

Market Overview

September 2015 // Quarterly Market Overview

Australasian equities

The New Zealand equity market fell 0.8%, as measured by the Russell NZ Domestic Index. Despite concerns about slowing economic growth, the market, with its high proportion of defensive shares, held up relatively well, although return dispersion across companies was high. Ebos surged 24%, while defensive stocks, such as Spark (+12%), rose as investors sought out relative certainty. Sky Television dropped 19%, reflecting the growing risk of technological change impacting its business model.

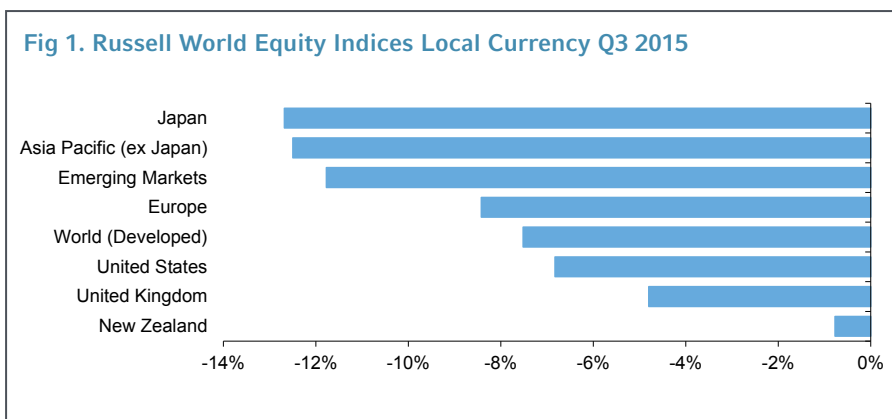
The Australian market, as measured by the Russell Australia Index, fell 6.3%, led lower by the energy, materials, banks and healthcare sectors. This weakness reflected global growth concerns and lower commodity prices. While the profit reporting season was in line with expectations, guidance statements were soft, and market consensus earnings forecasts were revised lower.

Global equities

Global equities, as measured by the Russell Global Large Cap Index, fell 7.7% in NZ dollar hedged terms. Early in the quarter, the renewed Greek bailout deal brought a degree of harmony to Europe. This positive development soon became a distant memory, as two central stories unfolded over the period. China's devaluation of its currency, amid slowing growth, gave rise to a severe sell-off in global markets. This, in turn, became a key influence on the US Federal Reserve's (Fed's) decision not to raise its interest rate in September.

The US market declined 6.8%, as measured by the Russell 1000 Index. The quarter saw strong upward revisions to second-quarter GDP figures and overall positive employment numbers. Nevertheless, lacklustre wage growth and "recent global economic and financial developments" (alluding to China and market volatility) served as deterrents to a September rate rise. While this decision initially boosted equities, investors grew anxious about global economic growth, which saw the US market end the quarter lower.

European markets came under pressure during the quarter, falling 8.4%, as measured by the Russell Eurozone Index. Relatively positive economic data and the avoidance of a possible 'Grexit' were positive for the market. However, the global market turmoil did not spare the continent, leading all major European bourses downwards over the quarter. An additional detractor in Europe was the high-profile emissions scandal embroiling Volkswagen, which sent the whole automotive industry lower.



Currency comment

The NZ dollar declined as the Reserve Bank of New Zealand cut the official cash rate and commodity prices continued to slide.

Table 1. NZ\$ Movement Q3 2015

Currency	NZD % appreciation
USD	-5.4%
GBP	-1.8%
AUD	3.5%
JPY	-7.4%
EUR	-5.6%
TWI	-2.5%

The UK market declined 4.8%, as measured by the Russell UK Index. The quarter started positively with investors welcoming Chancellor George Osborne's business-friendly Budget and the positive estimate for second-quarter GDP. However, developments in China and its potential impact on UK companies dampened investor sentiment. Falls in commodity prices also weighed on the UK market, especially energy and mining companies.

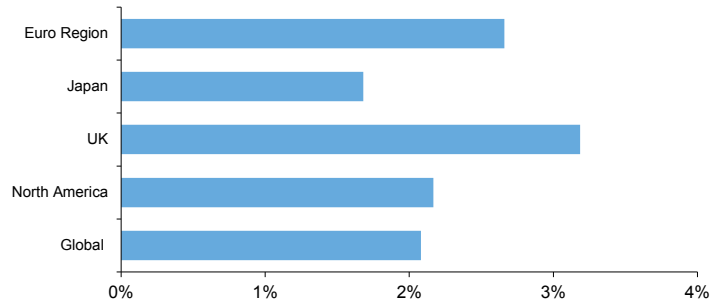
The Japanese market fell sharply, with the Russell Japan Index closing the period 12.7% lower. Heavy selling in the



neighbouring Chinese market drove Japanese shares lower. Reduced demand for Japanese goods from China and a stronger yen relative to the US dollar, added further downward pressure on the stocks of Japanese exporters.

