QUAYSTREET
MONTHLY MARKET UPDATE

- AS AT 28 FEBRUARY 2019 -

NEW ZEALAND MARKET

Solid gains, will they be taxed?

New Zealand equities continued the positive start to the year as the S&P/NZX 50 Index returned 3.8% in February. Overall, it was a decent reporting season as 36 of the 50 companies in the index ended the month in positive territory.

One of the biggest talking points during the month which could affect investors and businesses alike, was the final report from the Tax Working Group (TWG). As expected the TWG recommended, amongst other things, a capital gains tax on all types of land and improvements (except the family home), shares, intangible property, and business assets. There has been a sustained backlash against the report and it remains to be seen if, and to what extent, the government will implement the recommendations.

The top performing company in the index was Fisher & Paykel Healthcare (FPH) that was up 17.0% for the month. The share price was helped by the news that FPH and ResMed have agreed to settle all outstanding patent infringement disputes with no payment or admission of liability by either side.

MARKET PERFORMANCE

NEW ZEALAND INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/NZX50	3.78%	11.36%
S&P/NZX Mid Cap	1.62%	13.30%

All equity index returns are calculated on a total return basis.

The worst performer was Sky TV (SKT) returning -22.8% after reporting disappointing revenue and earnings. SKT also continues to deal with multiple structural issues such as declining subscriber numbers, increased competition and rising cost of premium content.

Another notable result was from Vista Group (VGL), which provides film industry technology solutions. VGL returned 12.8% on the back of a strong FY18 result and revenue growth guidance of around 20% that was above most analyst's expectations. On the other side of the ledger was Air New Zealand (AIR) that was down 12.1% after downgrading its FY19 profit guidance. In an attempt to boost demand for domestic flights, AIR has said it would cut prices on its lowest fares for 41 domestic routes by up to 50%.

NZ TOP 5 PERFORMING STOCKS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
Fisher & Paykel Healthcare	17.04%	8.92%
Synlait Milk	13.85%	34.18%
a2 Milk Co	13.12%	8.16%
Vista	12.78%	65.39%
Australia & New Zealand Banking Group	9.21%	0.20%

NZ BOTTOM 5 PERFORMING STOCKS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
SKY Network Television	-22.75%	-36.52%
Air New Zealand	-12.10%	-17.71%
Fonterra Co-op Group	-12.03%	-29.28%
Gentrack Group	-10.13%	-23.03%
New Zealand Refining	-9.87%	-4.76%

INTERNATIONAL MARKETS

Chinese markets soar as trade tensions ease.

The rally in equity markets that began in late December continued in February with the MSCI World Index (NZD) rising 4.8%. The overall performance was helped considerably this month by the strong rally of the US dollar against the Kiwi.

The US Federal Reserve (The Fed) has lead the way this year by shifting to a more relaxed stance on future interest rate increases in response to the weaker performance in the US as well as other major economies. It is now indicating it may drop quantitative tightening (the normalisation of its balance sheet) by year-end. Following the Fed, we have also had the European and the Japanese Central Banks hinting at a shift in their own policy guidance to one that is more dovish. This helped the STOXX and Nikkei indices post good gains over the month.

The Chinese stockmarket has been one of the star performers this year with the CSI 300 Index up 21.9%. This is off the back of a shocking performance in 2018.

The continuation of the rally this month was fuelled by the news progress had been made in the trade dispute between China and the US. The Trump administration postponed the March 1 date for broadening the base and lifting the tariff rate (From 10% to 25%) and the Chinese joined the Americans in announcing that a memorandum of understanding on a trade deal was close.

In commodity markets, the rally has also continued and is now close to a 10-week high. Within the commodity complex Oil has been steadily rising from its mid-December low while Copper is up sharply. Clearly, the prospect of a trade deal is helping sentiment however what has really caught investors' attention is the Fed looking to soften on its de facto 2% inflation target and tolerate periods when prices move above this threshold. This is very good news for inflation hedges such as gold, Treasury Inflation-Protected Securities (TIPS) and commodities.

