REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Market & Portfolio Update – June 2015

Global Shares

Global share markets gave up some earlier gains during June, although for New Zealand investors this was fully offset by a 6% fall in the New Zealand Dollar, which increased the value of overseas investments in NZD terms. Economic confidence levels around the world suggest that overall growth is continuing at around a 3% annual pace – a moderate level on par with the average of the past few years. However, share markets were rattled in June by a lack of agreement on terms for extending the support that Greece has been receiving from organisations such as the International Monetary Fund, which also had some effect on NZ and Australian markets. While this might see an eventual outcome where Greece could leave the Eurozone, looking beyond any short-term volatility policymakers have a number of new tools to help manage this process should it occur while the rest of Europe is in comparatively much better economic shape.

New Zealand Shares

Economic data released throughout the month continued to indicate a slowing rate of growth of the New Zealand economy - dairy prices continued to fall; consumer, business and rural confidence were slightly weaker than expected; and most importantly, growth in GDP over the past year grew at a slower rate. This flowed through to New Zealand sharemarket returns easing off slightly in the month. Despite this, the sharemarket was extremely active in terms of events during the month with a number of potential acquisitions being announced including Freedom Foods' takeover of A2 Milk, Briscoe Group's takeover of Kathmandu, and Z Energy's takeover of Caltex New Zealand. The listed electricity generators also continued to face some uncertainty from an upcoming decision on continuation of the New Zealand Aluminium Smelter at Tiwai, a key user of electricity in the New Zealand market.

Australian Shares

The Australian economy saw a surprising amount of positive economic data during the month, as GDP growth was higher than anticipated, housing starts remained elevated, and unemployment fell more than expected. However negative sentiment out of China weighed heavily on investors, and any companies that provided softer updates were not treated kindly. This led to the wider market declining 5% for the month, but as was the case with global share markets, the fall was offset by currency movements with the Australian market finishing flat in NZD terms. Consumer stocks like Woolworths and Flight Centre forecast lower earnings, and energy companies fell as the global outlook for oil deteriorated. Despite this, though, the health care sector fared well with Sonic Healthcare announcing the acquisition of Medisupport SA, the market leader in Switzerland for pathology services.

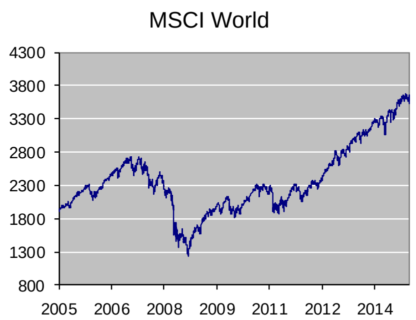
Interest Rates

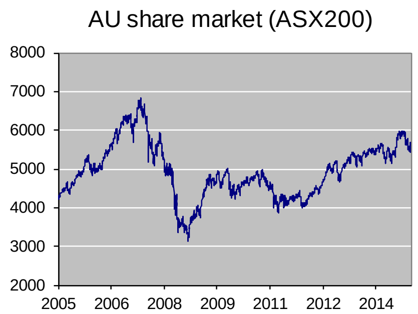
Global bond rates were a story of two halves. Initially rates were led higher by strong US economic confidence which increased the likelihood of the Federal Reserve increasing the Federal Funds rate later this year. However, as the deadline for Greece repaying their loan to the IMF grew closer, global bond rates reversed some of their rise as investors are looked at the likely flow-on effects for central bank policy in other countries outside of Greece. In New Zealand, the Reserve Bank surprised the market by reducing the Official Cash Rate (OCR) earlier than anticipated from 3.50% to 3.25%. Given the falling dairy prices, the low inflationary environment and the slowdown in economic data, the Reserve Bank has cited that further easing to the OCR would be appropriate if emerging data were to weaken further. The market is currently expecting a further two cuts to OCR by the end of the year.

