JBWere

Q1 2026 Portfolio Performance

Otago Regional Council

Prepared by JBWere New Zealand

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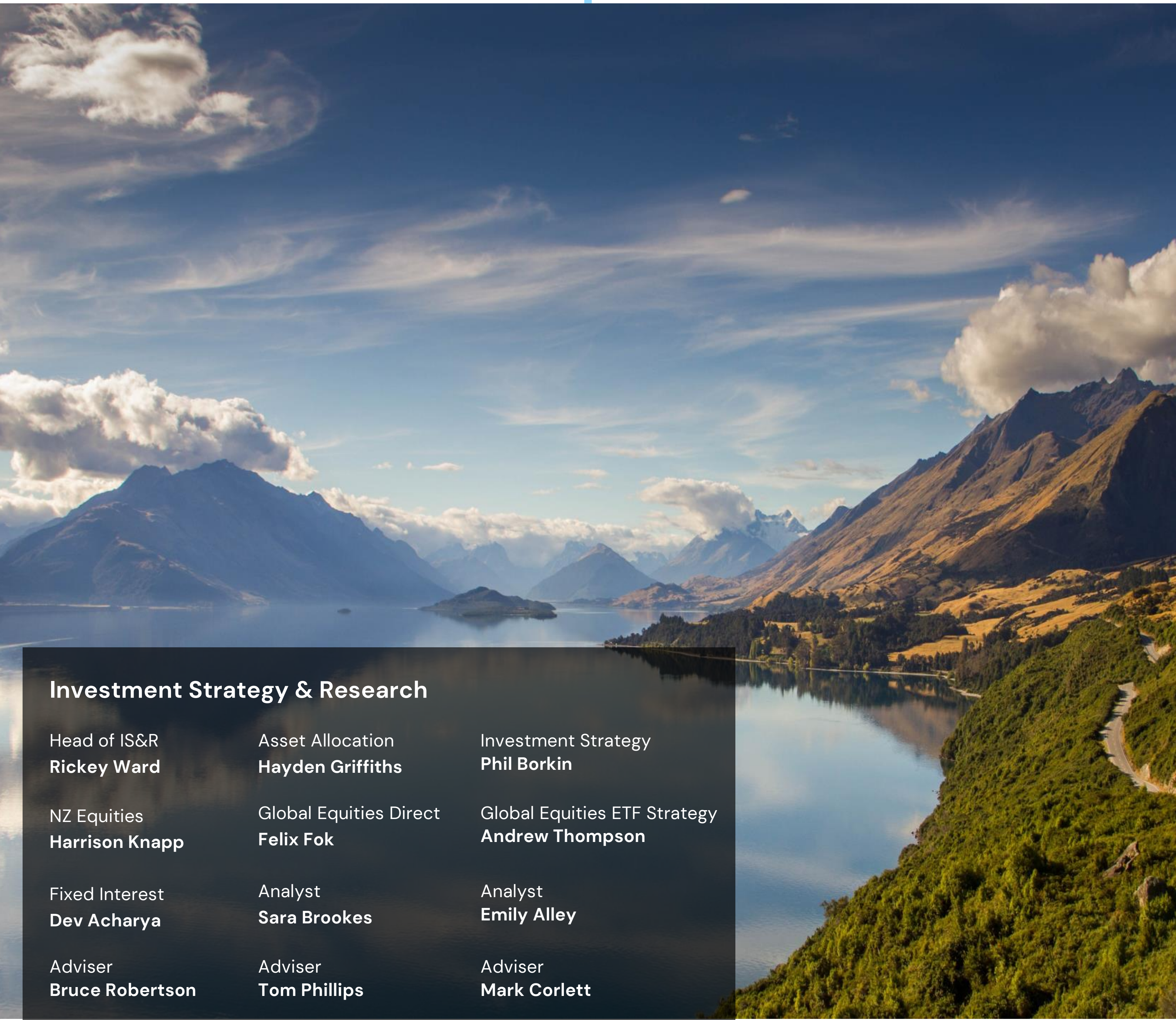

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Market Commentary

The quarter was shaped by a complex macroeconomic and geopolitical backdrop, with market conditions shifting notably over the period. While sentiment was initially supported by resilient growth and strong corporate earnings, it softened late in the quarter following an escalation in Middle East tensions, rising energy prices and renewed inflation concerns, alongside ongoing debate around artificial intelligence and changing leadership across equity markets.

