housing market. We saw this during the GFC, when Ryman increased unit prices 4% on average while national house prices declined 7%.

The divergence between Summerset's share price and its performance is particularly stark. Negative sentiment has punished Summerset's valuation, with the price-to-book ratio below 1.00 – its lowest ever. This is despite Summerset seeing a surge in demand, with sales increasing 25% in 2021. The March 2022 quarter was its second-best ever, even as Omicron peaked in New Zealand. Demand is supported by the "safe haven" status retirement villages attained through the pandemic, as operators are well-versed in disease control and prevented widespread outbreaks.

Longer-term, Summerset's growth is underpinned by an ageing population. New Zealand's population of over 75-year-olds is forecast to increase by 40% over the next decade – four-times the rate of overall population growth. Ryman and Summerset's "continuum of care" retirement village model is best placed to support the healthcare and accommodation needs of the growing elderly population.

While the deteriorating housing market presents a challenge to earnings, this is more than accounted for in the price. We feel Summerset offers compelling value, supported by a long runway for growth and excellent execution.

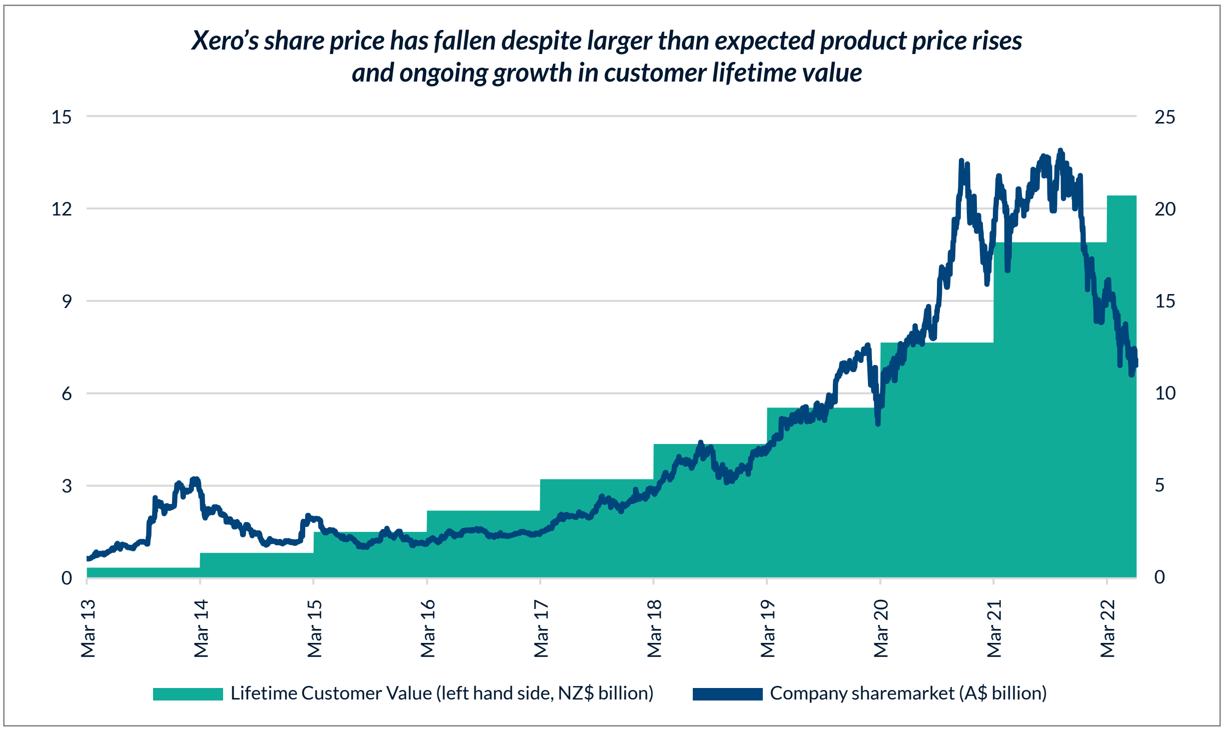



Xero's share price fell during the quarter. This came despite the business beating revenue growth expectations in its 2022 financial year result, and announcing higher price increases than anticipated in its more mature markets of New Zealand, Australia, and the UK. Most of the price increases are in the order of high single digits, around 7-9%, although some are higher.

