MARKET INSIGHTS

September 2022 Quarter

GRAVITY RETURNS TO FINANCIAL MARKETS, PRODUCING A TOUGH YEAR FOR INVESTORS

Ashley Gardyne, Chief Investment Officer

Interest rates work like gravity in financial markets. With rising interest rates creating a downward force, the next 10 years may be a harder slog than the last 10. But, while the going may be tough, we believe the rewards will be worth it for patient investors.

A difficult year on a historical scale

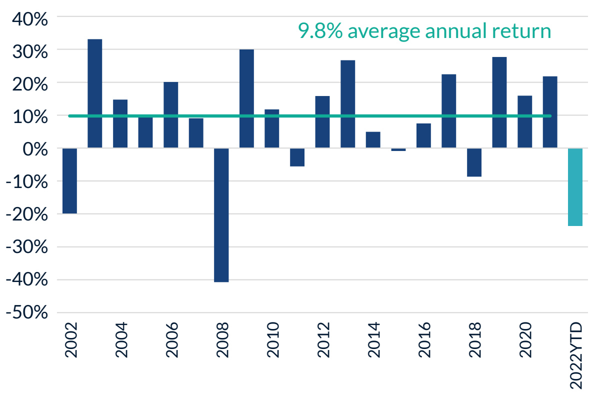
At the three-quarter mark, this year has already been tough in financial markets. 2022 reminds me much more of 2012 and the drawn-out European debt crisis than 2020, when markets recovered quickly from the COVID induced sell-off. No asset class has been immune this year. Global share markets are down over 20%. Typically resilient bond markets are also down 20%[1], the biggest drop on record. Even gold, often seen as a safe haven, is down 11%.

This year's turbulence has been driven by soaring inflation, rising interest rates, and the risk of recession. It comes after a decade of low inflation and falling interest rates that provided a goldilocks period for investors – not too hot and not too cold.

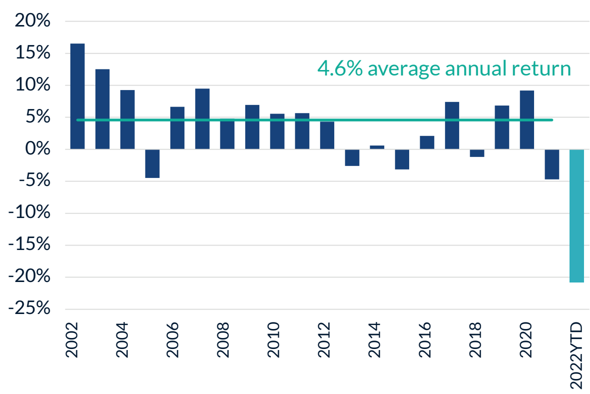
2022 is a stark reminder that risk and return are always tied at the hip. The price investors pay for higher long-term returns is uncertainty and short-term volatility: you have to earn your return.

2022 has been very turbulent in historical terms for both equities and bonds

Equities - MSCI World Index annual returns



Bonds - Bloomberg Global Aggregate returns



[1] As measured by the Bloomberg Global Aggregate Index

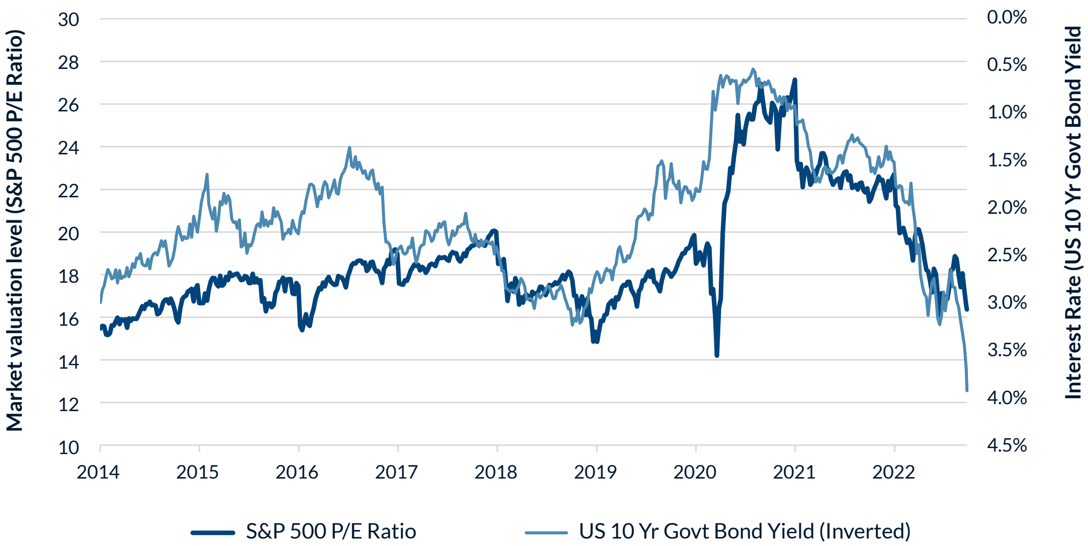
Interest rates provide a gravitational force that anchors asset prices

Warren Buffett once said that 'Interest rates are to asset prices what gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices.'