Portfolio Summary

The portfolio returned -2.1% during the quarter which underperformed the benchmark. Over the past 12 months, the portfolio has returned 9.1%, compared with the benchmark return of 9.7%.

Fixed interest markets were challenged during the quarter, as higher-than-expected energy prices complicated the inflation outlook and reduced confidence in near-term interest-rate cuts. Both domestic and offshore fixed interest detracted from returns as global yields moved higher. Despite this, fixed interest continued to provide diversification benefits within the portfolio during a period of heightened equity market volatility.

The NZ equities component fell -6.2% during the quarter, underperforming the benchmark decline of -4.7%. Reporting season was broadly constructive as earnings beats outweighed misses, particularly among offshore-earning and export-exposed companies. Within the portfolio, Fisher & Paykel Healthcare benefited from an out-of-cycle earnings upgrade driven by strength in its hospital division, while Scales delivered a strong result on the back of momentum in horticulture and global proteins. a2 Milk also performed well following an earnings upgrade and guidance improvement. These positive contributions were partially offset by weaker performance from more domestically exposed names such as Fletcher Building and Ryman Healthcare, which continued to face a softer housing and construction backdrop.

Australian equities were a notable positive performer during the quarter, rising 1.6% although underperforming the benchmark return of 1.9%. Performance was supported by strength in resource stocks, with diversified miners benefiting from higher commodity prices linked to geopolitical disruption. In contrast, technology stocks including Xero and NextDC came under pressure amid valuation scrutiny and concerns around AI. Financials delivered mixed outcomes, as banks faced increasing caution around loan growth and arrears despite generally solid earnings results.

Global equities declined -3.3% over the quarter but underperformed the benchmark return of -2.4%. Performance was mixed, with strong contributions from memory chip manufacturers Samsung Electronics and Micron Technology, supported by continued robust AI-related demand for semiconductors, particularly memory. These gains were offset by weakness in several large-cap names. LVMH underperformed amid Middle East-related disruption to global travel and pressure on discretionary spending, while Microsoft declined following broader concerns around AI disruption across software businesses.

