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Volume 22

Investment Strategies

JANUARY 2018

Broker picks for 2018 (NZ Herald) are:

First NZ Capital	Craigs IP
Eroad	a2 Milk
Metlifecare	Mainfreight
Scales	Restaurant Brands
NZ Refining	Tourism Holdings
Tilt Renewables	Meridian Energy

Forsyth Barr	Hamilton Hindin
Arvida	Comvita
Chorus	Fletcher Building
a2 Milk	Sky City
Michael Hill	Sky TV
Abano	Tower

MSL Capital Mkts	Vulcan Capital	Hobson Wealth
Xero	Restaurant Brands	Heartland Bank
Metro Performance	TruScreen	Air NZ
Green Cross Health	QEX Logistics	Restaurant Brands
Tower	Pushpay	Vista Group
Plexure	NZ Windfarms	NZ King Salmon

My 12-month Picks (with targets) are:

My 2018 Picks	12-mth Target	Est. Gain
Port of Tauranga	$5.70	15.4%
Fletcher Building	$8.50	11.8%
Scales Corporation	$5.50	15.1%
Auckland International Airport	$7.50	15.7%
Eroad	$4.20	17.3%

Go to NZ Equities (page 17) to see my reasoning.

Recognise that these stock picks are included because I think they will outperform the market over the next 12 months.

RRP $5.00

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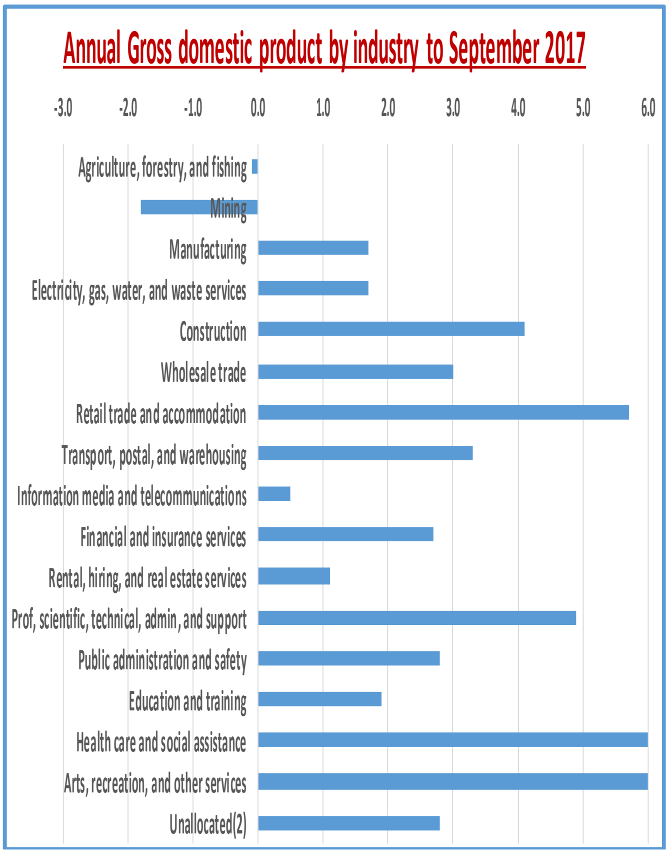
STATISTICS NZ DATA NEXT CENSUS DUE: 2018

Population	
Estimated population at 30 Sept 2017:	4,817,600
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration October 2017 year:	70,694
Employment	
Total employed Sept 2017 quarter:	2,593,000
Unemployment rate Sept 2017 quarter:	4.6%
Ave weekly earnings Sept 2017 quarter:	$1,174.64
Wage inflation September 2017 quarter:	1.9%
Cost Price Index September 2017 quarter:	0.5%
Intern. Investment Position June quarter:	**-$154.2 bn**
Change from last quarter:	**-$1.187 bn**
GDP per capita year ended June 2017:	**$56,482**
GDP Growth (volume) September 2017 quarter:	**0.8%**
Visitor arrivals Annual May 2017 +9.8%	**3,614,339**

Source: Statistics New Zealand

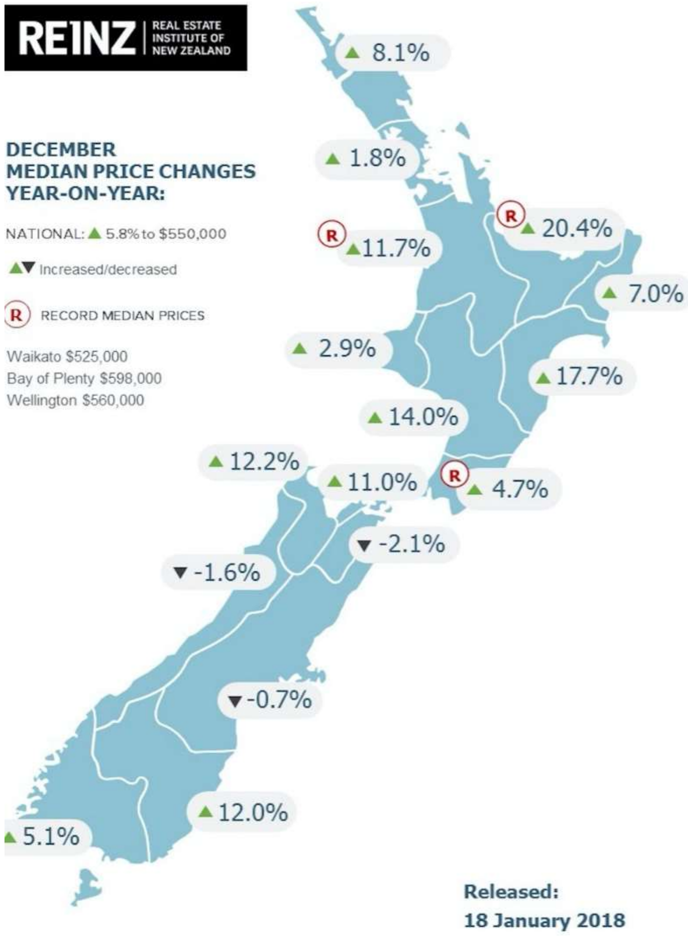


How can Trump look at this beautiful Haitian beach and call it a shithole?

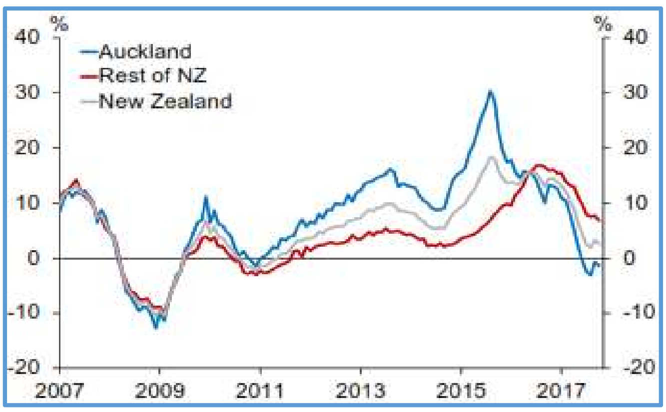
HOUSE INDICES EDGING DOWN

The Real Estate Institute of New Zealand has published its sales and price data for December, including its House Price Indices that adjust for the skewing effect of more or less sales in particular price bands.

The raw median price for New Zealand in December was $550,000, which was up 5.8 percent from December 2016.



House price growth has slowed markedly in the past 12 months, particularly in Auckland (see graph below). This reflects a combination of tighter loan-to-value ratio (LVR) restrictions since October 2016, a more general tightening in bank lending standards, an increase in mortgage interest rates in early 2017 and uncertainty related to the general election in September. Credit growth to the household sector has also started to moderate. The LVR policy has reduced the share of low equity loans on banks' balance sheets, improving their resilience to a downturn.



LIFE AS A REGIONAL COUNCILLOR -THESE ARE MY PERSONAL VIEWS ONLY

For anyone with aspiration to enter local government, I would offer a word of caution. You need genuine patience, as the speed of change is usually frustratingly slow. Our City and Regional councils are both very bloated bureaucracies, that continue to spend in a 'cost plus' mentality, that will drive you nuts.

I am no different. I left as a Bay of Plenty Regional Councillor in 2010 in the belief that we had started to break the 'cost plus' mold. I returned in late 2016 to find that the regional council had regressed into its old bad habits.

To give you an example: When I joined BOPRC in 2004 they had 206 staff. By 2010 that had risen to 287, and by 2017 it had reached 346. Currently it is heading towards 400! This is plain unsustainable. Is the regional council doing more delivery of services in 2017, compared with 2004. Undoubtedly yes - BUT not double the work. I keep harping on that rather than employing more staff, we need to be moving 'paper pushers' into 'action orientated' activities.

Our ratepayers just can't fund this constant ballooning of our staff numbers (averaging 8.3% annually since I first became a Councillor in 2004).

The Bottom Line

In the 2012-2022 Long Term Plan (LTP) budgeted for an operational spend of $100m in 2016-17. In fact, by 2017 that spend had grown to $128m annually (a 28% increase on its LTP). This is crazy, and spiraling out of control. It has to stop, but most elected members seem content to allow this out-of-control spending. Am I frustrated – Yes I am.

Good work

Look, our regional council does a lot of good work, and I support this. But the PC brigade has allowed the soft spend on the likes of Maori engagement (for example) to blow out to $8+ million per annum. In the early 2000's the figure was $500,000. Yes, we had to step up, and we did; but the current spend is a wrought, and has to be pegged back. Just reporting this will see me being called a racist, but that is plain rubbish. Someone has to speak out, because it is causing a huge burden on ratepayers.

Hearing Commissioner

One area that I have really enjoyed in 2017 was when I chaired the Rangitāiki River Plan Change 3. The outcome of this hearing was to recognise the Treaty Settlement legislation for the Rangitāiki River, in the Regional Policy Statement. This was something that I could really get my teeth into, and I enjoyed it immensely.

In summary

I am enjoying getting back into the role as a Regional Councillor. It has not been easy coming back as just the 'boy', as when I left I had been a Committee Chair for 5 of my previous 6 years.

I look forward to getting some benchmarking going, because if you don't measure your performance, then it is nigh impossible to effectively manage the operational efficiency of an organisation.

THE IWI ECONOMY IS GROWING STRONGLY

Chapman Tripp, in June 2017, estimated that the Iwi Economy was worth $50bn, and set to grow.

The "Iwi Investment Report 2017", by Wellington based TDB Advisory, shows that the asset base of New Zealand's approximately 70 iwi rose by $1.8bn in the last year to $7.8bn.

The growth was driven partly by six new settlements in the last two years totalling $222m, they said listing iwi as Ngati Hei ($8.5m redress), Ngati Tamaoho ($10.3m), Ngati Tuwharetoa ($78m), Ngati Tara Tokanui ($6m), Ahuriri Hapu ($19.5m) and Te Wairoa ($100m).

As at June 2017, the eight richest Iwi (representing about 53% of the Maori population), accounted for $4.8bn of assets; up from $4.4bn in 2016. This excludes relativity payments to Waikato-Tainui and Ngai Tahu.

The Eight Richest Iwi		Original Crown redress	Year settled	Present value	Years since settled	Gain per year ($m)	Gain per year (%)
Ngai Tahu	South Island	$170m	1997	$1.66bn	20	$75	43.8%
Waikato-Tainui	Waikato	$170m	1995	$1.22bn	22	$48	28.1%
Ngati Whatua Orakei	Auckland	$18m	2011	$1.08bn	6	$177	983.3%
Tuhoe	Te Urewera	$169m	2012	$348m	5	$36	21.2%
Ngati Porou	Wast Cape	$90m	2010	$232m	7	$20	22.5%
Raukawa	South Waikato	$50m	2012	$149m	5	$20	39.6%
Ngapuhi	Northland	Yet to settle		$58m			
Rangitane o Wairau	Upper SI	$25m	2010	$44m	7	$3	10.9%

GROWTH IN NET ASSETS PER MEMBER FOR THE EIGHT RICHEST IWI

Eight Richest Iwi	Ngai Tahu	Waikato-Tainui	Ngati Whatua Orakei	Tuhoe	Ngati Porou	Raukawa	Ngapuhi without a settlement	Rangitane o Wairau
	Net assets per member ($)							
2013	15,517	11,382	28,639	3,811	2,609	8,999	398	1,934
2014	18,679	11,355	32,134	4,057	2,612	9,451	395	2,088
2015	19,121	10,942	36,328	4,531	2,742	11,952	398	2,304
2016	20,966	11,641	46,385	5,254	2,705	12,425	406	2,375
2017	21,427	13,053	54,523	5,704	2,804	13,232	420	2,398
Av Annual growth	8%	3%	18%	10%	1%	9%	1%	5%

TREATY SETTLEMENTS TO DATE

Name	Year of deed	Redress amount
Ngati Hei	2017	$8.5m
Ngati Tamaoho	2017	$10.3m
Ngāti Tūwharetoa	2017	$78m
Ngāti Tara Tokanui	2017	$6m
Ahuriri Hapū	2016	$19.5m
Te Wairoa	2016	$100m
Rangitāne o Wairarapa & Rangitāne Tamaki nui-ā-Rua	2016	$32.5m
Rangitāne o Manawatū	2015	$13.5m
Ngāi Tai ki Tāmaki	2015	$12.7m
Ngāti Kahungunu ki Heretaunga Tamatea	2015	$100m
Taranaki iwi	2015	$70m
Tauranga Moana Iwi Collective	2015	$0.25m
Whanganui River	2014	$80m
Te Ātiawa (Taranaki)	2014	$87m
Ngāruahine	2014	$67.5m
Raukawa	2014	$50m
Ngāti Rārua	2013	$11m
Ngāti Tama ki Te Tau Ihu	2013	$12m
Ngāti Rangiteaorere	2013	$1m
Maungaharuru Tangitu Hapū	2013	$23m
Ngāti Kōata	2012	$11m
Te Ātiawa a Māui	2012	$11m
Ngāti Toa Rangitira	2012	$70m
Ngāti Rangiwewehi	2012	$6m
Tapuika	2012	$6m
Ngāti Tuhoe	2012	$169m
Tāmaki Makaurau Collective Settlement	2012	
Waitaha	2011	$8m
Ngāti Whātua o Kaipara	2011	$22m
Ngāti Whātua Ōrakei	2011	$18m
Ngāti Manuhiri	2011	$9m
Ngāti Makino	2011	$10m
Maraeroa A and B Blocks	2011	$2m

Name	Year of deed	Redress amount
Ngai Tāmanuhiri	2011	$11m
Rongawhakaata	2011	$22m
Ngāti Apa ki te Rā Tō	2010	$28m
Ngāti Kuia	2010	$24m
Rangitāne o Wairau	2010	$25m
Ngā Wai o Maniapoto	2010	
Ngāti Porou	2010	$90m
Ngāti Pahauwera	2010	$20m
Ngāti Manawa	2009	$12m
Ngāti Whare	2009	$10m
Ngāti Apa (North Island)	2008	$16m
Taranaki Whanui ki Te Upoko o Te Ika	2008	$25m
Central North Island Forests Iwi Collective	2008	$161m
Affiliate Te Arawa Iwi and Hapu	6, revised 2	$39m
Te Roroa	2005	$10m
Ngāti Mutunga	2005	$15m
Te Arawa (Lakes)	2004	$11m
Ngaa Rauru Kiitahi	2003	$31m
Tuwharetoa (Bay of Plenty)	2003	$11m
Ngāti Awa	2003	$42m
Ngāti Tama	2001	$15m
Ngāti Ruanui	2001	$41m
Te Uri o Hau	2000	$16m
Pouakani	1999	$3m
Ngāti Turangitukua	1998	$5m
Ngāi Tahu	1997	$170m
Te Maunga	1996	$0.13m
Rotoma	1996	$0.04m
Waimakuku	1995	$1m
Waikato-Tainui raupatu	1995	$170m
Ngati Whakaue	1994	$5m
Hauai	1993	$1m

Source: Office of Treaty Settlements

The growth in Iwi's Post Settlement Assets now raises the question as to whether it is still appropriate for Maori Authorities to retain their special tax rate of just **17.5%** (as compared to Company Tax of 28%).