This result confirms our view that Xero has significant pricing power. The company has continued to reinvest in new functionality for its product and deliver value for money to customers. Xero also enjoys low (and falling) customer churn in these markets, which reflects its importance as a productivity tool. Churn for the Australia and New Zealand segment has fallen from 0.84% in the 2020 financial year to 0.66% in 2022.

The price increases appear to have fallen on deaf ears, given they did little to buoy the share price. However, we think this is more evidence that the company's moat in these markets is wide and expanding, and in conjunction with subscriber growth, Xero can continue to grow revenue strongly.

Product pricing and churn are key factors driving Xero's lifetime customer value, which measures the gross profit dollars current subscribers are expected to generate over their lifetime. After the recent fall in share price, the divergence between Xero's market capitalisation (the combined value of all its shares) and lifetime customer value is stark, highlighting the increased value on offer at current prices.




Lifetime value post March 2022 adjusts for estimated subscribers at 30 June 2022 and applies average recent price increase

Fisher & Paykel Healthcare finished the 2022 financial year below expectations, which weighed on its share price performance.

At its Investor Day, the company announced surprise new products which strengthen its longer-term growth runway. Two of these products, Switch and Trace, allow anaesthesiologists to make better use of its Optiflow high flow nasal oxygen system in this large and underpenetrated market.

The anaesthesia opportunity is estimated to be 50 million patients per year, and a $5 billion annual sales potential. This is the same size as Fisher and Paykel Healthcare's hospital respiratory support segment, which has reached around $1 billion sales annually (and growing). The company spends over $150m annually on research and development to continue its long-term growth trajectory.

However, the market seemed to focus short-sightedly on softer sales in the wake of COVID. We're excited that others in the market have given this little attention. Of course, the opportunity to have hospitals fully utilise the large equipment base deployed through COVID remains a high priority, and the company is bolstering its sales force to drive greater usage. We increased our position size during the quarter.

fisher funds

# AUSTRALIAN EQUITIES

Robbie Urquhart, Senior Portfolio Manager

## Long-term opportunities abound amidst near-term uncertainty

*Near-term concerns have resulted in a tough Q2 for share markets, but some companies are better placed to weather the storm than others. As patient, long-term investors, we have sought to take advantage of the opportunities this environment presents us.*

The fall in global share markets intensified in Q2 of 2022. Inflation concerns were once again a key factor in this sell-off, which led the Reserve Bank of Australia (RBA) to further tighten its monetary policy. The RBA increased interest rates by 0.5% in early June, and more increases are on the way. Interest rates propelled the 10-year Australian Government bond rate to a high of 4.2% in June (from 2.8% in March).

This precipitated a sharp sell-off in share prices. Investors feared that the increase in interest rates would crimp economic growth, potentially leading to an economic recession. Even the mining companies, which buoyed the Australian share market in Q1, weren't spared: falling commodity prices drove the materials sector down 16% in Q2.

Our investments in fast growing software providers Fineos (-38.6% in A$), Wisetech (-25.9%), and new portfolio addition Xero (-25.1%) were also hit hard by these sharply rising interest rates.

These businesses are performing adequately. The interest rate movement was a key driver of their share price performance. Because these are fast growing businesses, most of their cash flows will be realised years into the future. Rising interest rates have an amplified effect on the discounted value of these longer-dated cash flows.

Financials caught the recessionary flu too, with ANZ (-18%), Macquarie (-17.5%), Westpac (-17.5%), CBA (-14.6%), and NAB (-13.3%) falling sharply – despite delivering credible earnings results in the period. Macquarie, for example, posted an all-time high profit when it released its full year results in May.

There were few places for investors to hide this quarter. But despite all this pessimism, we are seeing signs that reinforce our optimistic view of the medium-term future.

### Positioning the portfolio to spring back strongly when markets recover

We're in the midst of a broad-based bear market in equities. However, our portfolio companies are well-placed to weather this storm and emerge stronger out the other side. The broad-based nature of this sell-off is also presenting attractive investment opportunities.

We've been re-positioning our investments, and we think our portfolio is well-placed for a strong rebound when the bear market ends.

