

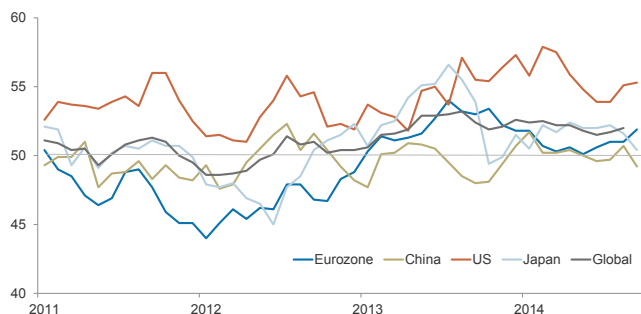
Investment Brief

MARCH 2015

Global shares fell slightly in March, though the small decline masks significant diverging regional fortunes. Over the month equity markets reacted to localised data and events which saw Europe and the Chinese equity markets rally while the US ended in negative territory. The New Zealand share market also finished lower over March. Global bond yields resumed their trend lower, rallying in European countries with the commencement of quantitative easing. New Zealand Government bond yields followed global rates lower over the month. The New Zealand dollar closed lower against the US dollar and Japanese yen, but higher against the other major currencies.

1. Mixed PMIs in March

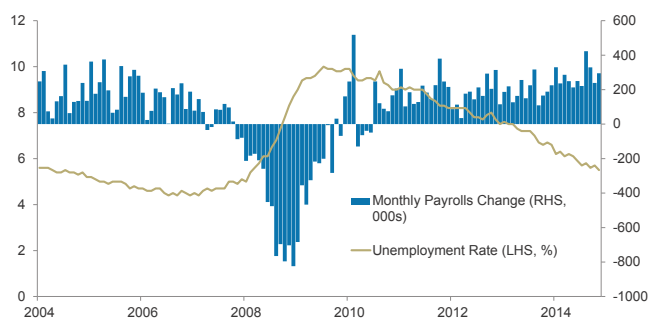
Manufacturing PMIs



Source: Markit

2. Jobs growth strengthening in the US

US labour market



Source: US Bureau of Labor Statistics

3. Eurozone financial conditions “less bad”

Eurozone credit growth Annual % change



Source: European Central Bank

Global

- > The March manufacturing PMIs were a mixed bag with the indices down in China and Japan but up in the US and the Eurozone.
- > In China the decline in the index is consistent with the trend slowdown in activity data since the start of the year. However, the decline in the Japan index was a surprise, continuing a run of mixed data. Japan moved out of recession in the fourth quarter of 2014 and we expect a continuation of modest growth.
- > The rise in the US index gives comfort that the weakness in other activity data is poor-weather related and that the economy is on track for stronger growth this year.
- > A further rise in the Eurozone index is being driven by strength in Germany which is clearly benefiting from the lower exchange rate. The French index fell over the month.

US

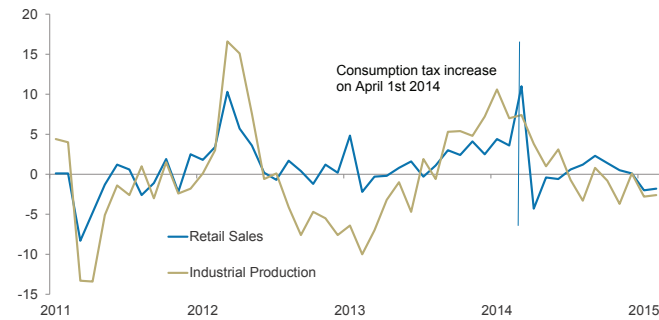
- > US payrolls put in another solid month of gains in February, indicating jobs growth is becoming increasingly sustained. It has also become more broad-based over recent months.
- > The unemployment rate dropped to 5.5%, just above the Federal Reserve's range estimate of the trend unemployment rate of 5.0-5.2%. Solid jobs growth, increasing hours worked and continued albeit modest wage gains underpin our expectation of solid consumption growth in 2015 and overall GDP of around 3.0% in 2015.
- > Wage growth was soft over the month. With an annual rate stuck at around 2%, concerns over low wage growth need to be tempered with the fact that labour productivity growth in the US is currently trending at around 1% per annum.

Eurozone

- > There are encouraging signs for European financial conditions with the February 2015 monetary data showing a further moderation in the pace of decline in credit growth and a move higher in headline inflation.
- > European bank lending to the private sector is stabilising. For the year to February, total credit has fallen by only -0.1%. This is the slowest pace of decline since April 2012.
- > The mild deflationary impulse for Europe also appears to be abating. European headline CPI inflation declined by -0.3% in the year to February, up from -0.6% in January.
- > Lower energy costs were a notable contributor to the price declines. However, European annual core CPI inflation is running at 0.6% annually, suggesting that this deflation impulse is starting to moderate.