On top of that, some Iwi have put their settlement proceeds into charitable trusts – avoiding taxation completely. Many are now competing with commercial businesses, that are at a substantial competitive disadvantage.

The tables below highlight just the 3 richest Iwi, and the bottom line is that Ngai Tahu has only paid $363,636 in tax on average annually, against total comprehensive income of $88.1m average annual income over the past 11 years. **Their tax rate equated to just 0.4% of revenue**.

Waikato-Tainui actually received tax rebates on an average of $70m of annual revenue (over the past 8 years).

Ngati Whatua Orakei averaged just $2.7m in tax annually over the past 6 years, on an average income of $93m. **Their tax rate equated to just 2.9% of revenue**.

THIS RAISES THE ISSUE – IS IT NOW TIME TO CHANGE THE LEGISLATION TO LEVEL THE PLAYING FIELD, IN THE INTERESTS OF FAIRNESS AND EQUITY?

Ngai Tahu	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets	567	645	657	715	730	809	1032	1219	31348	1504	1668
Net worth (total equity)	480	514	527	570	591	658	877	1075	1149	1274	1363
Total interest bearing debt	53	99	95	114	106	118	115	95	134	127	248
Current liabilities	34	33	32	25	26	24	38	50	60	75	106
Settlement received	0	35	29	6	1	0	69	13	29	0.04	0
Government grant income	0	0	0	16	0	1	5	0	0	0	0
Financials	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	219	179	164	146	163	209	231	320	346	396	330
Distributions	8	13	10	12	11	15	17	17	21	25	25
Operating exp. Trust	8	9	10	10	9	10	11	12	15	17	45
Finance costs	6	5	6	5	8	8	10	7	8	8	8
Taxation expense	0	0	0	1	1	0	0	0	0	1	1
Total comprehensive income	69	39	13	44	26	64	226	198	77	124	89

Waikato-Tainui	2010	2011	2012	2013	2014	2015	2016	2017
Assets ($m)	644	775	802	925	1,040	1,164	1,225	1,244
Net worth (total equity)	538	559	596	705	784	862	940	1,068
Total interest bearing debt	69	218	220	199	230	276	259	123
Current liabilities	34	94	45	50	38	33	241	18
Settlement received	0	0	0	70	21	70	0	0
Government grant income	0	0	0	0	0	0	0	0
Financials ($m)	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	33	37	57	64	70	83	82	72
Distributions	4	4	7	7	6	22	9	31
Operating exp. Trust	0	0	0	0	0	0	0	0
Finance costs	5	8	13	14	14	17	15	9
Taxation expense	0	0	0	0	0	-2	-3	0
Total comprehensive income	19	16	37	110	74	84	80	140

Ngati Whatua Orakei	2012	2013	2014	2015	2016	2017
Assets ($m)	422	593	631	767	939	1,086
Net worth (total equity)	317	424	482	553	717	855
Total interest bearing debt	38	107	86	153	161	171
Current liabilities	0	56	60	59	58	61
Settlement received	19	0	0	0	0	0
Government grant income	0	6	5	4	4	0
Financials ($m)	2012	2013	2014	2015	2016	2017
Revenue	52	35	41	43	57	51
Distributions	0	0	1	1	1	1
Operating exp. Trust	0	0	0	0	0	0
Finance costs	2	4	7	7	7	6
Taxation expense	0	1	6	0	4	5
Total comprehensive income	21	106	58	71	164	138

SOURCE: TDB Advisory, Wellington

NZ EMPLOYMENT MARKET WILL BE UNDER PRESSURE IN 2018

Expect dramatic changes across the country's workplaces in 2018, with employees set to get better pay and entitlements. Employment law amendments planned by this new very left leaning Labour-led Government will create "fundamental changes" to the country's workplaces.

The rise of the minimum wage, by 75c to $16.50 an hour from April 1, will be at the forefront of many employers' minds. Along with this, the Labour Party has committed to implementing changes to the Equal Pay Act to give women in female-dominated industries better access to collective bargaining and court processes for settling claims.

Furthermore, paid parental leave is also set to be extended from 18 to 22 weeks from July 1; and there are growing calls for employers to address pay equity and family benefits outside of the legislative space.

Employers are increasingly under pressure to diversify their workforce, ensure their senior leadership roles attract sufficient female talent, and to publish information about their gender pay gap and diversity policies. The proposed changes come with the rise of the "gig economy" - characterised by short-term contracts and freelance work; including easier global mobility and the increasing focus on a diverse and inclusive workforce.

Under Labour, contract workers, too, look set receive further statutory protections to bring them more in line with employees, while employees' collective bargaining rights are to be strengthened.

The Government's plans to modify trial periods -- adding a provision that they must provide reasons for dismissing new employees. This can only create employment complications. Lawyers will be locked out of the dispute resolution process; compensation will be capped; and referees' decisions will not be open to appeal.

Expect dramatic changes to employment in 2018, which, in the simplest terms, would be good for employees and not so for employers. These changes will be particularly hard on small employers, and are likely to force employers to find alternative ways to get work undertaken. It is looking like a step back into the industrial relations that were so confronting in the 1970's.

The new equal pay and new pro-union bargaining laws will cause an earning-envy culture where the employment judiciary work load will increase dramatically.

However, these changes will likely only start to impact the country's economy and productivity in 2019.

Council of Trade Unions president Richard Wagstaff countered these apprehensions, stating the pro-worker changes would, in fact, improve productivity and ultimately deliver economic benefits to New Zealand.

"These are things that will be good for working people and I don't subscribe to the idea that what's good for working people is bad for business," he said.

"The current employment standards we have in New Zealand have us performing very badly in the workplace. By any measure, our productivity is not only very low it's actually falling, which is of great concern to working people and the businesses they work for."

In its November Economic Overview, Westpac said it expected unemployment to rise in 2018, mainly due to the "sluggish economy", but to fall again from late 2019 as a result of the Government's plan to borrow more and spend more, thus stimulating the economy over time.

WORLD ECONOMIC FORUM

THE GLOBAL COMPETITIVENESS REPORT 2017–2018

The Global Competitiveness Report 2017–2018 comes out at a time when the global economy has started to show signs of recovery and yet policymakers and business leaders are concerned about the prospects for future economic growth.

Governments, biz, and individuals are experiencing high levels of uncertainty as technology and geopolitical forces reshape the economic and political order that has underpinned international relations and economic policy for the past 25 years.

Global Competitiveness Index	Rank 2017	Rank 2016
Switzerland	1	1
United States	**2**	**3**
Singapore	3	2
Netherlands	4	4
Germany	5	5
Hong Kong	6	9
Sweden	7	6
United Kingdom	8	7
Japan	9	8
Finland	10	10
Norway	11	11
Denmark	12	12
New Zealand	**13**	**13**
Canada	**14**	**15**
Australia	**21**	**22**

At the same time, the perception that current economic approaches do not serve people and societies well enough is gaining ground, prompting calls for new models of human-centric economic progress.

Covering 137 economies, the Global Competitiveness Index 2017–2018 measures national competitiveness - defined as the set of institutions, policies and factors that determine the level of productivity.

New Zealand remains at a consistent 13th in this index, ahead of Australia at 21st. Now, the question is: Can we retain our position under a left-leaning government.

Artificial Intelligence & Technology is here to stay...

Artificial Intelligence – 3D Printing of Food

Did you know that it is now possible to 3D print edible food.

Yes, the future could be a 3D printer to replace the fridge!

Instead of ink in the 3D printer it could be mushy peas (for example). Peas are an ideal product for 3D printing, because they mush up so well, yet retain their protein. You just need to add the desired taste and colour, and you have AI food.

This is happening today, and "impossible foods" are a reality.

So, is this a threat for a country like New Zealand, that relies on its strong agricultural export base? I say NO. The will always be those who want the "New Zealand 100% Pure" genuine food. Let's treasure that brand.

It is time that we called those who would destroy our strong brand, as treasonous. Sure 100% Pure is an exaggeration, but this is a pretty fine country, and we should be proud of it – not knock it like some of our left-leaning radicals do.

Local Motors receives $1bn for 'Olli,' the 3D Printed Autonomous Bus

Source: 3D natives magazine

Local Motors are an American company based in Arizona, known for 3D printing a variety of vehicles over the years. A few days ago, they announced investments of $1bn in the launch of their 3D printed autonomous vehicle, the 'Olli'. This autonomously driven vehicle promises to revolutionise and challenge the status quo in public transport. Through partnerships, such as with Elite Transportation Services (ETS) based in Florida, and Xcelerate in Texas, Local Motors aims to take Olli worldwide. Elite Transportation Services partnered to provide customers with a comprehensive operating solution, including maintenance, insurance, warranty service and regular shuttle checks. Olli has already been introduced into various cities such as Washington DC, Knoxville TN, and Germany however. This innovative combination of 3D printing, engineering and artificial intelligence from IBM Watson looks to be very promising.

For all customers who have already partnered with other transport companies, Local Motors offer opportunities to finance the autonomous bus Olli for up to 84 months. This is in order to maintain relations with transport companies. Financing the US$20m Olli shuttles received from Xcelerate will also help the company develop sustainable and autonomous transportation solutions.

It's too early to tell how this 3D printed bus will impact public transport. Perhaps it will take over, and 'Ollying' somewhere will become a verb like 'Googling' is. Nevertheless, Olli shows an application of 3D printing to create a working bus and therefore how versatile the printing process is.

Shaping the Future of Food Security and Agriculture

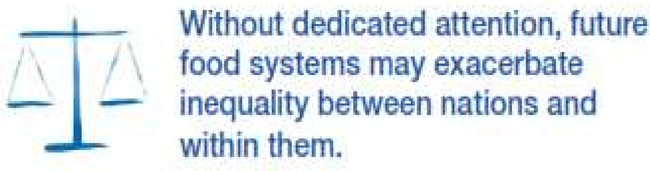
By 2050, a global population of 9.8 billion will demand 70% more food than is consumed today. Feeding this expanded population nutritiously and sustainably will require substantial improvements to the global food system – one that provides livelihoods for farmers as well as nutritious products for consumers.

The mission of the World Economic Forum's System Initiative on Shaping the Future of Food Security and Agriculture is to build inclusive, sustainable, efficient and nutritious food systems through leadership-driven, market-based action and collaboration, informed by insights and innovation, in alignment with the Sustainable Development Goals.

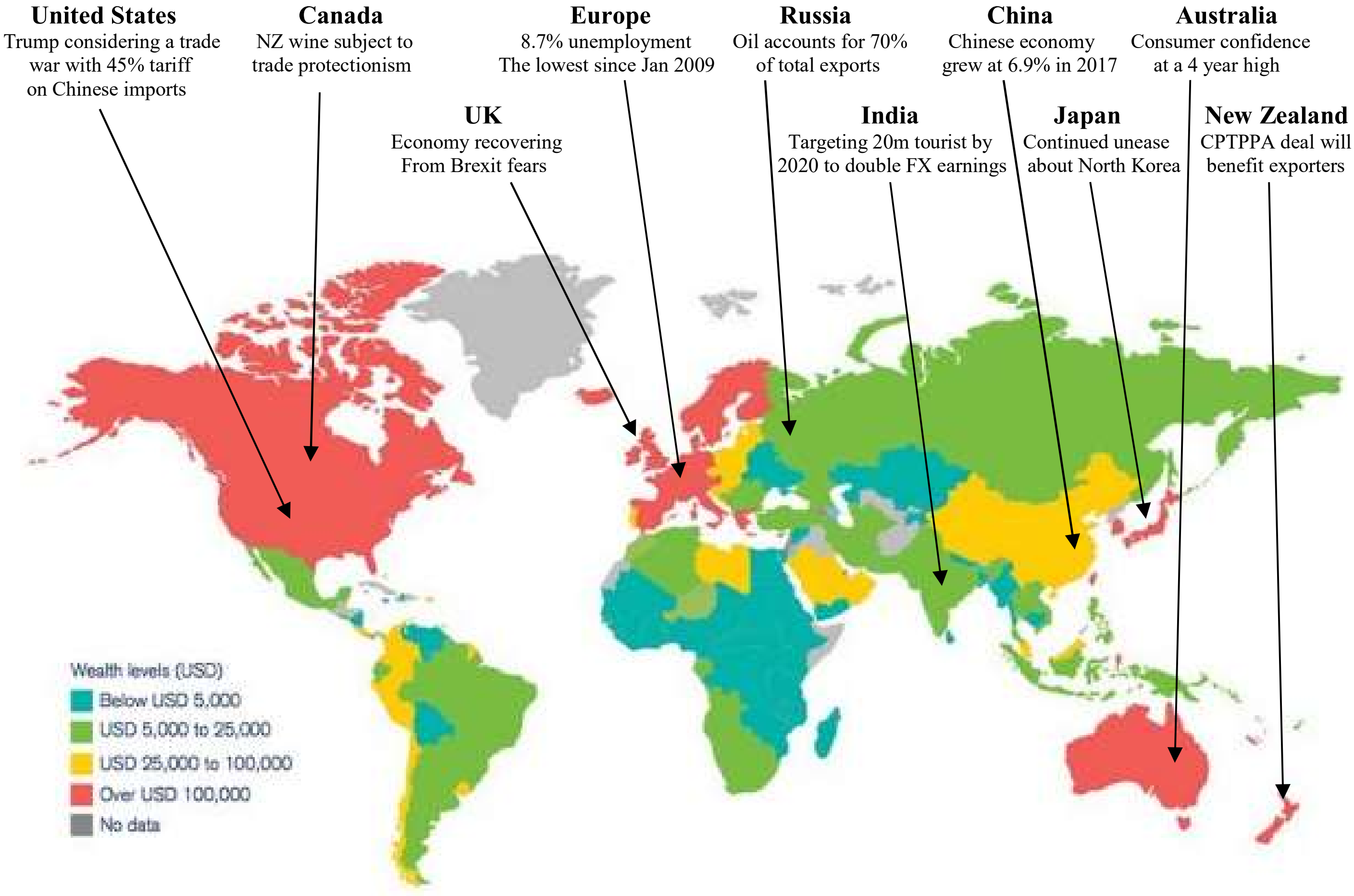
The System Initiative on Shaping the Future of Food Security and Agriculture aims to:

⇒ Strengthen global food systems by developing new insights; facilitating collaboration on priority action areas, including leveraging technology and innovation for food systems change; and mobilizing leadership and expertise at the global level.