We've sold down some of our more fairly-priced stocks, such as Sonic Healthcare and the Australian banks. And we've added to some of our other existing positions and some new companies at attractive prices. We wrote about Xero and Cochlear in Q1, and we're excited to tell you about James Hardie later in this article.

## Great investment opportunities are presenting themselves – for patient investors

Share markets tend to be forward-looking. The broad sell-off in share prices that we are observing today reflects the expectation that hard economic times lie ahead. The market is applying this assessment to all companies.

But the reality is that not all companies will be affected in the same way by these economic woes – and herein lies the opportunity for active investors like us.

For example, companies providing essential products or services are likely to be less impacted than those selling discretionary or "nice-to-have" products. And if these companies also have strong, durable, competitive positions in their industries – all the better. This means they will be able to lift prices and combat the ravages of inflation.

## The market is recognising the resilient value of companies like CSL and Brambles

Encouragingly, we've seen early signs in Q2 that the market is starting to appreciate these differences between businesses.

Our largest shareholding, in plasma products manufacturer CSL, is a case in point. During Q2, CSL's plasma collection (impacted during COVID) showed signs of improving. Demand for CSL's products – which are critical to treating conditions such as haemophilia – remains robust, regardless of the economic environment. Its outlook is sound.

The market recognised this distinction in June, and CSL rose +0.3% over Q2, strongly outperforming the ASX 200.

Another example is Brambles (+8.1% in Q2), the global leader in providing pallets for transporting goods around the world. In a trading update, Brambles noted that it was increasing prices and applying transport surcharges for its customers to offset rising costs. It has consequently upgraded its profitability guidance for the year.

As the largest pooling pallet provider globally, Brambles has the scale (and economic muscle) to enforce these terms on its customers and protect its profits. The market rewarded this competitive position during Q2.

## We're looking for long-term value where the market sees near-term uncertainty

As an investment team, we've been scouring through listed companies we think are high quality, and whose share prices have been unduly punished in this environment. We're identifying businesses whose potential over the next 3-5 years is being underestimated by the market because of its focus on near-term uncertainty.

As long-term focused investors, we can take advantage of this short-term pessimism, and be rewarded for our patience.

Given our portfolio is comprised of good quality businesses, we have unsurprisingly found a number of these opportunities within our existing portfolio companies. Over the last six months, we've added to the likes of AUB Group, Domino's Pizza, Credit Corp, oOH!media, REA Group, and CSL.

We added two new companies to the portfolio that we wrote about in Q1, Xero and Cochlear, and in June we were delighted to add a third: fibre cement manufacturer James Hardie.

## James Hardie – A high quality business on sale

James Hardie is the global leading manufacturer of fibre cement planks, which are used to clad the outside of timber-framed homes. It invented the fibre cement product in the 1980s and took this technology to the US. Today, fibre cement makes up 20% of the cladding market in America, and James Hardie has a whopping 90% share of this category. It also dominates in Australia.

James Hardie benefits from the size and scale of its manufacturing facilities. And its growth runway is long: fibre cement is likely to continue displacing other siding materials – notably vinyl – for years to come.

James Hardie has been on our investment radar for a long time. By June, its share price had fallen over 40% since the start of the year, following fears that rising interest rates in the US would lead to a recession and downturn in the housing market.

We used this opportunity to add James Hardie to our portfolio. Its near-term earnings are likely to be impacted by the more challenging outlook. This may weigh on its share price for a while yet. But looking out 3, 5, 7 years from now, we expect its earnings to grow strongly, and we think we'll be rewarded over that longer-term time frame for buying shares today.

# SELECT INTERNATIONAL EQUITIES

Ashley Gardyne, Senior Portfolio Manager

## Throwing the baby out with the bathwater

*This was another tough quarter for international equity markets, as the focus shifted from high inflation to the Federal Reserve rate hikes potentially tipping the economy into a recession.*

### Global market backdrop not favourable for equities

As the US Federal Reserve tries to tame persistently high inflation, recessionary fears have risen. Economists now predict a 33% chance of recession in the next 12 months, up from 15% in March. While we can question the track-record of economists' forecasts, the US Federal Reserve has clearly stated the only tool they have to lower inflation is to dampen demand and slow economic growth.

