



RUTHERFORD REDE

insights



WINTER 2024
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ECONOMIC & MARKET COMMENTARY

JUNE QUARTER 2024

Overview

Large cap global equities performed well again this quarter, but performances elsewhere were quite mixed.

The AI boom thematic continued into the June quarter. International equities again increased, but gains were concentrated in the large cap tech sector. Short-term credit also performed well, but elsewhere returns were negative or more subdued. NZ and Australian equities, global small caps and international property, for example, all fell over the quarter (see Figure 1).

As in our previous update, on the economic front the US economy remains a bright spot, but there are now also increasing signs of activity picking up - or at least stabilising - in other key economies and regions, including China and the EU. Inflation has also continued to trend down globally, to the extent that some central banks have begun to cut interest rates, including the ECB and Bank of Canada. New Zealand unfortunately remains a glaring exception. Data releases suggest that we remain in recessionary-like conditions, but despite this, the RBNZ has maintained its relatively hawkish stance.

Market roundup

Gains were strongest in US equities over the past year, reflecting the relative strength of the US economy and the AI boom underway. NZ equities have performed poorly as rates have stayed high and corporate earnings have taken a hit.

Asset class performances were mixed in the quarter. Global equities again rose, by around 3% on an NZD hedged and local currency basis, bringing the annual returns to over 20%. Emerging markets performed in line with global equities. Under the surface equity market performances were much more mixed.

Figure 1: Mixed performances in the June quarter

Source: Morningstar Direct, MyFiduciary

20

15

10

5

0

-5

Cash NZ Fixed Interest Global Fixed Income Global Listed Property NZDH Global Listed Infrastructure NZDH NZ Equities Aus Equities Global Equities Global Equities - NZD Hedged Emerging Market Equities

Figure 2: Large decline in NZ listed corporate earnings

Source: Datastream, MyFiduciary

1000

900

800

700

600

500

400

300

200

100

0

NZ50 index earnings per share

Decline from Feb 2022 Peak 40% so far

GFC Decline 34%

Covid Decline 27%

Global small cap stocks fell by around 2% in local currency terms, while global value and the Australian equities both fell by around 1%.

Trailing the pack, NZ equities fell around 3% over the quarter and 1% over the year to June. Most of the largest stocks on our market are utility and infrastructure-type investments sensitive to NZ economic growth and interest rates. While rates remain high and growth very weak our market will likely continue to struggle. Figure 2 suggests that the decline in corporate earnings in our market since the post-Covid peak in early 2022 has been larger than falls seen over the GFC period.

Listed global property fell around 2% while global infrastructure increased by 2.5% on an NZD hedged basis. Over the year, these asset classes have returns around 6% and 7% respectively. Bond performances were also mixed. New Zealand investment grade bonds increased 0.7% in the quarter and 5.2% over the year, but within this government bonds, which are longer duration, returned around 4.7%, while corporate bonds returned 6.3%. International investment grade bond returns were flat this quarter as they suffered from the marked-to-market impact of markets pricing in delays to interest rate cuts, particularly in the US. But short-term credit and high yield performed very well, with funds that allocate to these asset classes returning around 2.5% in the quarter and in some cases over 10% (net of fees) for the year.

Diversification as always remains essential across markets and asset classes.

As always, the mixed performances of markets argues for ensuring portfolios remain well diversified. While large cap growth stocks are in vogue now, any shortfall in their earnings could well precipitate a large correction. While NZ stocks are out of favour, they are interest rate sensitive and as such they are primed to rally when the RBNZ joins its international peers in cutting rates.



INVESTING FOR IMPACT

Impact investment can be considered as an extension of Responsible Investment practices.

Overview

Interest in impact investing has grown markedly in New Zealand over the past several years, and the investment industry has started to respond. We describe below what is meant by impact investing, how the market in New Zealand is accommodating the growing interest, and the considerations for investors looking to invest for impact.

Impact investment seeks to define and measure the environmental, social and other impacts of the investment activity.

What is impact investing?

Impact investment can be considered as part of the Responsible Investment 'continuum'; in the sense that other factors other than pure commercial return are part of the consideration for end investors and investment managers.

This is illustrated in the figure over the page.

	Responsible Investing		Impact Investing		
Traditional Investing	Ethical Investing	Sustainable Investing	Thematic Impact Investing	Impact First Investing	Venture Philanthropy
	Seeking competitive returns				
	Mitigating Environmental, Social and Governance (ESG) risks				
		Pursuing Environmental, Social and Governance opportunities			
			Focusing on measurable high-impact solutions		
Financial returns with limited consideration of ESG factors or ethical constraints	Investments are screened out based on ESG risk or ethical constraints	Sustainability factors and financial returns drive investment selection and shareholder advocacy	Focus on issue areas where social or environmental need creates a commercial opportunity for market-rate returns	Focus on issue areas where social and environmental need requires some financial trade-off	Addresses societal challenges that cannot generate a financial return for investors

Source: Rally Assets, The Impact Investing Guidebook for Foundations

Impact investing in practice

In New Zealand it is now a mainstream activity for fund managers, as part of their Responsible Investment policies, to both screen out companies engaged in harmful activities (e.g. tobacco) and to allocate to companies with relatively good ESG practices compared to poorer practices. But this does not necessarily mean these approaches fall into the impact investment definition. According to the Global Impact Investment Network (GIIN), the key defining feature of any impact investment is that there is a commitment to measure and report on the social and/or environmental impacts that the investment strategy is designed to deliver.

