NEWTON ROSS
PRIVATE WEALTH MANAGEMENT

14 January 2021

December 2020 Quarterly Report

It was with some relief that we finally got to the end of 2020. The speed of the impact of the pandemic and then the record global government spending and central bank monetary stimulus to address the ensuing world-wide recession was truly epic.

After collapsing in March, investment markets rallied back their losses and finished the final quarter of the year on a strong note. Investor enthusiasm continues to be buoyed by all the government spending (and with more to come) and the promise of a sustainable economic recovery as vaccine rates now accelerate.

It was also a year of great disruption. Covid-19 has proven to be an accelerant for significant change impacting how countries, economies and societies function. Though some of these trends were well underway before the pandemic, the speed of change has been boosted by our response to the virus. Working from home, online commerce, online health management, online education services and entertainment to name a few areas took a giant leap forward in 2020 as potentially years of gradual adoption were compressed into a few months. How we now live, work and play has changed forever as we became online savvy very quickly and the impact of technology will continue to accelerate and permeate every aspect of our lives. This will bring challenges for everyone but also enormous opportunity.

With the recent resurgence of Covid-19 infection rates and subsequent lockdowns there is expected to be a dip in economic activity for most western economies in this coming quarter. Markets are looking past this blip and pricing in strong global growth for the rest of the year.

We remain optimistic for a much better year but also wary of present valuation levels in some areas of the markets as well as the risk of a surprise inflation surge.

Kind regards,

Wayne Ross
Director Investments

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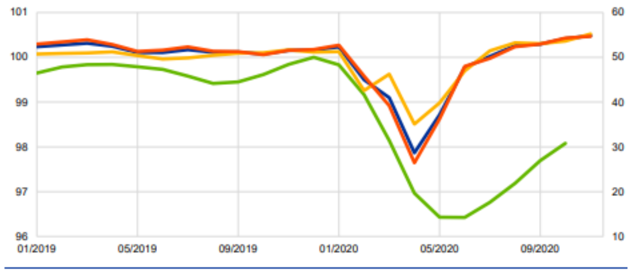
ECONOMIC AND MARKET SUMMARY

2020 has been a stressful year for households, employers, institutions and governments alike but the year finished on a remarkably strong note with economies re-bounding post lockdowns and largely protected by staggering wartime-esque levels of government spending and aggressive central bank monetary easing. Forecasters generally have a less negative expectation for global growth during 2020 and better prospects this year although, "shoulder to shoulder" sectors including education, travel, entertainment and hospitality who have taken the brunt of the Covid-19 impact will remain under pressure this year until vaccination levels are sufficient in late 2021. Western economies should accelerate strongly from the second quarter onwards, but recent 3rd wave infections and extended lockdowns will provide a soggy start for the US, UK and Europe.

Global Economic Recovery Continues (PMIs)



Sources: Markit and ECB calculations.

Investment markets have priced in the recovery with shares in particular finishing the year strong. Global shares rose +11.3% over 2020 with US and NZ share indexes strongly higher at +18.4% and +13.9% respectively. Japan (+18.9%) and China (+13%) also performed well as eastern Asian economies re-bounded quickly from the pandemic. Not all sharemarkets performed so well with Australia at +1.4%, UK -11.6% and Europe -2.6% for the year. The strong returns in the US and NZ were primarily driven by Covid -19 accelerated earnings in technology, health care and rural sectors while financial, travel, mining, energy, industrial and retail were the hardest hit. Global property (non-retail and non-office) performed surprisingly well with NZ residential property up +15.3% year on year assisted by wage subsidized household incomes and record low borrowing costs. With better long term economic growth prospects, higher inflation measures and record government borrowing concerns, bond markets capitulated in the quarter with long term interest rates lifting globally. Bond values declined sharply in NZ down -2.8% but still finished the year up +5.4%.

Given the depths of the global recession in the second quarter of 2020, it is remarkable that markets have performed as well as they have. There are now valuation concerns for parts of the market including technology companies (and other "Growth" stocks) and keenly priced higher risk bonds - both of which will underperform should longer dated interest rates continue to rise. On balance, with additional government spending expected to help counter the present Covid-19 resurgence and with central banks happy to keep monetary conditions very loose, the backdrop for company earnings remains positive and likely to support further price increases this year. Returns from fixed interest markets will be tougher in 2021 given record low yields for bonds, narrow credit spreads (mispricing of risk) and greater susceptibility to inflation risk. Being wary of a potential inflation surprise we continue to keep fixed interest investments in shorter dated, higher quality maturities. Retail and commercial office property markets will face structural challenges from the usage changes (shop online, work from home) Covid-19 has brought, while industrial and residential property is expected to remain well supported given stock shortages and cheap financing (for those that can get it).

To date the human cost of Covid-19 has been more than 2 million dead and rising and this does not include the deaths arising from other causes because of swamped healthcare services. The economic cost of Covid-19 has been historical. The direct economic cost (loss of production) was estimated at $4.4trn in 2020 with governments borrowing and committed to spending more than $14trn and central banks pumping more than $7trn into financial systems. The fiscal response alone is nearly 5 times the money spent during the Great Financial Crises. This spending is creating record levels of government debt. Since December 2019, government debt as a % of GDP in developed economies has risen by 21% (Source: IFF) or to 130% of GDP. From a level of less than 20% in March, NZ government debt is expected to rise beyond 50% of GDP over the next 3 years. With interest rates at record lows and in some cases negative (Japan) the cost of servicing this additional debt is presently sustainable. Governments are gambling increased tax revenues from growing economies will cover the future additional cost. Only time will tell if it has been worth it and the money effectively spent. While the stimulus shortened the recession, it paradoxically provided protection for many inefficient industries and (Zombie) companies that historically would have and should have failed. With increasingly populist governments and central banks rushing to protect economies from every significant recession we perhaps run a greater long term moral hazard for taxpayers and the mispricing of capital and risk.

The table below shows the gross returns (before tax) from the benchmark index for each asset class.

Market Returns	Dec. Qtr.	1yr p.a.	3yr p.a.	5yr p.a.
$NZ v TWI	**4.9**	1.7	0.3	0.2
$NZ v $US	**8.6**	7.3	0.3	1.2
$NZ v $AUD	**1.4**	-2.3	1.0	-0.1
NZ Cash	**0.1**	0.4	1.2	1.5
NZ Fixed Interest	**-2.8**	5.4	5.0	4.8
Intl Fixed Interest 100% hedged to $NZ	**0.2**	6.1	5.2	4.9
Australasian Equities 50/50 Indexes	**11.8**	9.0	11.2	12.4
NZ Listed Property	**8.5**	4.4	14.6	11.8
Intl Equities 50% hedged to $NZ	**10.1**	11.3	9.6	11.3
Commodities $NZ	**1.2**	-9.2	-2.9	0.0

SECURITIES RETURNS FOR THE QUARTER

During the quarter we participated in share purchase plans offered by Stride Property to assist the purchase of two new Wellington office buildings and IAG to maintain its capital position above the upper end of its target range (given potential business interruption claims arising from a test case in New South Wales). Both offers were oversubscribed and offered at a discount to existing shareholders.