This is not a favourable backdrop for equities. This quarter saw the S&P 500 Index enter a bear market (being a 20% decline). The more tech-heavy Nasdaq achieved this sorry milestone back in March.

Underneath these headline numbers is a pronounced rotation out of growth stocks into value stocks. In particular, investors favoured energy and defensives (lower-growth but more stable industries like utilities or consumer staples) as they seek refuge from the twin concerns of inflation and a recession.

### Many stocks correct following post-COVID madness

The speed and severity of this stock shift has been extreme. The 24% underperformance of growth versus value in the last seven months is at levels last seen in the 2000 tech sell-off. And, like the tech-bubble, speculative companies with unsustainable business models rose to ridiculous valuations post COVID, supported by the US Federal Reserve and government stimulus. Once the tide of easy money went out, these business models were found wanting, and these stocks are down 70%, 80%, or even 90% (justifiably in our view).

Like Pets.com in 2000, Peloton may be the poster child of this post-COVID madness. Described by some as 'an iPad on a bike,' Peleton's share price increased eight-fold during 2020 to a market cap of nearly $50 billion. It has now fallen 95%.

Or take Nikola, an electric truck manufacturer, which reached a market cap of $28 billion despite not producing a single vehicle. It is now worth $2 billion.

### Putting feelings over facts leads to haphazard selloffs

As we often see in periods of macroeconomic concerns, equity markets are driven more by sentiment than fundamentals. Investors are unwilling to look long term and instead look for a quick fix. These selloffs are usually indiscriminate. In the scramble to minimise losses, companies are sold off regardless of longer-term fundamentals. High-quality, established, and profitable companies have been 'thrown out with the bathwater' alongside their more speculative counterparts.

Take Affirm, which like Afterpay was one of more than 100 'buy-now-pay-later' companies that took off in recent years. This is a competitive space, barriers to entry are low, and these companies are all loss-making. At its peak, Affirm was worth nearly $50 billion, despite only processing $12 billion of transactions in 2021. It has since fallen by 90%.

Compare that to our portfolio holding PayPal. This is the leading e-commerce payment platform, processing over $1.2 trillion of transactions last year and growing, with 20% profit margins. That is 100 times the transaction volumes of Affirm. Yet at the market peak last year, PayPal's valuation was only 7 times higher. With PayPal's stock now down 70% to $80 billion, we spy a large disconnect between near-term sentiment and the underlying fundamentals of this business.

## Growth stocks poised for a comeback

This market myopia is evident across our portfolio. Companies like Meta or Floor & Décor are pricing in little-to-no future growth. These are both high-quality names with proven business models and robust growth runways, yet the market has treated them like speculative tech start-ups. History shows that periods of extreme negative sentiment have typically led to strong future returns, and sentiment on quality growth companies is currently as negative as we have ever seen.

Near-term, the risk of a recession is a real concern. But looking further out, many opportunities exist for the patient and long-term investor. We believe our portfolio is well-positioned to deliver strong returns.

*Chinese tech firms on the rise, with US support*
Alibaba (+16.8%) and Tencent (+6.2%) rose alongside other Chinese tech names. While the US economy decelerates, the opposite is occurring in China. The economy is improving as the country moves past recent COVID lockdowns, coupled with supportive fiscal and monetary policy. The Chinese government has also slowed the pace of regulatory reform, instead publicly supporting China's tech industry. With a more supportive economic and regulatory backdrop, we expect sentiment to continue to improve and align with the long-term fundamentals of these names.

*American discount stores benefit from close-to-home shopping*
Dollar General (+23.6%) and Dollar Tree (+8.8%) benefited from investors shifting to defensive stocks in fear of a recession, plus strong performance despite the worsening consumer and inflationary backdrop. Historically, these two companies have benefitted from a recession. In the GFC, sales growth for similar stores accelerated as consumers traded down and shopped closer to home. We are seeing this repeat.

