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# New Zealand Kennel Club Incorporated – ACOD Presentation June 2022

Presented by  
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# The 2022 Macro Environment

## Macro events have been moving the markets

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- Macro uncertainties have been dominating the markets over recent months leading to volatility across both stock and bond markets.
- Investors are grappling with whether central banks will be able to tame inflation, with geopolitical events in Eastern Europe and China having further added a level of complication.
- Central banks current focus is the tightening of monetary policy to stem inflation.
- In our view, elevated inflation primarily reflects COVID-caused changes in demand as well as supply chain constraints:
  - After initial lockdowns, global demand bounced back strongly, fuelled by substantial monetary and fiscal stimulus

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- Demand for durable goods boomed whilst services has lagged. The production of durable goods (like appliances, furniture, cars) needed to scale to meet this surge in demand, however this has been a challenge as both manufacturing and logistics have been disrupted by COVID.
  - Global Inflation has therefore been led by soaring durable goods prices.
  - Compounding these inflationary pressures more recently has been (1) Russia's invasion of Ukraine which has pushed up commodity prices, and (2) China's zero-COVID policy and lockdowns which has disrupted production in “the worlds factory”.
  - Whilst many of these drivers are temporary in nature, central banks need to ensure that inflation doesn't become embedded in price and wage expectations. The way they do this is by tightening monetary policy, however how far they need to raise rates is still up for debate.



## The Market Impact

## What has this meant for equities?

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- Since the beginning of the year many global equity markets have experienced a sharp pullback on the back of the rising interest rates and the risk of a recession. Leading markets lower have been:
  - The giant US tech sector, which has suffered the dual pressures of rising interest rates weighing against their high valuation multiples plus soft trading updates from some major players who have struggled to build on the strong growth they generated through COVID i.e. Netflix, Zoom.
  - Emerging markets, which have faced the additional impact of events in Eastern Europe and China.





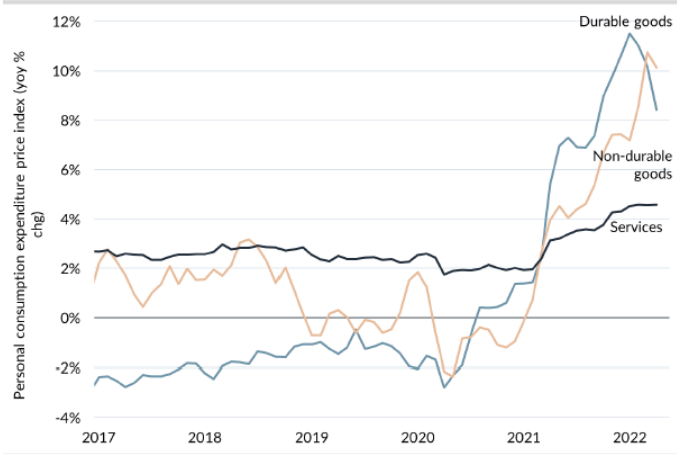
## Looking Forward

## Where to from here?

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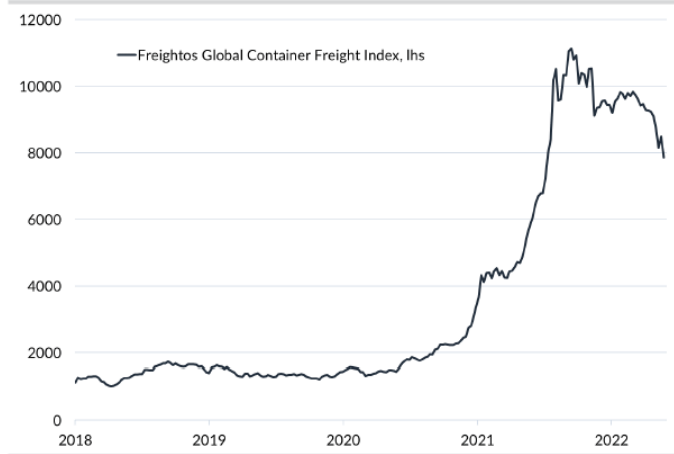
- There are early signs that the pressures being seen globally may be getting close to peaking.
- As economies reopen, we believe spending patterns should change back towards services, and less on goods – helping alleviate pressures on global supply chains.
- Many commodity prices are off their peaks from when Russia first invaded Ukraine, as too is the price of semiconductors.
- Container shipping costs have eased back to the lowest levels since July last year, and US car prices – the largest single driver of US inflation over the past 12-15 months – are now falling.