MARKET PERFORMANCE

INTERNATIONAL INDICES	1 MONTH RETURN	1 YEAR RETURN
MSCI WORLD (USD)	3.01%	0.43%
MSCI WORLD (NZD)	4.84%	6.43%
S&P 500 (USD)	3.21%	4.68%
STOXX 50 (EUR)	4.42%	-1.45%
NIKKEI 225 (JPY)	3.02%	-1.10%

CURRENCIES	RATE	MONTHLY % CHANGE
AUD/NZD	0.9592	0.87%
GBP/NZD	0.5133	-2.60%
EUR/NZD	0.5982	-0.96%
USD/NZD	0.6809	-1.55%
JPY/NZD	75.803	0.72%

AUSTRALIAN MARKET

Wild swings up hill and down dale in results aftermath

In another strong month, the S&P/ASX 200 Index returned 6.0%, led by the Financials and Energy sectors, which returned 9.1% and 7.9% respectively. Banks were bid on a more benign than expected Royal Commission final report, and resource heavyweights BHP Biliton Group and Rio Tinto Limited rose on Iron ore prices, which sustained earlier gains as issues at Brazilian competitor Vale continued to impact global supply.

February also marked Australia's half-year reporting season, seeing large share price fluctuations as the market reacted to financial results. No disappointment was tolerated, with health supplement group Blackmores and packaging business Pact marked down 27.7% and 23.2% respectively. Blackmores' sluggish sales momentum in China failed to impress, whilst Pact's profit decline on input cost pressures was aggravated by a substantial impairment to its assets. Conversely, companies that delivered solid results were rewarded handsomely. Software firm Appen returned 46.7% as accelerating revenue growth drove an exceptional profit result. Appliance maker Breville was also a standout, lifting 43.4% on solid profit growth aided by geographic expansion.

Alongside the eventful corporate calendar, several macroeconomic developments shaded the backdrop. Weak monthly data for building approvals (Dec -8.4% vs +2.0% survey), retail sales (Dec -0.4% vs 0.0% survey) and home loans (Dec -6.1% vs -2.0% survey) overshadowed resilience in jobs, with unemployment stable at 5.0%. Against these settings and ongoing declines in property prices, the RBA left the official rate at 1.50%, but recalibrated its outlook commentary as concerns over a slump in the broader economy continued to mount. Markets are now betting on a higher probability the next move will be a cut.

MARKET PERFORMANCE

AUSTRALIAN INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/ASX200 (AUD)	5.98%	7.05%
S&P/ASX Small Cap (AUD)	6.78%	3.48%

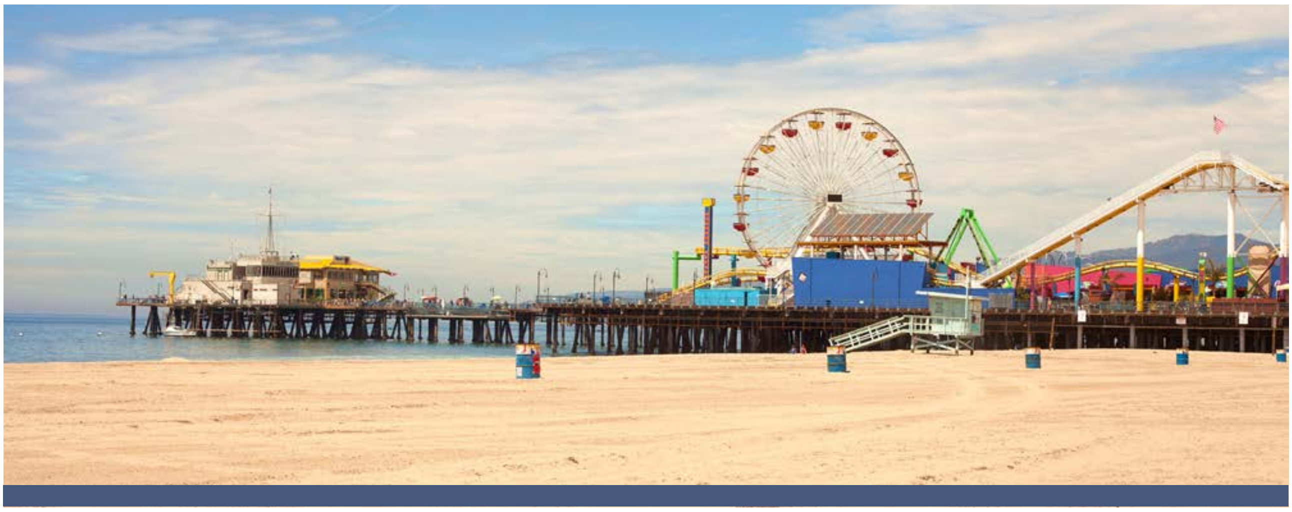
All equity index returns are calculated on a total return basis.