*Streaming giant yet to capture its full value*
Netflix (-47.8%) was our worst performer for the quarter. We added Netflix to the portfolio earlier this year, as concerns around increasing competition and slowing growth saw the share price halve. Our thesis is that the unmatched scale of Netflix's content is a competitive advantage. New initiatives – like advertising and minimising password sharing – should help the company capture the full value of its content over the longer term. Right now, the company continues to face pressure on subscriber growth, which we believe the market is unfairly extrapolating out to the future.

## Portfolio activity – freeing up capital to add new names

Keeping a possible recession in mind, we've been taking advantage of the negative sentiment towards quality growth stocks. We added three new names to the portfolio last quarter, and this quarter we added Amazon, PayPal and Salesforce.

We funded these additions by exiting Hexcel, a leading manufacturer of composite components for aircraft. With the onset of COVID, Hexcel was the hardest-hit company in our portfolio. Following recent strong relative performance, we think the risk/reward is now less attractive than other names in our portfolio. We have reallocated capital accordingly.

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# NEW ZEALAND
# CASH AND FIXED INTEREST

**David McLeish, Senior Portfolio Manager**

## Opportunity knocks

*Fixed interest markets remained under pressure this quarter as inflation remains high. But with bond yields at close to decade highs, and growing signs that inflation may be peaking, the return outlook for cash and fixed interest assets is looking increasingly bright.*

### This historic sell-off sets the asset class up for a brighter future

This quarter marks the two-year anniversary since the beginning of what has been a historic sell-off in interest rate sensitive assets. But, as painful as this period has been for us all, sharply lower prices bring higher yields, plus a vastly improved return outlook.

The yield on the Fisher Institutional New Zealand Fixed Interest Fund surpassed 4% and the Fisher Institutional New Zealand Cash Fund reached 2.5% at quarter-end. Both are nine-year highs.

### The signs are that global inflationary pressures are finally peaking

The level of yields alone makes us optimistic about the return outlook for the asset class. But we are also seeing encouraging signs that global inflation pressures might now be easing. In our opinion this is likely to provide a big boost to sentiment across interest rate sensitive assets.

Freight networks across key transit routes are unclogging, commodity prices are falling, and inventory levels across numerous durable goods categories are recovering. At the same time, high interest rates are lowering house prices and energy markets are showing signs of stabilisation.

While it is still early days in some respects, we are encouraged by this widespread improvement. Provided this trend is maintained, this is likely to bring inflation down towards the top end of central bank target bands (roughly 3%) in quite short order.

We think this would result in central banks delivering significantly less interest rate hikes than are currently priced into fixed interest markets.

### Sharply higher interest rates and inflation have brought a possible recession into focus

A dramatic increase in the cost of living brought about by a potent cocktail of aggressive monetary tightening and sharply higher goods and services prices has recently raised the spectre of a global recession. While this is not our base case, because we think an alleviation in the cost of living lies ahead, the risks are extremely elevated right now.

This growing risk of recession has caused domestic corporate bonds to underperform as credit spreads have widened. While domestic credit spreads are still not particularly attractive relative to offshore or history, our moderate growth outlook for New Zealand continues to justify a small overweight to high-grade non-government bonds at present.

## The probabilities of interest rate outcomes remain skewed to the downside

We continue to position both portfolios overweight duration, with a skew towards shorter-dated assets given the excessively high pricing for the path of the Official Cash Rate (OCR) over the next year. The market continues to price a near 4% OCR by year end and for that rate to be maintained throughout 2023. While we believe the average OCR over the next 18 months is more likely to be in the low-mid 3% range.

# PROPERTY AND INFRASTRUCTURE

Sam Dickie, Senior Portfolio Manager

## Defensive growth focus continues to serve the Fund well

*Our focus on downside protection and organic growth allows the Fund to participate in buoyant markets while avoiding the worst impacts of drawdowns.*

Our Property & Infrastructure Fund continues to be a useful diversifier. The Fund finished the quarter down -6.5%, performing broadly in line with its benchmark index -6.6%. As a reminder, we‘re primarily focused on growth infrastructure and growth property. So we seek out companies that have both resilient earnings and attractive earnings growth (we typically look for 10% or more).

### Defensive growth – protected from the downside, participating in the upside

US cellular towers are a great example of defensive growth stocks. The companies have a steady earnings stream, driven by fixed price rises. And competition is limited, as the resource consent needed to build more cellular towers is a major hurdle. This provides downside protection.

