Quarterly Fund Commentary

31 December 2016

JMIS A FUND

Performance Comments

The asset value of the Fund at 31 December 2016 was $110.6 million and the base price was $2.3024 per unit, an increase of +2.3% over the quarter. This compares with the Fund's composite index return of (1.1%), which was a pleasing out-performance of +3.4%.

In the Fund's 50/50 composite index, there was a (6.1%) fall in the NZX50 Portfolio Index and a +3.9% gain in the ASX200 Accumulation Index (in New Zealand dollar terms).

The portfolio's actual mix at quarter end was 48.6% in New Zealand shares and 47.2% in Australian shares, with the balance of 4.2% in cash.

For the first time in many quarters, Australian shares thus outperformed New Zealand shares, largely led by a resurgence in the mining and banking sectors across the Tasman. As well, after the US election results, global sharemarkets rallied strongly in the December quarter as they anticipate likely tax cuts and higher infrastructure spending in the US.

In New Zealand, the stronger performing holdings in the portfolio were Air New Zealand +18.0%, Mainfreight +17.9% and Airwork Holdings +9.8%. The latter is now subject to a partial takeover bid from a Chinese company.

The largest detractors were Metlifecare at (10.7%) and Metro Performance Glass at (10.3%).

In Australia, the large cap stocks in the mining sector had a strong quarter – Rio Tinto rose by +15.3% and BHP Billiton by +10.8% – while the banking sector returns were pleasing too, i.e. Westpac at +12.8%, CBA at +12.5% and ANZ Bank at +12.3%, in the three months.

The largest detractors were Boral at (20.7%) and NextDC at (13.9%). Both companies announced large rights issues during the quarter to fund growth and, for Boral, a US acquisition.

Fund Performance

The JMIS A Fund has performed as follows:

To 31.12.16	3 Months %
Fund net return*	+2.3
Benchmark Index**	(1.1)
Difference	+3.4

* These returns are after deductions for charges and before tax
** Reflects no deduction for charges and tax

Past performance is not necessarily indicative of future performance.

Outlook

With interest rates and inflationary expectations on the rise, it is likely that the bull market in bonds is now over. Therefore, rising interest rates in 2017 may well provide a headwind for share valuations. Janet Yellen is promising 2 or 3 more rate increases in the US for 2017. The Trump victory may lead to more spending and greater deficits too.

However, after the correction in the New Zealand market in the December quarter offset by the stronger offshore markets, we are cautious but not bearish on shares as there is no sign of recession for 2017 and financial authorities still appear prepared to do whatever is required to ensure that the financial markets are well supported.

It is worth noting that rising inflation expectations is a welcome relief for global central banks that have been employing extreme monetary measures like negative interest rates to fend off deflation risk.

A diversified and balanced approach to investment remains appropriate.

If you have any questions please contact us on +64 09 308 1450 or visit our website www.jmis.co.nz