AU TOP 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Financials	9.10%	-1.65%
Energy	7.91%	14.92%
Information Technology	7.59%	22.08%
Consumer Discretionary	6.56%	4.38%
Materials	6.33%	14.74%

AU BOTTOM 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Consumer Staples	-1.53%	3.84%
Health Care	1.01%	13.28%
Property	1.75%	18.86%
Utilities	3.93%	11.41%
Telecommunications	4.31%	-2.59%



FIXED INTEREST MARKETS

Yield trade back on

Global bond markets generally delivered positive returns for February but with considerable divergence across market segments. Government bond yields were relatively static across most markets whereas corporate bonds performed strongly. The reduction in market volatility experienced in January and February has led to a higher risk appetite and it was the higher yielding (and most risky) assets that delivered the higher returns. For example, the weighted average yield for the Bloomberg Barclays US Corporate High Yield Index finished the month at 6.5% compared to the recent peak in December of 8.1%. This translates to a total return of 7% in just over 2 months. A similar trend was observed for European High Yield markets and Emerging market government debt. However, it is worth pointing out that this recent strong performance in risk assets is largely a recovery from negative returns experienced towards the end of 2018.

New Zealand bond markets were relatively uneventful by comparison, as they did not experience the negative returns last year, so haven't had the same rebound effect on credit spreads. New Zealand also had falling government bond yields over the month which led to positive returns from both government and corporate bonds. The S&P NZX Corporate Bond Index was up 0.5% compared to the S&P NZX Government Bond Index, which rose by 0.6%. The RBNZ released its Monetary Policy Statement, leaving the OCR unchanged at 1.75%. We did not see anything in the statement to signify a change in intent from the RBNZ, which continues to communicate that risks for raising or lowering the OCR are balanced. However there remains a bias towards a higher OCR over the medium term, with RBNZ forecasts implying an increase in 2021.

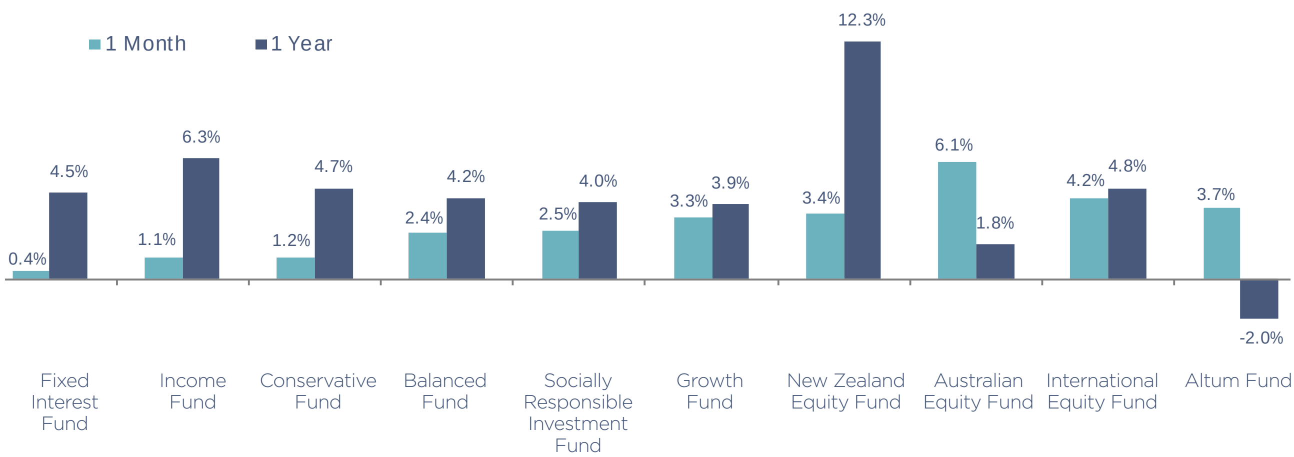
BOND INDICES

INDEX	1 MONTH RETURN	1 YEAR RETURN
NZ Government Bond	0.59%	6.36%
NZ Inv. Grade Bond	0.55%	5.26%
Australian Government Bond	1.04%	6.89%
Australian Corporate Bond	0.92%	4.71%
Barclays Global Agg Hedged (NZD)	0.05%	3.74%

CURRENT INTEREST RATES

INTEREST RATES	RATE	RATE 1 YEAR AGO
NZ OCR	1.75%	1.75%
NZ 5yr Swap	2.02%	2.72%
NZ 10yr Gov	2.16%	2.94%
RBA Cash	1.50%	1.50%
AU 10yr Gov	2.10%	2.81%

FUND PERFORMANCE OVERVIEW *(Before fees and tax)*



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