Growth in the sector is driven by our insatiable demand for data. US data demand is currently growing at around 25% annually. And it's expected to continue to grow around this rate for several years, given the advent of 5G and high-speed data applications, like autonomous vehicles and the Internet of Things.

This defensive growth has helped our Fund participate in most of the upside when markets are buoyant, while historically outperforming in drawdowns.

### Portfolio update – a combination of underappreciated quality and value discovery

American Tower's share price performed relatively well in a tough quarter for property and infrastructure equities. The company had been an unjustified underperformer earlier in the year, with investors who were overly focused on how it would fund its CoreSite acquisition discounting the shares. This gave us the opportunity to increase our position earlier in the year, and at relatively attractive prices.

American Tower attracted strong interest from private partners to help part-fund the CoreSite acquisition. In June, the company was able to conclude its financing by raising only US$2.4 billion of equity, versus the US$5-5.5 billion some had feared.

Now, investor focus has returned to the business's organic growth outlook, which is resilient against an uncertain economic backdrop. Growth rates remain intact – and accelerating in some areas – given inflation-linked escalators in American Tower's South American, European, and African businesses, and as its customers' growing 5G networks require more equipment to be installed.

Goodman Group saw share price weakness continue during the quarter for two main reasons.

Firstly, there have been concerns that logistics property has been impacted by overinvestment. Amazon, for example, is giving back space it leased in the last couple of years. The space was not owned by Goodman, but was lower grade space taken on short lease terms to ensure Amazon did not run out during an unprecedented uplift in e-commerce activity.

In contrast, the facilities Goodman has been developing for Amazon (and others) are typically specialised, modern logistics facilities in central locations on long 15-year leases. They often have hundreds of millions of dollars of automation inside. Demand remains for this sort of new development project, which is Goodman's specialty, as customers seek more efficient sites and lower transport costs.

The second reason for Goodman's share price weakness is investor concern that, as an asset manager, the company will be negatively impacted by property valuations falling. This would reduce assets under management and therefore management fees.

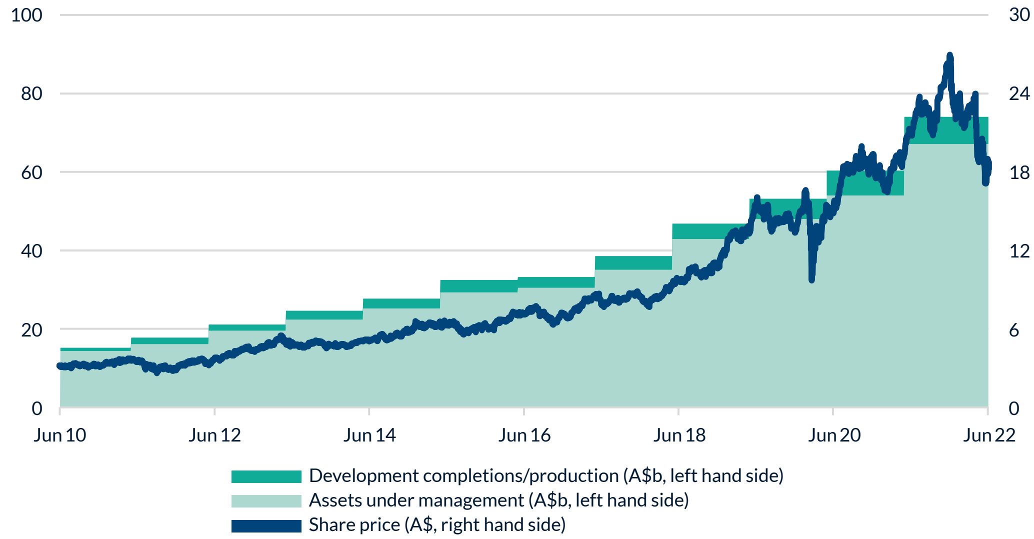
Goodman's assets under management are indeed influenced by the interest rate impact on property valuations, but also development activity and rental growth. The business will not be immune from likely downward pressure on property valuations as the cost of capital follows interest rates higher.