There are a relatively small number of NZ impact funds, but we can expect this to rapidly increase as 'mainstream' funds start measuring and reporting on their impacts.

Most funds with strong ESG credentials still do not explicitly measure and report on the impacts they deliver, whereas the relatively small number of NZ based impact funds (which are mainly in private markets and illiquid) make that a central feature. But that does not mean that if you are invested in a mainstream fund that positive impacts aren't being delivered. Far from it. Global equity funds that, for example, seek a lower greenhouse gas (GHG) emissions profile than market benchmarks will typically invest into energy companies that are part of the transition away from fossil fuels, and hence positively contributing towards meeting national and global climate change targets. Funds that track a so-called Paris Aligned benchmark take this a step further in the sense that such funds bake in a commitment to reduce their fund's GHG profile by at least 6% per annum, in line with the Paris agreement of reducing emissions to net zero by 2050.

As part of this, such funds must measure and report on progress towards meeting this goal, and as such they can be considered impact funds under the GIIN definition.

In a similar vein, we are seeing more and more funds starting to better identify and report on a range of other metrics, such as water usage, management of landfill waste, Board diversity and corporate philanthropic activity. We can expect to see more funds extend themselves further to the right on the Responsible Investment continuum above.

Implications for investors

For investors the development of impact investing as a discipline means there is increasing choice around how you may choose to align the financial return you require against any preferences you may have around how your funds are invested, and the impacts that they deliver.

For investors, the development of impact investment provides the opportunity to see how your investment delivers on impacts that matter to you.

For charities and foundations this development means there is growing opportunity to potentially marry investment activity with core purposes. But should this route be taken if available? A recent legal opinion by Parry Field lawyers¹ suggests that given this opportunity trustees operating under the Trusts Act (2019) have a fiduciary duty to consider if impact investment is likely to advance trust purposes. This requires consideration of what the available impact opportunities are, how they align to Trust purposes, and the extent to which such opportunities promise a commercial return (so-called 'finance first' impact investment) or a below commercial return (so-called 'impact first' impact investment). In the case of the former there is the potential to have your cake and eat it too. In the case of the latter, the potentially lower return would need to be carefully considered against how this would impact distributional or grant-making commitments over time.

¹See <https://www.parryfield.com/impact-investing-information-hub/>

HOW THE MARKETS FARED

All returns are expressed in NZD. We assume Australian Shares and International Property are invested on an unhedged basis, and therefore returns from these sectors are susceptible to movement in the value of the NZD.



QTRLY RETURN
DOWN -3.1%
PAST YEAR
DOWN -0.8%



QTRLY RETURN
UP +0.7%
PAST YEAR
UP +5.2%



QTRLY RETURN
DOWN -0.6%
PAST YEAR
UP +13.1%



QTRLY RETURN
UP +0.8%
(+3.1% hedged)
PAST YEAR
UP +20.8%
(+21.6% hedged)



QTRLY RETURN
UP +3.1%
PAST YEAR
UP +13.2%



QTRLY RETURN
UP +0.1%
PAST YEAR
UP +3.8%



QTRLY RETURN
DOWN -1.8%
PAST YEAR
UP +5.8%

New Zealand Shares: New Zealand shares fell 3.1% over the quarter, giving up the gains made last quarter, and are now down around 0.8% the last 12 months. This is a quite soft result compared to offshore equities, but our market still remains a strong performer over the last decade with a return of around 9.7% per annum.

Source of figures: S&P/NZX 50 Total Return Index with Imputation Credits

New Zealand Fixed Interest: New Zealand investment grade bonds returned 0.7% in the quarter and 5.2% over the year. Within this, government bonds returned around 4.7% over the year, while corporate bonds returned 6.3%.

Source of Figures: S&P/NZX Composite Investment Grade Index

Australian Shares: Australian shares fell mildly in the quarter, but the annual result remains strong at around 13%. Australian small cap stocks had weaker performances, while value outperformed over the year returning around 20%.

Source of Figures: S&P/ASX 200, S&P Australia BMI Value, S&P/ASX Small Ordinaries

International Shares: Following the blistering pace of gains over the past several quarters, international shares posted a return of 'only' around 3% this quarter in local currency and NZD hedged terms. This brought the annual results to around 21% in NZD terms, while NZD hedged returns were around 21.6%. Small caps fell 4.5% in the quarter and returned around 10% over the year, while value stocks fell 3% in the quarter and have risen 14.5% over the year. The under-performance of small and value-oriented stocks in part reflects that the largest gains were again from large cap US growth stocks in the tech sector.