The same logic works in reverse: as interest rates have increased rapidly in recent months, so has the downwards force being applied to asset prices. Years of low and declining interest rates made share prices soar. Not only did companies grow earnings and pay dividends to investors, but they also saw their valuation multiples rise – leading to outsized returns over the last 10 years.

As the chart below shows, as interest rates rose this year, gravity pulled share valuations back to earth. The elevated valuations of 2020 and 2021 have vanished, returning to long-term averages. As the old saying goes, 'what goes up, must come down.'

The gravity of rising interest rates has pulled valuations back to normal levels



The new normal looks a lot like the old normal

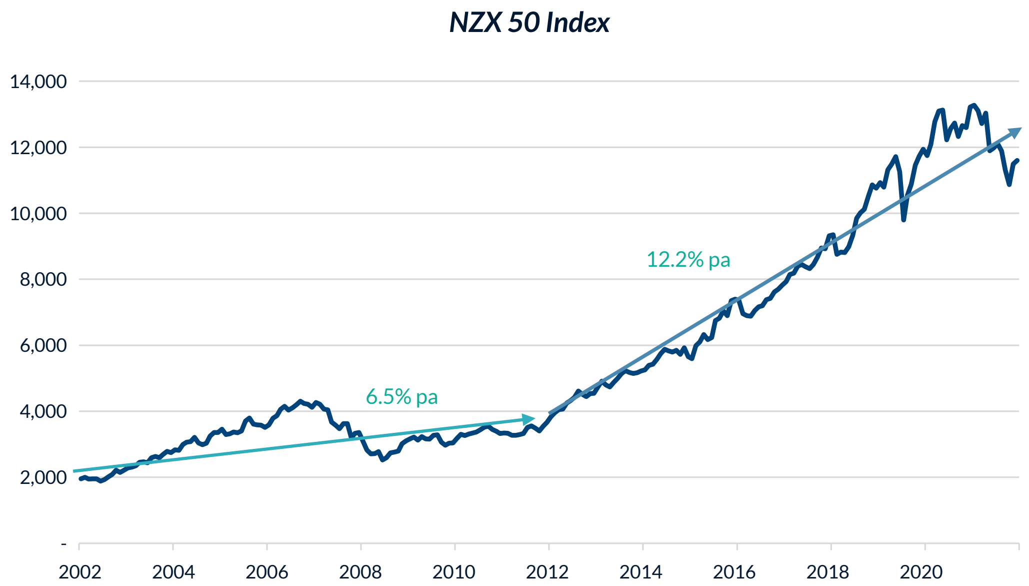
Over the last few years, people talked about a 'new normal' of low interest rates, and new habits we all adopted through the pandemic. However, with the recent rebound in interest rates and inflation – and people gradually returning to the office and travel – perhaps that new normal isn't so different after all?

Gravity has already reasserted itself. Unless interest rates push even higher, the headwind that has impacted markets will begin to dissipate. That said, with the laws of physics no longer suspended, ever-increasing valuation levels are also less likely to drive markets higher. Investors will have to earn their returns the old-fashioned way – from companies growing their earnings and paying dividends.

What this means for investors

Having personally invested in the share market for over 20 years now, I've come to appreciate that markets go through periods of plain sailing, and periods of hard slog. The first 10 years of my investing journey felt like a hard slog, whereas the last 10 years have been much smoother sailing. New Zealand's NZX 50 Index illustrates this point well.

Over the last 10 years, the New Zealand share market has delivered an average return of 12.2% per annum. In the 10 years prior, it delivered a return of just 6.5% per annum – and with a brutal financial crisis in the middle.



While markets were much stronger over the last 10 years, the reality is that the results in both periods were solid (as they have been in most 10-year periods throughout history).

In the second 10 years, $100,000 would have increased in value more than threefold to around $320,000. In the first 10-year period, $100,000 would have still increased in value to $180,000, far outstripping the effects of inflation. Over the total 20-year period, $100,000 would have increased in value to almost $600,000.

This 'up and down' nature of markets isn't unusual. Markets have always been pushed around by uncertainty and unexpected events. If anything, the relative stability of the last decade has been abnormal. Even if gravity is pulling us back to the old normal, and investing becomes more of a hard slog, we believe patient investors will continue to be handsomely rewarded.

Ashley Gardyne, **Chief Investment Officer**

NEW ZEALAND EQUITIES

Matt Peek, Portfolio Manager

The importance of not leaping to conclusions

As we enter an uncertain period for the global economy, it's tempting to think companies will automatically suffer. But this ignores the most important piece of the picture: what the companies themselves are doing.

We invest in companies with wide economic moats and attractive structural growth prospects. Every day, these companies' management teams work to sustainably grow their businesses, regardless of the prevailing economic conditions. This is particularly important in tough times, as economic growth slows. However, when the market assumes that companies are therefore doomed, opportunities arise for active investors.