The following tables show the returns from the securities recommended by NZ DIMS. Depending on your investment strategy you may hold all or only a portion of these securities and the returns for the securities held may also differ slightly depending upon cash flows and transactions in your portfolio over the quarter.

AUSTRALASIAN EQUITIES

Company	Sector	Quarterly Performance In NZ$ terms
New Zealand Equities		
Auckland Airport	Ports	4.1%
Contact Energy	Energy	34%
F&P Healthcare	Healthcare	-0.2%
Fletcher Building	Building	53.3%
Freightways	Transportation	29.8%
Meridian Energy	Energy	49.9%
Port of Tauranga	Ports	0.7%
Spark NZ	Telecommunications	0.0%
Stride Property	Property	14.1%
Australian Equities		
BHP Group	Resources & Energy	17.6%
Brambles	Professional Services	-0.3%
CSL	Healthcare	-2.7%
IAG	Financials	5.9%
Macquarie Group	Financials	15.4%

- Fletcher Building updated their profit guidance well ahead of market expectations. Their strategy to reduce costs is beginning to pay dividends and they have benefited from the booming residential housing market. There were over 37,000 new dwellings consented in the year to September - numbers which have not been seen since the 1970s. FBU are also part of a consortium which has secured the AMETI Eastern Busway Alliance project which is a substantial multi-year infrastructure development in Auckland.
- Stride Property purchased a premium grade office property at 20 Customhouse Quay for $228m with a 4.5% yield and 100% occupancy and another at 215 Lambton Quay for $84.5m. This increases the company's office portfolio to $571m with a weighted average lease term of 5.8 years. SPG raised a total of $230m in new capital from retail and institutional investors to enable the purchases with the long-term intention of creating a new separate (off balance sheet) fund to consolidate all office assets.
- IAG raised a total of A$775.9m in new capital from institutional (A$650m) and retail (A$125.9m) shareholders. This new capital was to cover an increased provision for potential claims related to business interruption coverage. A test case heard in the Supreme Court of NSW found that specific pandemic exclusions that were introduced post SARS did not apply. This places approximately 76,000 policies at risk with a potential A$805m profit impact but is likely to be appealed by IAG.
- F&P Healthcare posted a strong profit result over the 6 months to 30 September, up +86% as COVID-19 drove unprecedented demand in the Hospital division for hardware and consumables. The initial rollout of

Goodman Group	Property	4.8%
Ramsay Healthcare	Healthcare	-7.2%
Sonic Healthcare	Healthcare	-4.3%
Westpac	Financials	15.2%
Woodside Petroleum	Energy	27.6%
Woolworths	Consumer Staples	6.5%

- CSL has seen plasma collection levels well below the prior year due to COVID-19. This puts some pressure on profit margins as CSL must pay a fixed fee to donors and in the US this amount has increased from around US$50 to as much as US$80 per collection. CSL was forced to shelve its COVID-19 vaccine project with the University of Queensland when it failed to produce timely results. The company still has an agreement with the Australian Government to rollout a vaccine and has switched its production capacity to produce 50 million doses of the AstraZeneca vaccine. The first Australian batch will be ready in the 2nd quarter 2021, however 3.8m doses are being sourced from Europe to allow a mid-February start.

successful vaccines saw the share price drop back as investors took profits despite the continued surge in hospitalisations across Europe and the US.

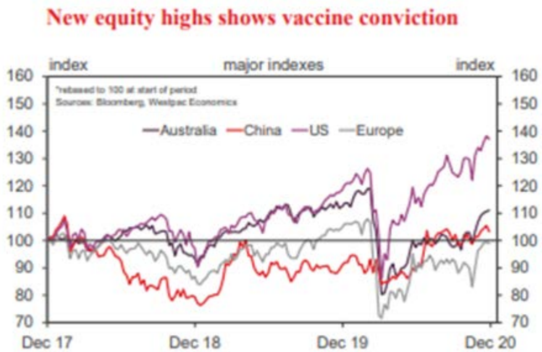
- Contact Energy posted a strong earnings result, up +81% on the same period last year. CEN along with Meridian Energy also benefited from increased investor appetite for the S&P Global Clean Energy Fund in which they are now included. This fund holds companies operating in the clean energy space, and has been particularly popular since Joe Biden's win in the US election.
- Macquarie Group has agreed to buy US based investment management firm Waddell & Reed Financial for US$1.7bn. Macquarie is primarily interested in their asset management business (US$68b AUM) and has entered a strategic partnership with LPL to on-sell part of the business. The purchase gives Macquarie improved scale in the US market and a broader retail footprint.
- Westpac ended the quarter strongly (+15.2%) despite posting a sharp drop in earnings driven by increased bad debt provisions on slower economic activity. The bank had also been hit with a record fine for breaching anti-money laundering laws. Despite these set-backs WBC generated A$2.6bn of earnings for the year. Like all the main Australian banks, they have been refocusing activity on core banking services and selling off business units such as insurance and wealth.

AUSTRALASIAN EQUITIES

The Australian share market had a strong quarter rising +13.7% and +1.4% for the year, with November the best month on record as energy and financial stock prices bounced strongly. Key to this reversal was positive global vaccine trials which provided confidence of a cyclical economic recovery and investors bargain hunting in those sectors which have lagged others this year. These higher returns were achieved against a background of deteriorating political relations and an escalating trade war with key trading partner China who has stopped Australian imports for various commodities such as coal, sugar, timber and wine. However, China still has a critical reliance on Australia for around 60% of its iron ore imports required to produce over 1 billion tonnes of steel for their domestic infrastructure and property developments. Supply is constrained globally and demand in other parts of the world have seen iron ore prices more than double in 2020 to a 10-year high. The NZ market also had a very good quarter rising +11.4% and +13.9% for the year. Returns have been driven by strong contributions from Fisher and Paykel Healthcare, Contact Energy, Meridian Energy and a range of smaller technology companies. Previous market darling A2 Milk finished the year down -18% affected by Chinese bans on Daigou (informal) distribution channels from Australia.