Source of Figures: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value, MSCI World Small Cap in NZD terms.

Emerging Markets: Emerging Markets rose by around 3% over the quarter and a respectable 13.2% over the year to June in NZD terms. This in part reflects investors taking advantage of their relatively cheap valuations, but also that economic growth was stronger than expected, especially in China.

Source of Figures: MSCI Emerging Markets Index

International Fixed Interest: Global investment grade bonds were again flat in the quarter as market conviction waned that that interest rates will aggressively be cut over 2024. This reduced the annual return to 3.8%, below the current running yields on global bonds of around 6%.

Source of Figures: Bloomberg Barclays Global Aggregate Index (hedged to NZD)

International Property and Infrastructure: International property stocks fell by around 1.8% in the quarter in NZD hedged terms, while global infrastructure increased around 2.5% in NZD hedged terms. Over the year, infrastructure increased around 7% and global property 6% on a NZD hedged basis.

Source of Figures: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis



Q&A WITH WILL SARGENT

Insights introduces people that we work closely with so that you can understand the wider team that provides our services.

Tell us about the pathway you took that lead to becoming a financial adviser.

My first graduate position was in the mailroom of ANZ bank, where I sent KiwiSaver welcome letters! I stayed with ANZ for many years, learning different parts of the business including preparing financial plans. As a young man in my twenties I watched as my friends utilised their own skillsets to provide useful advice to others and realised I wanted to do the same with my financial experience. With my future plan in place I returned to university to complete a Graduate Diploma in Financial Planning and collected another five years honing my planning experience within the bank before finding my place with Rutherford Rede in 2017.

Where are you from and can you tell us a little about your early life?

I grew up the youngest of three siblings in the eastern bay suburbs of Auckland. Dad was a solicitor, and mum ran the household. My Mum was a social butterfly and so much of my early life was spent helping her host gatherings at ours, or heading off to events she was associated with. Dad was a long-term board member for Radio Lollipop so there were plenty of fundraisers to attend too. In my teens, my older brother Edward was diagnosed with leukaemia and subsequently lost his battle 18 months later. This was followed by losing my Mum to leukaemia in my early twenties and to my Dad to bowel cancer in 2019.

After Edward died, Mum was vehement that we should still joke & laugh and talk about Edward openly. Her determination to live with humour has stayed with me and carried me through challenging times.

Tell us about your wife and family

Leonora was born in Hong Kong, where she lived for ten years until her family returned to NZ after almost 30 years as expats. We met in early 2020 and decided to go into the first Covid lockdown together in March of that same year. Safe to say that all went okay, as we were married at the end of 2022. Lockdown brought us Leonora's cat, on to a puppy and eventually a proposal. Not long after our engagement we found out we were expecting a baby. Unfortunately, we lost our son Odilon at 36 weeks – something that tested and confirmed the strength of our relationship.

Leonora has unfortunately had a similar journey of loss as me. Her Dad lost his battle with motor neuron disease in 2021. Followed quickly by her mother's pancreatic cancer diagnosis which took her from us in early 2023. It was amongst all of this that we were married in a small ceremony just before Christmas, with Leonora's Mum alongside us.

Fast forward to 2024 and we have welcomed our beautiful daughter Daphne (3 months old) who has a very doting big sister called Molly, our golden retriever x cocker spaniel. We are now settling into the routine of first-time parents!



Are there aspects of your personal experience that enable you to be a more effective financial adviser?

While 'loss' isn't the area of expertise I would have chosen, it has provided me a unique perspective on how people manage their wealth. Mum and Dad's financial plan was for Dad to stop working at 65 and then they would start travelling more and more. That was the year Mum died.

I am a big proponent of using our financial planning and modelling as a tool to encourage people to make the most of now, and to enjoy some of their hard-earned savings. I can be quite persistent if there is something that my clients really want to do – encouraging them at each meeting to move closer to doing that. It's very rewarding when people follow the advice and enjoy their money!

What motivates you most in your work?

Knowing that the work we are doing gives people comfort and security that they are going to be ok going forward. Us managing people's financial affairs means that they get to focus on what they really want to do – and then we get to hear the stories!

Which takes more energy? Your dog or your baby?

I'm not sure whose idea it was to get a puppy three months before a newborn baby (my wife's) but definitely the dog – the baby doesn't follow me to the toilet, try to eat my dinner or demand games of tug o' war with my socks.

What is your favourite thing to do when you are not at work?

The to do list that Leonora has ready for me at home! No, I enjoy being active in sport, playing cricket in the summer and squash over the winter. Leonora and I both love cooking and trying restaurants out so spend quite a bit of time in the kitchen.





R U T H E R F O R D R E D E

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