Our companies remain focused on executing their growth strategies

Take the a2 Milk Company as an example. Many jumped to pessimistic conclusions given the headwinds the company faced earlier in 2022. But in the September quarter, a2 Milk was our best performing position, up +25%.

Contrary to widespread fears, the company fared well during another challenging period, managing a change in a major distributor and pivoting volumes towards online platforms. It also 'out-executed' rivals by getting Chinese-labelled product to market during the Shanghai lockdowns.

The company reported a strong result for its year ending in June. Infant formula sales and group earnings were well ahead of expectations in the second half, despite ongoing weakness in China's birth rate. a2's brand metrics continue to improve, with effective marketing increasing its share of voice, and 'top of mind' and 'spontaneous' awareness metrics lifting strongly.

Management has fixed issues in the business and built more robust capability and processes to deliver on its growth strategy. The team is comfortable a2 is on track to reach the medium-term expectations it set out at its October 2021 strategy day.

Infratil crystallised significant value for shareholders from two key assets

Over time, Infratil has proven itself the master of its own destiny, delivering average returns over 17% per annum since its shares were first listed in 1994.

Infratil has achieved this by investing in quality growth infrastructure assets and managing them actively. It identifies companies with long-term structural growth stories, complements them with value-add strategic initiatives, and realises value at the optimal time to move capital into the next opportunity.

This active portfolio management helped Infratil to outperform the market so far during 2022 (up +10%, versus the S&P/NZX50 Gross Index down -15%).

Infratil's portfolio businesses provide essential infrastructure and are inherently defensive, but most of this outperformance comes down to two big transactions that realised significant value.

First was the sale of Vodafone New Zealand's (soon to be rebranded as 'One NZ') mobile telecom towers business. This transaction returned around 80% of what Infratil originally invested in Vodafone, while divesting only around 10% of the earnings stream. This is a fantastic result.

Secondly, Infratil is bringing in a new partner to help fund further growth at its US renewable energy development business, Longroad Energy. This transaction raised $500 million in capital. The value of the deal suggests that Infratil's stake, combined with distributions to date, are worth approximately three times what it has invested.

Combined, these transactions lifted Infratil's net asset value by more than 15%. Each reflects years of planning and execution by Infratil and the teams in its portfolio businesses. While we can't expect major transactions in every quarter, we know Infratil is working hard behind the scenes to lay the groundwork for future value creation.

Market pessimism can create attractive investment opportunities

Retirement village operator Summerset delivered a +13% return during the quarter, on the back of a solid half year result and outlook.

Last quarter, we highlighted that Summerset's share price had fallen too far on the basis of concerns about the New Zealand housing market. Based on that, we added to our position.

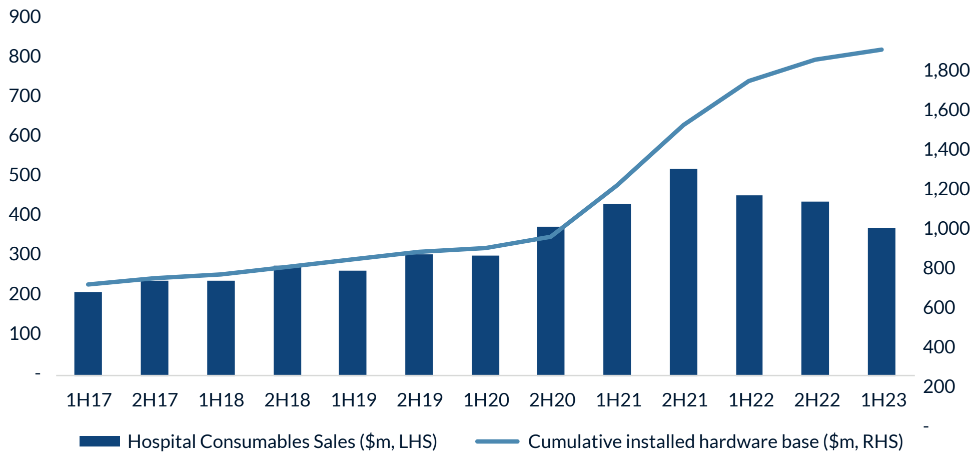
The housing market is only one factor affecting the business. The decision for a resident to move into a retirement village is often determined by their stage of life, rather than the state of the housing market. Summerset is still enjoying growing penetration of retirement village living in New Zealand and Australia. Management highlighted robust demand for units at the result presentation, despite deteriorating housing market conditions.

Fisher & Paykel Healthcare (-5%) weighed on the Fund's performance during the quarter. The company's recent underperformance has resulted largely from the market's focus on the short term, but the big picture remains attractive.

Fisher & Paykel Healthcare delivered subdued initial guidance for the first half of its 2023 fiscal year. It has seen lower demand than expected for consumables in its hospital business. Customers are still working to reduce inventory holdings built up in the early stages of the Omicron wave.