Fund	Quarterly Performance In NZ$ terms	Commentary
Devon Trans-Tasman Fund	12.5%	The fund outperformed the market benchmark over the quarter. The manager chooses to invest in companies which they believe are trading at a discount to their intrinsic value (in contrast to a growth manager who invests in businesses which exhibit above average growth despite at times looking expensive). Despite “Value” typically outperforming, “Growth” has dominated Value since the Great Financial Crisis in 2008 as interest rates have moved lower and this was exacerbated by the impact of COVID-19. At the end of October, the performance differential between the two styles was at its widest margin in 40 years and the Price/Earnings multiple at a record premium. In November we saw this swing back sharply in favour of Value and the manager believes this is the start of a sustainable shift in stocks and sectors that will lead markets in 2021. Global GDP is expected to improve by 5% over the next year and companies tied to the economic cycle (such as airlines, retail, financials and resources) will benefit from increased corporate earnings.
Harbour Australasian Equity Focus Fund	17.0%	The fund strongly outperformed the market benchmark over the quarter. Near term equity returns remain supported by companies delivering better than expected earnings and a backdrop of additional stimulatory monetary and fiscal policy. Harbour has also increased their exposure somewhat to value and cyclical stocks but remains underweight in these sectors while interest rates remain anchored at low levels by central banks.

INTERNATIONAL EQUITIES



There would be few people who forecast the strong positive returns we had from global shares after the COVID-19 crash in March. The recovery in markets has been remarkable but not all parts of the market performed well. Technology and health companies were the primary drivers of returns while cyclical and ‘value’ stocks did not recover until Q4. These shares are now advancing at the second fastest pace on record as the promise of effective vaccines has investors looking beyond a COVID-19 infected world. The S&P 500 advanced +18.4% in USD terms over the year. This included a -34% decline from the February highs, and a massive +68% recovery from the March lows. The top 5 names (Apple, Amazon, Facebook, Google and Microsoft) completely dominated returns for the year up +65% with the rest of the S&P500 averaging 10%. Global shares returned +14.2% but with a mixed contribution from countries UK -11.6%, Europe -2.6%, Japan +18.3%, China +13% - reflecting the respective handling and impact on COVID-19 on those economies. Some parts of markets are very expensive on forward P/E basis though significant earnings growth is expected as the global economy recovers this year (US circa +26%: Goldman Sachs). US market P/Es are also overstated by very expensive mega tech stocks. In addition to better earnings growth, other supporting factors for 2021 include more stimulus, strong free cash flows, low corporate gearing, ultra-low interest rates, excess global liquidity and rising mergers and acquisitions.

Fund	Quarterly Performance In NZ$ terms	Commentary
Active Fund Managers		
Platinum International Fund	11.9%	The fund was up +13.3% in AU$ terms for the quarter which was the 3rd strongest quarter return in the fund's 25-year history. Finally, there were some signs that market drivers are changing and rewarding cyclical stocks after a long period of rewarding growth and defensives. Companies in the portfolio that did well were economically sensitive stocks which will benefit most from any recovery. While the performance of value over growth in this quarter was welcome, over the year the World Growth Index has still well outperformed the World Value Index by a massive 31% (+22% vs -9%), and over the past 5 years it is +10% p.a. so there remains a long way to go. Over the year the top 10 contributors to fund performance were semiconductors (Samsung, Micron, Microchip), logistics (FedEx, ZTO express) and platforms (Facebook, Tencent, Amadeus). Vaccine company Moderna also performed well but the top stock pick was leading electric vehicle battery maker LG Chem. Detracting from performance were energy stocks, real estate and shorting stocks that were expected to fall.
Monks Investment Trust	17.1%	The fund was up +15.3% in GBP terms for the quarter. There have been three main areas of change in the portfolio over recent months. The first is meaningful investment in new frontiers on the internet including online furniture sales, Chinese music streaming and cloud service businesses as well as in the hugely scalable areas of digital payments and communications. The manager has also invested in diversified commodities as an alternative driver for the portfolio. This is premised on the infrastructure needs of both developed and emerging markets post COVID-19 recovery, creating excess demand with constrained supply. They have further invested in a handful of companies impacted by COVID-19 but well placed to survive and thrive. These include online travel agency Booking Holdings, ride sharing Lyft, low-cost airline Ryanair, Adidas and Estee Lauder. Profits were taken in outperformers Visa and Chipotle, while underperformers sold down include Signify (LED lighting), Distribution Now and a US barge business. The Trust can borrow (up to 15%) if it believes this will add value to the portfolio and an additional GBP100m has been raised at an attractive 1.8% p.a. rate over 30 years to take advantage of opportunities.
Magellan High Conviction Fund	-4.1%	The fund was down -3.0% in AU$ terms for the quarter. Key to the recent underperformance has been the sharp fall in the share price of Alibaba Group. Alibaba has been under pressure since the company suspended an initial public offering for its fin-tech arm Ant Group which operates a suite of financial products including the widely used Alipay digital wallet. There has been growing concern by officials over the dominance of the company and in December the Chinese Government launched an anti-monopoly probe into the e-commerce giant. The company still managed to double sales to $74billion during its annual Singles Day shopping event and produce solid growth in the other parts of its business including cloud-computing, digital media and entertainment, sports streaming, and food delivery services. The share prices of Alibaba and fellow Chinese giant Tencent (another portfolio holding) have also been impacted by the on again/off again move to add them to a US blacklist which would prevent US investors from trading stock. Both companies are market darlings and there has been significant pushback in the US from Wall Street - although any ban is not expected to impact materially on the operations of either company.

Passive/Index Funds		
Vanguard Intl Shares Select Exclusions Index Fund Hedged to NZD	11.8%	This fund provides passive exposure to all major developed share markets and is hedged back to the NZ dollar, so returns were not negatively impacted by the rising NZ dollar. There were mixed contributions from major markets reflecting in part their progress in handling further waves of COVID-19 and in part their sector exposure to the high growth and defensive companies which investors have favoured. Over the quarter the US market was up +12.2, UK +10.9%, Europe +11%, Japan +18.5%.
iShares Russell 2000 Index Fund	20.9%	These funds provide passive exposure to smaller companies in the USA and around the world and are valued in USD. Over the quarter the +8.3% rise in the NZ dollar against the US$ reduced returns for NZ investors which partially masked the strong return from small cap US companies. As investors became concerned about the valuation of the mega-cap stocks investment was redirected to sectors which have lagged and the Russell 2000 index rose +20% in November alone, its best month in its entire 41-year history.
Vanguard FTSE All-World ex US Small Cap Index Fund	8.3%	
Vanguard Emerging Market Index Fund	7.4%	The fund provides passive exposure to companies listed in emerging markets and is also valued in USD. Emerging markets fared better during the quarter

