



KINA ASSET MANAGEMENT LIMITED

**APPENDIX 4B STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 31 December 2016 with the corresponding prior period being the year ended 31 December 2015.

Highlights

Kina Asset Management Ltd (KAML) recorded a NPAT of K6.1m up 29.6% for the year ending 31 December 2016 compared to the previous corresponding period.

The 2016 year delivered a strong investment performance for shareholders with the value of the Fund increasing in total by 14.7%.

Main contributors to the result were a valuation gain of K2.1m resulting from a strong performance of the share price of Bank South Pacific (BSP) which rose by 20.0% over the year.

Dividend and interest income were also strong contributors to the Fund with dividends and interest income received totalling K3.2m. The depreciation of the Kina against the Australian dollar by 4.3% over the year also added to the increase in the value of the Fund.

Target asset allocation at year end was 42.5% invested in domestic stocks, cash and fixed income; and 57.5% invested in international stocks and cash.

Key portfolio holdings at year end were BSP at 21.9% of the Fund, Vanguard International at 11.4%, Oil Search Limited at 8.2% and Mirvac Group at 5.4%.

The Fund's key investment sectors of domestic and international equities outperformed their respective benchmarks over the year.

Net tangible assets per share (unaudited and pre dividend) of K1.19 (2015: K1.10).



2016 – The Year in Review

Global economic uncertainty remained a key theme for investment markets during 2016 but notwithstanding this investment markets generally performed well. International markets continued to be supported by ongoing low interest rates leading investors continuing to seek investment alternatives to holding cash or fixed interest with a beneficiary from this trend being strong equity markets. Local investment outcomes were more focused on stock specific factors as we outline in this report.

Against a backdrop of generally well performing markets KAML continued to perform with stable consistent growth in keeping with the long term strategies of the Fund on behalf of investors.

KAML's performance was again strong, following on from the 2015 result. The 2016 year delivered an investment gain of 14.7%. The result was primarily driven by the gains on the Fund's investment in BSP, as well as an increase in the value of the international portfolio resulting from both share price increases and depreciation of the Kina against the Australian dollar.

Domestic Investments

- Bank South Pacific (BSP) again provided healthy returns with a 31.7% total return. This was attributed in large part to the 20.0% increase in share price and the continued growth of dividends. BSP currently provides a dividend yield of 10.0% which represents excellent ongoing income for the Fund and its shareholders. BSP is the largest investment position in the Fund representing 21.9% of the portfolio.
- Oil Search (OSH) closed the year with a total return of 17.1% as the share price firmed in expectation of a generally stronger oil price following OPEC's decision to reduce global oil supply and growing expectations of a return to stable (albeit low) GDP growth globally.
- Kina Securities (KSL) returned 8.7% over the year primarily from its consistent dividend yield. The most recent profit result for the 2016 financial year shows strong growth with profitability increasing from K4.9m for the previous corresponding year to K41.0m as the company begins to yield the benefit of its acquisition of Maybank in PNG.
- Credit Corporation's (CCP) returns were negative for the year, down 7.6%, much of which was related to a 15.6% decline in the share price. We continue to see this company as providing good value for the Fund as its share price is trading at a significant discount to the underlying value of its businesses which are trading well. Notwithstanding the recent performance we view the company represents good value for the Fund.

International Investments

- ANZ Banking Group (ANZ) was the best stock performer in the international portfolio with a total return of 19.5%. The other financials in National Australia Bank (NAB) and Westpac (WBC) also generated strong returns at 13.2% and 8.1% respectively.
- Mirvac (MGR) was again a top performer with a total return of 16.7%. As a property owner and developer the company has continued to reap the benefits of strong property market in Australia across the various sectors it invests in, being commercial, residential and industrial.
- CSL failed to maintain its performance from the last two years with the investment generating a mere 1.4%, however our view remains positive as the company is a global leader in the field of



bio-therapeutics with a strong funnel of research and development opportunities as well as in-market products that provide a strong platform of profitability.

- In the international portfolio the investment in Global Funds also delivered strong performances with Vanguard and Blackrock posting 18.8% and 16.0% respectively. These results reflected ongoing strength in global equity markets as well as a depreciation in the value of the Kina.

Outlook

In general markets have performed well for a number of years against a backdrop of low interest rates with little threat of change to the interest rate environment globally. With the recent election of the ‘go for growth’ focused Trump administration in the United States the likelihood of interest rates tightening at a faster rate than markets have generally priced in remains high. Changing investor expectations have been demonstrated through the increase in bond yields in the USA which have seen a substantial rise in rates over a short period of time which may ultimately pressure equity markets.

Domestically PNG has a pending election which may see investor concerns rise at a time where the domestic economy remains under pressure. In general we expect profitability from domestic companies primarily involved with domestic discretionary spending to remain subdued. On a broader basis some sectors of the economy are performing well with the financial services sector a prime example.

The Fund is in a good position to take advantage of opportunities that may arise to invest further through any potential market weakness in the upcoming year.

Top 5 Holdings as at 31 December 2016

	Asset	Percentage of Portfolio (%)	Value of Investment (PGK)
1.	Bank South Pacific	21.9	12,492,162
2.	Vanguard Int’l Shares Index Fund	11.4	6,511,789
3.	Oil Search	8.2	4,642,121
4.	Mirvac	5.4	3,065,430
5.	ANZ Bank	4.6	2,596,914

Some of the Brands KAML Invests In