Our research tells us that hospitals are using high-flow nasal oxygen at increased rates. The hospital inventory situation is causing sales to diverge from underlying demand, which will only be an issue for a limited period. Before COVID, the use of consumables mapped very closely onto the installed hardware base, as the graph below shows. The installed hardware base has broadly doubled, and Fisher & Paykel is working to lift this installed base's usage of consumables.

Fisher & Paykel Healthcare has increased its installed base of hardware dramatically during COVID, and is yet to benefit from an uplift in ongoing consumables sales due to increased inventory



Source: Fisher & Paykel Healthcare and Fisher Funds estimates

AUSTRALIAN EQUITIES

Robbie Urquhart, Senior Portfolio Manager

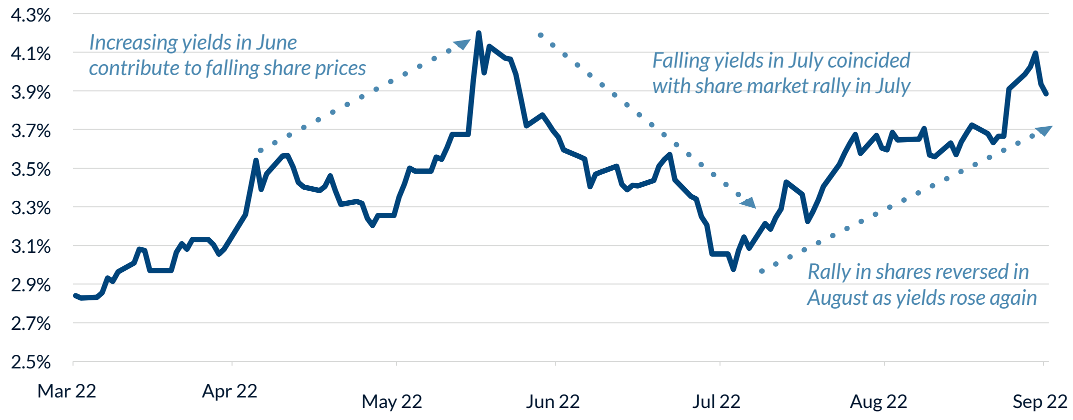
Pricing power a strong indicator of long-term promise

The solid performance by the Australian Fund was underpinned by strong results from our largest portfolio positions. Our companies are competently navigating the tricky environment of macro-economic and geopolitical uncertainty and are well-positioned for the future.

Interest rate gyrations added to share market volatility during Q3

In June 2022, the Reserve Bank of Australia (RBA) joined the ranks of hawkish central banks by accelerating its interest rate increases. Heeding this message, the Australian Government 10-year bond rate rose rapidly to a high of 4.2% in mid-June. The ASX200 fell sharply on concerns that rising borrowing costs would crimp economic growth. Conflicting signals about the pace of inflation resulted in more circumspect central bank rhetoric during July. This led to a change of direction in interest rates, and a strong rebound in the ASX200 through to mid-August.

Australian 10yr Govt Bond Yield



In the latter weeks of Q3, rising cost pressures led central banks to step up their inflation-fighting activity once again. This resulted in interest rates increasing during September, which in turn led to another direction change in equity markets in the month.

The quality of our portfolio companies was evident during the biannual reporting season

The reporting season showed many of our portfolio companies lifting their prices and offsetting inflationary cost pressures. Pricing power is a clear sign of a business with a strong competitive advantage; it's a key consideration when we evaluate a business' quality.

Another positive theme of the reporting season was that supply chain disruptions are beginning to ease. This bodes well for trading activity continuing to return to normal and future revenue growth for affected companies.

Both of these themes were reflected in ResMed's financial results (+10.4% in A$ in Q3). ResMed increased prices by 5% at the start of July, and it circumvented microchip shortages to increase its supply of sleep-disordered breathing equipment and masks to customers during the quarter. The company is growing its market share at the expense of its key competitor, Phillips, who had to recall a large number of faulty products and struggled to meet customer demand in the interim.

Insurance broker AUB Group (+10.4%) also reported strong profit growth, buoyed by a 9% increase in insurance premium rates and good cost control by the management team. Global pallet provider Brambles (+8.1%) is also benefitting from high demand for its pallets. This has enabled Brambles to meaningfully lift pricing when contracts come up for renewal – more than offsetting lumber and transport cost inflation.

Pricing initiatives also helped classified advertising businesses Carsales (+3.5%) and REA (+3.4%) deliver strong financial results.

Supply chain constraints are easing for our largest position, CSL (+6.6%). CSL is benefitting from a rebound in plasma collections as customers, no longer restricted by lockdowns, resume donating blood at its centres.

Near-term headwinds present investment opportunities in firms with long-term prospects

Short-term market concerns weighed on some companies that delivered sound financial results in Q3. Taking advantage of these near-term concerns, we added to some of our high-quality companies.