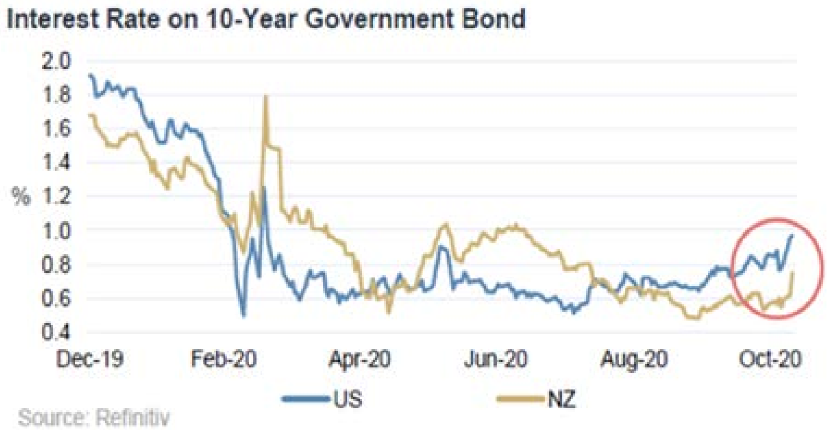
COMMODITIES

Resurgent global demand, particularly from China, lifted commodity prices across the board with metals, base materials, agriculture and energy all improving in the quarter. Copper prices reached 3-year highs and iron ore 7-year highs while oil also jumped to a 11-month high after the Saudis made a surprise production cut. LNG prices which hit an all-time low nine months ago leapt to record levels as freezing North Asian conditions drove demand. Corn prices are back up to 2013 levels and dairy, horticulture, meat (except lamb) and log prices were also higher. ANZ have revised up their NZ farmgate milk price forecast for the 2020-21 season by 50c to $7.20/kg MS.

The much stronger NZD impacted our terms of trade in the quarter and will present a headwind in 2021, as will global supply which will improve post lockdowns and the Northern Hemisphere winter.

FIXED INTEREST

Global bond markets started the year poorly given the more positive outlook for economic growth and potential for inflation. After recovering from a brief liquidity crisis during the COVID-19 meltdown, central bank intervention and buying saw bond yields retrace and prices rise sharply through Q2 and into August. Resurgent economic activity in the 3rd quarter drove long dated bond yields sharply higher and they remain elevated. The US, Australian and NZ 10-year Government bonds rose from a low of around 0.5% in Q3 and are now trading around 1.1% at the time of writing. This translates into a significant capital loss for holders. As global vaccine rates improve and economies open, bond yields are likely to rise further throughout the year with forecasters picking a range of 1.4% to 1.5% by year end. While bonds still delivered substantial returns for investors over the whole of the year, the outlook for returns is certainly more challenging. We continue to maintain a shorter duration of bond maturities for our investors to help mitigate the risk of rising yields and we delivered a better than market return during the quarter.



The US dollar fell to its lowest level since April 2018 and underperformed against all major currencies. The start of COVID-19 immunization campaigns in several countries and the additional pandemic fiscal relief package worth US$900bn (over 4% of GDP) weighed on market sentiment towards the USD. The US will continue to buy at least US$120bn of Treasury securities and mortgage-backed securities each month until they are confident progress has been made towards employment and inflation goals.

The RBNZ has a legal requirement to focus on inflation (price stability) and now employment. While inflation is subdued at 1.4% but within the RBNZ target range (1-3%), high unemployment levels mean the RBNZ is required to keep conditions easy. Negative cash rates are expected this year and possibly with cuts down as low as -0.5% from a current OCR of 0.25%. The RBNZ also introduced the Funding for Lending programme in December to assist banks with lower cost 'wholesale' lines to provide cheaper lending. Unfortunately for the RBNZ, most of this cheap money is flowing into residential housing (October lending of $7.8bn was a new record), rather than productive business investment and the inequality of overvalued house prices remains a significant issue for politicians and policy makers. Despite their cautious outlook, stronger economic growth (+14% in Q3 and +0.4% YOY) and improving business and consumer confidence did see the RBNZ communicate a more balanced outlook in their latest Monetary Policy Statement. This small change in rhetoric reduced the prospect of a negative OCR in 2021 and contributed to the doubling in long term yields from record lows earlier in the year.

Security	Quarterly Performance In NZ$ terms	Commentary
AMP Capital NZ Fixed Interest Fund	-2.2%	The manager has been reducing an overweight duration position in the portfolio closer to neutral by selling 5-year bonds and reinvesting in 2- to 3-year bonds. This reflects their view that we are still years away from seeing a hike in the OCR. However, the low point in longer term bond yields may already have been seen, particularly if the US and NZ central banks start to taper their direct bond buying programmes in the second half of 2021. Net NZ Government debt is now expected to peak at 52% of GDP (down from forecast 55%) with $10.2b of the COVID-19 relief fund still to be allocated. In NZ, credit (non-Govt bonds) continues to be well supported due to the RBNZ programs which effectively crowd out other buyers while there is also less bond issuance due to corporates limiting investment and NZ banks able to borrow directly from the RBNZ.
AMP Capital NZ Short Duration Fund	-0.2%	The manager has been reducing an overweight duration position in the portfolio closer to neutral by selling 5-year bonds and reinvesting in 2- to 3-year bonds. This reflects their view that we are still years away from seeing a hike in the OCR. However, the low point in longer term bond yields may already have been seen, particularly if the US and NZ central banks start to taper their direct bond buying programmes in the second half of 2021. Net NZ Government debt is now expected to peak at 52% of GDP (down from forecast 55%) with $10.2b of the COVID-19 relief fund still to be allocated. In NZ, credit (non-Govt bonds) continues to be well supported due to the RBNZ programs which effectively crowd out other buyers while there is also less bond issuance due to corporates limiting investment and NZ banks able to borrow directly from the RBNZ.
Harbour Wholesale NZ Core Fixed Interest Fund	-1.3%	Bond yields remain extremely low by historical standards and with working vaccines being rolled out the manager believes yields will eventually rise (and prices fall) from here. However, this will require clear evidence of improving economic conditions and central banks will try to manage the pace of any interest rate increases through stimulatory monetary policy - including active buying. The western world is too indebted for central banks to allow bond yields to rise massively so it is unlikely that 10-year yields will move back to 2% in 2021, but the fund has some protection in place if that were the case.
Harbour Enhanced Cash Fund	0.2%	Bond yields remain extremely low by historical standards and with working vaccines being rolled out the manager believes yields will eventually rise (and prices fall) from here. However, this will require clear evidence of improving economic conditions and central banks will try to manage the pace of any interest rate increases through stimulatory monetary policy - including active buying. The western world is too indebted for central banks to allow bond yields to rise massively so it is unlikely that 10-year yields will move back to 2% in 2021, but the fund has some protection in place if that were the case.