⇒ Achieve the "New Vision for Agriculture" by strengthening multi-stakeholder collaboration at the country and regional level, and by mobilizing new investments, partnerships and best practices to achieve concrete results.



THE WORLD AT A GLANCE – *including World wealth levels 2017*



THE GLOBAL ECONOMIC OUTLOOK

The World Bank forecasts global economic growth to edge up to 3.1% in 2018 after a much stronger-than-expected 2017, as the recovery in investment, manufacturing, and trade continues, and as commodity-exporting developing economies benefit from firming commodity prices.

But this is largely seen as a short-term upswing. Over the longer term, slowing potential growth—a measure of how fast an economy can expand when labour and capital are fully employed—puts at risk gains in improving living standards and reducing poverty around the world, the World Bank warned in its January 2018 Global Economic Prospects.

Growth in advanced economies is expected to moderate slightly to 2.2% in 2018, as central banks gradually remove their post-crisis accommodation and as an upturn in investment levels off. Growth in emerging market and developing economies as a whole is projected to strengthen to 4.5%, as activity in commodity exporters continues to recover.

However, Citigroup chief economist Willem Buiter suggested in early January that investors cut their exposure to sharemarkets.

"There are clearly signs of late-cycle froth in financial markets, in everything from equities to corporate credit and real estate, especially in the US. There is the risk of an overdue correction," he said.

"We are reluctant to call an end to the bull market in risk assets just yet but a considerable degree of caution is now warranted. Downside risks are rising as the business cycle matures."

However, New Zealand market commentators are optimistic about the year ahead, despite international warnings that a crash is "overdue".

Mercer chief investment officer in New Zealand Philip Houghton-Brown was optimistic about the year ahead.

He said growth was more synchronized around the world than it had been for a long time. "That should lead to continued growth in corporate profits. Inflation is still relatively subdued. These factors are usually quite positive for equity market performance."

He said he was conscious that the rally that had been running since 2009 was one of the longest and largest on records and valuations, particularly in US equities, were high. "At the same time equities can still rise moderately in 2018."

Volatility could be expected to increase.

"Although we expect the current economic strength to continue into 2018, we believe that investors should start considering the ways in which they might prepare portfolios for the risks and opportunities that the late stage of this credit cycle might present."

Houghton-Brown was less optimistic about the outlook for New Zealand equities. He said New Zealand's market tended to underperform when interest rates were rising, which was likely this year.

"Because of the high yield, it tends to be favoured by investors seeking yield, so as government bond rates move up, even overseas, that sometimes weighs on the higher-yield markets, like the NZX."

Strong performance had been concentrated in a small number of stocks over the year.

"Although we continue to advocate equity portfolios with a diverse mix of style exposures, investors with a significant bias to low volatility equity - especially where this is captured via an index-based approach - might wish to review the extent to which their equity portfolio is exposed to a rising yield environment."

Other Fund Managers are more optimistic for equities this year, noting that there were good reasons why markets could continue to perform well this year.

On the flip side, what could bring it to an end? All bull markets must end at some time. There's nothing screaming out at the moment. There are always risks out there; when Donald Trump was elected US president in November 2016 a number of commentators said it will be bad for equities and it was time to exit. The S&P500 is since up about 25%. It is impossible to call the end of a bull market, and trying to time the market can prove costly.

Geopolitical risks, problems with China, or interest rates rising faster than expected, could change market fortunes. Things remain predominantly positive in global share markets. My thoughts are, on balance, stay invested, but make sure you are diversified, to reduce your risk.

New Zealand's Economic Outlook

Earlier estimates suggested that the economy had been growing by around 2.5% to 3% per annum in recent years.

That was surprisingly modest growth given large increases in the population, implying that GDP per-capita had essentially stagnated. However, over time more detailed information on economic conditions has become available. This has revealed that economic activity in recent years was actually substantially stronger than initially thought. Growth topped out at 4% at end of 2016, and per-capita GDP has been actually growing by a little under 2% in recent years. Importantly, this leaves us with a firmer picture for household spending that is much more consistent with the strength in population growth and house prices in recent years.

These updated GDP estimates also help to resolve questions about what at first seemed to be quite a dismal picture of labour productivity in recent years; the updated picture is more encouraging.

Reserve Bank

In November 2017 the Reserve Bank produced an assessment of the New Zealand economy. Their report stated that New Zealand's financial system remains sound. "*The banking system maintains adequate buffers over minimum capital requirements. Recent stress tests suggest that banks can withstand a severe economic downturn, although results are sensitive to a range of assumptions.*

Overall, the banking system appears to be operating efficiently in performing its financial intermediation role, despite a tightening in lending standards, which has contributed to a slowing in credit growth.

"*While New Zealand's financial system remains exposed to a number of risks, these risks have reduced over the past six months. The key risks facing the financial system are: housing market vulnerabilities, dairy sector indebtedness and the banking system's exposure to volatility in international funding markets.*"

Interest Rates

Market expectations are for the Reserve Bank to hold its official cash rate steady this year or to increase it, but a contrary view put forward by some economists suggests rates may actually fall, with a cooling real estate market acting as a catalyst. Forecasts from the big four banks range from two hikes this year to none all until late 2019.

Interest rate market pricing suggests that there is an 85 per cent chance of an official cash rate hike by the end of 2018, with further increases expected beyond that.

Paul Dales, Capital's economist for Australia and New Zealand, said expectations were rising for a rate hikes this year from both the Reserve Bank of NZ and the Reserve Bank of Australia (RBA). However, "We disagree," Dales wrote in an economic update.

Capital's forecast for gross domestic product in New Zealand is that it will again grow by 3.0% this year, matching the consensus forecast.

"*But the risks are on the downside and the easing to 2.5% we expect in 2019 may happen sooner*," he said.

The government's fiscal plans will support growth, but tighter rules on migration and housing investment will weigh on consumption and housing activity.

"*Either way, with core inflation set to stay in the bottom half of the Reserve Bank's 1-3% target, we expect the Reserve Bank will keep rates at 1.75% rather than raise them to 2.00%, as implied by the financial markets and the consensus*," he said.

"*The biggest downside risk facing the New Zealand and Australian economies is their fragile housing markets*," Dales said.

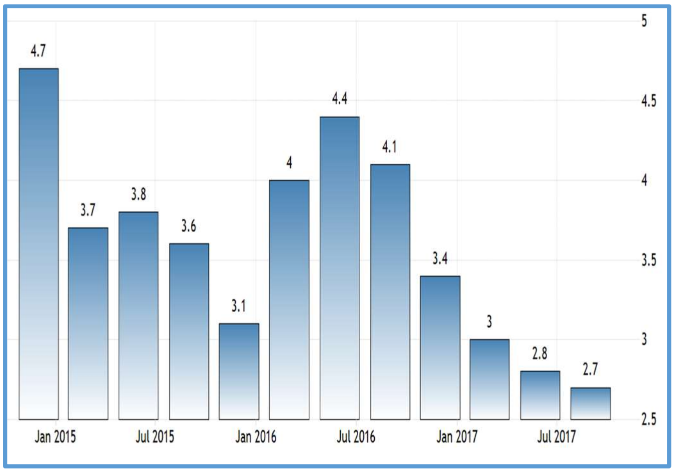
"*It is hard to think of reasons why the housing markets would strengthen, but upward pressure on mortgage rates from overseas, weaker migration and tighter lending conditions or stricter tax rules could mean they are weaker than we expect. If the recent softening turns into a slump, then the RBA and the Reserve Bank of NZ may have to cut interest rates*," he said

Latest data from Quotable Value showed year-on-year, the volume of New Zealand houses sold was down every month in 2017, with numbers down by more than 20% in February and October. Despite the slow-down in sales, property values continued to rise, although at a slower rate than in previous years.

The Bank of NZ's economics team has pencilled in two hikes by the Reserve Bank in August and November, followed by four more 2019. ANZ expects one rate hike in November, then two more in 2019. At the dovish end of the scale, ASB does not see a change this year and is predicting two hikes in 2019, while Westpac does not expect to see a rate hike until late 2019.

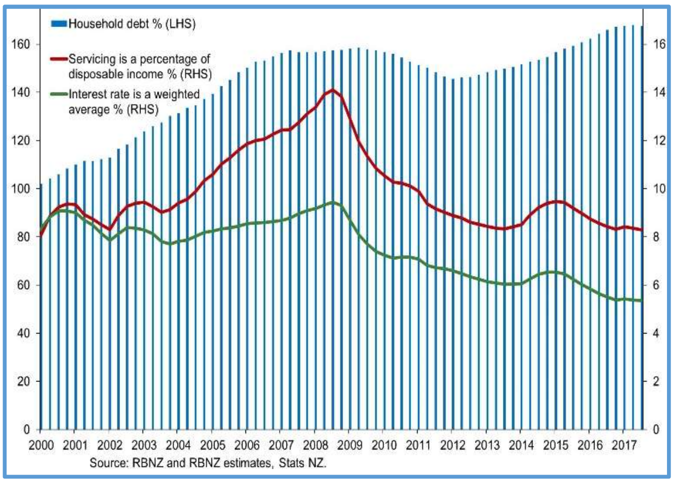
The Reserve Bank, at its last review on November 9, said that monetary policy "*will remain accommodative for a considerable period*". The Reserve Bank's next review of the OCR is due on February 8.

NEW ZEALAND GDP ANNUAL GROWTH RATE



While household debt has returned positive since 2012, the continued low interest rates have ensured that our debt levels remain affordable. A word of caution however - any economic downturn, combined with rising interest rates, could spell trouble for those with high gearing.

NZ HOUSEHOLD DEBT – AS A % OF NOMINAL DISPOSABLE INCOME



New Zealand's terms of Trade are the most favourable ever, and global growth is looking better than it has for years. The risk is this new left-wing government, that has promised so much – but can it honour those promises. We expect the NZ economy to remain buoyant in 2018, but with a big tailwind likely to hit in 2019.

Australian Economic Outlook

GDP growth in Australia has a consensus forecast for 2018 of 2.9%, and the RBA's forecast is 3.0%.

The good news is that the outlook for Australian business investment is the most positive it has been since the mining boom ended in 2013; and the public infrastructure spending pipeline is full. The bad news is that dwellings investment will fall further, with low income growth, high debt and a weaker housing market that will conspire to keep consumption growth weak.

"*GDP growth will still rise from around 2.2% last year to about 2.5% this year*", according to Paul Dales, Capital's economist for Australia and New Zealand, "*but that would be the eighth year in the past ten that growth has fallen short of the economy's potential rate of 2.75 - 3.0%.*"

Dale believes that underlying inflation in Australia would spend a third year below the 2-3% target, and official interest rates there would stay at 1.5 per cent for the second year in a row.

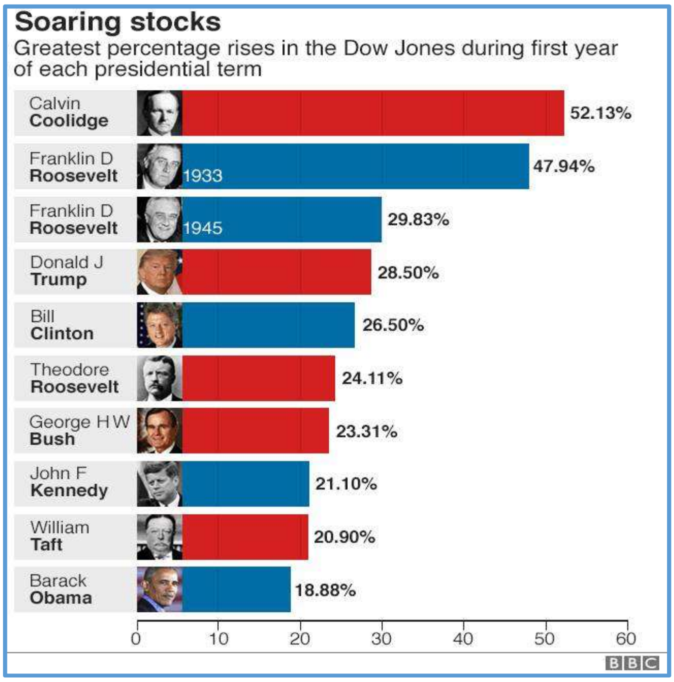
AUSTRALIA'S GDP ANNUAL GROWTH RATE

UNITED STATES ECONOMY

The US economic outlook is one of slow and steady growth consistent with a moderate recovery. The unemployment rate is easing into the level associated with full employment. The economy, however, continues to grapple with several points: An inventories correction, depressed energy-sector capital spending, and downward pressure on growth caused by a worsening trade balance. Nevertheless, the solid performance of domestic demand means a positive outlook for the US economy.

Apple (AAPL) has announced that it is about to give the U.S. economy a huge boost in the form of a US$350bn five-year investment. It will pay US$38bn in repatriation taxes, with CEO Tim Cook saying the company will bring the majority of its overseas cash back to the U.S. As part of that, it will commit US$55bn this year alone and plans on adding 20,000 new jobs over that time frame. Following in the footsteps of Amazon, it also plans to add a new campus somewhere in the U.S. this year. Apple will give out US$2,500 restricted stock bonuses to most employees. This has to be positive for the US economy in 2018.

UNITED STATES GDP ANNUAL GROWTH RATE



UNITED KINGDOM ECONOMIC OUTLOOK

The UK's inflation rate has fallen for the first time since June 2016, mainly because of the impact of air fares. The inflation rate dipped to 3% in December, down from November's rate of 3.1% - a six-year high.

The Office for National Statistics (ONS) said that while air fares rose last month, it had a smaller impact than at the same point in 2016. It added that a drop in the price of toys and games also contributed to December's fall.

The Bank of England has said it thinks inflation peaked at the end of 2017, and will fall back to its target of 2% this year. The rate had been rising over the past year, partly due to the fall in the value of the pound since the Brexit vote, which has pushed up the cost of imported goods.

Carillon collapse

The collapse of Carillon, UK's second largest construction company, will see taxpayers paying almost £200bn to cover government private finance initiatives over the next 25 years, the UK spending watchdog has warned. This is fuelling accusations that many of the deals are "financial time bombs". Carillon has been forced into liquidation, putting at risk its 20,000 employees, and putting into question Theresa May's public-private partnerships policy.