Domino's Pizza (-23.4%), for example, is exercising pricing power. The company introduced delivery surcharges and altered the mix of its menu promotions to effectively lift pricing and protect its margins. However, Domino's was also a strong beneficiary of COVID lockdowns during 2021, when delivery sales skyrocketed. During 2022, it has faced near-term growth headwinds as lockdowns have eased, making it difficult to match its 2021 performance. With a large presence in Europe, Domino's has also been impacted by investor concern about the broader economic impacts of the Ukraine war.

However, Domino's remains a strong, well-run fast-food business. Our long-term expectation that the company will almost double its store footprint in a decade is unchanged. With the share price back at pre-COVID levels, we've seized this opportunity to add to our position in the company.

Interest rates disproportionately limit returns from fast-growing companies

Strong financial results didn't help some of our early-stage, fast-growing companies, such as NEXTDC (-17.1%), Fineos (-15.5%), and Audinate (-4.1%). These companies are navigating the environment adequately. Audinate, for example, beat earnings expectations on the back of price increases, cost discipline, and by easing its own supply chain bottlenecks.

However, these companies are investing strongly for growth, which depresses their near-term profitability. The bulk of the cash flows from these businesses will be generated years into the future. As such, their current valuations are disproportionately impacted by high interest rates, because the discounting effect of high rates on these long-dated cash flows is amplified compared to businesses generating a lot of cash today. This dynamic weighed on their relative share price returns during Q3.

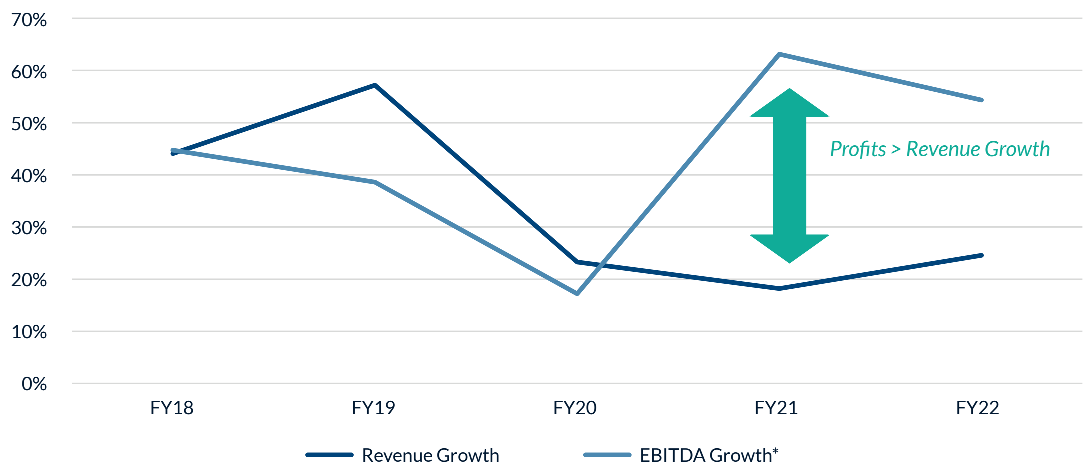
Patience is required with these shareholdings. As WiseTech Global (+37.5%), our best performing company in Q3, has shown, once fast-growing companies reach maturity, their profitability rises – and the reward can be worth the wait.

WiseTech rewarded for the inflection in its profitability

Demand for WiseTech's software continues to grow as its key global freight forwarder customers realise efficiency benefits in their own businesses. This increased demand has underpinned strong revenue growth for WiseTech over many years, including a 25% increase in FY22.

What has impressed the market over the last year is how the company has managed to sustainably improve its efficiency. It has contained the growth in its cost base, resulting in a sharp increase in profits and a strong rebound in its share price.

WiseTech's share price peformance helped by strong profit growth



Source: WiseTech
**EBITDA is a measure of pre-tax profitability*

We've been adding to high-quality companies with strong long-term prospects

We've taken advantage of the volatility and dispersion in share price returns across our portfolio to increase our weighting in companies such as AUB Group, Credit Corp, Domino's, REA and Xero. These are all high-quality businesses with strong long-term prospects.

To fund these changes, we've trimmed our weighting in companies with narrower economic moats, businesses that have outperformed and offer less return upside, and those that have greater earnings uncertainty over the next couple of years. This includes Ansell, Carsales, Fineos, SEEK, and WiseTech.

SELECT INTERNATIONAL EQUITIES

Sam Dickie, Senior Portfolio Manager

Central bank clouds hang over the market, but quality will shine through

It was another volatile quarter for international equity markets, with all eyes on central bank interest rate hikes and the risk they could cause a recession. While global markets fell, the weakness of the New Zealand dollar provided something of a buffer to returns in NZ dollar terms.

