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Yovich & Co. Market Update

24th July 2022

As at 22nd July	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11122.61	6797.97	3228.06	7159.01	31288.26	11452.42	0.9072	0.6167	2.50%
Week Close	11263.19	7011.78	3269.97	7276.37	31899.29	11834.11	0.9029	0.6267	2.50%
Change	1.26%	3.15%	1.30%	1.64%	1.95%	3.33%	-0.47%	1.61%	0.00%

Last week saw a recovery in sharemarkets globally, with the NZ market up 1.26%, the Australian market up 3.15%, and the US market up 2.55%. Markets were buoyed by hopes that inflation has reached its peak. The price of oil rose 2.6% to US$104.

Conversely, both the US Composite PMI and the European Composite PMI for July declined to below 50, signalling contractionary expectations. The Purchasing Managers' Index (PMI) is a survey of whether market conditions are expanding or contracting, and it provides an indication of economic activity. A PMI above 50 represents an expansion compared to the previous month, while below 50 means a contraction.

Bond rates in the US have fallen accordingly, despite the Federal Reserve raising rates to curb inflation, as indications suggest a slowdown in the US economy. This should suggest lower inflation and rates in the future, and a lower USD.
The US 2-year Treasury rate fell by 6bps to 3.05%, while the 10-year Treasury rate fell by a hefty 11bps to 2.82%, further widening the gap and inverting the yield curve. A steeper yield curve is more indicative of a looming recession.

The NZ 2-year rate increased by 3bps to 4.08%, while the 10-year swap rate increased by 6bps to 3.90%, closing the gap slightly, but still showing an inverted yield curve.
The European Central Bank (ECB) raised its cash rate by 50bps during the week, which was larger than the expected 25bp rate rise.

With the USD slightly weaker over the week, the NZD made gains, hitting 0.63 briefly before closing the week at 0.6267 against the USD.

The biggest movers of the week ending 22nd July 2022				
Up			Down	
Pacific Edge	18.31%		EROAD	-7.83%
Westpac Bank	8.11%		Precinct Properties	-2.86%
Fisher & Paykel Healthcare	5.92%		Air New Zealand	-1.60%

Investment Topic – Investment Trusts vs Managed Funds

Investment trusts and managed funds are a good way for investors to diversify their investment capital, and they are particularly helpful for new investors, enabling them to invest into a diversified pool of assets straightaway. Investment trusts and funds do this by pooling together investors' money to buy assets such as stocks and bonds. Investors buy units which represent their ownership in the trust or fund.

Investment advisers will often include investment trusts and/or managed funds in an investor's portfolio, in order to gain exposure to a certain sector or geographical region, without having to buy shares in too many individual companies.

Examples of this include index funds that provide broad exposure to the US market, or active managed funds that provide exposure to the tech sector for example.

Costs

Both investment trusts and managed funds include a management fee, which varies between funds, calculated according to the funds under management, plus administration fees. The fees are subtracted from the income generated by the assets. Investors can look to the expense ratio to see the costs of investing into a particular investment trust or managed fund, which is the overall expense that includes the management fee and administration costs.

Managed Funds

A managed fund is a type of unit trust (not to be confused with investment trust), and as above it assigns units to investors proportionate to the amount of money they have invested. A managed fund is open ended, meaning that new units are created as investors join the fund, and units are cancelled as investors redeem their investment.
The value of the units is based on the value of the underlying assets, e.g. if the shares owned by the fund go up in value, the unit price of the fund goes up accordingly. Managed funds earn income from interest on bonds and dividends on shares in the same way as direct investment, and the fund may pay this out as a distribution, or reinvest the income, so that the net asset value (NAV) of the fund increases, along with the unit price.
Examples of managed funds in NZ include those offered by the likes of the banks and other providers, who will likely also offer KiwiSaver funds.