UNITED KINGDOM'S GDP ANNUAL GROWTH RATE

EUROPEAN ECONOMY

The UK has pledged an additional £44.5m to strengthen Calais border controls, to help prevent migrants in France from crossing the English Channel.

The European Central Bank (ECB) has lifted its economic growth forecasts as growth across the eurozone picks up. It now expects the eurozone's economy to grow 2.4% this year, ahead of its previous guidance of 2.2%.

The bank also kept its main interest rate at zero and confirmed its asset purchase programme would drop from €60bn to €30bn a month in January.

ECB president Mario Draghi said: "We are certainly more confident today than we were two months ago."

Pressure on the ECB to tighten policy has been growing as the eurozone economy has gathered strength.

The bank also raised its GDP growth forecast for next year to 2.3% from 1.8%, and for 2019 to 1.9% from 1.7%.

The ECB slightly lifted its inflation expectation for next year but its guidance remains below its target of close to, but below, 2%.

EURO AREA GDP ANNUAL GROWTH RATE

CHINESE ECONOMY

The Chinese Government now wants the economy to be less reliant on manufacturing that requires a lot of polluting energy, and less driven by massive investment in construction. This will involve using less coal, which in turn will help clear the air as well as reduce climate-changing emissions of carbon.

The government is spooked by an accumulation of research showing just how vulnerable the country is to damage caused by climate change. A study published in 2013 by the World Bank and the OECD concluded that economic losses in Guangzhou, in southern China, would be greater than in any other city in the world. In 2015 the government's chief meteorologist warned of "serious threats" to China's rivers, food supplies and infrastructure as a result of global warming, which he said had been greater than the global average.

China also sees diplomatic benefit in hanging tough on climate change. It talks of the "soft power" it won by pushing for the agreement in Paris. Shortly before Mr. Trump's inauguration in January, Mr. Xi told a gathering of the world's elite in Davos, Switzerland, that all signatories should stick to the Paris accord "instead of walking away from it"—a poke at Mr. Trump that his audience applauded.

Chinese officials are blessed by the absence of a domestic lobby that questions climate change and its causes. China also hopes to profit from developing green technology that it can sell globally. It is investing huge sums in it. In January it announced plans to spend 2.5trn yuan (US$360bn) by 2020 on new generating capacity using renewable or low-carbon sources, including solar, wind, hydroelectric and nuclear plants. It says this will create 13m jobs and mean that half of the new capacity built between 2016 and 2020 will be renewable or nuclear (although China's record in attaching wind and solar farms to the grid has been less impressive than its rapid building of them).

The country is eager to experiment with other ways of reducing greenhouse gases. Later this year it plans to launch a nationwide carbon-trading scheme, mainly for heavy industries. It is also mulling the introduction of a carbon tax.

CHINA'S GDP ANNUAL GROWTH RATE

INDIAN ECONOMY

Forget India's economic troubles in 2017. Moody's thinks Prime Minister Narendra Modi is doing a fine job. The agency has just upgraded India's credit rating for the first time in more than a decade, citing its confidence in policies that have been widely blamed for a sharp slowdown in growth.

"The decision to upgrade the ratings is underpinned by Moody's expectation that continued progress on economic and institutional reforms will, over time, enhance India's high growth potential," Moody's said.

The upgrade is welcome news for Modi, who has seen India's GDP growth slump to a three-year low on his watch. The drop -- from 7% at the end of 2016 to 5.7% in the quarter ended July -- is being blamed on two of his biggest initiatives.

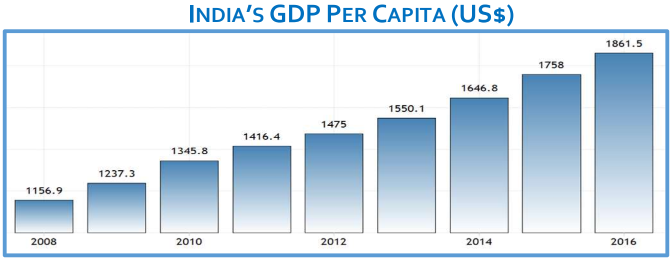
Modi abruptly banned 86% of the country's cash in November 2016, with the aim of combating tax evasion and promoting digital payments. The ban delivered a sharp shock to India's cash-dependent economy that many businesses haven't recovered from.

Then, in July, the government replaced dozens of state tariffs with a single national sales tax. While largely seen as a positive move, the change further disrupted economic activity as businesses struggled to adapt.

Moody's acknowledged that the cash ban and tax reform "have undermined growth over the near term."

But the policy changes would ultimately foster "strong and sustainable growth" by making it easier to do business, boosting productivity and stimulating investment, the ratings agency added.

INDIA'S GDP PER CAPITA (US$)



India's GDP Annual Growth Rate

Commodities

OPEC said December oil production rose by 42,000 barrels a day to 32.42 million, but it also modestly lifted its 2017 global demand estimate to 96.99 million barrels a day, and forecast 2018 demand at 98.51 million barrels a day.

Oil: West Texas Crude (1 Year Chart)

Currency

New Zealand's exchange rate tumbled as the Government changed, but sentiment has started to change again. Over 2018, we expect the NZD to continue falling against the USD, as the Fed lifts interest rates and the RBNZ sits on its hands. It is a different story against the AUD, with both the RBA and RBNZ on hold, and with the pace of growth here and in Australia set to ease. Expect the cross rate with Australia to hold steady over 2018.

NZD/USD (Red) and NZD/AUD (Black)

Bitcoin

Bitcoin was supposed to be a haven for those disillusioned with fiat currency. The cryptocurrency offers scarcity, liquidity, transparency and decentralisation. It was created in response to dissatisfaction with the ease at which money is created and destroyed during credit cycles.

Central bankers seem a little threatened

Many central banks officials, including Reserve Bank of Australia Governor Lowe have spoken about the risks in cryptocurrencies as we know them now. Some favour a central bank-controlled e-currency. But this flies in the face of the spirit of blockchain. Central bankers seem uncomfortable with decentralisation. Chinese officials have been particularly harsh in their assessment that the cryptocurrency represents a pure bubble, calling into question its so-called advantages (scarcity, fidelity, strong liquidity, transparency and decentralisation) and origins, and even raising the spectre of price manipulation. Chinese officials have of course done more than talk about Bitcoin – they have also tried to curtail domestic trading and mining activity. They seem concerned about the prospect of cryptocurrencies being used as vehicles for capital outflow in as much as they are concerned about the build-up of speculative risks.

Bitcoin is trading as a leveraged credit exposure

Network variables only go so far in explaining Bitcoin dynamics. Credit spreads are key. A 1% widening (narrowing) in BBB spreads causes a 100 log-point decrease (increase) in Bitcoin's price. Bitcoin's implied leverage to credit exceeds that of the toxic securities on offer prior to the financial crisis!

Almost 50% expensive at the moment.

Bitcoin has come off its high of USD 18.7K to around USD 11.4K at time of writing. But our Australian analysts model suggests that fair value is closer to USD 6K. They say that the cryptocurrency is more than one standard deviation expensive. Even if one has a very positive view about cryptocurrency adoption, and credit spread compression, its valuation is still a problem.

Investment conclusions

Like the RBA and other central banks, our analysts are concerned that Bitcoin dynamics have become unstable. It is not just that price movements are extraordinarily volatile—it is also that pricing is heavily caught up with credit. Perhaps unwittingly, Bitcoin investors have taken on extremely leveraged positions on credit spread compression. Our analysts believe they ought to be aware of their underlying exposures. After all, with credit spreads approaching historically low levels, and central banks likely to reduce their asset purchases, there is far more upside to spreads than downside, creating far more downside to Bitcoin prices than upside.

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2018^F

Units - NZ$m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018^F
Dairy	6,093	5,982	6,986	7,849	10,359	11,037	10,313	12,913	13,379	13,139	17,792	14,049	13,289	14,637	17,350
Meat & wool	6,847	6,760	6,659	6,776	6,940	7,826	7,111	7,836	7,781	7,794	8,160	9,001	9,200	8,355	8,480
Forestry	3,295	3,243	3,249	3,647	3,294	3,615	3,923	4,578	4,327	4,526	5,199	4,681	5,140	5,488	5,760
Horticulture	2,212	2,269	2,326	2,649	2,897	3,338	3,279	3,382	3,560	3,547	3,794	4,173	4,987	5,148	5,410
Seafood	1,257	1,266	1,278	1,311	1,272	1,460	1,406	1,562	1,545	1,546	1,500	1,563	1,768	1,744	1,850
Arable	92	89	109	110	142	157	144	153	173	224	228	177	205	191	205
Other primary sector[3]	1,114	1,299	1,337	1,490	1,526	1,586	1,544	1,681	1,783	1,940	1,910	2,315	2,614	2,539	2,560
TOTAL	**20,910**	**20,908**	**21,944**	**23,832**	**26,430**	**29,019**	**27,720**	**32,105**	**32,548**	**32,716**	**38,583**	**35,959**	**37,203**	**38,102**	**41,615**

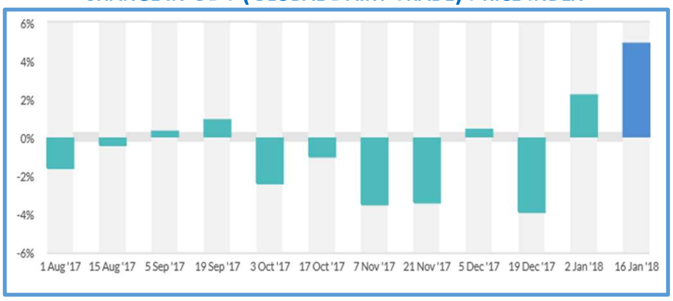
SOURCE: Ministry of Primary Industries

Note: [3] Other primary sector exports & foods include: live animals, honey, and processed foods such as chocolate and tomato sauce.

Dairying

Prices rose around five percent in the latest fortnightly GlobalDairyTrade auction, with whole milk powder prices (which are used to set Fonterra's payout level) rising 5.1 percent. This was the second consecutive rise this year and follows Fonterra's announcement that it expected production to be down 3% this year because of dry conditions. Production in December was down 6% on December 2016.

CHANGE IN GDT (GLOBAL DAIRY TRADE) PRICE INDEX



Mycoplasma Bovis

Agriculture and Biosecurity Minister Damien O'Connor has announced that Mycoplasma Bovis had spread to 17 farms, and that 39 farms had been quarantined to stop the further spread of the disease, which is not a food safety risk. He announced MPI would test three milk samples from every New Zealand dairy farm starting on February 1.

Forestry

A proposed change to forestry rules could hurt the value of the NZ Super Fund's single largest investment, a $1.49bn stake in the Kaingaroa plantation. Forestry Minister Shane Jones and Trade Minister David Parker are understood to be meeting with various stakeholders to discuss possible changes to how the Overseas Investment Office (OIO) scrutinises forestry. Currently the office can hold up land purchases but cutting rights are exempt, but the Government is now considering changing this exemption.

Kaingaroa Timberlands own the cutting rights to the Kaingaroa Forest, said to be the largest single plantation in the southern hemisphere. The NZ Super Fund's minority share in the company makes up around 3.9% of the total $37.4bn fund.

Farmers set to pay $44m for their Emissions

Farmers look set to be included in the Emissions Trading Scheme this Parliamentary term, but will have to pay only $44 million of what some estimate to be an $8.8 billion bill.

It is "more likely than not" agriculture will join the scheme during the term of this Government, Climate Change Minister James Shaw said. But the sector will be given a free allocation of units equivalent to 95% of its emissions to "soften the landing".

Previous governments have exempted agriculture from the ETS, while scientific answers to address greenhouse gas emissions were sought, but farmers have paid the ETS tax on inputs such as energy.

Shaw said there are still decisions to be made on whether the costs of agricultural emissions will be calculated on production or stocking rate intensity and whether farmers or processors will pay.

At the current carbon price of $22 a tonne, information provided by his office put the cost to farms at $44 million a year or $1500 a year for an average dairy farm and $700 for an average sheep and beef farm.

How and where the charge will be collected is still to be determined. While, ideally, it should be on individual farms, technically that was not yet possible, he said.

Adding agriculture to the ETS was part of broader Government policy to make New Zealand a net zero emitting economy by 2050 and, as part of that, an interim Climate Change Commission will be appointed in April or May ahead of a permanent commission a year later.

Zespri International (UNLISTED: ZGL.NZ)

NOTE: This stock is only available to growers (and ex-growers)

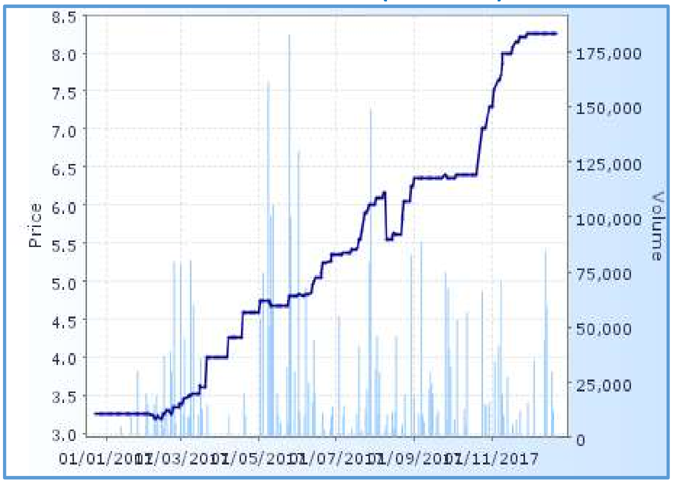
CURRENT PRICE: $8.22

ZGL Year end March 30		2016	2017	2018F	2019F	2020F
EBIT	NZ$m	43.6	104.7	143.0	219.1	227.8
Net Profit	NZ$m	27.8	78.8	101.7	155.1	161.5
Earnings per Share	NZc	23.0	65.3	84.3	128.5	133.8
Price Earnings Ratio	x	27.8	13.5	9.8	6.4	6.2
Dividend/share	NZc	24.0	25.0	73.0	103.0	107.0
Net Yield	%	2.9	3.0	8.8	12.5	13.0

Source: Craigs Investment Partners, Company data

Zespri (ZGL), the legislated "single desk" export marketer of NZ kiwifruit exports, owns the Plant Variety Rights to the new and extremely popular SunGold kiwifruit variety (which has been a gamechanger post the devastating vine-killing disease Psa), and has invested offshore to provide year-round supply. ZGL is well positioned to continue to benefit from the growth in global demand for kiwifruit.

UNLISTED SHARE PRICE (2017 YEAR)



Who is Zespri?

