



Fund Watch

JANUARY 2021

Welcome

The last 12 months have been challenging, and financial markets are no exception. That's why we're delighted to let you know that ANZ Investments has been named Good Returns Fund Manager of the Year 2020 – powered by Research IP. This is in addition to the New Zealand Fund Manager of the Year Award at the 2020 Morningstar Awards last year. It's a great acknowledgement of the success of our investment approach and our ongoing commitment to you. In this issue of Fund Watch we look at how the fund has performed, and with all the recent discussion about the potential for negative interest rates, we look at what it really means and how it could affect your investments.

How has the fund performed?

Performance as at 31 December 2020	3 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)
MFL Mutual Fund	10.30	4.43	9.47	9.09	11.89

Performance is after fees and before tax.

After a challenging first half of 2020, the MFL Mutual Fund continued its impressive recovery, recording a 10.3% gain over the third quarter.

The strong recovery came as the New Zealand property sector – a significant contributor to the Fund – continued its impressive second half of 2020. For the quarter, the New Zealand listed property sector gained more than 8%, with all but one of the companies that make up the sector delivering positive returns.

The buoyant New Zealand property market, supported by low interest rates and short supply, saw shares in retirement companies finish the final quarter sharply higher, which benefited fund performance. In particular, the fund's overweight positions to **Summerset Group Holdings Limited** and **Oceania Healthcare Limited**.

Shares in Summerset finished the quarter up nearly 40% after the company said its Australian operation is tracking well and expects the first units to be delivered at the end of 2021. Meanwhile, Oceania

finished the quarter up nearly 30%, trading to a record high near \$1.50.

Also benefiting performance was the fund's holding of **Kiwi Property Group**, which finished the quarter up around 18%. In November, the company reported financial results for the six months ending 30 September 2020, which showed a 47.5% increase in net profit after tax of \$54.2 million, while operating profit fell 8.4%.

A slight detractor on performance was the fund's holding of cash. As equity markets rose, defensive assets such as cash underperformed. In saying this, cash is an important asset for the portfolio as it provides liquidity for asset allocation.

Our focus remains on investing for the long-term in quality companies with strong management and balance sheets. This investment thesis has been of particular benefit this year, with the fund recovering early losses in the year and now in positive territory and well above the benchmark.

How low can interest rates go?

With the economy having been badly affected by the COVID-19 pandemic, there's been a lot of discussion about the potential for negative interest rates. As the New Zealand economy has bounced back a bit better than expected, most commentators agree that heading into negative territory is now less likely. But things can change quickly and negative interest rates remain a possibility – so here's a brief overview of what they could mean for you.

What are negative interest rates and how would they work?

To help the economy recover from COVID-19, the Reserve Bank wants to see lower interest rates. When interest rates are low, people are more likely to spend – and that's good for the economy.

But interest rates are already historically low. The Official Cash Rate (OCR), which is the interest rate that retail banks like ANZ Bank receive for any money they have with the Reserve Bank – is just 0.25%. So the Reserve Bank has been considering cutting the OCR to below 0% - in other words, to a negative interest rate.

It means that retail banks would have to pay the Reserve Bank for any money they have with them. That gives them a big incentive to lend that money out instead – even if they have to lend it out at reduced interest rates. And if lending interest rates reduce, so will the interest rates earned on deposits and fixed interest investments such as savings accounts, term deposits and bonds.

What does this mean for investments like the MFL Mutual Fund?

The MFL Mutual Fund is a managed portfolio that invests predominantly in Australasian listed property, Australasian equities and international listed property

with a small allocation of approximately 10% to cash and cash equivalents and fixed interest assets ('income' assets). It is these 'income' assets that are likely to be most affected by lower interest rates, which means in a low or negative interest rate environment, it may be harder to get good returns from these investments types.

However approximately 90% of MFL is invested in property securities and equities which are likely to benefit from a move to negative interest rates. Negative interest rates are likely to result in increased demand for the relatively attractive yields on offer in the listed property sector, which could see a re-rate in the sector as investors allocate away from shorter-term income assets such as cash and term deposits to higher yielding investments.

A move to negative interest rates would also likely result in lower mortgage rates, which would likely benefit the Fund's investments in the New Zealand retirement sector. Lower mortgage rates tend to drive an increase in house prices, which are a major factor in the price of units in retirement villages. Any rise in house prices, therefore, tends to increase the value of village portfolios.

One of the advantages of the Fund being managed by ANZ Investments is that it is 'actively' managed. Our active management approach means we constantly monitor the markets for investments that deliver better returns, without taking on significantly more risk.

While we're now much less likely to see negative interest rates, there's no doubt that rates will remain low for quite some time.

Here to help

For financial advice, speak to your financial adviser. ANZ Investments can put you in touch with an adviser in your area if you need one. You can contact ANZ Investments on:

 **0800 736 034**  **service@anzinvestments.co.nz**  **mflmutual.co.nz**

Fund Manager of the Year Awards were announced by Good Returns Powered by Research IP on 4 December 2020. These awards should not be read as a recommendation by Research IP. For further advice on the relevance of this award to your personal situation, please consult your financial adviser, or visit <https://research-ip.com/awards/>.

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