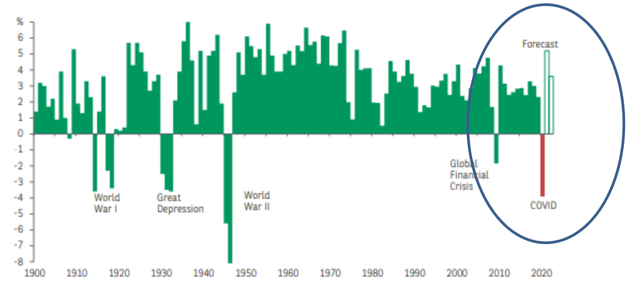
OVERVIEW

2020 will always be remembered as a remarkable year which started out cautiously as climate worry, trade wars and other geopolitical risks were exacerbated by the increasingly disruptive changes technology has across every sphere. The arrival of the pandemic moved our global focus to the ensuing health crises and the radical containment measures saw global economic production collapse in the second quarter at the fastest rate recorded and with the largest decline since WW2 (chart opposite). It was a frightening and extraordinary time requiring careful consideration of issues and not indulging in media panic. The situation was quite different to the 2008 financial crises as global financial systems were in good shape and private sector balance sheets, households and businesses were relatively robust and employment full. Nonetheless, the speed of the economic closure panicked investors and triggered high volume machine (algorithm) trading driving down markets and creating a liquidity crisis. This particularly impacted the functioning of bond markets and finally required globally co-ordinated central bank intervention. This response was straight out of the 2008 playbook and quickly succeeded in calming market nerves. More extraordinary was the following global government fiscal response which was so great that nominal household incomes in the US actually rose to a higher level than before the pandemic while at the same time their unemployment rate rose the fastest in history. Though a temporary stopgap, households could continue to live, function and consume while the health crises was addressed. History will judge how well individual nations have responded to managing the pandemic. Each had their own set of circumstances and economic considerations to address. Originally a critic of the NZ policy shift from "containment" to "elimination", we now believe it was the correct response and leveraged our unique geographical remoteness and domestic robustness. We do however remain critical of the effectiveness and intemperate approach of our quarantine management.

As we start 2021 the world is facing a stronger and more virulent 3rd wave of infections with further lockdowns and additional negative economic impacts which will require more stimulus. However, as vaccination rates accelerate, and economies begin to open throughout the year it should finish well and be remembered as a year of recovery and growth. At the time of writing amongst violent protest scenes on Capitol Hill, Congress confirmed Joe Biden as the next US President, the Democrats have also took control of the Senate, and launched 2nd impeachment proceedings against President Trump. Along with the final Brexit agreement and this week's softer overtures from China, we may see some stabilisation of geopolitical risks this year as well. The backdrop for markets remains positive with interest rates at historical lows and further global fiscal stimulus yet to be applied. Some parts of markets have become expensive, but many more sectors remain undervalued and provide significant opportunity for returns this year.

Global GDP Decline

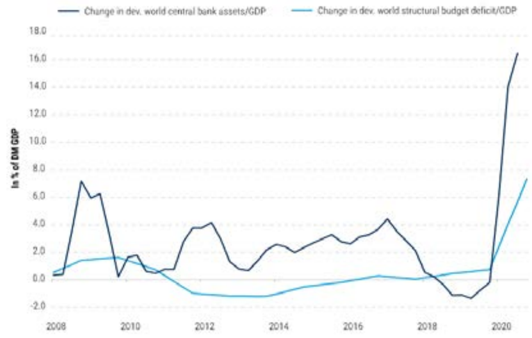
Exhibit 1: Largest decline since WWII - graph shows change in world gross domestic product (inflation-adjusted, in %)



Data as at 23 November 2020. Source: Haver, IEA, Bloomberg, BNP Paribas Asset Management

2020 vs 2008 - Central Bank and Fiscal Stimulus

Surging Monetary and Fiscal Stimulus Expands Budget Deficits



Source: Macrobond, IMF, and PineBridge Investments calculations as of 16 November 2020.

NZ No.1 (Bloomberg Covid Resilience Index)

RANK	CHANGE	ECONOMY	BLOOMBERG RESILIENCE SCORE	1-MONTH CASES PER 100,000	1-MONTH CASE FATALITY RATE
1	–	New Zealand	85.6	2	0%
2	▲1	Taiwan	82.4	1	0%
3	▲4	Australia	81	1	0.3%
4	▲2	Norway	77	213	0.8%
5	▲6	Singapore	76.2	4	0.4%
6	▼1	Finland	75.8	218	0.9%
7	▼5	Japan	74.5	54	1.2%
8	▼4	South Korea	73.3	38	0.9%
9	▼1	China	72	0	0%
10	▼1	Denmark	70.8	1,093	0.4%