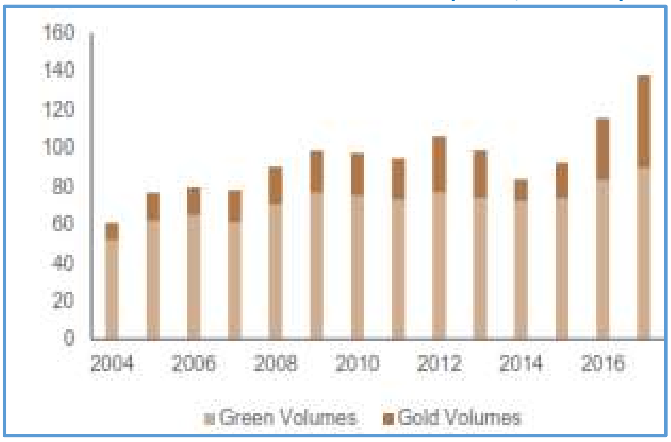
Zespri (ZGL) provides exposure to NZ's primary sector growth story underpinned by increasing European and Asian demand. Kiwifruit continues to be New Zealand's largest horticultural export at c1/3 of horticultural exports by value. ZGL is the legislated "single desk" export marketer of NZ's kiwifruit exports outside Australia other than collaborative marketing, owns the Plant Variety Rights (PVR) to the new and extremely popular SunGold and has invested in offshore supply to provide year-round supply to customers.

Industry growth profile

NZ kiwifruit exports have grown from 60m trays in 2004 to 140m trays in FY17 at a CAGR of 7%. However, this growth has not been linear. The arrival of Psa into NZ in 2010 resulted in kiwifruit export volumes declining c20%+ between 2012-2014, largely due to Psa's impact on the high value Hort16A Gold variety (volumes –60%). NZ kiwifruit export volumes subsequently recovered strongly due to the successful development of SunGold, a gold variety with greater tolerance to Psa. This recovery has seen ZGL's NZ kiwifruit exports for the year ending March 2017 of $2.1bn, c40% above the average value for the five years 2012-2016.

NZ gold kiwifruit exports have grown from 9m trays in 2004 to 48m trays in FY17 at a CAGR of 14%. NZ green kiwifruit exports have grown from 52m trays in 2004 to 90m trays in FY17 at a CAGR of 4%, noting FY17 was an above average year for yields.

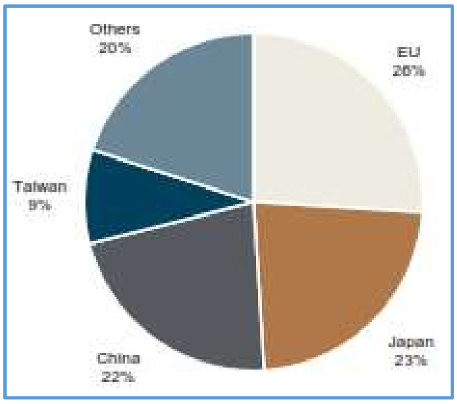
NEW ZEALAND KIWIFRUIT EXPORT VOLUME (TRAYS, MILLIONS)



Source: Company data

The appetite for kiwifruit continues to grow beyond the traditional markets of Europe and Japan, evidenced by China and Taiwan becoming major markets over the past 5 years.

KEY EXPORT MARKETS 2016



Competitive landscape

The competitive landscape for NZ kiwifruit exports is good. NZ exports kiwifruit to the northern hemisphere in its low season with the only real competitor being Chile, which only exports c1/3 the volume and 1/5 of the value of NZ, and currently exports of Gold are limited. NZ also produces premium fruit vs Chile as highlighted by the c100% price premium NZ kiwifruit has achieved in Europe over 2011-2016. Zespri's internal target is to be at least 20-40% above the nearest kiwifruit competitor. The position of ZGL's New Cultivars business is also strong. Due to biosecurity regulations, foreign plant material cannot currently be imported into NZ, so any competition for ZGL's SunGold has to be developed in NZ which takes time and money.

This, combined with ZGL's significant branding in offshore markets is driving strong orchard gate returns which in turn is seeing strong demand for SunGold licences from NZ growers.

SunGold creates fundamental change in earnings profile

Over the past 15 years, ZGL's traditional export business has delivered NPAT of $1030m/annum. However, ZGL is currently experiencing a fundamental change to its earnings profile because of strong SunGold demand and the sale of licences to grow it that has seen ZGL guide to FY18 NPAT of $100-103m. While SunGold licence sales underpin the significant earnings uplift in the near to medium term, ZGL has cautioned that the sale of licences should be viewed as extraordinary income given sales will reduce as SunGold supply catches up with demand.

ZGL's New Cultivar segment generates revenue through the sale of SunGold licences and ongoing royalty streams. Revenues were up 900% in FY17 to $88m and with high EBIT margins (81%), contributed 68% of FY17 Group EBIT, significantly higher than any time in ZGL's history.

The fundamental change in ZGL's earnings profile has occurred due to the inherent value of the SunGold PVR. The factors driving this are:

(1) The impact of Psa on the previous Gold (Hort16A) effectively removed it from the market. This means that the new SunGold is effectively the only commercialised Gold option for NZ growers. ZGL holds the plant variety rights (PVRs) for SunGold until 2039.

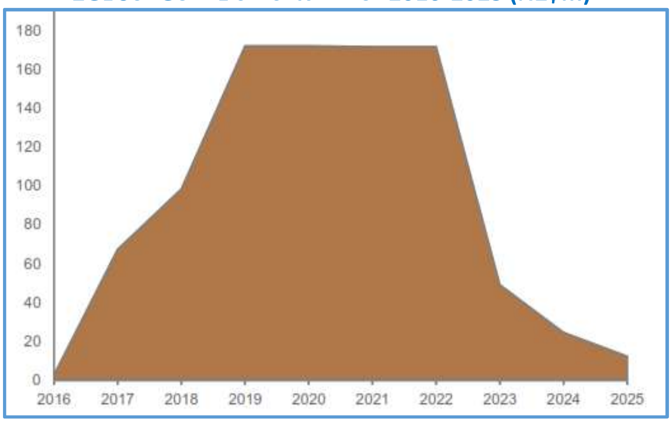
(2) Growing global demand for Zespri Gold kiwifruit as outlined above by increasing export volumes.

(3) ZGL limiting SunGold supply to maintain pricing. ZGL is only licencing 750 (conventional and organic) hectares p.a. over the next 5 years as long as demand allows.

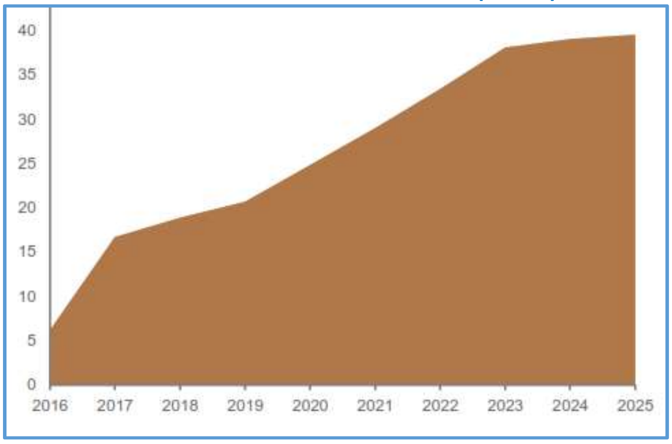
(4) Excellent on-orchard performance of SunGold in terms of yield, size and flavour.

The above factors have resulted in FY17 orchard gate returns (OGR) per hectare (ha) increasing to c$99k/ha for SunGold and $111k/ha in FY18. With on-orchard costs at c$37k/ha, a quasi EBITDA is c$60-70k/h for SunGold that compares with green EBITDA at c$20k/ha.

ZGL SunGold Licence Revenue 2016-2025 (NZ$m)



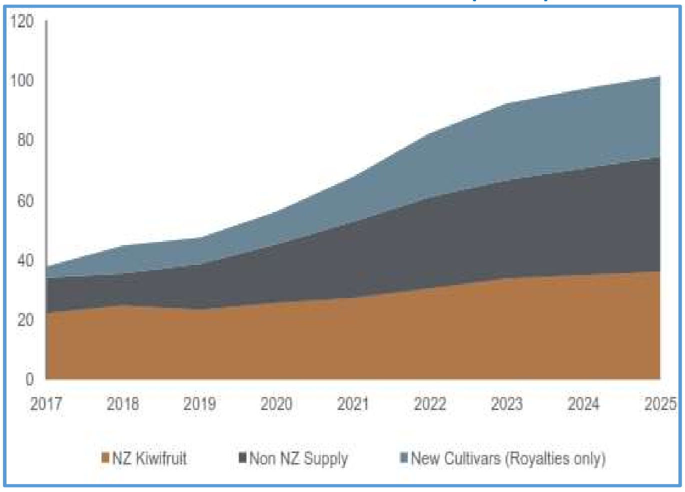
ZGL SunGold Royalties 2016-2025 (NZ$m)



Zespri Group forecasts

Overall our EBIT forecasts for ZGL lift from $44m in FY16 to a peak of $250m in FY22 before declining back to $115m in FY25. This earnings profile relates to licence sales. Given licence sales can be viewed as quasi-extraordinary income, it is worth analysing the more annuity like earnings base for ZGL by excluding licence sales. This provides a better understanding of the growth in ZGL's underlying and recurring earnings base.

ZGL EBIT excluding Licence Sales (NZ$m)



Craigs DCF derived value for ZGL is between $6.20 and $9.50/share with the wide range reflecting the uncertainty relating to the tenure of SunGold licence revenues.

Management's long-term forecasts

Our forecasts are more conservative than ZGL's. We believe some of the risks we outline in this note should serve to temper ZGL's forecasts, in particular, competition. There is already some Gold kiwifruit competition emerging in the Northern Hemisphere while Chile, ZGL's major Southern Hemisphere competitor, currently produces low volumes of Gold kiwifruit and pest and disease issues continue to hamper efforts to lift production. However, China could, via foreign direct investment, lift the volumes exported from Chile over the next 5 years. This would heighten the competition on Zespri's Gold exports. We note ZGL's forecasts assume a continued lack of Chilean Golds.

My 5 Stock Picks for 2018 are:

- ⇒ Port of Tauranga
- ⇒ Auckland International Airport
- ⇒ Fletcher Building
- ⇒ Eroad
- ⇒ Scales Corporation

Port of Tauranga (POT.NZ)

CURRENT PRICE: $5.00 **MY 1-YR TARGET:** $5.70

Last 12-month price movement: $3.70 to $5.05

POT has been a consistent stellar performer on the NZ sharemarket over many years, and I see no reason for this not to continue. The business model is not "rocket-science", but the company execution remains outstanding.

POT is very well placed to monopolise the port sector, with its big-ship strategy an ongoing winner. I am looking for this stock to head towards $6.00 this year.

Auckland Int. Airport (AIA.NZ)

CURRENT PRICE: $6.43 **MY 1-YR TARGET:** $7.50

THE COMPANY IS A VIRTUAL MONOPOLY – I SAY BUY

AIA Year to 30 June		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	248	259	272	276
Earnings /share	NZc	20.8	21.8	22.9	23.2
PE Ratio	x	30.9	29.5	28.1	27.7
Cash/Share	NZc	25.8	28.2	30.2	31.4
Dividend/share	NZc	20.5	21.5	22.5	22.5
Imputation	%	100	100	100	100
Net Div. Yield	%	3.1	3.3	3.5	3.5
Gross Div. Yield	%	4.4	4.6	4.9	4.9

Source: Company data; NZX; First NZ Capital Estimates

Brokers neglected AIA in 2017, but I have included this stock as one of my 2018 stock picks. I am looking towards $7.50+ by year's end for AIA. Tourism remains a key sector for New Zealand's economy, and AIA is the predominant entry point for tourism.

On 16th January AIA announced that it will sell its quarter-stake in the Cairns and Mackay airports in North Queensland to its fellow investors for A$370 million (NZ$403 million), almost three times what it paid eight years ago.

The Auckland Airport operator said it will offer its 25 percent stake in North Queensland Airports to the Australian transport hub's existing investors. All NQA investors are entitled to maintain their current holdings and Perron Investments and The Infrastructure Fund have already agreed to accept the entire offer.

"We are very pleased to have reached a position that will result in a sale of our entire interest and that two existing and experienced infrastructure investors have agreed to support NQA in the next stage of its development," chief executive Adrian Littlewood said in a statement. "The sale will enable Auckland Airport to focus attention on growing its New Zealand travel, trade and tourism businesses and to recycle the proceeds into supporting the significant step up in aeronautical investment at Auckland Airport over the five years that we recently announced."

The Kiwi company bought the stake in Australian airports in 2010 for A$132.8 million in an effort to expand outside its core Auckland business. The asset sale comes as Auckland Airport prepares for a $1.8 billion infrastructure spend, introducing new contact gates for international aircraft, a new domestic jet terminal, expanded border processing and public arrivals spaces and upgraded international check-in areas.

This is a great company, with a virtual monopoly, in a growth sector. The $403m windfall is excellent timing, in light of the proposed capital expenditure programme.

Fletcher Building (FBU.NZ)

CURRENT PRICE: $7.60 **MY 1-YR TARGET:** $8.50

Brokers, and the market, hammered FBU in 2017, and they were justified. However, FBU is fundamentally a very good business in a growth sector. Expect management to return FBU into a strongly performing company in 2018. It will take until the latter half of 2018 before positive results see a responding share price.

FBU Year to 30 June		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	322	293	427	461
Earnings /share	NZc	46.3	42.2	61.5	66.4
PE Ratio	x	16.6	18.2	12.5	11.5
Cash/Share	NZc	35.3	55.7	94.1	91.0
Dividend/share	NZc	10.0	9.6	7.7	7.2
Imputation	%	50.0	50.0	50.0	50.0
Net Div. Yield	%	5.1	4.4	5.3	5.6
Gross Div. Yield	%	6.1	5.3	6.4	6.7

Source: Company data; NZX; First NZ Capital Estimates

Eroad (ERD.NZ)

CURRENT PRICE: $3.90 **MY 1-YR TARGET:** $4.20

Soon to move into a strongly positive cashflow

ERD's 1H18 result was slightly weaker than expected as restructuring costs and higher US operating costs weighed on near-term earnings. However, the ANZ business surprised on revenue mix, with a higher proportion of Heavy vehicles, and given a continued strong order pipeline we have raised our forecasts for this division. Offsetting this is the likely late uptake of ELDs in North America. ERD announced it is undertaking a strategic review of its North American operations.

Investment Case: ERD's NZ operation continues to deliver very strong unit and revenue growth and with a reasonable pipeline and momentum in the business this should continue in the near term. ERD is gaining traction in North America but execution in the important ELD window is critical. The risk to public revenues from electric vehicles avoiding fuel taxes provides medium-term option value for ERD in markets like the US and Australia.

