Quarterly Fund Commentary

31 December 2016

JMIS INVESTMENT MANAGEMENT LIMITED

JMIS EQUITY INCOME FUND

Performance Comments

The asset value of the Fund at 31 December 2016 was $53.8 million and the base price was $1.3415, an increase of +1.1% over the quarter, including the 1.5 cent distribution. This compares with the fund's composite index return of (3.3%) which was a pleasing outperformance of +4.4%.

In the Fund's 75/25 composite index, there was a (6.1%) loss in the NZX50 Portfolio Index and a +5.2% gain in the ASX200 Accumulation Index (in Australian dollar terms, as this Fund hedges its currency risk).

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 in a declining market, there were three holdings that produced double-digit returns. These were Air New Zealand +18.0%, Tourism Holdings +14.0% and Airwork Holdings +10.0%. In addition, there were strong, above-index performances from Scales, Steel & Tube, Sanford and Arvida. The largest detractors in the quarter were Metro Performance Glass at (10.2%) and Contact Energy (7.6%).

In Australia, the two best performing holdings were Westpac +12.7% and Suncorp at +12.4%. The largest detractor in the quarter was Caltex at (12.4%).

The Fund holds nearly 20% of its investments in the high-yielding Australasian listed property sector and, in both countries, this sector's selections were mainly negative overall in the three months. This follows several years of relative outperformance at a time when interest rates were falling and property markets were strong. In the current quarter, the sector gave back some of these gains as it anticipated the prospect of higher interest rates.

Fund Performance

The JMIS Equity Income Fund has performed as follows:

To 31.12.16	3 Months %
Fund net return*	+1.1
Benchmark Index**	(3.3)
Difference	+4.4

* 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 New Zealand 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.