Figure 3. US inflation — soaring goods prices stating to ease



Source: Refinitiv, Forsyth Barr analysis

Figure 4. Container shipping rates — now falling



Source: Refinitiv, Forsyth Barr analysis

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- Whilst there is still a lot of uncertainty around the outlook, there is a growing possibility the global inflation picture may improve by the end of the year which is our base case scenario.
  - The silver lining is we have seen an improvement in equity valuations - price declines have brought company valuations back to attractive levels and we continue to see healthy corporate earnings growth.
  - We still favour equity markets and our modest equities overweight reflects our base case of easing inflation pressures and lessening central bank tightening over the next 12 months.
  - Recession risks are not immaterial and so our goal is to build a diversified and resilient portfolio that minimises the extremes of earnings risk if inflation and interest rates continue to rise.

## Geographic Thoughts

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- New Zealand
  - The NZ market remains expensive relative to history, international markets, and bonds.
  - Higher interest rates are a particular headwind - the NZ market is dominated by defensive dividend-paying stocks as well as long-term growth stocks, both of which are sensitive to interest rates.
  - Inflationary pressures are generally more acute in NZ than elsewhere - the money market is pricing in that our Reserve Bank will raise rates to a higher level than in most other countries.
  - With a softening housing market, low migration and depressed consumer confidence, we see the risk of a meaningful economic slowdown as significant.

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- Australia

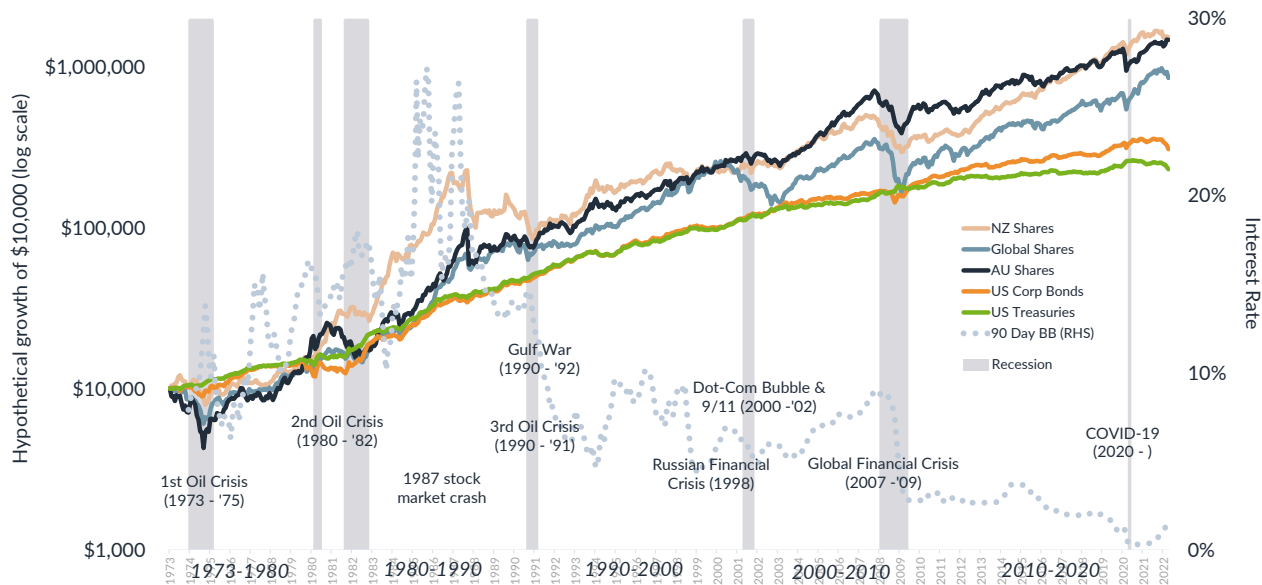
- The Australian market currently offers better value than NZ.
- This is, in part, explained by “more normal” valuations on financial companies and resources, rather than cheaper valuations on a like-for-like basis.
- The Australian economy is recovering off a lower base than NZ given more extended lockdowns through 2021.
- The Australian consumer is strongly positioned, supported by a strong labour market and savings built up over the past two years.
- The Reserve Bank of Australia (RBA) is expected to be a laggard in raising interest rates due to lesser inflationary and wage pressures.