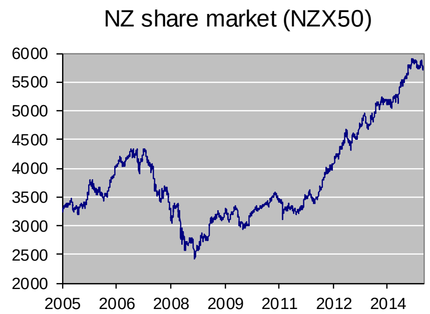
Summary of Market Movements as at 30 June 2015

Share Markets	30/06	31/05	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,727	5,845	-2.0%	-1.8%	11.4%	19.0%	14.0%
ASX 200 (local)	48,602	51,325	-5.3%	-6.5%	5.7%	15.1%	9.7%
ASX 200 (NZD)	55,235	55,230	0.0%	4.3%	11.4%	10.7%	8.0%
MSCI (local)	3,531	3,636	-2.9%	-0.5%	8.5%	17.1%	13.9%
MSCI (NZD)	6,929	6,738	2.8%	11.4%	32.0%	21.4%	13.7%
Fixed Interest Markets	**30/06**	**31/05**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.63	3.63	0.00	0.40	-0.78	0.20	-1.71
US 10-Yr	2.35	2.12	0.23	0.43	-0.18	0.71	-0.58
NZ OCR	3.25	3.50	-0.25	-0.25	0.00	0.75	0.50
Currencies	**30/06**	**31/05**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.6762	0.7115	-5.2%	-10.9%	-29.5%	-5.9%	-0.3%
NZD vs. AUD	0.8799	0.9293	-5.6%	-11.5%	-5.4%	3.8%	1.5%
MSCI Weighted NZD			-5.7%	-11.9%	-23.5%	-4.3%	0.3%
Commodities	**30/06**	**31/05**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	227.2	223.2	1.8%	7.2%	-26.3%	-7.2%	-2.6%
Oil	63.6	65.6	-3.0%	15.4%	-43.4%	-13.4%	-3.2%
Gold	1,172	1,189	-1.5%	-1.0%	-11.4%	-9.9%	-1.2%

Summary of Market Indices as at 30 June 2015







GROSVENOR INVESTMENT SERVICES LIMITED

Company shares - Searching for Quality

In February 2009 at the nadir of the Global Financial Crisis, Warren Buffett, the CEO of Berkshire Hathaway, told his shareholders that whether he was looking at socks or stocks, he liked buying quality merchandise when it is marked down. This approach in choosing companies is a hallmark of our equity investments philosophy, where we seek to identify quality companies that offer for long-term capital and dividend growth.

Grosvenor’s investment philosophy

Grosvenor’s starting point for our company share investment philosophy is driven by the aim of achieving a broad based, diversified exposure to the economic outcomes of their underlying markets. Around this base, we will actively target holdings in well-researched, quality companies. The three key pillars of our company qualitative framework are management, business model and financial robustness.

Management:

When buying shares in a business you are in effect giving your capital to someone else to manage, therefore understanding who they are and if they will do a good job is paramount. When assessing a business we look for excellent governance with experienced directors and executives, whose interests are aligned with your own as shareholders. We review the long term strategic goals and expect to see a long history of achieving past strategic goals. We like to see a management team that is open to engagement with shareholders and is focussed on creating long term value, while returning excess capital to us, in the form of dividends or buybacks.

Business Model:

A company’s business model should flow directly from its long term strategic goals, and will make a huge difference in delivering long-term capital and dividend growth. If a business is too complex, with too many products across too many countries, even the best management team in the world will struggle to deliver on strategic goals. A simple company that has an unregulated monopoly is the most ideal business, as it can maintain a sustainable competitive advantage and high profit margins. Monopolies come in many different forms, the most obvious being a toll bridge over a river with no other way to cross for miles. Less obvious monopolies are found within unique brands, patents, or even psychological elements, like safety or exclusivity, which create barriers to entry that are hard to replicate. In addition the business could also be in the right place at the right time, with large long term tailwinds for growth, the most obvious being the aging population thematic.