However, rent growth in prime grade logistics is likely to offset this more than other sectors that have more structural demand challenges (such as shopping malls and offices). Like-for-like rent growth shifted higher to +3.7% in the March quarter, from +3.4% in December.

Goodman has continued to grow its development pipeline to around A$13 billion, which is around two years' worth of work. The long-term structural trend for increasing e-commerce remains intact, with most key markets seeing online shopping penetration rates continue to rise. This means we expect development activity to continue at attractive levels, which drives growth in assets under management.

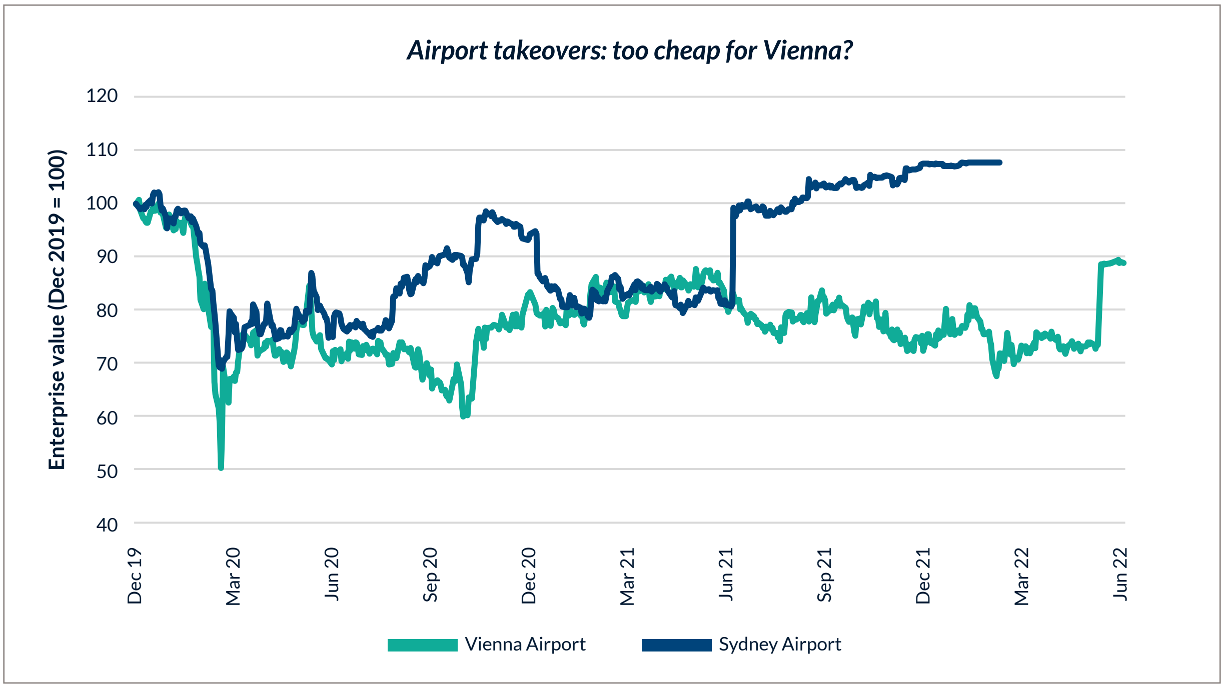
Goodman increased its FY22 earnings guidance during the quarter.

***Goodman Group's share price ascent has been underpinned by its development driven growth in assets under management***



Vienna Airport upgraded its earnings guidance for 2022 during the quarter, due to better-than-expected passenger recovery. Traffic in May was 74% of 2019 levels. It now expects 2022 traffic to reach 69% of 2019 levels, well above the 54% management expected at the start of the year.

IFM Investors owns 40% of Vienna Airport and have made an offer to buy shares to increase its shareholding at a premium to the prevailing share price (but is not looking to take full control of the business). IFM was part of the consortium that recently acquired Sydney Airport. The final deal valued Sydney Airport at a level equivalent to 108% of what it was on 31 December 2019 – prior to COVID. For Vienna Airport, the comparable figure under IFM's offer is 89%, which highlights the attractive value upside for the company.