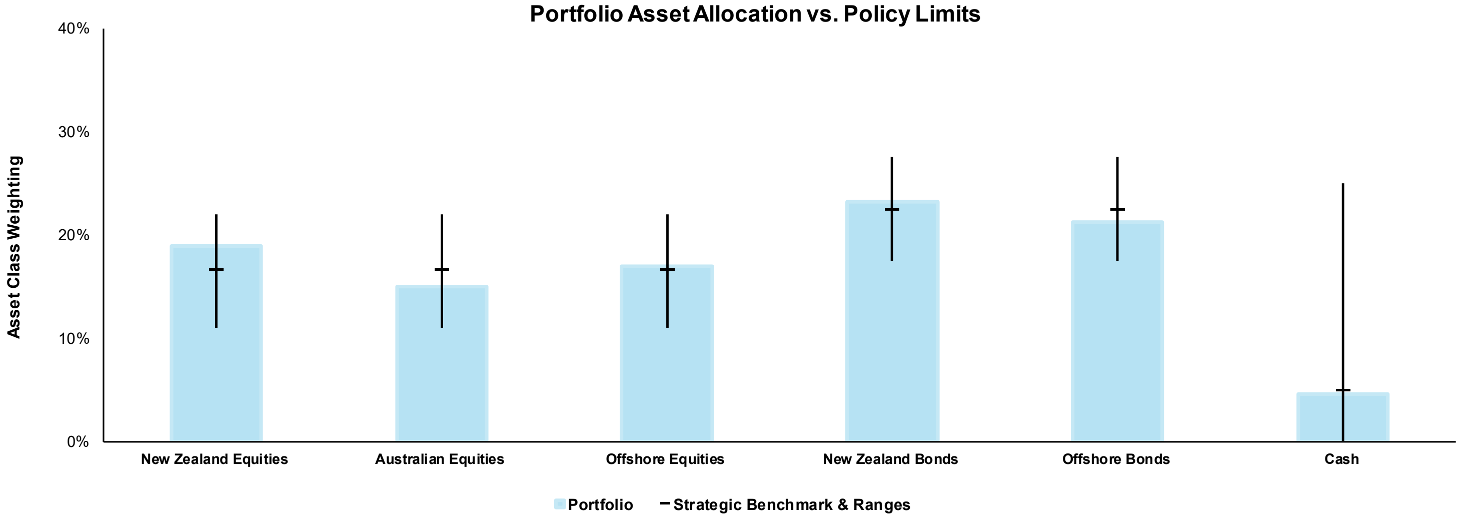
Portfolio Performance

Otago Regional Council

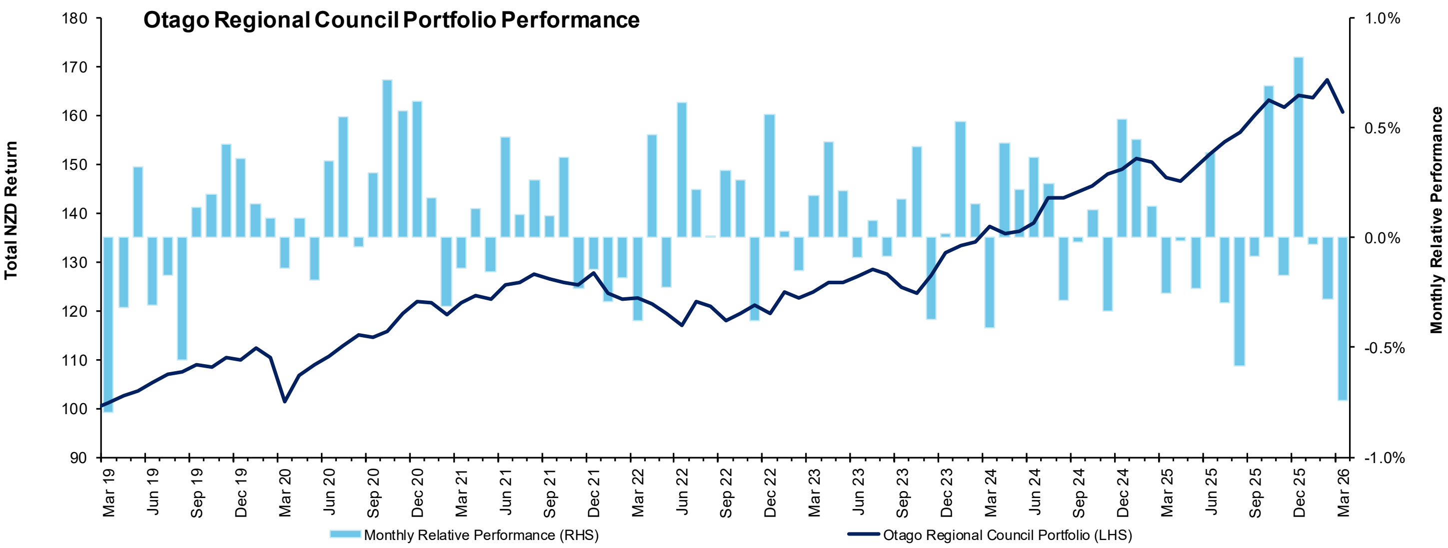
Period End: 31-Mar-26

By Asset Class[1]