4. Japan looking better but progress is slow

Japan activity data Annual % change



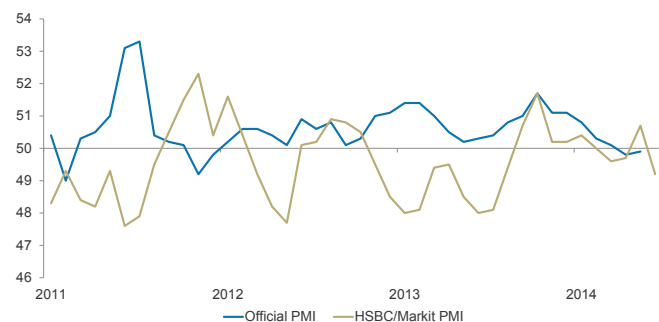
Source: Bloomberg

Japan

- > Japan's industrial production gave back most of January's strong gain in February, most likely due to exports to China being brought forward ahead of the Chinese New Year.
- > The annual growth rate remains low at -2.6% but that's more a reflection of base effects given the "rush demand" prior to last year's tax hike.
- > Economic conditions are improving modestly in Japan and we expect annual average growth of 1.0% in calendar year 2015. That assumes growth in consumption as a result of the drop in energy prices, stronger exports and gains in business investment.
- > This pace of growth may prove insufficient for the Bank of Japan to meet its inflation objective, so further easing in monetary conditions is likely but probably not until the third quarter.

5. China trend slowdown continues

China Manufacturing PMIs



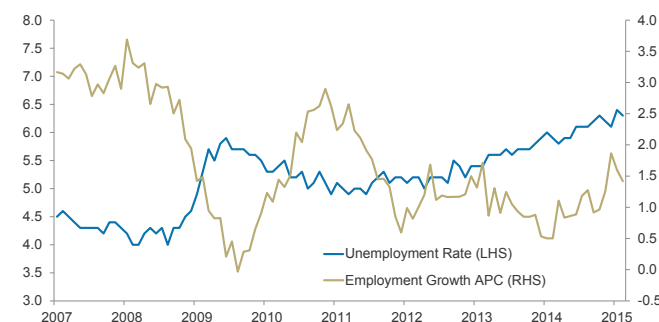
Source: NBS and HSBC/Markit

China

- > In China it appears the trend slowdown in activity growth is continuing. The only bright spot is the decline in house prices seems to be moderating.
- > Annual growth for the year to March is likely to come in at less than 7.0% on the back of weakness across the broad range of activity indicators, including fixed asset investment, retail sales and industrial production. Net exports will likely make a positive contribution to growth in the March, mainly due to lower imports.
- > Forward looking components of the PMI indices remain soft. The government appears unlikely to meet its growth target of 7.0% for calendar 2015 without further easing in both monetary and fiscal conditions.

6. Further rate cut still likely in Australia

Australia labour market



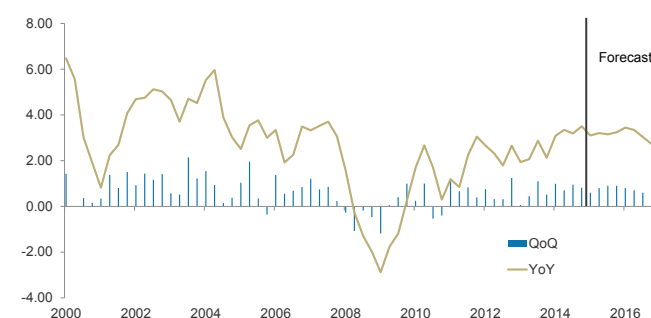
Source: ABS

Australia

- > Australia's labour market generated solid job gains in February with employment rising by 15,600. The unemployment rate fell back to 6.3%, a welcome result given that January's 6.4% unemployment rate was at a 12 year high, but does not yet constitute a convincing turning point for unemployment.
- > The ABS measure of under-employment for February shows a 14.9% underutilisation rate, essentially its highest level since 1997.
- > This February labour data confirms the Reserve Bank of Australia's (RBA's) view that the Australian economy is still travelling "with a degree of spare capacity", and means another interest rate cut is likely in the coming months.

7. NZ GDP growth looking solid

New Zealand GDP % change



Source: Statistics NZ and AMP Capital

New Zealand

- > New Zealand's December 2014 quarter GDP growth came in at 0.8% quarter on quarter (qoq). Annual growth was 3.5%, the strongest annual growth since 2007.
- > The growth outlook remains one of pluses and minuses. Pluses continue to be residential construction, population growth via net migration, relatively low interest rates, strong business investment and consumption growth, underpinned by strong employment.
- > Minuses are the still strong New Zealand dollar, fiscal drag as the Government continues to keep conditions tight in pursuit of fiscal balance, the drought and lower dairy prices.
- > That mix of factors has the New Zealand economy set to maintain growth of just over 3% per annum in 2015 and 2016, then the cycle turns down further out.