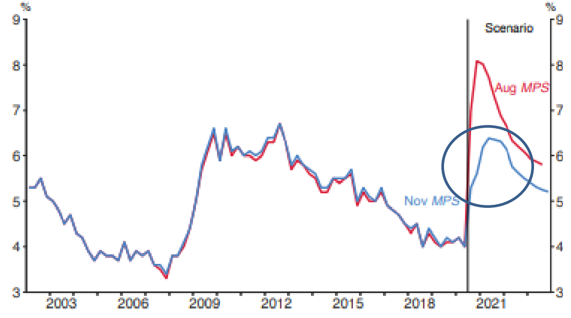
NEWTON ROSS
PRIVATE WEALTH MANAGEMENT

REGIONAL REVIEW

New Zealand

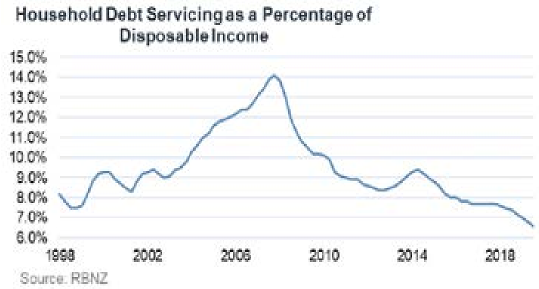
NZ has weathered the COVID-19 storm surprisingly well with the economic impact from our "elimination" strategy initially severe but less than forecast. Our GDP fell -12% (annualised) in the June quarter but had a V shaped recovery in September up +14% as restrictions eased and our GDP should finish the year down around -4% (RBNZ). Although business confidence took a significant hit mid-year, it has since rebounded to 3-year highs and we are seeing an improvement in investment and hiring intentions. The wages subsidy helped shield household incomes which in turn supported consumption. Lower interest rate settings assisted mortgage servicing costs which are now at 20-year lows (chart opposite). The unemployment rate was expected to peak at 10% but RBNZ revisions (opposite) now expect it to peak around 6.4%. As we move into the new year there are still sectors on life support - mainly internationally reliant tourism and travel operators and hospitality. These sectors account for around 5% of our GDP (Westpac) and will continue to struggle until we reopen our borders post vaccine rollout. They will require additional targeted support from Government. Elsewhere we are seeing a continued surge in retail spending (up 28% in the September quarter), strong residential construction numbers (highest consents in 46 years) and now improving manufacturing data as well. Domestic demand is very strong, although increasingly dysfunctional global supply chains are starting to hurt and may be inflationary in the short term. The re-election of the Ardern government with a majority provides political stability and they are well placed to implement policy and get traction which has been absent in the last 3 years. There will be additional fiscal stimulus to come from the COVID-19 Recovery Fund and the Reserve Bank will maintain its aggressive easing until we see an improvement in employment. Under pressure from the government, the RBNZ may taper their easing trajectory as strong domestic demand has translated to sharply higher house prices - although we still expect to see a negative OCR rate this year. A range of forecasts have 2021 GDP around a healthy 5.5% to 6.1%.

NZ Unemployment Peaking Lower



Source: Stats NZ, RBNZ estimates.

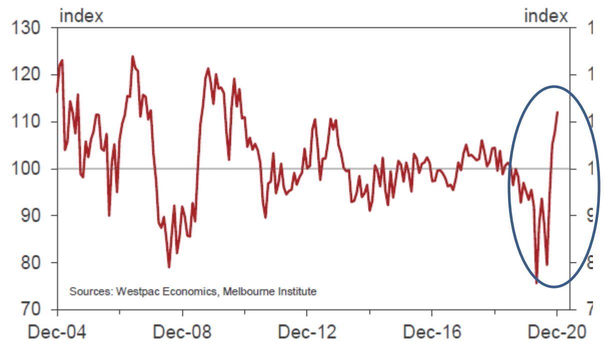
NZ Household Debt Servicing Costs



Australia

Despite several reimposed lockdowns, the Australian economy has also been more resilient than expected and may finish the year down around -2%, much better than initial, mid-year forecasts of -4.7%. The recovery has been driven by surging consumer spending with sentiment (10 year high) supported by high household savings rates and recovering house prices. The sharp increase in Chinese demand for materials ensured the continuance of iron ore and base metals exports that helped trade surpluses, although China is restricting imports of other Australian goods (coal, seafood, grains and meat) on rising political tensions. 60% of China's crucial iron ore needs are provided from Australia. COVID-19 wage subsidies were wound down in December. This will impact household finances though incoming personal income tax cuts will help. As we move into 2021 further federal fiscal stimulus is expected to be announced in the May budget and states will spend to a combined $100bn deficit. Various forecasts have catch-up GDP growth targets of +4% to +5% for the year but these will be dependent on their vaccine roll-out now set to commence in March.

Australian Consumer Sentiment

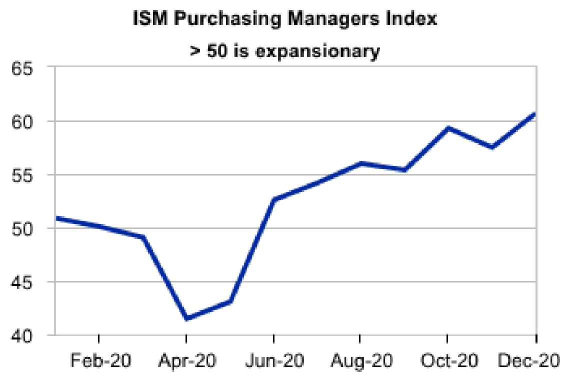


NEWTON ROSS PRIVATE WEALTH MANAGEMENT

US

Following the remarkable scenes of violence on Capitol Hill, Biden will be entering his term presiding over a deeply divided nation which will take significant focus and energy from his administration and be an enduring challenge. Despite this distraction and the presently dreadful pandemic conditions (approaching 400,000 deaths), the US is poised to strongly bounce this year as vaccination rates rise quickly through the first quarter and as the economy is aided by additional fiscal and monetary stimulus. The Federal Reserve will continue to provide aggressive support in 2021, being prepared to let inflation over-shoot its average target until they judge growth to be stable and full employment reached. Further fiscal stimulus is also expected given that the Democrats now hold the balance of power in the Senate (and control of Congress). They are likely to implement further spending programmes in addition to the recently approved $900bn package that provides unemployment benefits and a $600 cheque for households. Despite the chaotic backdrop, domestic demand remained robust throughout the year with COVID-19 subsidized wage programmes and rising house prices. Though recently softer, economic activity is still broadly improving with recent ISM manufacturing (12% of the economy) data up to 60.7 (from 57.5 in November) and the strongest since 2018. Once they get through a pandemic ridden winter, vaccines will allow closed sectors to reopen and further re-employment to take place. US GDP is expected to rise +4% to +5% this year.

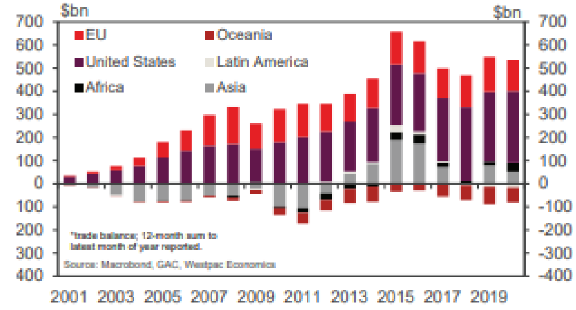
Recovering US Activity



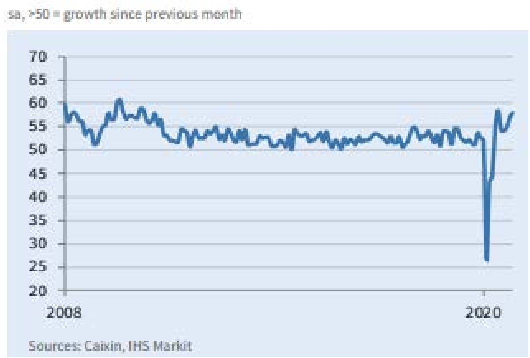
China

China continues to significantly outperform all other major economies and should post a positive GDP for 2020 circa +1.7% to +2% and now back to pre-pandemic levels of growth. With closed borders, Chinese consumers are spending more domestically and reducing China's over reliance on export activity. Building a more balanced economy has been a government priority for the last 5 years and Covid-19 has just accelerated this progress. As the vaccine roll-out improves global activity, China remains well positioned to benefit from increased export demand, although citizens may well start travelling and spending overseas again reducing their spending at home. Despite the strong domestic recovery, ongoing stimulus is still likely to be applied through fiscal spending announcements at the National People's Congress. With +4.7% growth in the 3rd quarter and likely +6% in the 4th quarter, most forecasts have China growing at +8% in 2021. Trade tensions with the US and increasingly with other western economies will most probably continue this year. Although a Biden administration may be more civilized in is approach, it is unlikely that relations will be re-built to pre-Trump levels. Regional defence issues (Taiwan), intellectual property rights, cyber security and technology protection are all potential trigger points for further tension this year. Additionally, China has just barred a WHO virus research team from entry. We expect China will correspondingly focus on building out domestic activity and increasing trade and economic ties with emerging countries this year. At current growth rates China is on track to become the largest economy by 2030.