Asset Class	Strategic Allocation	Benchmark Index	3 Months Portfolio	3 Months Benchmark	3 Months *Relative*	1 Year Portfolio	1 Year Benchmark	1 Year *Relative*	3 Years Portfolio	3 Years Benchmark	3 Years *Relative*
(Before Fees)	%		%	%	%	%	%	%	%	%	%
Cash	5	S&P 90 Day Bank Bill Index	0.61	0.60	*+0.01*	3.45	3.09	*+0.36*	15.52	14.65	*+0.87*
NZ Bonds	22.5	S&P Corporate A Grade Bond Index	-0.63	-0.53	*-0.10*	6.33	3.92	*+2.41*	24.60	17.56	*+7.04*
Global Bonds	22.5	Barclays Capital Global Aggregate Index $NZ Hedged	-2.05	-0.58	*-1.47*	1.58	2.02	*-0.44*	9.82	10.32	*-0.50*
NZ Equities	16.7	S&P/NZX 50 Gross Index	-6.24	-4.70	*-1.54*	5.96	5.23	*+0.73*	12.17	8.65	*+3.52*
Australian Equities	16.7	S&P/ASX 200 Accumulation Index	1.63	1.86	*-0.23*	12.88	21.85	*-8.97*	49.09	47.41	*+1.68*
Global Equities	16.7	MSCI AC World Index	-3.27	-2.42	*-0.85*	25.08	19.15	*+5.93*	83.49	73.78	*+9.71*
Total	**100**		**-2.12**	**-1.07**	***-1.05***	**9.08**	**9.73**	***-0.65***	**29.86**	**27.17**	***+2.69***



Historical



General Notes:

1. Returns are time weighted (TWR) and are prior to JBWere fees.

2. The Strategic Asset Allocation weightings have been adjusted from 01/10/2025 onwards to reflect the new SAA under the updated Investment Mandate.

Overview			
	3 Months	1 Year	3 Years
Opening Value	**$32,148,438.02**	**$28,980,944.25**	**$24,661,123.60**
Cash Deposits	-	-	-
Cash Withdrawals	-	-	-
Other Cash Movements	-	-$23.96	-$71.00
Stock Transfers In	+$2,587.06	+$6,173.95	+$14,850.05
Stock Transfers Out	-	-	-
Other Stock Movement	-	-	-
Net Adjustments	+$2,587.06	+$6,149.99	+$14,779.05
Investment Return			
Capital Change	-$943,283.43	+$1,510,882.97	+$4,126,751.55
Gross Income	+$260,648.15	+$1,118,789.00	+$3,175,973.79
Gross Closing Value	**$31,468,389.80**	**$31,616,766.21**	**$31,978,627.99**
Tax & Expenses	-$33,387.95	-$138,763.71	-$416,657.26
Imputation / Tax Credits	-$11,209.36	-$54,210.01	-$138,178.24
Net Closing Value	**$31,423,792.49**	**$31,423,792.49**	**$31,423,792.49**
FX Hedging Positions (from last rollover)			
Profit & Loss	-	-	-
Grand Total	**$31,423,792.49**	**$31,423,792.49**	**$31,423,792.49**

Market Outlook

- **The near-term investment outlook is clearly subject to the latest Middle East conflict and the length and severity of energy supply disruption.**
- **Uncertainty dominates, but constraints on the conflict's key actors create the incentives for de-escalation, which may allow energy supply to resume and keep the economic impact manageable.**
- **While unnerving, history teaches us that turning points in geopolitical crises can emerge rapidly and unpredictably. Investors are reminded not to attempt to predict the precise outcome of the conflict, but instead to remain disciplined, diversified, and focused on long-term objectives.**

The latest conflict in the Middle East has rapidly become the central focus for global financial markets and indeed dominates the near-term investment outlook. As the situation enters its second month, investors are confronted with heightened uncertainty, not only regarding the geopolitical outcome but also the subsequent effects on energy flows, inflation, economic growth, and market performance.