Active vs Passive

In an actively managed fund, the fund manager or management team actively makes investment decisions to get the best return, within the limits as set out by the fund. The expense ratio tends to be higher than for a passive fund. A passive fund, or index fund, by contrast, seeks to track the performance of an index, e.g. the NZ top 50, or the US S&P 500. Because there is no active management required, index funds are considered passive, and normally have a lower expense ratio.

Exchange Traded Funds (ETFs)

ETFs are much like managed funds, with the difference being that they are traded on an exchange just like shares are, whereas units in managed funds are bought and sold via the provider. ETFs will therefore fluctuate in price throughout the day as the units are traded, whereas managed funds are only traded based on the closing prices.
ETFs are popular due to the easy access for investors to buy and sell on the market. For example, an investor can get broad NZ exposure by investing in the Smartshares Top 10 ETF or Top 50 ETF.

Investment Trusts

By contrast to managed funds and ETFs, investment trusts are closed-ended in that there is a limited number of shares in existence. While for a managed fund, units are created when a new investor invests money, for an investment trust, a new investor must buy the existing shares from a seller. This has the benefit of allowing the fund manager to invest all of the capital without concern for inflows of new capital and redemption of existing units.
It also means that the trust's share price can move above or below the NAV, depending on the demand for the shares in the investment trust. This will depend on the performance of the investment trust, as well as the outlook and sentiment in the market. An investment trust can also borrow money to invest in more assets, which can amplify the gains but can also amplify any losses.

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Due to the recent bear market, a number of investment trusts have dropped in value and are now trading at discounts to the NAV, which presents some buying opportunities for investors with a long-term investment horizon to take advantage of the recent drop in prices.

One such investment trust is **Scottish Mortgage Investment Trust (SMT)**, which is trading at a 6% discount to its NAV. SMT invests globally in growth companies with disruptive technologies. With the tech sector bearing the brunt of the recent drop in share prices, SMT's NAV has dropped, and at the same time it has gone from trading at a premium to the NAV to now trading at a discount. While this is a higher risk proposition, it presents as good value for a long-term investor. SMT has an expense ratio of 0.32% of NAV.

Another value opportunity for a more defensive investor is **Bankers Investment Trust (BNKR)**, which is trading at a 4.7% discount to its NAV. BNKR invests globally with a focus on quality growth, and has a strong record of 55 consecutive years of dividend growth. It has an expense ratio of 0.48% of NAV.

Investment News

Infratil (IFT.NZ) – Vodafone NZ Sells its Passive Mobile Tower Assets for $1.7b

Vodafone NZ is selling its mobile tower assets, comprising 1,484 mobile towers. Infratil, which owns 49.5% of Vodafone NZ, will reinvest to hold 20% of the new TowerCo. The new TowerCo will enter into a 20-year agreement with Vodafone NZ to provide access to the towers. This will allow Vodafone NZ to focus on its core strategic objectives, accelerating the rollout of active network technology. For Infratil, it unlocks a significant portion of the value of the original equity invested in Vodafone, while retaining that investment plus a 20% stake in TowerCo.

Current Share Price: $7.965, **Consensus Target Price**: $8.72

Sky TV (SKT.NZ) Confirms Discussions Underway with World Rugby

Sky TV has confirmed that it is in advanced discussions with World Rugby to negotiate a rights deal to secure World Rugby's premium competitions (including the World Cup) over multiple years.

Current Share Price: $2.36, **Consensus Target Price**: $3.12

ANZ Bank (ANZ.ASX, ANZ.NZ) Completes Institutional Entitlement Offer – Retail Offer to Open

Further to ANZ announcing the purchase of Suncorp Bank, and its intention to raise c. $3.5b of funds via an entitlement offer, ANZ has announced the completion of the institutional component of the entitlement offer, raising $1.7b and issuing 89m new shares. The retail component opens on Tuesday 26th July, and eligible retail shareholders will have the opportunity to participate at the same offer price as the institutional offer, being AUD$18.90 per share.

The entitlement is 1 for 15, and the retail entitlement offer closes on 15th August.

Current Share Price: AUD$22.59, **Consensus Target Price**: AUD$26.48