REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Market & Portfolio Update – July 2015

Global Shares

Global share markets rose moderately over the month, with a further small decline in the New Zealand Dollar also contributing to returns for kiwi investors. After extended negotiations, Greek Prime Minister Alexis Tsipras agreed on broad terms for Greece to receive further support from the Eurozone. This saw concerns subside over the country's potential default on its debts and exit from the Eurozone. Throughout this period, it is encouraging that indicators of economic growth remained steady both within Europe as a whole, and also in the larger United States economy. China was also in the headlines, with the Chinese "Shanghai Composite" index down almost 30% from its peak during June. However the effect on most international investors has been much less significant, who tend to focus on holdings outside the Shanghai market. China's past experience also suggests that any economic flow-on effects should also be fairly moderate, while the Shanghai market itself remains up 70% over the past year.

New Zealand Shares

The New Zealand stock market rebounded from a weak June to return +3.4%. Although economic indicators continued to show signs of slower economic growth, the reduction in the Official Cash Rate (OCR) and record levels of immigration supported share market returns. Being the two most significant influences on property assets, these two factors particularly supported the returns of the listed property companies and retirement village operators. The listed property sector returned 4% while the retirement village operators returned 7.5% - led by Summerset Group who continue to purchase land to support their impressive growth rate.

Australian Shares

During July Australian business confidence moved to its highest level in almost two years and the Reserve Bank of Australia continued to hold a bias towards easing monetary policy. This local news was coupled with positive global sentiment to spur the Australian equity market over 4% higher for the month. However, the Australian dollar weakened 3% against the NZ dollar during the month and this offset some of the positive gains for NZ investors. The Healthcare sector was a strong performer with biopharmaceutical business CSL surging over 14%. CSL has significant overseas earnings, which continue to be supported by the falling Australian dollar against the US dollar. In the industrial sector, takeover activity reappeared this month; with port company Asciano the target. Logistics enterprise Toll was bought out in April at a 50% premium, as foreign firms with access to cheap credit can make offers well above current share prices. While the bid for Asciano is only at a 30% premium, merger & acquisition activity has been at historic lows, so increased bids are likely and will keep the market on high alert in the medium term.

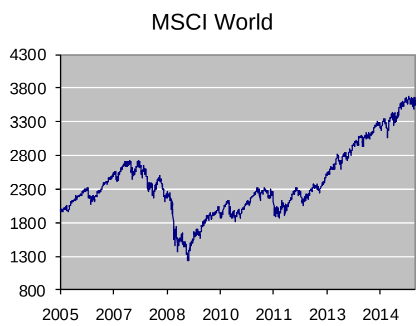
Interest Rates

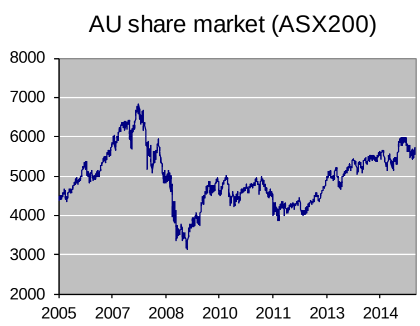
As the Greek situation resolved its short term issues around acceptance of austerity conditions, the focus of global bond rates shifted back to when the US Federal Reserve will increase the Federal Funds rate. If the US labour market continues to build momentum and wage inflation starts to pick up, the Federal Reserve will likely increase the Federal Funds rate later this year. In New Zealand however, the Reserve Bank reduced the OCR for the second consecutive time from 3.25% to 3.00%. With the low inflationary environment remaining below the inflation target band of 1-3% and the slowing domestic economy due to falling commodity prices, Governor Wheeler stipulated that further reduction to the OCR seems likely. The market is currently expecting at least one further cut to the OCR by the end of the year.

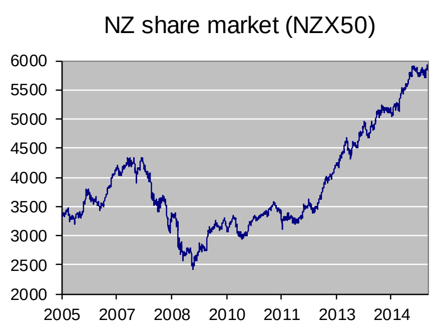
Summary of Market Movements as at 31 July 2015

Share Markets	31/07	30/06	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,921	5,727	3.4%	2.2%	14.6%	18.6%	14.3%
ASX 200 (local)	50,742	48,602	4.4%	-0.7%	5.7%	15.1%	9.7%
ASX 200 (NZD)	56,105	55,236	1.6%	5.9%	6.6%	9.2%	7.0%
MSCI (local)	3,618	3,531	2.4%	0.8%	12.2%	17.5%	13.2%
MSCI (NZD)	7,183	6,930	3.7%	14.6%	35.0%	22.8%	13.9%
Fixed Interest Markets	**31/07**	**30/06**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.35	3.63	-0.28	-0.10	-0.90	-0.13	-1.98
US 10-Yr	2.18	2.35	-0.17	0.15	-0.38	0.71	-0.73
NZ OCR	3.00	3.25	-0.25	-0.50	-0.50	0.50	0.00
Currencies	**31/07**	**30/06**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.6644	0.6762	-1.8%	-14.6%	-27.8%	-6.9%	-1.7%
NZD vs. AUD	0.9044	0.8799	2.7%	-6.7%	-0.9%	5.2%	2.4%
MSCI Weighted NZD			-1.2%	-13.8%	-22.8%	-5.3%	-0.7%
Commodities	**31/07**	**30/06**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	202.6	227.2	-10.8%	-11.7%	-31.2%	-12.2%	-5.9%
Oil	52.2	63.6	-17.9%	-21.8%	-50.8%	-20.8%	-7.8%
Gold	1,095	1,172	-6.6%	-7.4%	-14.5%	-12.1%	-1.5%

Summary of Market Indices as at 31 July 2015







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Market volatility – a friend to the long-term investor?