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- International

- Most international developed market economies are recovering off a lower base than NZ and Australia, supporting better near-term growth prospects
- Valuations are more reasonable across international markets than in NZ -they are below historical averages in Europe, China, and Japan.
- Relative to bonds, international markets look cheap with the exception of the US
- The US market is more defensive in nature than NZ/Aus, has more structural growth companies, and is less exposed to global trade and geopolitical risks.
- US companies delivered strong earnings growth in last month's reporting season

# Long term performance



Source: Forsyth Barr analysis, Bloomberg, FRED, NBER, Refinitiv. **NZ Shares:** A blended index consisting of: the NZ Barclays Index from 1973-1991, the NZSE40 Index from 1991- 2000, and the S&P/NZX 50 Capital Index since 2000. The long-run average New Zealand annual dividend yield of 4.9% has been added to the annual return. **AU shares:** MSCI Australia Index total return since 1973 (local currency). **Global shares:** MSCI World Index total return since 1973 (local currency). **US Corp bonds:** Bloomberg Barclays US Corporate Bond Total Return Index since 1973 (local currency). **US Treasuries:** Bloomberg Barclays US Treasury Total Return Index (local currency). **90Day BB:** New Zealand 90-day bank bill rate as provided by the Federal Reserve Bank of St Louis since 1973. **Recession:** recessions in the United States since 1973 as defined by the National Bureau of Economic Research.



# The Mandate

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- While Dogs NZ are making decisions on any future investments in dog sports facilities and office buildings we will take a prudent, conservative approach to allocating the \$6m net capital from the sale of Prosser St.
  - The rest of the portfolio will be managed within the asset allocation limits associated with a Balanced portfolio.
  - We will take a prudent approach to allocating capital, potentially taking 6 months plus to become fully invested as agreed with Dogs NZ delegated authority.
  - Your time horizon is 7+ years reflecting your longer term approach to investing.
  - All portfolio income is currently to be retained.

# The Portfolio

## Portfolio Summary

### New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

#### Private Portfolio Management

You, the investor, have authorised Forsyth Barr Investment Management Ltd to manage this portfolio based on an agreed Investment Authority.

The Portfolio Type below represents our current understanding of the level of investment risk you wish your portfolio to take, and describes the general asset allocation (proportion invested in "growth" as opposed to "income" assets) that applies to your portfolio. Typically, "growth" assets such as shares, property securities and specialty investments are expected to have higher returns over time but are higher risk than "income" assets such as fixed interest investments and cash.

#### Portfolio Type: Balanced

Your portfolio consists of similar proportions of "growth" assets such as shares and "income" assets such as fixed interest investments, intended to moderate the overall level of portfolio volatility while seeking both growth and income related returns. You accept that your portfolio may lose value for variable periods of time, in the interest of seeking to preserve the "real", inflation adjusted value of your portfolio over the minimum recommended investment period of 5 years.