ERD Year to 31 March		2017A	2018F	2019F	2020F
Adjusted NPAT	NZ$m	(5)	(3)	7	10
Earnings/share	NZc	(8.8)	(4.2)	11.9	16.3
PE Ratio	x	na	na	32.8	23.9
Cash/share	NZc	11.0	25.8	39.5	42.2
Dividend/share	NZc	0.0	0.0	0.0	0.0

Source: Company data; NZX; First NZ Capital Estimates

Scales Corporation (SCL.NZ)

CURRENT PRICE: $4.78 **MY 1-YR TARGET:** $5.50

Possibly the pick of the bunch for 2018

The 2018 prospects for SCL's horticulture business is looking positive. There is always risk associated with this sector, but this stock is underpinned by a strong dividend yield.

SCL Year to 31 Dec		2016A	2017F	2018F	2019F
Adjusted NPAT	NZ$m	38	33	39	42
Earnings /share	NZc	27.5	23.4	28.1	30.0
PE Ratio	x	15.7	18.4	15.4	14.4
Cash/Share	NZc	29.7	31.6	36.8	38.8
Dividend/share	NZc	17.0	18.0	19.0	21.0
Imputation	%	100	100	100	100
Net Dividend Yield	%	4.3	4.6	4.8	5.3
Gross Div Yield	%	6.0	6.3	6.7	7.4

Source: Company data; NZX; First NZ Capital Estimates

Our analysts think the 2018 prospects for SCL's horticulture business are more positive than previously thought. The significantly lower apple inventory available in the European market through to mid-2018, as well as constrained production volume from other counter-seasonal Southern Hemisphere apple exporters, should be positive for NZ product price. In particular, the available supply of the Braeburn variety is very low in key European destinations typically targeted by NZ grown Braeburn. Subject to a normal NZ apple harvest season, this is a powerful cocktail for potentially a strong earnings outcome that could exceed our current FY18F EBITDA forecast by up to 17%.

STOCKS TO WATCH

NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 21st Jan 2018

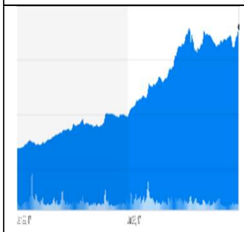
UPDATED STOCKS ONLY

Auckland International Airport

AIA is currently on FNZC's restricted list. On 16th January AIA announced that it will sell its quarter-stake in the Cairns and Mackay airports in North Queensland to its fellow investors for A$370 million (NZ$403 million), almost three times what it paid eight years ago. bought the stake in Australian airports in 2010 for A$132.8m in an effort to expand outside its core Auckland business. The asset sale comes as Auckland Airport prepares for a $1.8bn infrastructure spend, introducing new contact gates for international aircraft, a new domestic jet terminal, expanded border processing and public arrivals spaces and upgraded international check-in areas.

20018 P/E: 31.4 2019 P/E: 30.0

NZX Code:	**AIA**
Share Price:	**$6.55**
FNZC 12mth Target:	**RES**
Projected return (%)	
Capital gain	%
Dividend yield (Net)	3.3%
Total return	**%**
Rating:	**RESTRICTED**
52-week price range:6.02-7.43	

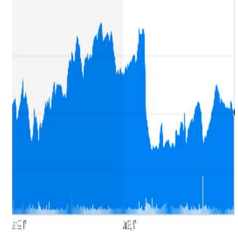


The a2 Milk Company

ATM to enter the next growth phase with a new **CEO,** Ms Jayne Hrdlicka (CEO of Jetstar Group). Our analyst's view on ATM is premised on successful rollout of the company's A2-type-based dairy products (including IF) in Australia, the UK, the US, and China markets. Key to this is the successful management of channels-to-market and of regulatory changes over time.

20018 P/E: 31.8 2019 P/E: 24.4

NZX Code:	**ATM**
Share Price:	**$8.53**
12mth Target:	**$8.50**
Projected return (%)	
Capital gain	-0.1%
Dividend yield (Net)	0.0%
Total return	**-0.1%**
Rating:	**NEUTRAL**
52-week price range: 2.15-9.00	

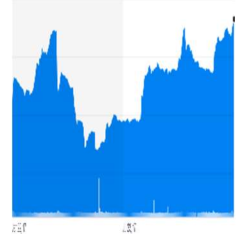


Chorus

CNU's 1st half 2018 connections show a more encouraging start to FY18 following the loss of 125k lines in FY17. Connections are down 43k in 1H18 (broadband down 5k) as line loss to the LFCs continues at a steady rate but SPK's fixed wireless gains moderate and CNU continues to get traction with its initiatives to promote better broadband and encourage VDSL (fibre/VDSL at 58% of broad subs vs. 27% at FY16). Our analysts remain cautious about SPK's potential to push further with fixed wireless.

20018 P/E: 14.7 2019 P/E: 16.3

NZX Code:	**CNU**
Share Price:	**$4.09**
12mth Target:	**$4.29**
Projected return (%)	
Capital gain	2.9%
Dividend yield (Net)	5.4%
Total return	**8.3%**
Rating:	**NEUTRAL**
52-week price range: 3.82-477	



Comvita – FNZC initiating coverage

CVT is a vertically integrated natural health business with Manuka honey at its core. CVT has a target of reaching NZ$400m of revenue by FY21. Critical to success will be its ability to execute on products from non-honey ingredient platforms (Olive Leaf, Marine and Omega, Berries, Propolis, etc.) and to re-establish momentum following regulatory changes in China. FNZC's NEUTRAL rating and $7.81 target price reflect a cautious approach while they await evidence of progress towards key milestones.

20018 P/E: 19.6 2019 P/E: 17.0

NZX Code:	**CVT**
Share Price:	**$8.79**
12mth Target:	**$7.81**
Projected return (%)	
Capital gain	-2.3%
Dividend yield (Net)	2.4%
Total return	**0.1%**
Rating:	**NEUTRAL**
52-week price range: 5.14-8.92	

EROAD

ANZ growth driven by NZ heavy vehicles and health and safety requirements boosting light vehicle demand We forecast ERD's ANZ operations to grow to 55,323 units by FY18. Over recent years, ERD's ANZ unit growth has been driven by continued growth in its traditional heavy vehicle (RUC) market as it has gained greater traction with enterprise customers; but also growth in light vehicles, as the requirements of health and safety regulations have led to growth in other products.

2018 P/E: -39.0 2019 P/E27.7

NZX Code:	**ERD**
Share Price:	**$3.93**
12mth Target:	**$4.50**
Projected return (%)	
Capital gain	14.5%
Dividend yield (Net)	0%
Total return	**14.5%**
Rating:	**OUTPERFORM**
52-week price range: 1.61-3.99	

Fletcher Building

The New Zealand stock exchange found Fletcher Building did not breach continuous disclosure rules in relation to two forecast earnings downgrades last year. we see value in FBU, if Management and the Board is able to streamline and focus the parts of the company's business where it can add the most value. The outcome of FBU's portfolio review in the next three-to-six months will serve to inform its priorities going forward.

2018 P/E: 18.2 2019 P/E: 12.5

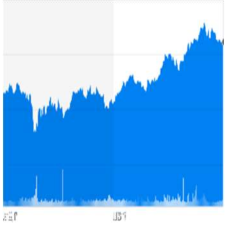
NZX Code:	**FBU**
Share Price:	**$7.50**
12mth Target:	**$8.50**
Projected return (%)	
Capital gain	13.3%
Dividend yield (Net)	4.9%
Total return	**18.2%**
Rating:	**OUTPERFORM**
52-week price range: 6.73-10.60	

Fonterra Shareholder Fund

Forecasting FSF and assessing its performance across broad product and geographic areas of focus are challenging, and our analysts continue to highlight this with variable performance across FSF's businesses. The linkage between investment, which is consistently above maintenance level, and its outcome is not particularly clear for investors. Unfortunately, FSF does not generally look to set objectives and measure itself against those objectives for some of its larger investments.

2018 P/E: 13.5 2019 P/E: 9.5

NZX Code:	**FSF**
Share Price:	**$6.52**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	-6.1%
Dividend yield (Net)	6.1%
Total return	**0%**
Rating:	**NEUTRAL**
52-week price range: 5.88-6.66	

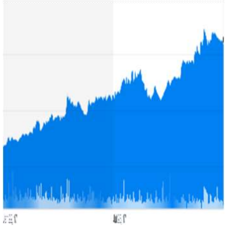


Goodman Property Trust

The biggest office property deal last year was the $209 million purchase of Goodman's Central Park. The complex was sold to syndicator Oyster Group and an unnamed party in November, and awaits Overseas Investment Office approval. Goodman's CEO said Central Park was the last in a series of asset sales, meaning the company's $2.4bn portfolio was now 90% tilted towards the Auckland industrial sector.

2018 P/E: 23.6   2019 P/E: 21.0

NZX Code:	**GMT**
Share Price:	**$1.36**
12mth Target:	**$1.30**
Projected return (%)	
Capital gain	-4.2%
Dividend yield (Net)	6.1%
Total return	**2.1%**
Rating:	**NEUTRAL**
52-week price range: 1.16-1.40	



Heartland Bank

HBL, which first raised the possibility of buying UDC from ANZ in 2016, said it remained interested in the finance company after the sale to China's HNA failed to achieve Overseas Investment Office approval late last year. The OIO said in December that it had rejected HNA's application to buy UDC for $660 million due to unanswered questions about the Hainan-based conglomerate's ownership structure.

2018 P/E: 33.6   2019 P/E: 23.7

NZX Code:	**HBL**
Share Price:	**$2.07**
12mth Target:	**$1.85**
Projected return (%)	
Capital gain	-10.6%
Dividend yield (Net)	4.6%
Total return	**-7.3%**
Rating:	**UNDERPERFORM**
52-week price range: 1.51-2.14	

Metlifecare

MET is strongly positioned with its portfolio of retirement villages around the North Island and it is NZ's second largest retirement village operator. Locations include Auckland, Hamilton and Bay of Plenty. MET has a strong and growing land bank of quality sites.

2018 P/E: 20.5   2019 P/E: 16.9

NZX Code:	**MET**
Share Price:	**$6.13**
12mth Target:	**$7.46**
Projected return (%)	
Capital gain	21.6%
Dividend yield (Net)	1.2%
Total return	**23.2%**
Rating:	**OUTPERFORM**
52-week price range: 5.23-6.30	

Michael Hill International

MHJ is also strongly placed to capitalise on its global retail positioning. positive developments. This is a well managed business, and if it can get its Emma & Roe portfolio of stores operating effectively, then this can contribute strongly in its growth ambitions. However MHJ has continued to struggle to break into the US market – and (STOP PRESS) has just announced that it will be withdrawing from its 9 stores in the US market. This should be positive for this stock, albeit some short-term cost.

2018 P/E: 13.3   2019 P/E: 12.0

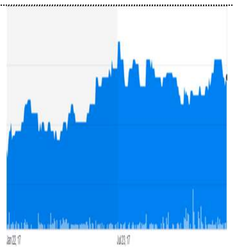
NZX Code:	**MHJ**
Share Price:	**$1.35**
12mth Target:	**$1.50**
Projected return (%)	
Capital gain	11.1%
Dividend yield (Net)	4.2%
Total return	**15.3%**
Rating:	**OUTPERFORM**
52-week price range: 1.10-1.58	

NZ Refining

NZR lifted processing fees 19% in 2017, which helped to offset a lower volume during the pipeline outage to Auckland in September. Fee income increased from $276.6m to $328.9m in the past 12 months. The Auckland pipeline is operating at greater throughput than it was prior to the September leak. NZR expects another increase in capacity, pending regulatory approval, which is expected in the first half of 2018. Expect this stock to outperform in 2018.

2018 P/E: 8.8   2019 P/E: 17.3

NZX Code:	**NZR**
Share Price:	**$2.59**
12mth Target:	**$2.95**
Projected return (%)	
Capital gain	13.9%
Dividend yield (Net)	4.7%
Total return	**18.6%**
Rating:	**OUTPERFORM**
52-week price range: 2.30-2.91	

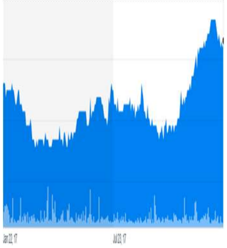


Property plays – Augusta Capital

AUG is part-way through its transition from a traditional property owner to a funds management centric business. Its direct property portfolio will be fully divested over the next 2 years, and the composition of its revenue stream will shift to funds management. The divestment of its direct property portfolio will provide AUG with greater capacity to support growth in its funds management business through a larger ability to underwrite deals, warehouse assets, and co-invest in new investment initiatives. Our analysts expect AUG to produce steady growth in recurring funds management fees over coming years. However, execution is key.

2018 P/E: 12.0   2019 P/E: 11.6

NZX Code:	**AUG**
Share Price:	**$1.06**
12mth Target:	**$1.16**
Projected return (%)	
Capital gain	9.4%
Dividend yield (Net)	5.3%
Total return	**14.7%**
Rating:	**OUTPERFORM**
52-week price range: 0.97-1.10	

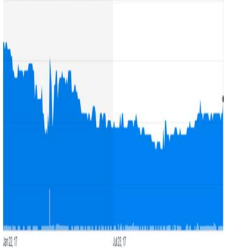


Property plays – Investor Property

IPL occupies a relatively unique position within the NZ LPV sector, being the only vehicle solely focused on owning and investing in assets within the Large Format Retail segment. IPL is one of the more defensive exposures in the NZ LPV sector with its primary tenant base comprising the non-discretionary retail sector. This is characterised by lengthy lease terms, strong tenant covenants, and a largely structured rental growth profile. These features are balanced against medium-term risks including sensitivity to interest rates given gearing and long leases, high tenant concentration, and the potential for supply addition to negatively impact store turnover. This stock currently presents relative value, and currently sits as one of our analysts preferred exposures within the NZ property sector.

2018 P/E: 12.0   2019 P/E: 11.6

NZX Code:	**IPL**
Share Price:	**$1.45**
12mth Target:	**$1.47**
Projected return (%)	
Capital gain	1.4%
Dividend yield (Net)	5.1%
Total return	**6.5%**
Rating:	**NEUTRAL**
52-week price range: 1.30-1.49	



Property plays - NPT

Following recent years of shareholder angst regarding NPT's lack of growth, flat operating performance, and lack-lustre share price performance, change appears to be in the air for the company. NPT has available debt capacity to deploy towards value-add activities, but additional capital is required to completely address its scale-related issues. Investor confidence in NPT's strategic direction and its ability to execute will be critical if further capital is sought to support its growth ambitions. Our analysts continue to see valuation upside from an externally managed model, largely centred on a lower cost base.

2018 P/E: 12.0 2019 P/E: 11.6

NZX Code:	**NPT**
Share Price:	**$0.60**
12mth Target:	**$0.66**
Projected return (%)	
Capital gain	10.0%
Dividend yield (Net)	6.0%
Total return	**16.0%**
Rating: OUTPERFORM	
52-week price range: 0.57-0.66	

Port of Tauranga

FNZC has upgraded their volume forecasts for POT following strong growth in 1Q18 and preliminary trade data indicating a continuation of positive momentum in 2Q18 to date. Their expectation is that positive operating leverage at the Tauranga container terminal and improved growth rates for break bulk volume will offset increased transhipment volume skew & higher Metroport rail costs to drive solid margin expansion for POT's Port Opex segment in FY18. I say, pin your ears back & buy.