At the heart of the current crisis lies the disruption to global energy supply. The potential for the ongoing interruption to oil and gas flows, especially through strategic routes like the Strait of Hormuz, has emerged as the key channel through which the conflict influences the global economy. At this stage, uncertainty dominates. It is unclear how prolonged any disruption may be, how quickly supply can respond, and how policymakers will react. This presents a challenge for investors and markets as they attempt to balance potentially the largest shock to global energy supply ever with the possibility that we are one major headline away from a resolution.

What we can say is that time matters. The longer the disruption persists, the greater the economic cost. And importantly, these costs are unlikely to rise in a linear fashion. In the early stages, higher prices act as a tax on economic activity, but business and consumer behaviour can adapt. However, should the disruption persist and access to physical supply become constrained, the effects can escalate rapidly. Industries reliant on energy – including transport, manufacturing, chemicals, and agriculture – may face operational difficulties, supply chains can be impaired, and the hit to global activity can accelerate. **This is why the duration of the conflict is so critical. A short-lived disruption is very different from a prolonged one**.

But while the range of potential outcomes is wide, it is important to recognise that all key actors in this conflict face meaningful constraints. For the US, domestic political considerations, especially ahead of midterm elections, limit tolerance for sustained energy price spikes and economic deterioration. The behaviour of financial markets, such as rising bond yields in response to inflation concerns, also exerts pressure on policymakers. Iran, meanwhile, must weigh the risks of escalation against potential damage to its own infrastructure, leadership, and relationships with key economic partners like China and India. These constraints do not eliminate risk, but they create incentives for de-escalation or at least scenarios that allow energy supply to resume, thereby mitigating some of the worst-case economic impacts.

Early signs indicate that constraints are beginning to influence behaviour. Diplomatic engagement, though tentative, is underway, with discussions about potential ceasefires and increased willingness from regional actors to facilitate transit through the Strait of Hormuz. While ongoing military activity and the build-up of US troops suggest that risks remain, these diplomatic and logistical efforts point towards a gradual normalisation of energy flows, which is central to the market outlook.

Given the scale of the economic costs associated with prolonged energy disruption, there are strong incentives for all parties to find ways to restore oil flows. The stakes are extremely high, but so too are the motivations to find a resolution. As such, our central assumption is that energy supply through the Strait of Hormuz will begin to normalise gradually over the coming weeks (not months). If this assumption proves correct, then the impact on the global economy would likely be manageable. Inflation will indeed be higher in the near-term than it would have been otherwise, and there are likely to be some lingering economic costs and supply chain disruptions that will take time to rectify. But the shock would fall well short of triggering a more severe downturn. **That said, the uncertainty surrounding the situation remains exceptionally high, and alternative outcomes cannot be dismissed.**

Notable risks aside, one reason for cautious optimism is the state of the global economy heading into this shock. Growth momentum was resilient, especially in the US, but there were encouraging signs of it broadening to other regions too. Corporate fundamentals were generally solid, with earnings holding up better than expected. In fact, even through March, analysts continued to lift their earnings expectations, especially for 2027. In instances like this, starting points do matter.

As investors, it is also crucial to distinguish between economic outcomes and market performance. History shows financial markets often move ahead of the data, with sentiment improving once the worst-case scenarios start to fade, even before peace is fully restored. Turning points in geopolitical crises can emerge rapidly and unpredictably. In the current crisis, a sustained improvement in sentiment may require only clarity that peak disruption is behind us, not a full conflict resolution. Once oil begins to flow more freely and escalation risks diminish, markets are likely to respond positively.

- While there are clear risks, especially from prolonged energy supply disruption and the possibility of further escalation, there are also powerful forces working in the opposite direction. Constraints on key actors, incentives to restore supply, a relatively robust global economy, and a historical playbook for market behaviour during geopolitical shocks all argue for a balanced approach. Investors are reminded not to attempt to predict the precise outcome of the conflict, but instead to remain disciplined, diversified, and focused on long-term objectives. **History suggests markets are often more resilient than headlines imply**, and missing out on recoveries can significantly damage portfolio returns.

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