REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Market & Portfolio Update – September 2015

Global Shares

Share markets continued to be somewhat choppy during September, despite positive fundamental signs in the main developed economies. The United States saw unemployment continue to fall and more firms looking to fill jobs, while business confidence in Europe suggests that growth there also remains on track. However markets were rattled by the US Federal Reserve's decision to take a cautious view and hold off increasing interest rates (from zero), having some wariness following August's market volatility, and overall global shares finished the month down 4%. Should declines continue materially from here, we would expect the options protection included in Grosvenor portfolios to make a meaningful offsetting contribution to returns on global shares. Looking back over the past three months, it is useful to note that results on global shares have also been substantially supported by the New Zealand Dollar's fall – global shares in NZD terms are still up 16% over the past year. This illustrates some of the benefits of a structured investment approach, built around measures to balance out shorter-term volatility while focusing on longer-term growth.

New Zealand Shares

The New Zealand share market was slightly lower for the month, but performed ahead of global markets. Several New Zealand economic indicators released during the month showed signs of stabilisation, after a number of months indicating a slower growth outlook. On top of this, there were successive rebounds in dairy prices during the month which will support the incomes of dairy farmers. To further support the outlook for dairy farmers, Fonterra announced strong financial results, with profit increasing significantly from the previous year. This is pleasing to see after a number of disappointing results from Fonterra over recent years.

Australian Shares

The Australian share market had another weak month and its first consecutive quarterly reduction since 2011. While the wider economy faces some risks, with increased uncertainty around Chinese growth, this is finely balanced with a booming construction sector. This month the former was in the driver's seat, as energy companies gave up 12% for the month. Origin Energy announced a capital raising to shore up its balance sheet, while Santos Energy announced a strategic review to sell down some of its asset base. However, with the housing demand at record demand levels, any increased Government spending on infrastructure, as pledged at the last election, could boost consumer confidence and mark a turning point in economic growth transition.

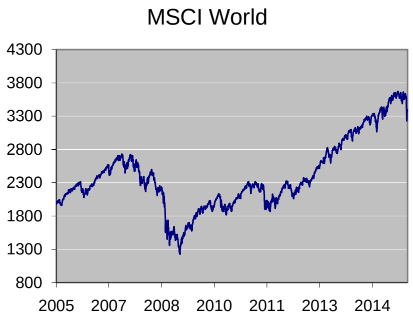
Interest Rates

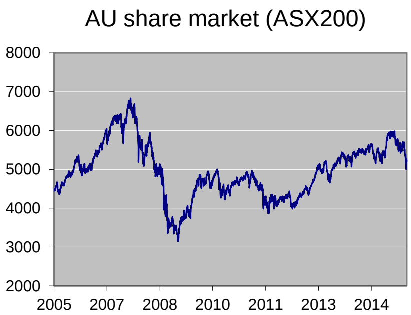
Global interest rates were centred on the Federal Reserve's meeting in the middle of September, in which it left the Federal Funds rate unchanged. However, a majority of the voting board still envisage the first Federal Funds rate hike by the end of the year. The global market is less optimistic on this rate increase, so its potential timing will remain closely watched. Domestically, the Reserve Bank reduced the Official Cash Rate (OCR) by 0.25% to 2.75%, citing a softening local economy and its intention to stimulate the economy so inflation bounces back to the midpoint of the 1-3% inflation target. As inflation remains below target, Governor Wheeler specified that further OCR reductions are likely but this remains dependent on how the economy evolves.

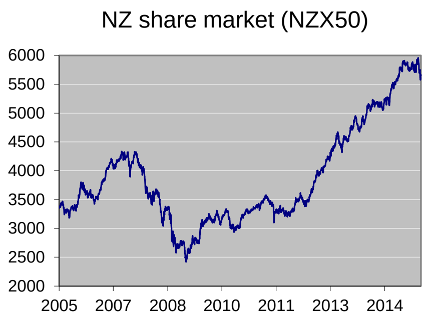
Summary of Market Movements as at 30 September 2015

Share Markets	30/09	31/08	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,593	5,656	-1.1%	-2.3%	6.4%	13.4%	12.0%
ASX 200 (local)	45,405	46,788	-3.0%	-6.6%	-0.7%	9.4%	6.5%
ASX 200 (NZD)	49,845	52,400	-4.8%	-9.8%	-2.9%	4.7%	2.7%
MSCI (local)	3,258	3,378	-3.6%	-7.7%	-0.7%	12.0%	10.1%
MSCI (NZD)	6,721	7,051	-4.7%	-3.0%	16.2%	18.9%	11.6%
Fixed Interest Markets	**30/09**	**31/08**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change**	**5 Year Change**
NZ 10-Yr	3.28	3.22	0.06	-0.35	-0.86	-0.17	-1.73
US 10-Yr	2.05	2.22	-0.17	-0.30	-0.44	0.42	-0.46
NZ OCR	2.75	3.00	-0.25	-0.50	-0.75	0.25	-0.25
Currencies	**30/09**	**31/08**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.6397	0.6333	1.0%	-5.7%	-21.9%	-9.1%	-2.8%
NZD vs. AUD	0.9109	0.8932	2.0%	3.4%	2.2%	4.3%	3.6%
MSCI Weighted NZD			1.1%	-4.7%	-16.7%	-6.9%	-1.5%
Commodities	**30/09**	**31/08**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	193.8	202.1	-4.1%	-14.7%	-30.4%	-14.4%	-7.5%
Oil	48.5	54.2	-10.5%	-23.8%	-48.8%	-24.5%	-10.1%
Gold	1,116	1,132	-1.5%	-4.8%	-7.8%	-14.3%	-3.1%