China Exports Strong (Source: Westpac)



China General Service Business Activity Index



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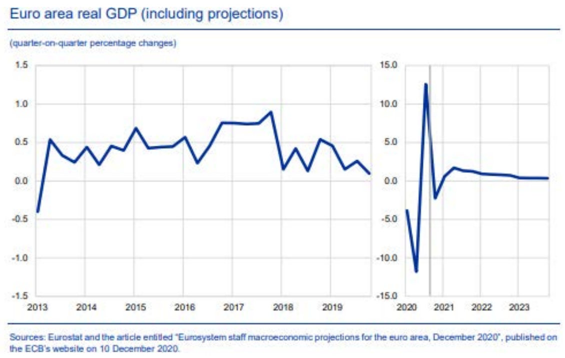
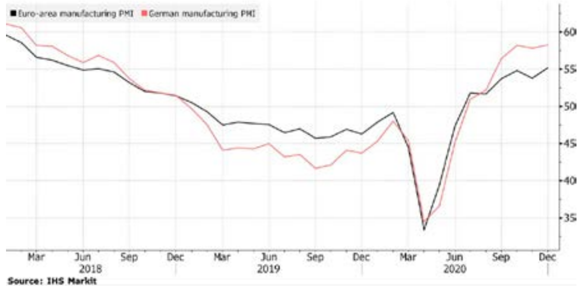
Europe & UK

Lockdown after lockdown. Porous borders, inconsistent rules and a mutated virus have put the UK and parts of Europe back into full closure denting any chance of economic growth in the final quarter of 2020 and likely the first quarter of 2021. Record death rates in the UK and an overwhelmed health service have seen a near panic introduction of vaccines, which they are gambling will stem the outbreak. Nearly 1 in 20 Londoners are now said to be infected. On the positive side, such that it is, Brexit has reached a final exhausting conclusion after 4 years of negotiation. This provides businesses with some certainty for their planning. London City however still faces uncertainty over financial services provision to the EU under equivalency rules which show no sign of being resolved. In the meantime, this means those firms wishing to trade EU country securities to EU clients must establish separate EU based operations which many have already done. Despite COVID-19, UK economic activity expanded in December, but this was largely driven by households and businesses stockpiling ahead of a potential hard Brexit outcome. During December, Euro Area manufacturing grew at its fastest rate in over 2 years with Germany's economy performing better than the rest and now on track for a relatively low contraction rate of -3.9% in 2020. Germany has been the most effective of nations in supporting households and COVID-19 impacted businesses. This has been underpinned by domestic demand while strong Chinese orders saw their manufacturing jump to 5-year highs. The ECB sees overall Euro Area GDP falling by -7.3% in 2020 but accelerating to +3.9% this coming year and +4.2% in 2022.

Euro area GDP Recovery



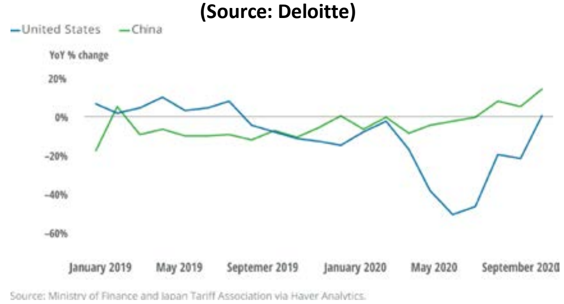
Germany (in red) Leads Euro Manufacturing



Japan

Rising Chinese orders and strong demand from the US and other Asia countries has helped Japan's recovery from recession in the 3rd quarter. Recently rising infection rates in December are now impacting domestic activity as new prefecture restrictions slow household spending. Business sentiment, which had been improving, is now softening again and will impact investment. Prime Minister Suga announced a further 10 trillion to 30 trillion-yen fiscal package until vaccines are readily available. The BOJ is maintaining their unconventional monetary policy including negative cash rates (-0.1%) and providing direct funding for financial institutions to provide loans to COVID-19 affected businesses. After an expected contraction of -5.8% in 2020, GDP is forecast to rise +3% in 2021. Hosting of the delayed Olympics is looking increasingly unlikely this year.

Improving Demand for Japanese Exports
(Source: Deloitte)



Emerging Economies

Emerging economies face a much tougher outlook for COVID-19 management. Overwhelmed health care systems, cost of vaccines and effective distribution mean they have a tricky time ahead. They also disproportionally rely on tourism earnings and have a greater reliance on foreign financing. All emerging markets will experience significant contraction of their economies in 2020 with growth (excluding China) to come in around -5.7% (IMF data) but then improving +5% in 2021 - although they will still be behind their 2019 GDP levels.

MARKETS

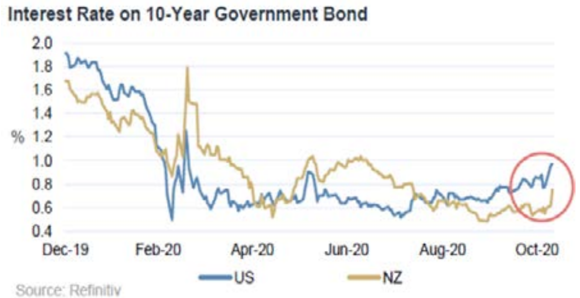
Cash & FX

The RBNZ has a legal requirement to focus on inflation (price stability) and now employment – although some would argue employment is a structural issue best addressed by Government policies (education, immigration, etc.). While inflation is subdued at 1.4%, it is within the RBNZ target range (1-3%). Despite this and with unemployment levels still around 6.4%, the RBNZ is required to keep conditions easy. Negative cash rates are expected this year and possibly 2 new cuts down to -0.5%. They also introduced the Funding for Lending programme in December to assist banks with lower cost 'wholesale' lines to provide cheaper lending. The easier policy settings drove housing demand and prices sharply higher. This spurred a bizarre series of letters between the Finance Minister and Governor suggesting the Remit for the bank be potentially changed to also include house prices. This implies a potentially less aggressive approach may be taken by the RBNZ in 2021 and a partial reason for the strong NZD rise in the quarter (also a weak USD story). Overseas cash rate settings remain near 0% and are likely to stay that way through the year while Japan maintains a negative cash rate. Meanwhile the RBA has firmly ruled out a negative rate setting which is underpinning their currency but also assisted by strong commodity prices.