#### Asset Allocation

Underlying sectors in which the portfolio is invested

Sector	NZ Dollar Value	Portfolio %
Cash	5,599,143.67	81.0
Fixed Interest	388,035.76	5.6
Property	72,453.10	1.0
NZ Equities	303,340.00	4.4
Australian Equities	261,814.35	3.8
International Equities	283,513.85	4.1
<b>Total</b>	<b>\$ 6,908,300.73</b>	<b>100.0</b>



- Cash
- Fixed Interest
- Property
- NZ Equities
- Australian Equities
- International Equities

#### Currency Allocation

Currency of market on which the security trades

Assets by Currency	Native Value	FX Rate	NZ Dollar Value	Portfolio %
New Zealand Dollar	6,290,376.66	1.0000	6,290,376.66	91.1
Australian Dollar	303,388.35	0.9076	334,267.45	4.8
United States Dollar	184,773.92	0.6514	283,656.62	4.1
<b>Total</b>			<b>\$ 6,908,300.73</b>	<b>100.0</b>



- New Zealand Dollar
- Australian Dollar
- United States Dollar

## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### Cash

Security Name	Local Currency			New Zealand Dollar			
	Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>New Zealand Dollar</b>							
Cash Management Account		5,598,280.90		5,598,280.90	5,598,280.90	5,598,280.90	81.0 %
Distributions Receivable (1)				720.00		720.00	0.01 %
<b>Total New Zealand Dollar</b>		<b>5,598,280.90</b>		<b>5,599,000.90</b>	<b>5,598,280.90</b>	<b>5,599,000.90</b>	<b>81.0 %</b>
<b>United States Dollar</b>							
Distributions Receivable (1)				93.00		142.77	0.002 %
<b>Total United States Dollar</b>		( FX Rate 0.6514 ) 0.00		<b>93.00</b>		<b>142.77</b>	<b>0.002 %</b>
<b>Total Cash</b>					<b>5,598,280.90</b>	<b>5,599,143.67</b>	<b>81.0 %</b>

## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### Fixed Interest

Security Name	Coupon Rate	Maturity/ Reset Date	Security Code	Type	Quantity	Currency	Local Currency			New Zealand Dollar			
							Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>New Zealand Dollar</b>													
GMT Bond Issuer Limited 14/04/2027 4.74%	4.74 %	14/04/2027	GMB060	Bond	125,000	NZD	1.003	125,382.50	1.016	127,053.93	125,382.50	127,053.93	1.8 %
Mercury NZ Limited Capital Bonds 13/05/2052 5.73%	5.73 %	13/05/2027	MCY050	Bond	125,000	NZD	1.000	125,000.00	1.026	128,224.04	125,000.00	128,224.04	1.9 %
Precinct Properties New Zealand Limited 09/05/2028 5.25%	5.25 %	09/05/2028	PCT040	Bond	130,000	NZD	1.000	130,000.00	1.021	132,757.79	130,000.00	132,757.79	1.9 %
<b>Total New Zealand Fixed Interest</b>								<b>380,382.50</b>		<b>388,035.76</b>	<b>380,382.50</b>	<b>388,035.76</b>	<b>5.6 %</b>
<b>Total Fixed Interest</b>											<b>380,382.50</b>	<b>388,035.76</b>	<b>5.6 %</b>

## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### Property

Security Name	Security Code	Type	Quantity	Currency	Local Currency			New Zealand Dollar			
					Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>Australian Dollar</b>											
Goodman Group	GMG	Ordinary	3,200	AUD	23.63	75,616.84	20.55	65,760.00	82,457.53	72,453.10	1.0 %
<b>Total Australian Property</b>			( FX Rate 0.9076 )			75,616.84		65,760.00	82,457.53	72,453.10	1.0 %
<b>Total Property</b>									82,457.53	72,453.10	1.0 %

## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### New Zealand Equities

Security Name	Security Code	Type	Quantity	Currency	Local Currency			New Zealand Dollar			
					Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>New Zealand Dollar</b>											
Arvida Group Limited	ARV	Ordinary	40,000	NZD	1.71	68,347.50	1.59	63,600.00	68,347.50	63,600.00	0.9 %
Infratil Limited	IFT	Ordinary	6,000	NZD	8.15	48,910.80	7.74	46,440.00	48,910.80	46,440.00	0.7 %
KMD Brands Limited	KMD	Ordinary	50,000	NZD	1.15	57,292.50	1.21	60,500.00	57,292.50	60,500.00	0.9 %
Oceania Healthcare Limited	OCA	Ordinary	60,000	NZD	1.05	62,719.50	1.03	61,800.00	62,719.50	61,800.00	0.9 %
Pacific Edge Limited	PEB	Ordinary	100,000	NZD	0.94	94,477.50	0.71	71,000.00	94,477.50	71,000.00	1.0 %
<b>Total New Zealand Equities</b>						<b>331,747.80</b>		<b>303,340.00</b>	<b>331,747.80</b>	<b>303,340.00</b>	<b>4.4 %</b>
<b>Total New Zealand Equities</b>									<b>331,747.80</b>	<b>303,340.00</b>	<b>4.4 %</b>



## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### Australian Equities

Security Name	Security Code	Type	Quantity	Currency	Local Currency			New Zealand Dollar			
					Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>Australian Dollar</b>											
CSL Limited	CSL	Ordinary	245	AUD	266.79	65,364.59	271.83	66,598.35	70,786.86	73,376.78	1.1 %
EML Payments Limited	EML	Ordinary	27,000	AUD	3.00	80,945.44	1.50	40,500.00	87,739.07	44,622.12	0.6 %
Nextdc Limited	NXT	Ordinary	7,000	AUD	11.27	78,865.87	11.01	77,070.00	86,819.39	84,914.24	1.2 %
Pointsbet Holdings Limited	PBH	Ordinary	18,000	AUD	3.34	60,145.51	2.97	53,460.00	65,586.58	58,901.20	0.9 %
<b>Total Australian Equities</b>					( FX Rate 0.9076 )	<b>285,321.41</b>		<b>237,628.35</b>	<b>310,931.90</b>	<b>261,814.35</b>	<b>3.8 %</b>
<b>Total Australian Equities</b>									<b>310,931.90</b>	<b>261,814.35</b>	<b>3.8 %</b>

## Portfolio Appraisal

New Zealand Kennel Club Incorporated (Dogs NZ)

Interim Only

### International Equities

Security Name	Security Code	Type	Quantity	Currency	Local Currency			New Zealand Dollar			
					Unit Cost	Total Cost	Current Price	Market Value	Total Cost	Market Value	Portfolio Weight
<b>United States Dollar</b>											
Amazon.com Incorporated	AMZN	Ordinary	18	USD	2,176.96	39,185.23	2,404.19	43,275.42	62,594.22	66,434.48	1.0 %
General Motors Company	GM	Ordinary	1,500	USD	45.95	68,919.99	38.68	58,020.00	99,208.28	89,069.70	1.3 %
Microsoft Corporation	MSFT	Ordinary	150	USD	303.09	45,464.06	271.87	40,780.50	66,765.63	62,604.39	0.9 %
PayPal Holdings Incorporated	PYPL	Ordinary	500	USD	118.84	59,418.63	85.21	42,605.00	86,071.54	65,405.28	0.9 %
<b>Total United States Equities</b>					( FX Rate 0.6514 )	<b>212,987.91</b>		<b>184,680.92</b>	<b>314,639.67</b>	<b>283,513.85</b>	<b>4.1 %</b>
<b>Total International Equities</b>									<b>314,639.67</b>	<b>283,513.85</b>	<b>4.1 %</b>
<b>Total Portfolio Value</b>									<b>7,018,440.30</b>	<b>6,908,300.73</b>	<b>100 %</b>



Questions...