Financial Robustness:

During the Global Financial Crisis share markets were littered with companies that failed to deliver satisfactory returns for shareholders, as they carried too much debt into the crisis and had no capacity to survive the downturn without raising capital. This highlights the importance of a company having a strong balance sheet, to not only weather all aspects of an economic cycle, but also provide opportunities to buy assets at discount prices from other businesses that were not so wise. In addition we like to see companies that demonstrate high levels of stable and growing cash flow, that deliver increased earnings and dividends for shareholders.

Conclusion – Looking for Value

Our primary objective is to choose companies that have the potential to deliver higher levels of long-term capital and dividend growth than the wider market. Through our qualitative scoring of each pillar we arrive at a total quality score for a business, and while this feeds directly into selecting companies for inclusion in the portfolios, we also take a patient approach and look to add them to the portfolio when they also offer good value. In the words of Warren Buffet, price is what you pay, value is what you get.

Summary of Key Portfolio Monitoring Decisions

Corporate Bond Portfolio

- During the period the portfolio had a maturity of Goodman Property bonds, which was replaced with 2021 bonds issued by Port of Tauranga at a 2.5% weight.

New Zealand Shares Portfolio

- Metro Performance Glass was added to the portfolio following a decline in share price which led to the shares providing good value. Metro Performance Glass is a value-add glass processor and supplier with a strong market position, having over 50% market share. To offset this addition, Contact Energy’s weight was reduced to decrease the portfolio’s exposure to an upcoming decision regarding the future of the New Zealand Aluminium Smelter.

New Zealand Income Shares Portfolio

- Metro Performance Glass was also added to the New Zealand Income Shares Portfolio at a 5.5% weight, given its attractive dividend yield. To offset this change, Goodman Property Trust was removed due to concerns around the long-term sustainability of their dividend, and Z Energy’s weight was reduced to decrease the portfolio’s exposure to regulatory approval required if their acquisition of Caltex New Zealand is to proceed.

Australian Shares Portfolio

- The portfolio has made a tilt away from companies selling “staple” consumer products to those focussed on more discretionary spending. The consumer staples sector in Australia, particularly supermarkets, is facing increasing levels of competition which is creating a clouded outlook for earnings over the medium term. Therefore we have reduced the portfolios exposure to Wesfarmers and Woolworths by 1% each, offset by the addition of two new holdings in Breville Group and Flight Centre, both at 1% weights each.
- Breville is a consumer products group, designing and distributing appliances under a multitude of brands to retailers in Australia, North America, New Zealand, United Kingdom and Asia. The company's main focus is small kitchen appliances. Breville owns the Breville, Kambrook, Ronson and Sage brands, and has distribution rights for selected Phillips products in Australia and New Zealand. The addition of Breville Group is driven by the business having a positive mix of a good operating model, growth prospects, management, and financial robustness which leads to a high quality business.
- The addition of Flight Centre increases the portfolio’s exposure to the growth trend in global travel. Flight Centre is Australasia's largest travel agency with over 2000 stores across 11 countries. Travel has been traditionally quite cyclical as currency movements slow and speed foreign tourism, however there are three key earnings tailwinds for the industry that are reducing this volatility. The development of bigger and more fuel efficient planes which has increased the affordability of travel; aging demographics and retirees increasing their travel habits, especially luxury travel; and the emergence of young, affluent and better educated Chinese middle class citizens, estimated at 300 million.

Global Shares Portfolio – Rothschild Direct Shares

- The portfolio’s 3% weight in Siemens has been removed, with its remaining holding in industrial engineering business ABB still providing a good allocation to the industry sector. The holding in Telefonaktiebolaget LM Ericsson has also been reduced, following a review which indicated that competition is starting to gain traction in Ericsson’s core business servicing division, which will have a negative impact in the long term.
- These changes made room for a 5% allocation to industrial gas supplier Praxair. Praxair have an excellent track record of stable growth and strategy execution, and are the highest-quality player in their industry. There are high barriers to entry and economic “moats” to the business and therefore Praxair can have a certain amount of pricing power. Their end market is diverse and with long-term contracts has excellent visibility of future sales and cash flows. Praxair’s management team have a good track record of capital budgeting and allocation which has led to good returns and over the long term growth of the sector will help continue to provide earnings growth at or above the rate of the general economy.