

Greytown District Trust Lands Trustees

May 2022

Market Comments

April was a difficult month for equity markets, particularly those in the US. The S&P 500 was down 8.8%, its worst performance since March 2020, while the Nasdaq fell 13.3%, its biggest monthly fall since October 2008. The UK and Australia continued to prove resilient while the local NZX 50 slipped a more modest 1.9%.

Expectations for global growth have softened on the back of the likely economic damage from the Ukraine war. The lockdowns in key manufacturing and trade hubs in China are also expected to compound supply disruptions, slowing activity further.

Short-term economic indicators have remained solid across developed markets with manufacturing data in the US, Europe and the UK looking particularly strong. China remains a weak link, as has been the case since the middle of last year. The resurgence in virus numbers has seen harsh lockdowns reimposed and these have impacted economic activity.

The local economy remains buoyant, supported by a strong labour market and robust commodity prices. However, the impact of rising mortgage rates is beginning to bite. While Auckland house prices are 34.5% higher than pre-pandemic levels, they have fallen 7.7% since November. We expect this to dent economic activity and consumer confidence.

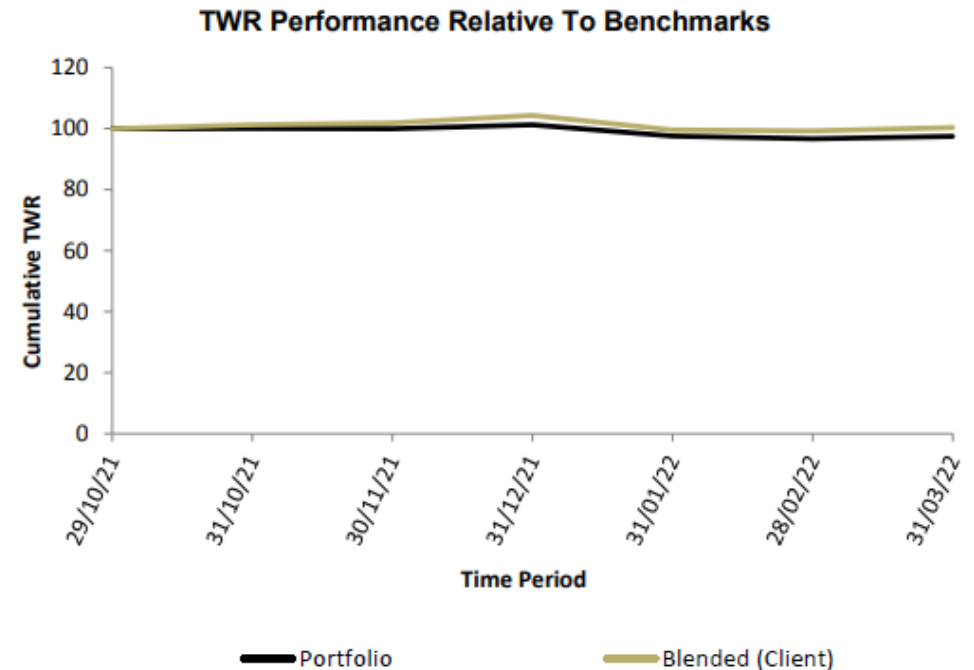
Inflation pressures have continued to build across the world. In the US, the headline CPI increased at an annual rate of 8.5% in March, the highest since 1981, while in the UK and Europe inflation has risen to 7.0% and 7.5% respectively. Here in New Zealand, the March quarter CPI came in at 6.9%, slightly below forecasts but still the strongest since 1990. Central banks have continued to withdraw monetary stimulus in response to high inflation.

Against this uncertain backdrop, it is important to ensure asset allocations match long-term objectives, and that portfolios are well-diversified across regions and sectors. Within equities, we favour high quality businesses and those with long-term structural growth tailwinds and those able to pass on inflationary costs to consumers. On the back of rising rates, fixed income prospective returns are looking better than they have for some time.

Portfolio valuation and performance

Net contributions have been \$5.9m.

| | |
|---|---------------------------------|
| Portfolio Value (29 April 2022) | \$5,812,390 |
| Forecast Income Yield | 2.1% or approximately \$118,770 |
| Portfolio Performance for 1 year | NA |
| Portfolio Performance since inception (29/10/21) p.a. | (2.0)% |



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Asset Allocation

The asset allocation for Greytown's investments is a Growth Portfolio as illustrated below:

| Asset class | Current Portfolio % | Target Portfolio % | Minimum % | Maximum % |
|----------------------------|---------------------|--------------------|-----------|-----------|
| NZ Equities | 12 | 25 | 15 | 35 |
| Australian Equities | 15 | 22 | 12 | 32 |
| Global Equities | 13 | 28 | 18 | 38 |
| Property | 0 | 0 | 0 | 8 |
| Total Growth Assets | 40 | 75 | | |
| Fixed Interest | 19 | 22 | 12 | 32 |
| Cash | 41 | 3 | 0 | 30 |
| Total Income Assets | 60 | 25 | | |

Fixed Interest

Central banks have continued to withdraw monetary stimulus in response to higher inflation. The Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) by 0.50% last month, taking it to 1.50%. This was the first upward move of this magnitude since 2000, and it highlights the desire of the RBNZ to move swiftly toward neutral. The RBNZ is expected to increase the OCR by another 0.50% this month, taking it to 2.00%, and by the end of 2022 market pricing suggests an OCR as high as 3.50%.

Investors should note that they are receiving the income stream on the fixed income securities they own, while the silver lining of higher interest rates is the opportunity to reinvest at much more attractive levels going forward.

Top Ten Equity Holdings

| Top Ten Equity Holdings | % of Equity Portfolio | % of Total Portfolio |
|------------------------------------|-----------------------|----------------------|
| Transurban | 2.9% | 1.2% |
| CSL | 2.9% | 1.2% |
| Ebos | 2.7% | 1.1% |
| Mainfreight | 2.7% | 1.1% |
| Infratil | 2.7% | 1.1% |
| Macquarie Group | 2.6% | 1.1% |
| Rio Tinto | 2.6% | 1.1% |
| BHP Group | 2.5% | 1.0% |
| Summerset | 2.4% | 1.0% |
| Cleanaway | 2.4% | 1.0% |
| Total % of Equity Portfolio | 26.4% | 10.8% |

Equity Sector Allocation

