REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

GROSVENOR
INVESTMENT MANAGEMENT LIMITED

Market & Portfolio Update - July 2016

- Investment funds had a great month. Most diversified funds were up by between 2% and 4%* in July, adding to a good first half of the year.

- Share markets were stronger, bouncing back from last months' concern following the surprise outcome of the UK referendum. NZ and Australian shares performed particularly well, both up around 7%.

- During the month we increased the allocation to Australian banks, where dividend yields have become significantly more attractive over the last year. In NZ, given the strength of the construction industry and housing shortage, we added to holdings in companies who will benefit from this, such as Fletcher Building.

- Bonds and global property shares also helped portfolio returns, thanks to lower interest rates. Mixed economic news around the world has been interpreted by markets to mean that interest rates will remain low for an even longer period of time.

**after fees but before tax*

Thought for the Month

This is what $1 billion ($1,000,000,000) of US money looks like. The Japanese government recently announced a new stimulus package 73 times that (or ¥7.5 trillion), aimed at providing the stop-start economy with some further impetus. The package, which includes cash handouts to 22 million low-income people, is the 4th package announced since 2013 and aims to counter some of the problems affecting the Japanese economy – including a negative population growth rate, a rapidly aging population and a stronger currency, which makes their exports less attractive overseas. Since the first package was announced, the Japanese economy has been doing "okay", but with periods of disappointing performance. The Prime Minister is not happy with the progress, hence the new package.

The outcome of this, and other stimulus programs around the world (the US, the European Union and the UK, to name a few), is broadly helpful to investment markets, as interest rates fall. The prices for bonds and shares benefit from the lower interest rates, and also from investors decreasing their cash holdings given the lower interest rates. These stimulus programs are one factor contributing to the 14% annual return of global shares (in US dollars) since the market bottomed out in 2009. While these returns have been higher than we would normally expect, we anticipate that returns in equity and debt markets will continue to be supported by this stimulus.