REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

GROSVENOR
INVESTMENT MANAGEMENT LIMITED

Market & Portfolio Update – May 2016

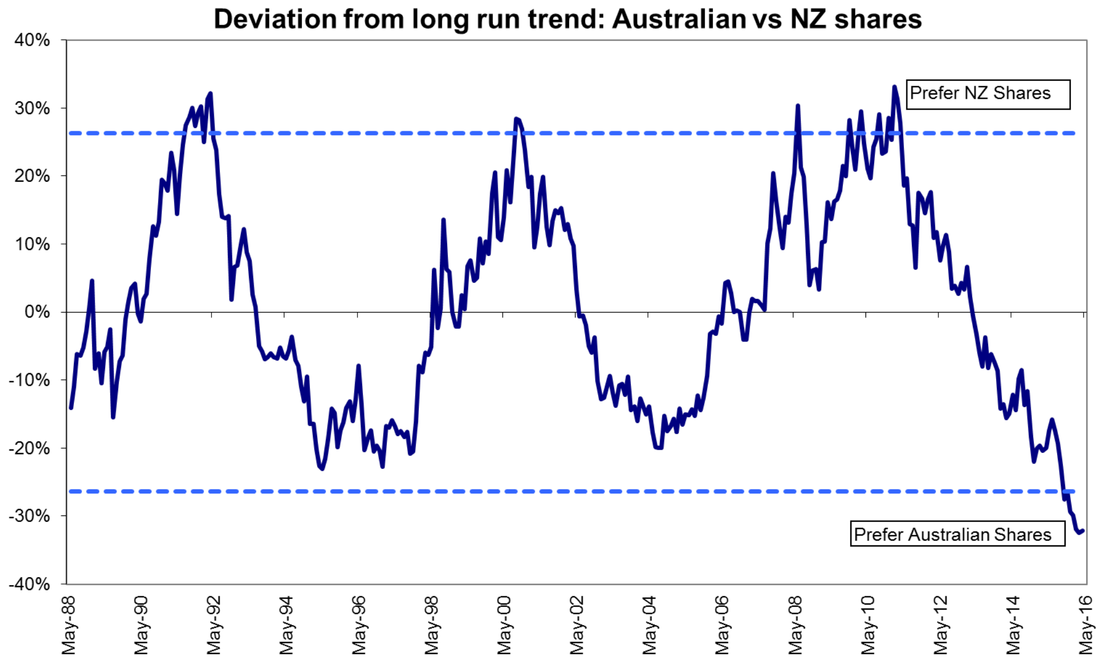
- Portfolios delivered further gains in May, with share markets in New Zealand and overseas continuing their recent rise. Most diversified portfolios with some allocation to shares gained between 1% and 2% for the month (after fees but before tax).

- The New Zealand Dollar fell moderately, down 3% against the US Dollar, which also helped returns on overseas shares when translated back into New Zealand Dollar terms. The Federal Reserve reaffirmed a likelihood of a further gradual interest rate increase in the United States over the coming months. This saw the US Dollar generally rise in value against other currencies.

- Interest rates fell on NZ fixed interest investments during the month. The government's 2016 budget suggested that less government funding will be required over the coming year (and therefore less need to issue new government bonds).

- This meant that existing NZ Fixed Interest investments performed well and also supported returns on other yield-focused investments such as the NZ listed property company shares held in portfolios.

Chart of the Month



The after-effects of the Global Financial Crisis and slowdown in demand from China were felt particularly hard by Australia. Commodity prices peaked in 2011 and the mining sector peaked in 2012, when it employed 275,000 people. Since then, commodity prices have fallen by around 50% on average (as measured by the CRB index) and 75,000 mining jobs have been lost. Not surprisingly, the Australian share market has struggled to match the performance of other share markets, most notably New Zealand's.

In the chart above, the fall in the dark blue line on the right hand side represents a 65% cumulative underperformance of Australian shares versus NZ shares since 2011.

However, based on long-run historical economic cycles and data analysis, this five-year period of underperformance may well be near an end. The dotted horizontal light blue lines effectively represent the range within which 95% of relative performance outcomes have been observed. With commodity prices recently bouncing off their lows, Australian GDP remaining surprisingly strong in the first quarter of 2016 and stretched relative share valuations between Australia and New Zealand, there is a growing case to be made for share investors with a medium to long-term time horizon to now favour Australia over New Zealand.