# MARKET MOVEMENTS

## As at 30 June 2022

| Stock Markets* | Closing Values | Changes over: 3 Mths % | 6 Mths % | 12 Mths % |
|---|---|---|---|---|
| S&P Global LargeMidCap ($NZ) | N/A | -5.5 | -12.0 | -5.2 |
| USA - S & P 500 | 7993 | -16.1 | -20.0 | -10.6 |
| USA - Nasdaq | 13206 | -22.3 | -29.2 | -23.4 |
| Japan - Topix | 3027 | -3.7 | -4.8 | -1.4 |
| UK - FTSE100 | 7243 | -3.7 | -1.0 | 5.8 |
| Germany - DAX | 12784 | -11.3 | -19.5 | -17.7 |
| France - CAC40 | 17304 | -8.9 | -15.0 | -6.2 |
| HK - Hang Seng | 68333 | 0.9 | -4.8 | -21.9 |
| Australia - S & P 200 | 77569 | -11.9 | -9.9 | -6.5 |
| NZ-S&P/NZX 50 Gross Index (inc imp credits) | 13436 | -10.2 | -16.3 | -13.5 |
| Market Volatility - VIX | 28.7 | 39.6 | 66.7 | 81.4 |

| Property | | % | % | % |
|---|---|---|---|---|
| S&P/NZX All Real Estate (inc imp credits) | 1696.6 | -12.2 | -17.6 | -13.2 |
| S&P Global Infrastructure Index (70% Hedged NZD) | 6570.4 | -3.6 | 3.4 | 11.3 |

| Ten Year Bonds | % | Yield Changes | | |
|---|---|---|---|---|
| USA | 2.98 | 0.66 | 1.46 | 1.53 |
| Japan | 0.22 | 0.01 | 0.16 | 0.16 |
| United Kingdom | 2.31 | 0.67 | 1.34 | 1.59 |
| Australia | 3.66 | 0.83 | 1.99 | 2.13 |
| New Zealand | 3.86 | 0.64 | 1.47 | 2.10 |

| 90-Day Interest Rates | % | Yield Changes | | |
|---|---|---|---|---|
| USA | 1.72 | 1.20 | 1.66 | 1.67 |
| Japan | 0.07 | 0.00 | 0.00 | 0.01 |
| United Kingdom | 1.67 | 0.63 | 1.41 | 1.59 |
| Australia | 1.84 | 1.63 | 1.77 | 1.81 |
| New Zealand | 2.86 | 1.25 | 1.89 | 2.51 |

| Bond Indices | Closing Values | Changes over: 3 Mths % | 6 Mths % | 12 Mths % |
|---|---|---|---|---|
| S&P/NZX Bank Bills 90-Day | 741.36 | 0.37 | 0.58 | 0.82 |
| Bloomberg Global Aggregate Index (Hedged NZD) | N/A | -4.48 | -9.10 | -8.85 |
| Bloomberg NZBond Infl 0+ Yr Index | 5310.78 | -6.40 | -10.15 | -6.48 |
| Bloomberg NZBond Composite 0+ Yr Index | 1469.15 | -2.37 | -5.90 | -8.58 |

| Hedge Funds & Commodities | | % | % | % |
|---|---|---|---|---|
| HFRX Global Hedge Fund Index (USD) | 1359 | -3.7 | -5.0 | -5.1 |
| DJ-UBS Commodity Index Total Return | 251 | -5.7 | 18.4 | 24.3 |
| Gold (US$/ounce) | 1804.10 | -7.4 | -1.3 | 1.9 |
| Oil (US$/barrel) | 114.81 | 7.0 | 48.6 | 49.2 |

| Currencies | | % | % | % |
|---|---|---|---|---|
| NZD / USD | 0.6218 | -10.6 | -9.2 | -11.0 |
| NZD / EUR | 0.5947 | -4.9 | -1.2 | 0.9 |
| NZD / GBP | 0.5120 | -3.1 | 1.3 | 1.2 |
| NZD / AUD | 0.9042 | -2.4 | -4.0 | -2.9 |
| NZD / YEN | 84.47 | 0.1 | 7.1 | 8.9 |
| Trade Weighted Index | 70.34 | -5.9 | -3.9 | -4.6 |

**Total Return Indices. Indices are net of offshore tax.*
*Source: Thomson Reuters Datastream*



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