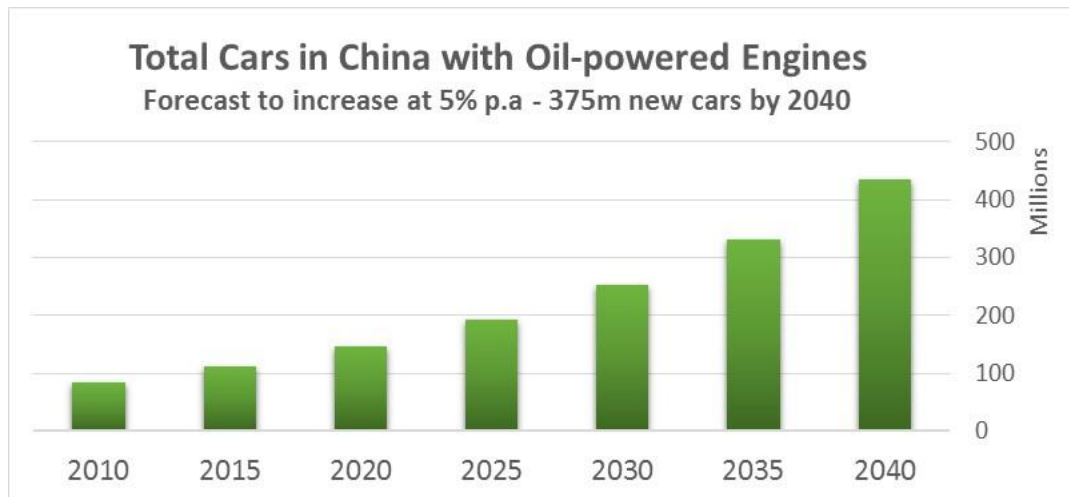


Market & Portfolio Update – September 2016

Did you know that in China over 50% of new car buyers have never actually owned a car before! The Chinese car market is huge, particularly with their ever-expanding middle class already owning over 80 million cars (the majority of which are powered by oil). This month's chart shows the forecast for oil-powered cars in China continuing to grow strongly.



While the price of oil has seen significant movements over the past two years, it can be easy to lose sight of future demand. Over this time, the price of oil has fallen over 70% from US\$130 a barrel to below US\$30, and rallied back over 60% to US\$50 in August. Volatility of this nature can cloud the long-term picture, with growing oil demand from global aviation, heavy industries and expanding personal car use, like in China.

In China, rising incomes and prosperity are increasing the demand for oil as 375 million new cars are expected to be on the roads in China by 2040. This is a huge tailwind for the price of oil, and oil producers, as well as car manufacturers. While a lot of noise is being made about electric vehicles, Tesla (the largest manufacturer of electric motor cars) only made 100,000 cars last year. This level of supply is unlikely to halt the insatiable demand for personal transportation by Chinese consumers and a key component of oil demand. Far from becoming obsolete any time soon, "black gold", and the companies that produce it look set to be with us for a long time yet.

Market & Portfolio Update

- ❖ Most investment funds had another reasonably quiet month. World share markets finished slightly up, while fixed interest investments were relatively flat.
- ❖ Australian shares provided a small bright spot, up just over 2%, with shares in the major Australian banks and resource sector companies rising. Resources were helped by the oil price rising 5%, as key members of OPEC set aside some of their differences and agreed to reduce the amount of oil they supply, to support prices.
- ❖ Fletcher Building shares performed well, with no sign of let-up in the construction outlook. We added a small shareholding in NZ cinema software company Vista Group.
- ❖ We also continued to fine-tune NZ Fixed Interest investments, further spreading the range of maturities by adding a new long term bond issued by the NZ government.