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PROFESSIONAL FINANCIAL ADVICE

Market & Portfolio Update – August 2015

Global Shares

Global share markets ended August weaker, down around 6% on average in their home currency terms (but only 2% when translated to New Zealand Dollars). While markets have been strong for some time, August's declines were sparked by some concern regarding the pace of manufacturing expansion growth in China. It is important to note however that underlying economic growth around the world has remained fairly steady. In Europe, growth rates have continued to pick up moderately, while the United States economy expanded at a very solid 3.7% annual pace in the three months to June. Even in China, where growth levels have been moderating for some time, the gradual effects of government stimulus should support future growth. More generally, August's volatility follows several years of strong gains (markets are still up 14% per annum since 2012, and around 20% per annum in NZD terms). Accordingly, over the past year we have been maintaining a level of insurance-type protection within the global shares component of Grosvenor portfolios. While designed to help offset some of the effect of any larger market declines (over 10%), this strategy also made a positive 1% contribution to Grosvenor global share returns during August, helping to smooth some of the market volatility.

New Zealand Shares

Much like global share markets the New Zealand stock market was weaker during the month of August, ending down 4.5%. The month was eventful for the New Zealand stock market with the New Zealand Aluminium Smelter announcing the new agreement with Meridian Energy to continue purchasing approximately 13% of New Zealand's electricity (a positive for the electricity generators), Origin Energy selling down its $1.8 billion stake in Contact Energy, and many companies reporting their financial results for the year. At a total level, company earnings grew in line with expectations, although company outlooks were slightly more subdued, driven by the softer economic outlook in New Zealand.

Australian Shares

The Australian equity market also followed global markets down, falling 8%. Unlike global markets however, NZ based investors were not as protected by currency changes, which contributed a more modest 1% addition to returns. It was also reporting season for most companies and in the financial sector the four major banks all announced significant capital raisings during the month. These were to comply with new capital requirements by Australian regulators and given the market sell off, new investors maybe be feeling a little hard done by. However, positive signs were seen in the travel industry with Flight Centre, Cover-More (travel insurance) & Corporate Travel Management, all showing positive monthly performance, as global travel growth continues its long term trends.

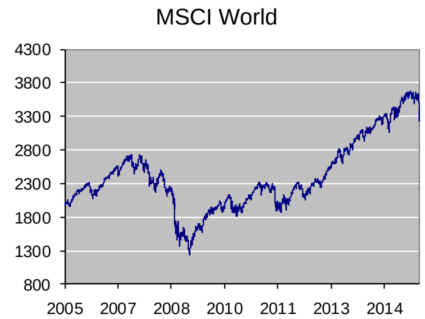
Interest Rates

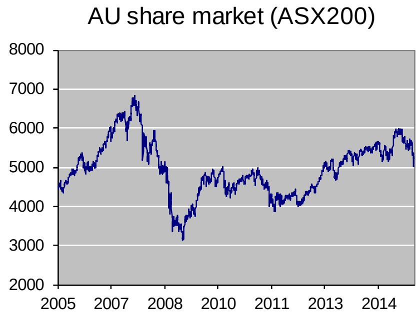
Global bond markets also had an eventful month with NZ bond rates driven lower by investor demand in light of weaker share market performance, which helped support overall portfolio returns. The market volatility has shed a spotlight of uncertainty regarding timing of the normalisation of the US Federal Funds rate by the US Federal Reserve. Domestically, the Reserve Bank's upcoming Official Cash Rate (OCR) decision and forward guidance will be an interesting affair. With milk prices falling to fresh lows, creating concerns for the NZ dairy industry and inflation sitting below the Reserve Bank's inflation target of 1-3%, the reasoning behind further OCR cuts is well supported. However, offsetting pressures which could slow the pace of OCR decreases include the NZD which has had another fall this month, helping NZ exporters. Immigration remains high and Auckland housing continues to reach new highs. The market is currently expecting at least one further cut to the OCR by the end of the year.

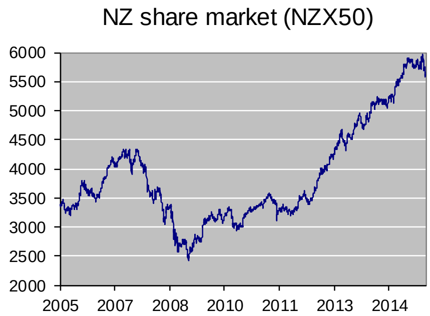
Summary of Market Movements as at 31 August 2015