Central banks driving markets amidst persistent inflation

With inflation remaining high, central banks are driving markets. The US Federal Reserve has indicated that it will do whatever it takes to bring inflation down, even if that means increasing unemployment and tipping the economy into a recession. The Federal Reserve is hiking interest rates harder and faster than any time in recent history. With unemployment still near historic lows – and no evidence of a material slow-down in inflation – aggressive rate hikes are expected to continue. And with them an increased probability of recession. A survey of economists now predicts a 50% chance of recession in the US, twice as high as in April.

Financial markets are at least partially pricing this increased risk. The MSCI World Index fell -6% in the quarter, after being up +12% at one point. Defensive stocks outperformed the wider index as investors rushed to safe havens. At the same time, more economically sensitive stocks underperformed. This flight to safety was also seen in currency markets, with the US dollar dramatically increasing in value (the US dollar gained almost +12% versus the NZ dollar over the quarter).

Macroeconomic downturn is difficult to predict

Recessions are an inevitable part of the economic cycle but predicting the timing of a recession is notoriously difficult. For now, at least, US consumers and corporates are proving resilient. US consumer spend continues to increase (in nominal terms), and overall consumer confidence rose through the quarter, despite higher living costs and mortgage rates nearing 7%.

Following the latest earnings season in the US, overall market estimates for next year are broadly unchanged, despite headwinds from the higher US dollar pressuring overseas earnings. Corporate margins remain high as businesses pass through input cost inflation and focus on reducing costs.

Certainly, economic conditions could deteriorate further, putting pressure on both consumers and corporates. While we're cognisant of these risks, we also recognise the inherent difficulty in making macro forecasts, and instead focus our efforts on picking great companies to invest in. Against this backdrop of increasing risks, our investment philosophy of owning durable, well-capitalised, high-quality growth companies should help us weather the recessionary storm – should it arise.

Quality companies are 'in the slot' at current valuation levels

While not immune to the economic cycle, many of our companies have levers to maintain profitability, even as the economy slows. Companies like Meta, Google, Alibaba, and Netflix have all announced plans to cut costs and increase efficiency. When markets were strong, these companies reinvested profits from their core businesses into new growth opportunities. As the economic backdrop becomes more uncertain, these companies can scale back spending in non-core areas without impacting investment in their core businesses.

Most of our portfolio companies are at historically low valuation levels. Take Google, one of the highest quality names globally, which is currently trading at a valuation multiple below the wider market – and nearing levels last seen in the Global Financial Crisis.

At current valuation levels, companies like Google, PayPal, Amazon, and Salesforce are reaching levels Warren Buffett would describe as a 'fat pitch' or – in cricketing terms New Zealanders might find more familiar – 'right in the slot' and ready to be hit for six. While these stocks have underperformed in the year to date, we're as optimistic as we have been on their five year prospects.

Portfolio highlights

PayPal (+23% in local currency terms) gained significantly as activist investor Elliott Management took a sizable position in the company and pushed for increased business discipline. Activist investors are frequently drawn to companies with good business models and strong financial positions with the flexibility to deploy additional capital to increase shareholder value. All of which we believe to be true for PayPal. The company has since announced a renewed focus on its core business, a large cost-saving programme, and US$15 billion of share repurchases (15% of market capitalisation). These initiatives put PayPal on solid footing for growing margins and earnings going forward.

Floor and Décor (+12%) posted quarterly results ahead of expectations with strong same-store-sales growth of 9% and expectations of a high-single-digit growth rate for the rest of the year. This helped counter the bearish narrative on the home renovation market that has plagued the stock's performance during the first half of this year. Saying that, with the spike in mortgage rates impacting housing transactions and squeezing homeowners' wallets, we have recently trimmed our position.

Netflix (+35%) rallied as the market saw a clearer path to renewed growth following the company's Q2 earnings result. Netflix expects to return to subscriber growth in Q3. Subscriber retention in the US and Canada region is almost back to historical levels. This follows a period of elevated churn when Netflix increased prices earlier this year. The company also announced that its content spend would remain at current levels for the next few years – allowing it to leverage content costs after years of continued investment. Further detail around Netflix's proposed ad-supported tier suggests a sizeable revenue opportunity. These initiatives, as well as the company's focus on right-sizing its operations and content spend, will contribute to robust free cash flow growth.

Amazon (+6%) also posted strong results during the quarter. Amazon sits at the intersection of three structural growth themes: e-commerce, cloud computing, and online advertising. Better than expected results in each of these verticals, coupled with sequential operating cost improvement, drove strong performance. We're encouraged by the resilience in Amazon's e-commerce business and growth in the company's advertising business despite mixed results from competitors in these industries.

Alibaba (-30%) and Tencent (-25%) fell alongside the wider China market, reversing strong performance in the prior quarter. As has been the case this year, performance is largely sentiment-driven, with the same confluence of factors front of mind for investors. These factors include the ongoing COVID lockdowns, property slowdown, and rising geopolitical tensions. Over time, we expect strong fundamentals to shine through this noise, but we do recognise these risks and currently hold Alibaba and Tencent at lower weights, relative to our large-cap US tech holdings.