2018 P/E: 35.0 2019 P/E: 32.0

NZX Code:	**POT**
Share Price:	**$4.98**
FNZC 12mth Target:	**$3.75**
Projected return (%)	
Capital gain	-24.6%
Dividend yield (Net)	2.6%
Total return	**-22.1%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 3.70-5.10	

Scales Corporation

Still underappreciated and undervalued. A promising 2018 outlook for counter-seasonal apple suppliers into the EU market. The current overall apple inventory in EU is down 25% YoY. On the data compiled by the World Apple and Pear Association (WAPA), the total EU apple stock in storage was reported to be 4.04m tonnes (225m tray carton equivalent) at the beginning of November 2017. This is because of heavy frosts that impacted many regions during the 2017 EU growing season.

2018 P/E: 115.4 2019 P/E: 14.4

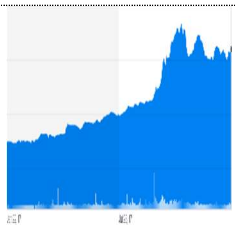
NZX Code:	**SCL**
Share Price:	**$4.81**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	15.7%
Dividend yield (Net)	4.4%
Total return	**20.1%**
Rating: OUTPERFORM	
52-week price range: 3.20-4.92	

Sky Network Television

Given the uncertain outlook and SKT's need to invest back into the business (a new set-top box capex cycle, albeit likely lower than previous ones) and modify its approach to pricing and the bundle to stem sub loss (cannabilisation risk) a strong balance sheet remains important. The next rights renewal cycle is another reason to deleverage—if the key rugby rights goes to the line, the banks could put pressure on SKT given bank debt expiry ahead of the rugby rights expiry. If SKT is going to have an impact on debt then it needs to act quickly and decisively.

2018 P/E: 8.9 2019 P/E: 9.9

NZX Code:	**SKT**
Share Price:	**$2.81**
12mth Target:	**$2.87**
Projected return (%)	
Capital gain	2.1%
Dividend yield (Net)	6.1%
Total return	**8.2%**
Rating: NEUTRAL	
52-week price range: 2.43-4.71	



Synlait Milk

SML will invest $125m in an advanced liquid dairy packaging facility (FoodStuffs South Island is an initial customer for private label liquid milk) aimed at delivering a wider liquid blending and packaging. Certainly, this investment is consistent with SML's ongoing strategic diversification as it looks to move as much milk into a Consumer Packaged format over commodity ingredients. I still like the long-term outlook for SML.My view is to but on weakness.

2018 P/E: 18.0 2019 P/E: 15.8

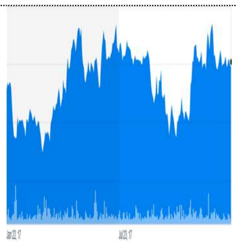
NZX Code:	**SML**
Share Price:	**$7.05**
12mth Target:	**$5.98**
Projected return (%)	
Capital gain	-15.2%
Dividend yield (Net)	0%
Total return	**-15.2%**
Rating: UNDERPERFORM	
52-week price range: 3.05-8.25	

Trustpower

TPW boosted its profit by 80 per cent for the past six months and its CEO said wholesale prices had firmed last winter as supply tightened but retail energy charges had been stable for several years. While transmission and distribution costs may have moved up, energy costs had been kept in check by intense competition among a growing number of retailers.

2018 P/E: 13.7 2019 P/E: 14.8

NZX Code:	**TPW**
Share Price:	**$5.90**
12mth Target:	**$5.33**
Projected return (%)	
Capital gain	-9.7%
Dividend yield (Net)	6.4%
Total return	**-3.3%**
Rating: NEUTRAL	
52-week price range: 4.42-6.05	



Z Energy

The Government has signalled a comprehensive Commerce Commission market study of the retail fuel sector. Officials don't expect the study to be completed until mid-2020, because even fast-tracked legislative powers to permit a market study direction may not be in place before December 2018. In the meantime, expect the squeeze on margins to continue.

2018 P/E: 13.7 2019 P/E: 13.2

NZX Code:	**ZEL**
Share Price:	**$7.65**
12mth Target:	**$7.79**
Projected return (%)	
Capital gain	1.4%
Dividend yield (Net)	6.3%
Total return	**7.7%**
Rating: NEUTRAL	
52-week price range: 6.80-8.04	

NZ LISTED COMPANIES 15th January 2018	Ticker	Mrkt Cap	Price 15-Jan-18	Target Price	Price Earnings (x)		Net Yield (%)	
Source: First NZ Capital, CSFB		(NZ$000)	(NZ$)	(NZ$)	FY17	FY18	FY17	FY18
CONSUMER DISCRETIONARY								
Restaurant Brands New Zealand	RBD	909	7.35	6.55	22.2	19.4	3.3%	3.7%
Kathmandu	KMD	487	2.41	2.15	12.2	11.6	5.4%	5.6%
Michael Hill International	MHJ	480	1.35	1.38	13.4	12.1	4.0%	4.0%
NZME Limited	NZM	165	0.84	0.88	7.3	7.8	9.5%	8.9%
Sky Network Television Limited	SKT	1,097	2.82	2.87	10.3	11.3	5.3%	5.3%
SKYCITY Entertainment Group Ltd.	SKC	2,657	3.94	3.60	16.1	15.5	5.1%	5.1%
The Warehouse Group Limited	WHS	711	2.05	2.05	10.4	9.6	7.8%	7.8%
Tourism Holdings Ltd	THL	697	5.76	4.08	19.2	17.4	3.8%	4.4%
Trade Me Group Ltd	TME	3,743	4.72	4.35	19.5	18.2	4.1%	4.9%
CONSUMER STAPLES								
a2 Milk Company Limited	ATM	5,676	7.77	8.50	32.3	24.8	0.0%	0.0%
Comvita Limited	CVT	387	8.50	7.81	20.8	18.1	2.2%	2.5%
Delegat Group	DGL	809	8.00	7.20	19.7	16.8	1.8%	1.9%
Fonterra Shareholders' Fund	FSF	921	6.59	6.12	13.9	9.8	5.3%	7.1%
New Zealand King Salmon Co Ltd	NZK	317	2.29	2.33	19.1	17.1	3.4%	3.8%
PGG Wrightson	PGW	430	0.57	0.59	12.2	11.8	6.7%	6.7%
Sanford	SAN	773	8.26	8.50	16.6	15.4	2.8%	2.8%
Scales Corporation	SCL	674	4.82	5.00	17.2	16.1	3.9%	4.4%
Synlait Milk Limited	SML	1,237	6.90	5.98	18.0	15.8	0.0%	0.0%
Tegel	TGH	420	1.18	1.24	12.4	12.1	6.1%	6.6%
ENERGY								
NZ Refining	NZR	822	2.63	2.95	18.1	12.5	3.3%	10.4%
Z Energy	ZEL	3,076	7.69	7.79	13.7	13.2	4.2%	7.3%
FINANCIALS								
NZX	NZX	306	1.14	1.18	16.5	14.4	5.6%	5.7%
CBL Corporation	CBL	705	2.99	3.49	11.0	9.8	2.7%	3.4%
Heartland Bank Ltd	HBL	1,170	2.10	1.85	16.8	15.5	4.5%	4.8%
Turners Automotive	TRA	276	3.25	3.60	11.0	10.7	4.6%	4.9%
HEALTH CARE								
AFT Pharmaceuticals	AFT	233	2.39	3.09	-20.3	38.7	0.0%	0.0%
Arvida	ARV	525	1.27	1.22	15.4	12.8	3.7%	4.7%
Ebos Group Limited	EBO	2,814	18.45	18.40	18.8	17.9	3.8%	4.0%
Fisher & Paykel Healthcare	FPH	7,483	13.10	12.00	39.1	35.1	1.7%	1.9%
Metlifecare Limited	MET	1,302	6.11	7.46	17.1	14.8	1.5%	3.3%
Oceania Healthcare Ltd	OCA	653	1.07	1.01	12.5	12.5	4.4%	4.7%
Orion Health Limited	OHE	176	0.90	1.01	-5.6	-24.3	0.0%	0.0%
Ryman Healthcare Ltd	RYM	5,495	10.99	7.54	50.4	45.7	1.7%	1.8%
Summerset Group Holdings	SUM	1,230	5.49	5.28	35.6	31.2	1.7%	1.9%
INDUSTRIALS								
Air New Zealand	AIR	3,425	3.05	2.90	8.8	9.5	7.2%	7.2%
Auckland Airport	AIA	7,703	6.43	5.10	29.5	28.1	3.3%	3.5%
Freightways	FRE	1,187	7.65	7.10	19.4	17.6	4.0%	4.7%
Mainfreight	MFT	2,543	25.25	21.60	22.6	19.4	1.8%	2.1%
Methven	MVN	79	1.08	1.10	11.8	10.7	6.7%	6.9%
Metro Performance Glass Ltd	MPG	182	0.98	1.20	8.4	7.9	6.6%	7.0%
Port of Tauranga	POT	3,403	5.00	3.60	38.3	35.2	2.4%	2.5%
Skellerup Holdings	SKL	366	1.90	1.65	15.9	15.0	5.3%	5.6%
INFORMATION TECHNOLOGY								
Gentrack Group Ltd	GTK	557	6.66	6.10	30.2	25.2	2.9%	3.3%
Vista Group International Limited	VGL	501	3.04	2.85	25.4	19.5	2.0%	2.6%
Xero	XRO	4,526	32.69	29.80	-139.5	699.1	0.0%	0.0%
MATERIALS								
Fletcher Building	FBU	5,284	7.58	8.50	18.0	12.3	4.5%	5.4%
Steel & Tube	STU	202	2.23	1.80	10.3	10.7	7.2%	7.2%
REAL ESTATE								
Argosy Property Ltd	ARG	889	1.08	1.08	16.3	15.9	5.8%	5.8%
Augusta Capital Ltd	AUG	94	1.07	1.13	14.0	13.0	5.1%	5.1%
Goodman Property Trust	GMT	1,751	1.36	1.30	17.4	17.1	4.9%	4.9%
Investore Property Limited	IPL	382	1.46	1.47	18.6	17.4	5.1%	5.4%
Kiwi Property Group Limited	KPG	1,925	1.36	1.43	18.6	18.1	5.1%	5.1%
NPT Limited	NPT	97	0.60	0.66	15.6	16.7	6.0%	6.0%
Precinct Properties NZ	PCT	1,635	1.35	1.30	21.5	20.6	4.3%	4.4%
Property for Industry Ltd	PFI	833	1.67	1.64	19.9	19.4	4.6%	4.7%
Stride Property Group	SPG	646	1.77	1.90	16.8	17.2	5.6%	5.6%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,762	4.15	4.29	16.7	25.1	5.3%	5.5%
Spark NZ	SPK	6,624	3.61	3.17	16.6	16.0	6.9%	6.9%
UTILITIES								
Contact Energy	CEN	3,925	5.48	6.50	25.8	20.2	5.9%	7.4%
Genesis Energy Limited	GNE	2,420	2.42	2.16	23.3	20.7	7.0%	7.4%
Infratil	IFT	1,859	3.32	3.20	34.2	24.2	5.0%	5.3%
Mercury NZ	MCY	4,608	3.35	3.07	31.1	31.5	4.6%	4.9%
Meridian Energy	MEL	7,420	2.90	2.87	33.9	30.0	6.7%	6.7%
TILT Renewables	TLT	608	2.12	2.03	-499.5	29.6	2.7%	5.8%
TrustPower	TPW	1,868	5.97	5.33	13.9	15.0	6.4%	6.5%
Vector	VCT	3,470	3.47	3.60	26.7	26.4	4.7%	4.8%
Market Average*					**19.4**	**17.7**	**4.2%**	**4.7%**

**PE ratios exclude: AFT, ERD, OHE, PEB, TLT, XRO*

FNZC NEW ZEALAND EQUITIES RECOMMENDATIONS

15-JANUARY-2017

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFORM
Hotels, Restaurants	Sky City Entertainment (SKC) Tourism Holdings (THL)	Restaurant Brands (RBD)	
Internet		Trade Me Group (TME)	
Media		NZME (NZM) Sky Network Television (SKT)	
Retail		Warehouse Group (WHS) Kathmandu (KMD)	Michael Hill International (MHJ)
Beverages		Delegat Group (DGL)	Green Cross Health (GXH)
Food	Synlait Milk (SML)	The a2 Milk Company (ATM) Fonterra Shareholders' Fund (FSF) NZ King Salmon (NZK) PGG Wrightson (PGW) Tegel (TGH)	Sanford (SAN) Scales Corporation (SCL)
Personal Products		Comvita (CVT	
Oil & Gas		Z Energy (ZEL)	NZ Refining (NZR)
Financials	Heartland Bank (HBL)	NZX (NZX)	
Insurance			Turners Automotive (TRA) CBL Corporation (CBL)
Healthcare	Fisher & Paykel Health (FPH)	Arvida (ARV) Ebos Group (EBO) Orion Health (OHE)	AFT Pharmaceuticals (AFT)
Retirement	Ryman Healthcare (RYM)	Oceania Healthcare (OCA) Summerset Group Holdings (SUM)	Metlifecare (MET)
Transportation	Air New Zealand (AIR) Mainfreight (MFT) Port of Tauranga (POT)	Freightways (FRE)	
Building Products	Steel & Tube (STU)	Methven (MVN)	Metro Perform. Glass (MPG) Fletcher Building (FBU)
		Skellerup Holdings (SKL)	
Software	Gentrack Group (GTK) Xero (XRO)	Vista Group International (VGL)	
Property		Argosy Property Ltd (ARG) Goodman Property Trust (GMT) Kiwi Property Group Limited (KPG) Precinct Properties NZ (PCT) Property for Industry Ltd (PFI)	Augusta Capital (AUG) Investore Property (IPL) NPT Limited (NPT) Stride Property Group (SPG)
Telecom	Spark NZ (SPK)	Chorus (CNU)	
Energy	Genesis Energy (GNE) Mercury NZ (MCY) TrustPower (TPW)	Infratil (IFT) Meridian Energy (MEL) Vector (VCT)	Contact Energy (CEN) TILT Renewables (TLT)

