Market & Portfolio Update – October 2015

Global Shares

Global share markets recovered strongly in October, up 8% on average. To a large part this reflected a rebound in confidence following the declines in July and August, with economic data generally remaining on track. This was further helped by the European Central Bank fuelling expectations of more stimulus measures to come, and additional stimulus announced in China. A solid rise in the New Zealand Dollar accompanied the gains in global share markets, with the NZD recovering from a low of 62.5c against the US Dollar to just under USD 68c by the end of the month. While the rise took some of the gloss off the underlying global share market gains, this was partly mitigated by our increasing the level of currency hedging in place at September's lower levels. Following its rise, the current exchange rate now sits closer to our assessment of its long-run fair value.

New Zealand Shares

Like global share markets, the New Zealand market rebounded during October to finish up 7% after softening during both August and September. Dairy prices in combination with a number of economic indicators – including both consumer and business confidence surveys - bounced back after declining over the previous few months to help drive the strong share market performance. Those companies which are more sensitive to changes in the economic outlook were the stand-out performers. These mainly included construction and consumer discretionary companies. Another stand-out area was the listed aged care and retirement village owners, which performed strongly on the back of continued strength of national house prices.

Australian Shares

The Australian share market followed global markets higher, rising over 4%, however this was offset for NZ based investors as the NZ dollar also strengthened 4% against the Australian dollar. The energy sector saw the strongest performance (+8%) as stabilising commodity prices boosted companies like Origin Energy and Santos off recent lows. In the consumer staples sector, Woolworths reported lower margins and sales for the first time in more than a decade. Hard discounters, Aldi and Costco, have finally gained scale and they are now taking away Woolworths market share. The discounter's narrow but cheaper offerings are hitting the right chord with Australian consumers; while NZ consumers look on, we can take comfort in the All Blacks success over Australia at the Rugby World Cup.

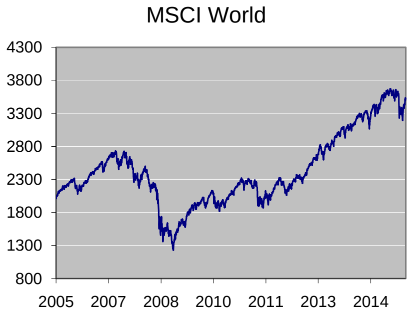
Interest Rates

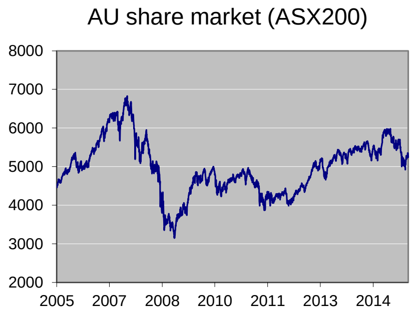
Global interest rates were driven by the respective central bank meetings around the world. In the US, the Federal Reserve held the Federal Funds rate unchanged at its meeting, however this remains under close watch with an interest rate hike (the first in almost 10 years) warranted if inflation starts to pick up in the US economy. Domestically, the Reserve Bank of New Zealand held the Official Cash Rate (OCR) at 2.75%. Despite a recent rise recovery in global dairy prices, Governor Wheeler has specified that further strength in the NZ dollar may dampen inflation and require a further OCR cut. However, the thriving Auckland housing market may limit the extent to how much further the OCR and mortgage rates can go.

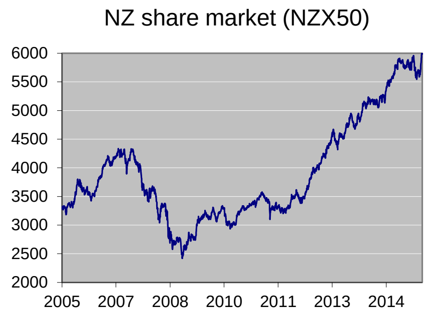
Summary of Market Movements as at 30 October 2015

Share Markets	30/10	30/09	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,986	5,593	7.0%	1.1%	11.1%	14.8%	12.6%
ASX 200 (local)	47,387	45,405	4.4%	-6.6%	-0.7%	9.8%	7.1%
ASX 200 (NZD)	49,971	49,846	0.3%	-10.9%	-7.4%	3.5%	3.0%
MSCI (local)	3,518	3,258	8.0%	-2.8%	6.1%	15.1%	11.2%
MSCI (NZD)	6,863	6,720	2.1%	-4.5%	17.9%	19.7%	12.2%
Fixed Interest Markets	**30/10**	**30/09**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change**	**5 Year Change**
NZ 10-Yr	3.30	3.28	0.02	-0.05	-0.70	-0.17	-1.93
US 10-Yr	2.14	2.04	0.10	-0.04	-0.19	0.45	-0.46
NZ OCR	2.75	2.75	0.00	-0.25	-0.75	0.25	-0.25
Currencies	**30/10**	**30/09**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.6764	0.6397	5.4%	1.8%	-15.0%	-6.7%	-2.5%
NZD vs. AUD	0.9483	0.9109	3.9%	4.6%	6.7%	5.8%	3.8%
MSCI Weighted NZD			5.9%	1.7%	-11.8%	-4.6%	-1.0%
Commodities	**30/10**	**30/09**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	195.6	193.8	1.0%	-3.4%	-28.1%	-12.9%	-8.2%
Oil	49.6	48.4	2.5%	-5.1%	-42.3%	-23.0%	-9.8%
Gold	1,141	1,116	2.3%	4.2%	-2.6%	-12.8%	-3.4%