Portfolio activity

Following elevated activity earlier in the year (with three new names and one exit), our portfolio saw no new additions or exits in this quarter.

Within the portfolio, we've reduced the weight in some of our cyclical and defensive names to add to attractive high-quality growth names like Amazon, Gartner, and Microsoft. We continue to look for opportunities in other quality names that have been caught up in the wider market sell-off.

NEW ZEALAND
CASH AND FIXED INTEREST

David McLeish, Senior Portfolio Manager

Weathering the recessionary storm

Fixed interest and cash assets came under renewed selling pressure this quarter as central banks, including the Reserve Bank of New Zealand, continue to raise overnight interest rates in response to persistent inflation concerns. Nevertheless, with bond yields at near decade highs, and signs that inflation is peaking, the potential return from fixed interest and cash assets is looking increasingly attractive.

Central banks continue to dance to the beat of their own inflation-fighting drum

The fortitude of central banks to continue rapidly tightening monetary policy, despite weakening economic activity and sharply lower pricing of future inflation expectations, has been a major surprise to us. However, without a clear near-term catalyst on the horizon to justify a change of course, we now expect the Reserve Bank of New Zealand to continue hiking the Official Cash Rate in line with what is currently priced into the forward interest rate market (two further 0.5% hikes at the next two meetings in November and February).

This pace of tightening, from an already restrictive setting, means we are now entering a dangerous phase of the interest rate cycle – where the risk of a policy mistake is highest. Monetary policy works with considerable lags and given this has already been the most intense hiking cycle in history, it is highly uncertain what the economic impact will be from the RBNZ's recent actions.

It is Wall Street rather than Main Street which is showing the greatest sign of strain

To date, the domestic economy has weathered the sharp rise in the cost of living well. However, the same cannot be said for certain interest rate sensitive areas of the global financial markets.

Recent events including the meteoric rise in UK Gilt yields, widening European bank funding rates, anaemic liquidity in the US Treasury market, and a dearth of corporate bond issuance are all symptoms of the same thing: a financial system that is straining under the pressure of the significant mark-to-market losses being imparted on holders of typically conservative fixed income assets.

Darkest before the dawn

We know better than to call the bottom in any market. We also recognise that, if central banks continue to raise overnight cash rates as aggressively as they currently are, it's tough to see light on the horizon.

However, the very same tough-talking, inflation-infatuated RBNZ must be taking solace from the numerous global inflation indicators that have rolled over in recent months – commodity prices lowering, house prices weakening, and supply chains recovering. This dramatic turn of events has seen 3-year inflation expectations (as priced by inflation-linked bonds) to fall back below 3% per annum, having surpassed 4% as recently as July.

We suspect it will not be long before central banks can take at least one of their two feet off the economic brake – by slowing or even ending their interest rate hikes.

PROPERTY AND INFRASTRUCTURE

Sam Dickie, Senior Portfolio Manager

Property and Infrastructure fund rides out the macro rollercoaster

Property and infrastructure assets are particularly susceptible to the impacts of rising interest rates, which dragged on the sector's performance during this quarter.

Fed fund rates drive another macroeconomic rollercoaster

Bond yields started the quarter falling sharply as a potential inflation peak excited the market. They ended the quarter rising sharply to new highs as the market digested a more hawkish stance from central banks.

In the first few weeks of the quarter, the market was expecting US Federal Reserve fund rates to peak at 3.25%, and that the Federal Reserve would be cutting rates by March. By the end of the quarter, after three unprecedented 0.75% rate hikes in a row, the funds rate was already at 3.25%. Now, the market is not expecting the Federal Reserve to pause until it hits 4.5%.

This is important for financial markets and shares generally, but especially for our Property & Infrastructure Fund. Property and infrastructure portfolio companies typically have sustainable, growing cashflows which can be more easily traded off against a bond investment.

Despite this macro rollercoaster, portfolio companies continued to deliver earnings generally in line with expectations.

Portfolio update – solid earnings results and stock specific catalysts helped

Most companies in the portfolio reported earnings results during the quarter, and most met or exceeded earnings expectations. Companies that beat expectations saw stronger volumes (such as airports) or passed through price increases (Port of Tauranga), reflecting both their pricing power and a recovering economy.

While rising costs impacted the outlook for some companies, such as Transurban, the market had expected a higher cost environment for most of them. Sound fundamentals helped the portfolio outperform the market during the quarter – although the negative absolute return shows how the macro rollercoaster trumped stock-specific news.

Infratil crystallised significant value for shareholders from two key assets

Over time, Infratil (up +13% in the quarter) has proven itself the master of its own destiny, delivering average returns over 17% per annum since its shares were first listed in 1994.

Infratil has achieved this by investing in quality growth infrastructure assets and managing them actively. It identifies companies with long-term structural growth stories, complements them with value-add strategic initiatives, and realises value at the optimal time to move capital into the next opportunity.

This active portfolio management helped Infratil to outperform the market so far during 2022 (up +10%, versus the S&P/NZX50G down -15%).