Market commentary

Global shares

The small 0.4% decline experienced by global developed equities over March masks significant diverging regional fortunes. Over the month equity markets tended to react to localised data and events which saw Europe and the Chinese equity markets rally while the US ended in negative territory. European shares rallied on the back of the commencement of quantitative easing and strong economic data including business confidence. This saw the German DAX Index finish 5.0% higher while the French CAC Index gained 1.8%. China's Shanghai Index rallied 13.2% after China's central bank cut rates and indicated additional easing may occur if inflation continues to slip. US shares were held back by uncertainty around the Fed's tightening and nervousness ahead of the coming March quarter reporting season. The S&P 500 ended the month down 1.6%.

New Zealand shares

The New Zealand share market finished lower over March, ending down 0.8%. The reporting season continued to be the main focus for investors over the month. Kathmandu dragged the market lower with a disappointing result as trading over the Christmas period failed to meet expectations. The Australian economy continues to remain challenging, especially for retail companies. Kathmandu's share price fell 12.7% over March. On the flip side Restaurant Brands reported strong sales growth backed by a strong quarter by KFC. Shares in Restaurant Brands gained 5.8% over the month.

New Zealand listed property

After several months of strong performances the New Zealand Property Index plateaued somewhat for the second consecutive month, eking out a 0.4% gain over the month of March. Listed property companies continue to trade at historically high multiples as the environment remains supportive with low levels of vacancies, signs of rental growth outside of Auckland and high investment activity. Goodman Property Trust maintained the momentum of investment activity during the month as it announced its joint venture with Singapore's GIC will acquire the Datacom building in Auckland's Viaduct once completed. Goodman Property Trust's shares returned 1.4% over March.

Global bonds

Global bond yields resumed their trend lower over March. Bonds rallied the most in European countries as the European Central Bank commenced its quantitative easing programme. Interest rates in the US were marginally lower as the US Fed revised down their growth and inflation forecast and Janet Yellen, the Fed Chair, reaffirmed the likely start of rate hikes this year but reinforced the gradual pace of increase thereafter. The US 10 Year Treasury closed the month at 1.92%, down seven basis points over the month.

New Zealand bonds and cash

New Zealand Government bond yields followed global rates lower over the month as the RBNZ left the Official Cash Rate unchanged at 3.5% and reinforced its "on hold for some time" message. In addition, the Bank's interest rate track is now completely flat. The

90 Day Bank Bill yield ended March unchanged at 3.63% while the New Zealand 10 year Government bond yield fell alongside global yields by seven basis points to 3.23%.

Commodities

The broad commodity index fell 5.1% over March with mixed constituents. Oil again made the headlines due to the conflict in Yemen. The direct impact of the conflict on the price of oil is small, as Yemen accounts for less than 1% of global production. The major concern around oil from this conflict is that Yemen borders the Bab el-Mandeb strait which sees nearly 5% of global oil production pass through daily. At one point during the month WTI crude oil was down 12.7%, but following the Yemen situation the price recovered to US\$47.60, ending 4.3% lower for the month.

Global listed property & infrastructure

Global listed property and global listed infrastructure ended the month up 1.5% and 0.7% respectively, with both relatively high yielding asset classes outperforming the broader equity market. Relative to the broad equity market, both asset classes are generally low beta that provides high dividends. Therefore when bond yields fall the yield spreads becomes more attractive to investors.

New Zealand dollar

The New Zealand dollar (NZD) closed the month lower against the US dollar (USD) and Japanese yen, but higher against the other majors. On a trade weighted basis the NZD finished relatively flat, up 0.2%. The NZD continued to move closer to parity with the Australian dollar, finishing the month at \$0.9824, up 1.4%. The weakness of the Australian dollar continued with iron ore down 18% for the month and the latest RBA Board minutes signalling a clear bias towards further interest rate cuts. Against the USD the NZD finished at \$0.7470, down 1.2% for the month.

	As at 31 March 2015	Change over the month (%)	Change over the year (%)
MSCI - US	7955.68	-1.4	+12.8
MSCI - UK	12541.66	-2.0	+6.2
MSCI - Germany	3717.28	+4.8	+25.8
MSCI - Japan	1939.91	+2.0	+30.9
NZX50	5833.99	-0.8	+13.5
MSCI - World (local curr.)	5001.40	-0.4	+14.6
MSCI - World (NZD)	8751.83	-0.3	+23.6
NZ Official Cash Rate	3.50	0 bps	75 bps
NZ 90-day bank bill yield	3.63	0 bps	51 bps
NZ 10-year bond yield	3.23	-7 bps	-134 bps
US 10-year bond yield	1.92	-7 bps	-79 bps
NZD-USD	0.747	-1.2	-13.8
NZD (TWI)	78.6	+0.6	-2.8
NZD (MSCI weighted)	82.8	-0.1	-7.3

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