Summary of Market Indices as at 30 September 2015







GROSVENOR INVESTMENT SERVICES LIMITED

The Key to Consistent Portfolio Outcomes – *Risk Management*

Michael Jordan, widely acclaimed as the greatest basketballer of all time, said the minute you get away from fundamentals – whether it's proper technique, work ethic or mental preparation – the bottom can fall out of your game. While Jordan was talking about basketball, the same principles apply in investing and portfolio construction, and one of the key areas we focus on for your portfolios is risk management. Given the very strong performance from share markets over the last four years, the easing back in August and September has been a good reminder that markets can be volatile and investor uncertainty can reappear very quickly.

In last month's newsletter, we described how we are using insurance option contracts on the US and European share markets as part of our ongoing risk management strategies. These contracts allow your portfolios to recoup some of the declines in global shares, whilst maintaining a reasonably full exposure to gains.

Strategies using option contracts on shares are a good example of our philosophical commitment to using effective risk management strategies as one of the keys to delivering value to investors. There are many other examples of this within your overall portfolio structure, including:

- **The strategic mix of investments** between 'core' market index funds and more actively managed 'satellite' investments;

- The use and strict application of **risk 'budgets'** within all investment sectors. This means that no new investment can be made without a full assessment of its underlying risk dynamics and contribution to overall portfolio risk;

- **Liquidity analysis and management -** for all investments, there is usually a strong (but often overlooked) relationship between expected returns and assessed liquidity. Apparently higher returning securities will often carry an equally high liquidity risk, a reality that was ignored at investors' peril leading up to the financial crisis of 2008/09.

  We will very rarely compromise liquidity for return. Like oxygen, you don't realise the true value of liquidity until it is taken away from you!

- **Low credit risk within the fixed interest sector.** Fixed interest or bond investments are included in portfolios for stability during periods of excess share market volatility. The last thing your portfolio needs is to experience a decline in the value of your bonds at the same time as shares are falling. This can only fundamentally be achieved by maintaining a very high level of credit quality at all times within the fixed interest sector;

- **Effective diversification** within each of the sectors. The number of securities held in each of your asset class sectors has been carefully determined according to the specific characteristics of the sector. For example, there are typically less fixed interest securities held (by number) than shares, because of the more homogeneous nature of fixed interest and the higher correlations between them. By contrast, shares are less correlated with each other and therefore more are needed to manage the risks;

- **Foreign currency exposure and hedging strategies**. This is the single most significant portfolio component within which good risk management is at its most effective. Over the past 12 months global shares in local currency terms (represented by the MSCI index) are down 1%, however for fully unhedged NZ investors this has been significantly offset by the NZD depreciating over 20% against the US Dollar.

Conclusion

In an uncertain world, we consistently construct your investment portfolio to strict fundamentals that consider how overall returns will vary across a range of potential scenarios. Through this process, inclusive of risk management, we will produce consistent outcomes for your portfolio. As Michael Jordan puts it, "If you do the work you get rewarded. There are no shortcuts in life."

Summary of Key Portfolio Monitoring Decisions

Stride Property's Capital Raising

- During September we participated in Stride Property's (formerly DNZ Property) capital raising to fund the purchase of a $290 million supermarket portfolio consisting of 19 individual stores across New Zealand. Both the New Zealand Shares Portfolio and Property Portfolio participated in the capital raising which was completed at a discount of 6.5% to the previous market price.

Rothschild Global Direct Shares Portfolio

- The portfolio added three new holdings this month;
    - National Oilwell Varco
    - Berkshire Hathaway
    - Unilever
- National Oilwell Varco (NOV) was added at the start of the month, offset by the removal of integrated supermajor, Royal Dutch Shell. NOV has become the world's most comprehensive equipment supplier into the oil & gas industry, through a well thought out and executed strategy in acquiring market leading brands in an industry where trust and reliability are very important. Its current valuation appears attractive, even in the context of a cyclical industry, and the future demand for energy will mean demand for its equipment will remain well supported over the long term.
- Berkshire Hathaway and Unilever were added at the end of the month, both at 3% weights, offset by reductions in the S&P Financials ETF, Procter & Gamble and Reckitt Benckiser.
- Berkshire Hathaway has faced concern in the past around the company's succession plan and relative return risk. However Charlie Munger and Warren Buffet's day to day influence has been meaningfully reduced over the past 5 years with the investment division run by two credible portfolio managers. In addition there are three highly capable business managers who look after the wholly owned subsidiaries, which are also backed up by a very experienced board of directors. Berkshire already makes up 8% of the S&P Financials ETF and its underperformance this year compared to the wider market has provided an opportunity for its addition.
- Unilever is one of the world's leading suppliers of fast moving consumer goods. Their brands resonate with the customer and command premium pricing as a result of Unilever's successful history of innovation, product refreshment and management of the brands. Customers are, and continue to be, willing to pay more for these brands, giving Unilever pricing power.

Foreign currency hedging

- The level of currency hedging was further increased during September, from 50% of the Global Shares sector to 55%. The increase takes advantage of the New Zealand Dollar's fall to below fair value against the US Dollar, which has risen in anticipation of interest rate increases in the United States. Historical analysis suggests that markets often move to anticipate such changes, and indeed the US Dollar has tended to fall in value once interest rate increases actually start to occur.