Infratil's portfolio businesses provide essential infrastructure and are inherently defensive, but most of this outperformance comes down to two big transactions that realised significant value.

First was the sale of Vodafone New Zealand's (soon to be rebranded as 'One NZ') mobile telecom towers business. This transaction returned around 80% of what Infratil originally invested in Vodafone, while divesting only around 10% of the earnings stream. This is a fantastic result.

Secondly, Infratil is bringing in a new partner to help fund further growth at its US renewable energy development business, Longroad Energy. This transaction raised $500 million in capital. The value of the deal suggests that Infratil's stake, combined with distributions to date, are worth approximately three times what it has invested.

Combined, these transactions lifted Infratil's net asset value by more than 15%. Each reflects years of planning and execution by Infratil and the teams in its portfolio businesses. While we can't expect major transactions in every quarter, we know Infratil is working hard behind the scenes to lay the groundwork for future value creation.

Equinix (+7%) navigated the inflationary headwinds of labour and power cost well during the quarter: power costs in Europe have increased by 3-5 times. Demand across Equinix's customer base is strong and broad-based, with bookings at record levels. Equinix is lifting prices on the back of this strong demand to help offset the sharp rise in power costs.

The US railroads (Union Pacific +1%, Norfolk Southern +2%) also delivered results in line with expectations. Carload pricing continues to surprise to the upside. Weekly volumes are still subdued, constrained by challenges in recruiting and training new employees, which are limiting the number of trains that can be run.

Auckland Airport (flat) reported earnings slightly ahead of expectations as demand from international passengers continued to recover. In July, international passengers were at 50% of 2019 levels, and Auckland Airport expects this to reach 60% in 2023. This is a conservative guide, relative to Auckland Airport's recovery to date and the recovery seen in other markets.

MARKET MOVEMENTS

As at 30 September 2022

Stock Markets*	Closing Values	Changes over: 3 Mths %	6 Mths %	12 Mths %
S&P Global LargeMidCap ($NZ)	N/A	2.4	-3.2	-3.2
USA - S & P 500	7603	-4.9	-20.2	-15.5
USA - Nasdaq	12689	-3.9	-25.3	-26.3
Japan - Topix	3003	-0.8	-4.4	-7.1
UK - FTSE100	7046	-2.7	-6.4	0.9
Germany - DAX	12114	-5.2	-16.0	-20.6
France - CAC40	16878	-2.5	-11.2	-8.9
HK - Hang Seng	54577	-20.1	-19.4	-27.5
Australia - S & P 200	77868	0.4	-11.6	-7.7
NZ-S&P/NZX 50 Gross Index (inc imp credits)	13727	2.2	-8.2	-16.0
Market Volatility - VIX	31.6	10.1	53.8	36.6

Property		%	%	%
S&P/NZX All Real Estate (inc imp credits)	1666.6	-1.8	-13.8	-17.4
S&P Global Infrastructure Index (70% Hedged NZD)	6155.2	-6.3	-9.7	1.5

Ten Year Bonds	%	Yield Changes		
USA	3.83	0.85	1.51	2.31
Japan	0.24	0.02	0.03	0.18
United Kingdom	4.14	1.84	2.51	3.19
Australia	3.89	0.23	1.06	2.40
New Zealand	4.30	0.44	1.08	2.30

90-Day Interest Rates	%	Yield Changes		
USA	3.33	1.61	2.81	3.29
Japan	0.05	-0.01	-0.01	0.00
United Kingdom	3.34	1.68	2.31	3.26
Australia	3.06	1.22	2.85	3.04
New Zealand	3.85	0.99	2.24	3.20

Bond Indices	Closing Values	Changes over: 3 Mths %	6 Mths %	12 Mths %
S&P/NZX Bank Bills 90-Day	746.36	0.67	1.04	1.42
Bloomberg Global Aggregate Index (Hedged NZD)	N/A	-3.68	-8.00	-12.28
Bloomberg NZBond Infl 0+ Yr Index	5259.90	-0.96	-7.29	-9.72
Bloomberg NZBond Composite 0+ Yr Index	1448.50	-1.41	-3.75	-8.80

Hedge Funds & Commodities		%	%	%
HFRX Global Hedge Fund Index (USD)	1366	0.5	-3.3	-4.5
DJ-UBS Commodity Index Total Return	241	-4.1	-9.5	11.8
Gold (US$/ounce)	1662.40	-7.9	-14.7	-5.3
Oil (US$/barrel)	87.96	-26.6	-18.0	13.0

Currencies		%	%	%
NZD / USD	0.5657	-9.0	-18.7	-18.0
NZD / EUR	0.5774	-2.9	-7.6	-3.0
NZD / GBP	0.5067	-1.0	-4.1	-1.0
NZD / AUD	0.8798	-2.7	-5.0	-7.9
NZD / YEN	81.88	-3.1	-3.0	6.4
Trade Weighted Index	68.42	-2.7	-8.5	-7.2

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