FNZC AUSTRALIAN EQUITIES RECOMMENDATIONS

15-JANUARY-2017

COMPANY	UNDERPERFORM	NEUTRAL	OUTPERFOR
Hotels, Restaurants	Flight Centre (FLT)	Domino's Pizza (DMP) Aristocrat Leisure (ALL) Crown (CWN) Tabcorp (TAH)	Star Entertainment (SGR)
IT Services		Link Administration Holdings (LNK)	Computershare (CPU)
Media		Fairfax Media (FXJ)	
Retail	JB Hi-Fi (JBH)	Woolworths (WOW) Wesfarmers (WES)	
Beverages	Treasury Wine (TWE)		Coca-Cola Aml (CCL)
Food		The a2 Milk Company (A2M)	Graincorp (GNC) Perpetual (PPT)
Oil & Gas	Woodside Petroleum (WPL)	Oil Search (OSH)	Caltex Aust (CTX) Origin Energy (ORG) Santos Ltd (STO)
Financials	ASX (ASX)	BT Investment Management (BTT) Janus Henderson Group (JHG) Bank of Queensland (BOQ) ANZ Banking Group (ANZ) Commonwealth Bank Aust (CBA) Bendigo and Adelaide Bank (BEN) Westpac (WBC) Challenger (CGF)	Magellan Financial (MFG) Clydesdale Bank (CYB) National Australia Bank (NAB) AMP (AMP) Macquarie Group (MQG) IOOF Holdings (IFL)
Insurance	QBE Insurance Group (QBE)	Medibank Private Limited (MPL) Suncorp Group Limited (SUN)	Insurance Australia (IAG)
Healthcare	Healthscope (HSO) Sonic Healthcare (SHL)	Cochlear (COH) ResMed Inc. (RMD) Ansell Limited (ANN) Ramsay Health Care (RHC)	CSL (CSL)
Industrials		Brambles (BXB) Downer EDI (DOW)	
Chemicals & Materials	Incitec Pivot (IPL)	Orora (ORA) Amcor (AMC) Adelaide Brighton (ABC) Dulux Group (DLX) Orica (ORI) CSR (CSR)	James Hardie Industries (JHX) Boral (BLD)
Metals & Mining	Newcrest Mining (NCM) South 32 (S32)	BHP Billiton (BHP) Northern Star Resources Ltd (NST) Alumina Limited (AWC) Evolution Mining Limited (EVN) OZ Minerals (OZL) BlueScope Steel (BSL)	Iluka Resources (ILU) Fortescue Metals Group (FMG) Rio Tinto (RIO)
Transportation	Qube Holdings (QUB) Sydney Airport (SYD)	Qantas (QAN)	Transurban (TCL.AX) Macquarie Atlas (MQA)
Building Products	CIMIC Group (CIM)		
Software	carsales.com.au (CAR)	REA Group (REA)	
Property	Dexus Property Group (DXS) Charter Hall Group (CHC)	Investa Office Fund (IOF) Lend Lease (LLC) Goodman Group (GMG) Vicinity Centres (VCX)	Westfield Corporation (WFD) Scentre Group (SCG) GPT Group (GPT) Mirvac Group (MGR) Stockland Group (SGP)
Telecom	TPG Telecom (TPM)		Telstra Corporation (TLS)
Energy	APA Group (APA) Spark Infrastructure (SKI)	AusNet Services (AST)	AGL Energy (AGL)

BlackRock World Mining BRWM.LN

Price: UK£4.22 (NZ$7.86) Website: www.blackrock.co.uk

A BALANCED EXPOSURE TO THE GLOBAL COMMODITIES SECTOR

Investment Objective

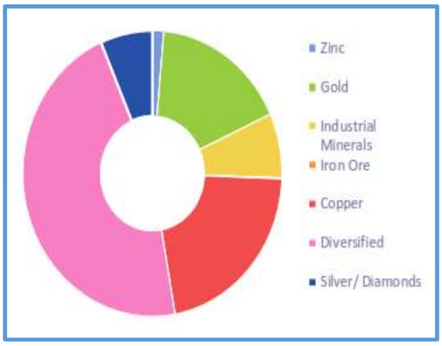
To maximise total returns to shareholders through a worldwide portfolio of mining and metal securities.

Manager and Style

The Company is managed by BlackRock Investment Management which has a large, experienced natural resources team which consists of nine fund managers plus a research analyst. The team manages around US$40bn.

The lead managers of the Company's portfolio are Evy Hambro and Olivia Markham. Evy took over as lead manager in 2009 and has 20 years' experience at BlackRock in the mining sector. Oliva has been with BlackRock since 2011 and has 13 years of mining industry experience. The focus is on mainstream mining stocks with proven revenue-generating operations, rather than smaller more speculative exploration companies.

The portfolio will always be underweight in the big UK-listed mining stocks (Rio Tinto, Anglo American and BHP Billiton), as the managers believe that the Company should provide an alternative way for investors to gain exposure to the mining sector. However, they will look to exploit trading opportunities in these "majors". The emphasis is on bottom-up stock selection using valuations based on long term equilibrium metal prices. The universe of listed mining companies worldwide includes 160-170 stocks and the portfolio includes 50-60 holdings. Little attention is paid to the weightings of the benchmark, and the aim is to maintain a diversified portfolio, both by commodity type and by geography. The Company does not generally invest in metals directly, but can hold up to 10% of assets in Gold temporarily when Gold appears cheap in relation to gold shares.



Fees

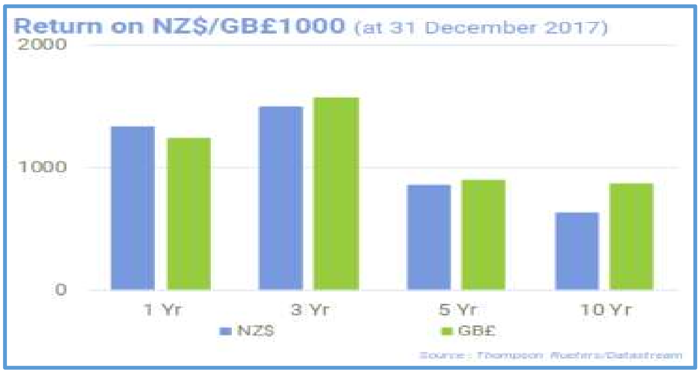
Ongoing charges for the past twelve months was 1.1% of gross assets.

Gearing and Hedging

As at December 2017, the Company had net gearing of 15% of shareholders' funds. This has been drawn down primarily against the higher yielding company debt and the purchase of mining royalties.

FNZC Opinion

The last five years have been a very difficult period for the Company, with the mining sector being out of favour and the credibility of the management team damaged by the writedowns in the royalty investments in 2015. However, there has been a strong recovery in performance since January 2016 driven by an improved outlook for China, a weaker US dollar and better than expected company results. Since this low point, the Company's NAV total return in NZ$ is 134%. In addition, the Company's revenue account while it had been under some pressure seems to have now stabilised. Although we believe that the credibility of the management team, led by Evy Hambro, was damaged by these events, we have continued to recommend the Company as a turnaround play, and this came good in 2016, with the share price and NAV doubling on the back of the recovery in Mining stocks (the Euromoney Global Mining Index rose by virtually the same amount), and we believe that sentiment towards the Company is finally improving. In the past, the Company has suffered a number of difficult periods for performance, notably 1997-98 (NAV fell 41%) and the global financial crisis in 2008 (-56%). Each of these periods was followed by a strong recovery. The current discount of c.10.3% compares with a 12-month average of 12.0%. In our view, this still offers some value for investors with a longer-term view alongside an attractive dividend yield.



Top 10 Companies (at 30 November 2017)

Company	Country of risk	Commodity	% of Portfolio
BHP Billiton	*Global*	Diversified	9.1
Rio Tinto	*Global*	Diversified	8.8
First Quantum Minerals	*Africa*	Copper/ Gold	8.5
Glencore	*Global*	Diversified	8.3
Vale	*Brazil*	Diversified	7.0
Teck Resources	*Canada*	Coal	4.5
Cerro Verde	*Peru*	Copper	4.0
Newmont Mining	*North America*	Gold	3.2
Lundin Mining	*Canada*	Diversified	3.0
South32 Mining	Australian	Diversified	2.8
Total			**59.2**

Key Data Launch Date – 1993

Year to 31 December 2017	1Yr	3Yrs	5yrs	10Yrs
Share Return on NZ$100	133.8	149.8	86.7	87.0
NAV Return on NZ$100	130.8	125.8	64.4	44.0
Current Discount/(Prem.)				10.3%
Gross Yield				3.2%
5 Yr Dividend Growth PA				-10.6%
Gearing				15.0%
Total Assets Managed				£822m
NAV Volatility	22.8 %	28.3%	25.6%	N/A
Benchmark Volatility	21.3 %	27.8%	24.5%	N/A
12 Month High/Low				420/307p

NZ DAILY FIXED INTEREST RATE SHEET

PRICES AS AT 15 JANUARY 2018 NOTE: Indicative pricing only

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Minimu m Size	Price /$100	Accrued Interest	Coupo n Freq
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	3.35%	140	$5,000	$105.19	$2.86	4
Trans Power	TRP010	AA-	Snr	30/11/2018	5.14%	2.29%	30	$5,000	$103.05	$0.54	2
Auckland Council	AKC060	AA	Snr	18/12/2018	4.41%	2.20%	21	$5,000	$102.30	$0.24	2
Bank of New Zealand	BNZ170	AA-	Snr	20/12/2018	6.10%	2.31%	31	$5,000	$103.86	$0.30	2
ANZ National Bank	ANB180	AA-	Snr	27/02/2019	5.43%	2.36%	33	$10,000	$105.39	$1.96	2
ANZ National Bank	ANB150	AA-	Snr	13/03/2019	6.25%	2.42%	39	$10,000	$106.43	$2.00	2
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	4.00%	196	$2,000	$103.31	$1.70	2
Fletcher Building	FBI130	NR	Cap	15/03/2019	6.45%	4.00%	196	$5,000	$104.85	$2.03	2
Contact Energy	CEN020	BBB	Snr	15/05/2019	5.80%	2.79%	72	$5,000	$104.83	$0.84	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	4.00%	190	$10,000	$106.98	$3.16	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	4.15%	199	$5,000	$105.59	$0.97	4
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	4.00%	179	$5,000	$112.40	$3.35	4
Fletcher Building	FBI140	NR	Cap	15/03/2020	5.80%	4.00%	178	$5,000	$105.55	$1.83	2
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	3.15%	79	$5,000	$108.87	$0.37	2
Bank of New Zealand	BNZ090	BBB+	Tier 2	17/12/2020	5.31%	3.90%	154	$5,000	$104.22	$0.31	4
Fletcher Building	FBI150	NR	Cap	15/03/2021	4.75%	4.35%	195	$5,000	$102.66	$1.50	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	5.00%	259	$5,000	$105.39	$1.68	4
Auckland Intl Airport	AIA130	A-	Snr	28/05/2021	5.52%	3.01%	57	$10,000	$108.66	$0.61	2
Fonterra Co-operative Gro	FCG030	A-	Snr	20/10/2021	4.33%	3.00%	50	$5,000	$105.66	$0.94	2
Contact Energy	CEN030	BBB	Snr	15/11/2021	4.40%	3.41%	90	$5,000	$104.19	$0.63	4
Precinct Properties	PCT010	NR	Snr	17/12/2021	5.54%	3.75%	122	$5,000			
Fletcher Building	FBI160	NR	Cap	15/03/2022	5.00%	4.20%	164	$5,000	$104.60	$1.57	2
Genesis Power	GNE030	BBB+	Snr	18/03/2022	4.14%	3.55%	99	$5,000	$103.53	$1.27	2
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	4.35%	175	$5,000	$110.48	$0.44	4
Genesis Power	GNE040	BB+	Capital	9/06/2022	5.70%	4.20%	160	$5,000	$106.50	$0.46	4
Goodman Property Trust	GMB030	BBB+	Snr	23/06/2022	5.00%	3.57%	97	$5,000	$106.04	$0.21	2
Heartland Bank	HBL010	BBB	Snr	21/09/2022	4.50%	3.82%	118	$5,000	$104.25	$1.34	2
Sky City Bond	SKC040	BBB-	Snr	28/09/2022	4.65%	3.85%	121	$5,000	$104.73	$1.29	4
Air New Zealand	AIR020	NR	Snr	28/10/2022	4.25%	3.85%	120	$5,000	$102.55	$0.83	2
Trustpower	TPW150	NR	Snr	15/12/2022	4.01%	3.85%	118	$5,000	$100.96	$0.26	4
Fonterra Co-operative Gro	FCG040	A-	Snr	7/03/2023	4.42%	3.58%	88	$5,000	$105.42	$1.49	2
Meridian Energy	MEL030	BBB+	Snr	14/03/2023	4.53%	3.73%	103	$5,000	$105.17	$1.44	2
Wellington Intl Airport	WIA030	BBB+	Snr	12/05/2023	4.25%	3.85%	113	$10,000	$102.57	$0.66	2
Summerset Bond	SUM010	NR	Snr	11/07/2023	4.78%	3.90%	116	$5,000	$106.68	$2.34	4
Infratil	IFT210	NR	Bnd	15/09/2023	5.25%	4.70%	194	$5,000	$102.73	$0.00	4
Infratil	IFT230	NR	Bnd	15/06/2024	5.50%	4.55%	170	$5,000	$105.64	$0.35	4
Precinct Properties	PCT020	NR	Snr	27/11/2024	4.42%	4.30%	140	$5,000	$101.20	$0.50	2
Floating Rate/ Perpetual Bonds	**Code**	**Rating**	**Type**	**Reset Date**	**Coupon**	**Price /$100**	**Margin to SWAP**	**Minimu m Size**	**Maturity**	**Accrued Interest**	**Coupo n Freq**
ASB Bank Basel III compli	ABB030	BBB+	Tier 2	15/06/2019	6.65%	3.75%	190	$10,000	Perpetual	0.42	4
ANZ National Bank	ANBHA	BBB+	Tier 2	18/04/2018	5.28%	101.45	90	$10,000	Perpetual	1.17	2
ANZ National Bank	ANBHB	BBB-	Tier 1	25/05/2020	7.20%	107.50	250	$10,000	Perpetual	0.86	2
ASB Bank	ASBPA	BBB	Tier 1	15/11/2018	3.30%	0.92	190	$5,000	Perpetual	0.48	4
ASB Bank	ASBPB	BBB	Tier 1	15/05/2018	3.03%	0.90	170	$5,000	Perpetual	0.44	4
Fonterra Co-operative Gro	FCGHA	BBB+	Perp	10/07/2018	4.15%	95.10	200	$5,000	Perpetual	2.04	4
Genesis Power	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	101.00	150	$5,000	Perpetual	2.96	4
Infratil	IFTHA	NR	Perp	15/11/2018	3.50%	75.10	360	$5,000	Perpetual	0.5	4
Quayside Holdings	QHLHA	NR	Perp Pref	12/03/2018	4.32%	101.60	190	$5,000	Perpetual	1.39	4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	107.25	240	$5,000	Perpetual	0.46	4
Works Infrastructure Finan	WKSHA	NR	RPS	15/06/2018	6.05%	108.65	360	$3,000	100.42	0.39	4

Limitations and Disclaimer