Summary of Market Indices as at 30 October 2015





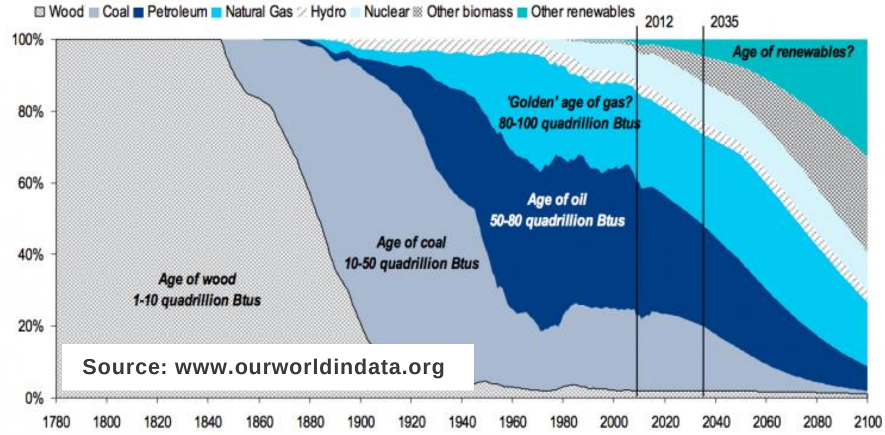


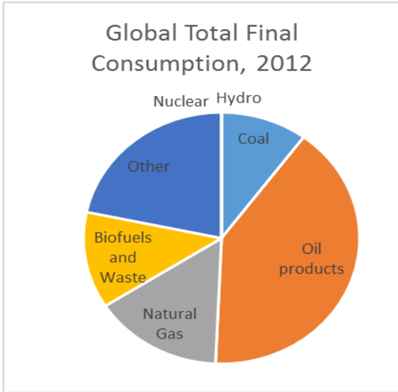
GROSVENOR INVESTMENT SERVICES LIMITED

Changing Energy Trends – What Next?

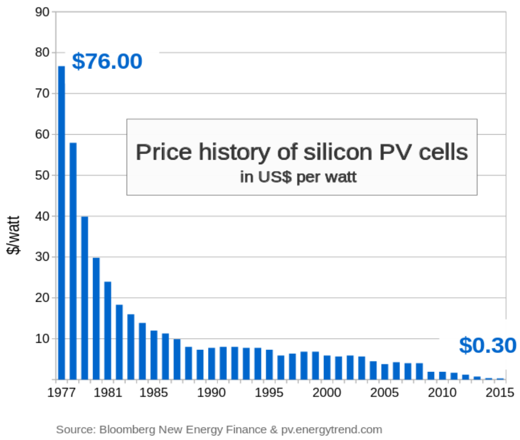
Energy. We all use it and we all know when it's not available. But where does it come from?

Wood, water, coal and oil were the primary inputs up to the 1970s. With the oil price shock, many generators switched to natural gas, nuclear or back to coal. Both coal and oil now account for a lesser proportion of generated energy when compared to 1973. The use of natural gas has increased, but "Other," comprising geothermal, solar, wind, heat and other small sources, has nearly doubled in use and now comprises 22% of generation.





Given the near doubling in generation from renewable sources over the past 40 years, coupled with new technology increasing the effectiveness of these sources, the question is, "Will this trend continue?" and if so, what will be the main benefactor?



Solar has come leaps and bounds, with the payback period on solar installations shortening considerably. The cost of silicon PV cells has dropped over the past 40 years, from $76 p/watt, to just $0.30 p/watt and this has been coupled with new battery technology. In Australia, some states now have more than 1 in 5 rooftops with solar panels installed. The government did provide financial incentives to drive the uptake but regardless, that's a lot of solar panels.

Percentage of Australian Rooftops With Solar, 2014

Here in NZ, nearly 80% of energy produced came from renewable sources in 2014 (Electricity Authority, 2014 Year in Review), which compares favourably to the global 34%. In NZ, some thermal generation units are already being shut down as they are no longer cost-effective when compared to their renewable counterparts. NZ is blessed with an abundance of renewable sources, but if this trend occurs offshore with the IEA's estimated increase in energy demand of 31% by 2035, clean energy has a bright future.

Now, we at Grosvenor are not at the forefront of the energy industry, so aren't going to try and tell you what particular technology(ies) will be the long-term winners, but we do think that clean energy sources in general will continue to increase in use.

That's why we hold a clean energy exchange-traded fund (ETF) in the global shares sector. Exposure can also be gained directly through the newly-created Specialist Series' Global Resource Sustainability Fund. The ETF provides a diversified allocation to companies involved in the clean energy sector, without solely focusing on just one source of clean energy.

Summary of Key Portfolio Monitoring Decisions

NZ Shares Portfolio

- Early in the month the New Zealand Shares Portfolio participated in a 29% sell down of Z Energy by Infratil and the New Zealand Superannuation Fund. The transaction was completed at a 9.5% discount to the latest market price. Infratil and the New Zealand Superannuation Fund purchased Shell New Zealand in 2010 before rebranding as Z Energy in 2011.

Rothschild Global Direct Shares Portfolio

- This month we removed the holding in Ericsson. We had already reduced the holding in June, from 6% to 3% following a review which indicated that Ericsson's competition was starting to gain traction in its core business servicing division. Ericsson's latest quarterly results indicating this trend had not abated, so the 3% weighting has been re-allocated to the broader focussed Global Technology ETF. Technology remains a key theme of the portfolio as we see the continued proliferation of mobile computing increasing the demand for data storage and increased levels of spending on software.