Share Markets	31/08	31/07	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,656	5,921	-4.5%	-3.2%	8.3%	15.5%	13.3%
ASX 200 (local)	46,788	50,742	-7.8%	-8.8%	-3.2%	11.2%	8.2%
ASX 200 (NZD)	52,400	56,105	-6.6%	-5.1%	-3.0%	6.2%	5.5%
MSCI (local)	3,378	3,618	-6.6%	-7.1%	2.0%	14.1%	12.5%
MSCI (NZD)	7,051	7,183	-1.9%	4.6%	27.7%	20.6%	13.6%
Fixed Interest Markets	**31/08**	**31/07**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.22	3.35	-0.13	-0.41	-0.85	-0.25	-1.90
US 10-Yr	2.22	2.18	0.04	0.10	-0.13	0.67	-0.25
NZ OCR	3.00	3.00	0.00	-0.50	-0.50	0.50	0.00
Currencies	**31/08**	**31/07**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.6330	0.6644	-5.0%	-12.4%	-32.2%	-8.3%	-2.1%
NZD vs. AUD	0.8929	0.9044	-1.3%	-4.1%	-0.2%	4.5%	2.5%
MSCI Weighted NZD			-4.8%	-11.7%	-25.8%	-6.5%	-1.1%
Commodities	**31/08**	**31/07**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	202.1	202.6	-0.2%	-9.4%	-31.0%	-13.3%	-5.2%
Oil	54.2	52.2	3.7%	-17.4%	-47.5%	-22.1%	-6.2%
Gold	1,132	1,095	3.4%	-4.8%	-12.0%	-12.4%	-1.9%

Summary of Market Indices as at 31 August 2015







Partial protection from market weakness: Put Options Insurance Strategy

Since 2012 global share markets have rallied strongly. Over this time, the global economy has grown at a moderate pace (and continues to do so). Markets have also been supported by central banks around the world, which have not only kept interest rates low, but have also maintained extraordinary stimulus policies via “quantitative easing”. As economic growth in the United States has become more self-sustaining, these policies has been relaxed in the US and interest rates now look set to rise (albeit from zero) over the year ahead.

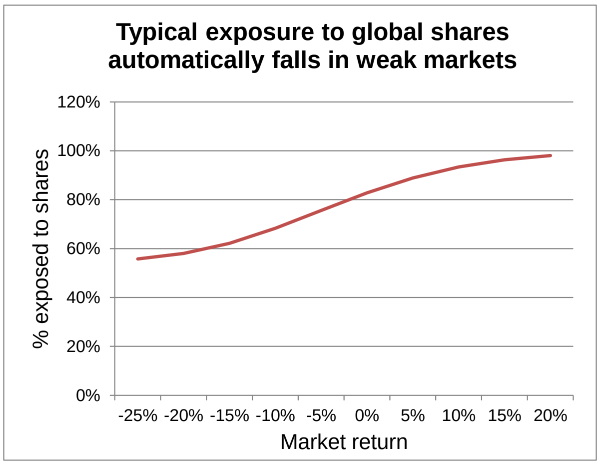
While economic fundamentals have improved, the very good market performance has also led to valuations rising compared to historical averages. Effectively, this means that markets are building in more expectations of continued economic improvement into company share prices – as well as a low hurdle to beat on returns, as interest rates remain low.

Fully invested, but with protective measures

With the improvement in the global economy being quite visible, we have kept your portfolio fully invested, but over the past year we have included some downside protection over a part of your global shares investments. This has been through the purchase of an option to sell the S&P 500 Index (the broader US share market index) as well as the key European market index. This protection is akin to an insurance policy which pays out if share markets fall significantly before the option expires.

The strategy aims to provide partial protection against any material “disaster” in investment markets but also helps smooth some of the effects of smaller declines, such as those seen over the past month.

The chart below shows how the insurance options typically change the level of exposure to any material market weakness within your Global Shares Portfolio, by taking a little of the upside return and using this to progressively reduce the exposure to any downward movements in the underlying market.



Typically this protection aims to cover an amount equal to approximately 45% of your global share investments, should the S&P 500 fall by more than 12-13% (i.e. another 5% following August’s decline). This is about equivalent to covering 13% of a Balanced portfolio.

Importantly, this insurance protection has not prevented your portfolio from enjoying almost all of the gains during rising markets. Active management of the strategy over the past year has also meant that the total cost over this period has also been minimal, at only 0.01% per month out of a Balanced portfolio.

A good example is during recent market volatility, where we crystallised some gains on the current protection – but still leaving most protection in place (about 10% of a Balanced fund).

We will continue to actively monitor these strategies, with the aim of delivering a measured degree of downside protection while minimising the impact on the potential upside.

Summary of Key Portfolio Monitoring Decisions

New Zealand Shares Portfolio

- During August we realigned the New Zealand Shares Portfolio to be better positioned going into a period of slower growth in the New Zealand economy, and following several years of strong gains. We did this through a number of changes including increasing the weight in the utility sector while reducing the exposure to consumer discretionary stocks such as takeaway franchisee operator, Restaurant Brands. Consumer discretionary stocks tend to be more sensitive to changes in the rate of growth of the New Zealand economy while utility companies, such as electricity generators, tend to have more stable earnings during these times.

- The New Zealand Shares portfolio increased its weight in Contact Energy during the month through participation in Origin Energy's sell down of its $1.8 billion stake in Contact Energy, which was completed at a price that offered an attractive buying opportunity.

New Zealand Income Shares Portfolio

- The New Zealand Income Shares Portfolio also increased its holding in Contact Energy through the participation in Origin Energy's sell down. To offset this, the Portfolio reduced its holding in Vector which rose to a price that appeared to fully value the company following a 45% rise in share price over the past 18 months.

Global Fixed Interest Portfolio

- The US Federal Reserve has signalled that it is likely to lift the Fed Funds rate later this year. A small amount of option protection was added, which covers a portion of the US and Eurozone bonds in the portfolio. This will limit the exposure to revaluation losses if there are large rises in global bond rates.