Most investors, particularly in growth or high growth oriented funds, will be aware that investment markets can be volatile at times. It is usually during such times that having a long-term strategy is most important, as well as looking through the (usually shorter-term) negative headlines.

In fact for most investors who are regularly adding to their portfolio, volatile periods can give an opportunity to <u>improve</u> performance compared to when markets simply deliver smooth gains. This is typically known as "dollar cost averaging".

How does dollar cost averaging work?

By making regular contributions of the same dollar amount, there are some automatic benefits for portfolio results:

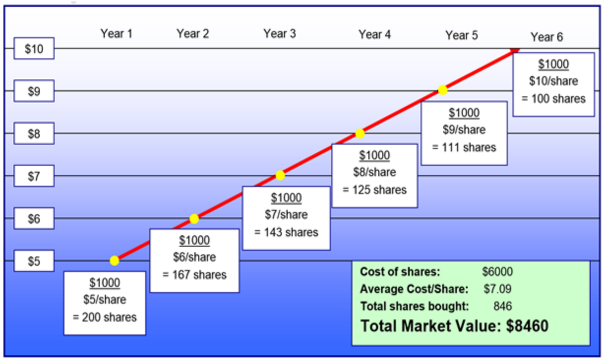
- The same dollar amount automatically buys more underlying holdings when their prices are lower (and fewer when prices are higher)
- During the period of regular contributions, the average cost should therefore be less than the average market price during the period.

Dollar cost averaging can help manage the risk of inadvertently buying high after markets have risen, or selling out at the bottom of the investment cycle. It also complements Grosvenor's own disciplined rebalancing process, where those investments that have risen above their target portfolio weightings are reduced to fund purchases of holdings that have fallen below their target level.

Strategy in action

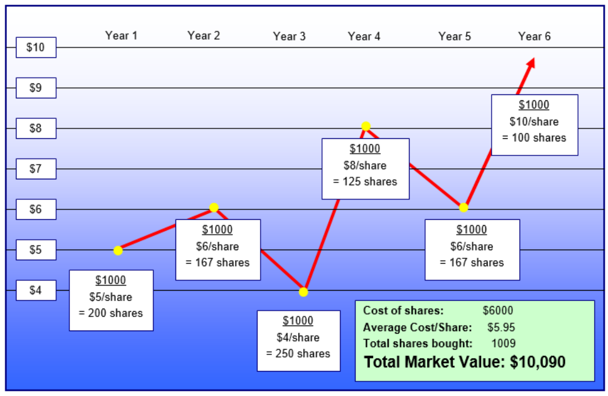
Two hypothetical examples* best illustrate dollar cost averaging in action.

In the first scenario, an investor regularly contributes $1,000 per year towards the purchase



of company shares. Over six years, she contributes $6,000, and the company's share price rises smoothly. At the end of the period, the investor owns 846 shares worth just under $8,500.

A second investor, in the scenario below, doesn't experience such a smooth pace of returns. While the ending share price is the same, the path of returns is choppier, and at times the share price falls below the starting level. But she continues



with her contribution strategy, and at the end of the period has accumulated 1009 shares – 163 shares more than the investor in the "smooth sailing" scenario. Despite both investors contributing the same amount of savings in total, this translates to over $1,500 in additional portfolio value.

While dollar cost averaging does not guarantee profits (or protect against losses) it can help reduce some of the pitfalls of market timing, and also reinforces the value of a well-structured approach to investing.

* The examples above are included for illustrative purposes only and are not intended to represent any particular investment.

Summary of Key Portfolio Monitoring Decisions

Proxy Voting

- During the month of July, DNZ Property Fund Limited (held in the New Zealand Shares, New Zealand Income Shares and Property Portfolios) held their Annual General Meeting where a resolution was put forward to increase the Directors' fee pool by $175,000 (or 39%). We actively monitor each resolution on behalf of investors, and in this case we elected to vote against the resolution as we did not agree with the justification for the increase. Disappointingly we were among the few investors who had this view - the resolution was passed with only 10.66% of investors voting against it.

NZ Fixed Interest Portfolio

- With the US economy moving into an expansionary transition, the Federal Funds rate is likely to be increased later this year. With this view, we have decreased the portfolio's average maturity slightly to 4.35 years. This was achieved by reducing the longer-maturity Government bonds which mature in 2023 and 2027. Replacement holdings included NZ Government bonds maturing in 2017, 2019, 2020, and 2021.

Global Opportunities Portfolio

- While oil prices have remained relatively weak, within the Global Opportunities Portfolio we have increased the allocation to large integrated energy businesses, which continue to offer an attractive dividend yield compared to the wider market. Having originally been added to the portfolio during February, the diversified mix of BP, Exxon Mobil, Royal Dutch Shell, Chevron, and Total takes advantage of these companies' strong position to support their dividend yields by reducing capital expenditure, while also receiving support to their earnings from their oil refining and distribution operations. The increased allocation (to 10% of the Global Opportunities Portfolio) has been funded by reducing the allocation to the PowerShares Commodity Index Tracking Fund.