

# *Wellington Community Trust*

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## *Annual Investment Report*

### *The year in review*

The 2016/17 financial year in investments was again a highly satisfactory one. Global equities, which represent more than a third of the Trust's assets, delivered high double digit returns in aggregate. This maintained a highly favourable trend that has been in place for the last 8 years.

Political surprises characterized the year but fortunately did not de-rail the world's equity markets other than over the very short term.

The Brexit vote in June 2016 was the first surprising political event of the financial year. The initial market reaction was a sharp decline in global share prices and the British Pound. Within the week following the surprise Brexit result, global equities had recovered all the ground they had lost. Donald Trump's Presidential election victory in November 2016 also caught the markets by surprise. The Republicans claimed a clean sweep by winning control of the White House, the Senate and Congress. On the back of promises of tax cuts, increased infrastructure spending and deregulation (to 'make America great again') the US equity market roared ahead. Although by end of the financial year it starting to look increasingly difficult for Donald Trump and the Republicans to advance their agenda, the underlying economic fundamentals of the United States (and many of the world's advanced economies) continued to improve lending support to the equity markets.

It was a more challenging year in the fixed interest markets with global bond yields fluctuating over a quite a range during the year. Bond yields rose sharply in November on the back of the Trump election victory as his policies were seen as ultimately inflationary. However, as it became more obvious that President Trump would not be able to implement his election promises with ease the bond markets rallied again. The ultimate result of these movements in bond yields over the year was that Global Bonds delivered a satisfactory outcome for the Wellington Community Trust.

The New Zealand economy continued to be one of the strongest performing in the OECD. The Government posted fiscal surpluses and the commodity prices received for some exports rose to record levels. The Reserve Bank of New Zealand lowered the Official Cash Rate (OCR) to a record low of 1.75% in November in an attempt to stimulate inflation and get it to within its target range (1 - 3%). This pushed the return from Cash to not much more than 3% for the year. NZ Fixed Interest struggled over the year due to global trends and relative to Global Bonds to the absence of currency hedging benefits.

The NZ share market had a relatively quiet year by its standards after three successive years of double digit returns. The Australian sharemarket performed much better than NZ's over the year achieving returns in the high teens.

## *Investment Results*

The Trust's investment return for the 2016/17 year was 9.8% (after tax but before fees and expenses). The strongest performing investment sector over the financial year was Global Equities with a return of 17.0%. Global Listed Infrastructure also performed well with a return of 16.3%. Returns for the remaining sectors were more modest, with the best of the rest being Trans-Tasman equities at 6.2%.

There were no changes to the Trust's investment managers over the 2017 financial year. The managers made a very positive contribution with the Trust outperforming its overall benchmark return by 1.4% for the year and 9 of the 11 investments sectors underperforming their benchmarks.