NZD/USD Sharp Rise Q4 2020

Fixed Interest

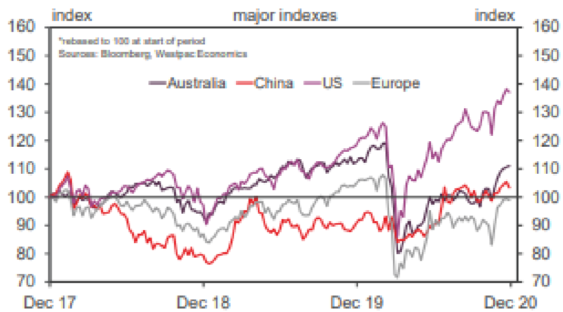
Bond markets started the year poorly given the more positive outlook for economic growth and potential for inflation. After recovering from a brief liquidity crisis during the COVID-19 meltdown, central bank intervention and buying saw bond yields retrace and prices rise sharply through Q2 and into August. Resurgent economic activity in the 3rd quarter drove long dated bond yields sharply higher and they remain elevated. The 10-year US Treasury bond and NZ and Australian 10- year Government bonds rose from a low of around 0.5% in Q3 and are now trading around 1.10% at the time of writing. This translates into a significant capital loss for holders. As global vaccine rates improve and economies open, bond yields are likely to rise further throughout the year with forecasters picking a range of 1.4% to 1.5% by year end. While bonds still delivered substantial returns for investors over the whole of the year, the outlook for returns is certainly more challenging. We continue to maintain a shorter duration of bond maturities for our investors to help mitigate the risk of rising yields and we delivered a better than market return during the quarter.



Equities

There would be few people who would have forecasted the strong positive returns we had from global shares after the COVID-19 crash in March. The recovery in markets has been remarkable but not all parts of markets performed well. Technology and health companies were the primary drivers of returns while cyclical and 'Value' stocks did not recover until Q4. These shares are now advancing at the second fastest pace on record as the promise of effective vaccines has investors looking beyond a COVID-19 infected world. The S&P 500 advanced +16% In NZD terms over the year. This included a -34% decline from the February highs, and a massive +68% recovery from the March lows. The top 5 names (Apple, Amazon, Facebook, Google and

New equity highs shows vaccine conviction



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Microsoft) completely dominated returns for the year up +65% with the rest of the S&P500 averaging 10%. Global shares returned +14.2% but with a mixed contribution from countries - UK -11.6%, Europe -2.6%, Japan +18.3%, China +13% - reflecting the respective handling and impact on COVID-19 on those economies. 'Growth' stocks also drove returns in the NZ and Australian markets although "Value" and cyclical companies are now also recovering. The NZ market rose +14% driven by very strong returns from Fisher and Paykel Healthcare and a range of smaller technology companies. Previous market darling A2 Milk finished the year down -18%. The Australian market returned a much lower +1.4% return for the year as it is dominated by poorer performing financial, mining and energy companies. Some parts of markets are very expensive on forward P/E basis though significant earnings growth is expected as the global economy recovers this year (US circa +26%: Goldman Sachs). US market P/Es are also overstated by very expensive mega tech stocks. In addition to better earnings growth other supporting factors for 2021 include more stimulus, strong free cash flows, low corporate gearing, ultra-low interest rates, excess global liquidity and rising mergers and acquisitions.

S&P500 Forward P/Es at 2000 levels

Credit Suisse Sharemarket Estimates

Figure 1: Targets

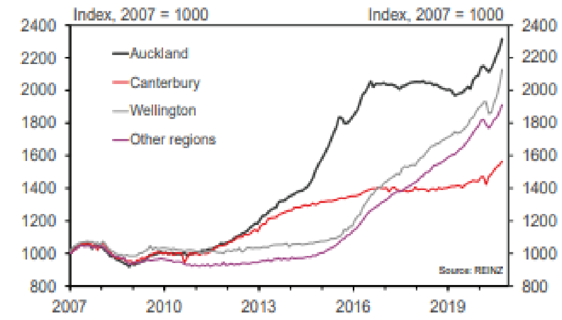
Market	Current 07/01/2021	End-2021E target	2021 forecast price return	2021 Total return
S&P 500*	3,804	**4,200**	10.4%	11.8%
Euro Stoxx 50	3,622	**4,050**	11.8%	13.6%
FTSE 100	6,857	**7,500**	9.4%	12.8%
Nikkei 225	27,490	**31,000**	12.8%	14.9%
MSCI EM Index, $	1,322	**1,490**	12.7%	15.2%
MSCI AC World ex USA	334	375	12.3%	14.1%

Source: Refinitiv, Credit Suisse estimates

Property

NZ house prices jumped after lock-down on supply constraints and rising demand driven by record low mortgage rates. The number of properties sold in November reached the highest level in 14 years (2006). REINZ data show NZ house prices rose +18.5% between November 2019 and November 2020. REINZ also comment that there have been annual house price increases since 2011 and home ownership is now at its lowest level in 70 years. The gap between owners and renters keeps increasing. Rising levels of residential consent issuance (+38,000 year ended September) is not translating into sufficient supply to stabilize prices and further positive net migration in 2021 will add further pressure. Housing affordability remains a significant challenge for government. The median house price in Auckland is now $1.03m and 10.1x household income levels (interest.co.nz). Commercial office space will come under pressure as businesses seek to cut costs and rightsize post COVID-19, although industrial property (particularly logistics and warehousing) should continue to do well as lower interest rates drive down capitalization valuation rates.

NZ House Prices Rise Sharply: REINZ



Commodities

Resurgent global demand, particularly from China, lifted commodity prices across the board with metals, base materials, agriculture and energy all improving in the quarter. Copper prices reached 3-year highs and iron ore 7-year highs while oil also jumped to a 10-month high after the Saudis made a surprise production cut. Corn prices are up to 2013 levels and dairy, horticulture, meat (except lamb) and log prices were also higher. However, the much stronger NZD impacted our terms of trade in the quarter and will present a headwind in 2021 as will global supply which will improve post lockdowns and the Northern Hemisphere winter.