Emerging markets declined 11.8%, as measured by the Russell Emerging Markets Index. China dropped 22.0% despite attempts by the government to stem the sliding market. The People’s Bank of China also unexpectedly, twice lowered its currency fix against the US dollar, which caused nearly all emerging market currencies to depreciate. The Brazilian market also finished sharply lower after experiencing a perfect storm of events including the commodity sell-off, a struggling economy and political corruption. Political developments also saw Standard & Poor’s downgrade Brazil’s credit rating to “junk” after legislators voted to increase government spending.

Fig 2. Barclays Global Aggregate and Regions Q3 2015 (NZ\$ Hedged)



Global fixed interest

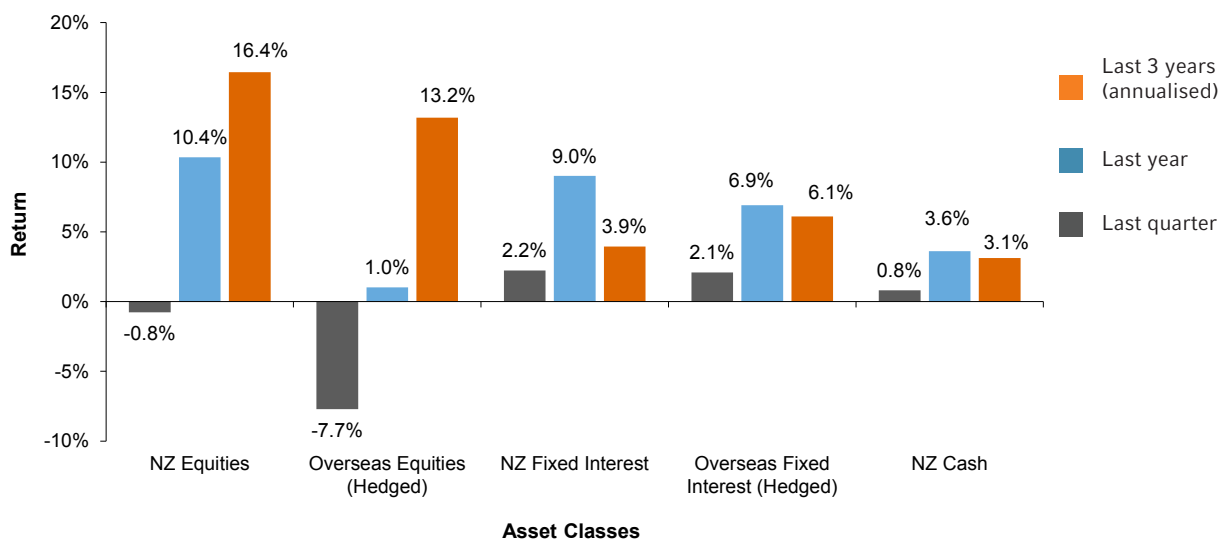
The Barclays Global Aggregate Bond Index rose by 2.1% in NZ dollar hedged terms. China’s devaluation of its currency (which ignited a broad based sell-off in global equity markets), a continued slide in the oil price and the lack of meaningful US wage growth, were factors in the Fed’s decision not to raise rates at its September meeting. This perpetuated uncertainty regarding when a hike will occur and increased speculation that the Fed may stay on hold well into 2016.

The US 10-year treasury yield declined 32 basis points (bps) to 2.04%, while the UK’s 10-year gilt yield declined 26 bps to 1.76%. Eurozone country yields were more stable after a new bailout deal was agreed with Greece. Investment-grade credit and high-yield spreads widened during the quarter.

NZ fixed interest

The New Zealand fixed interest market rose 2.2%, as measured by the S&P/NZX Government Stock index. The Reserve Bank of New Zealand (RBNZ) cut the official cash rate in July (0.25%) and September (0.25%) to finish the quarter at 2.75%, reflecting slowing domestic activity and lower than expected levels of inflation. The RBNZ also signalled that further easing is likely.

Fig 3. Asset Class Returns Q3 2015 (NZ\$)





			Last Quarter	One Year	Three Year	Five Year
Equities	New Zealand					
	Russell NZ Domestic Gross		-0.78%	10.35%	16.44%	15.31%
	Global					
	Russell Global Large Cap NZD Hedged (≈ MSCI AC)		-7.71%	1.03%	13.18%	10.88%
	Russell Developed Large Cap NZD Hedged (≈ MSCI World)		-7.09%	2.08%	14.67%	12.26%
	Russell Developed Large Cap Value		-9.16%	-3.05%	12.68%	9.94%
	Russell Developed Large Cap Growth		-5.86%	3.32%	12.63%	11.79%
	United States					
	Russell 1000		-6.83%	-0.61%	12.66%	13.42%
	Russell 2000		-11.92%	1.25%	11.02%	11.73%
	Russell 3000		-7.25%	-0.49%	12.53%	13.28%
	Australia					
	Russell Australia		-6.31%	0.14%	10.38%	7.49%
	China					
	Russell China		-22.00%	-6.01%	4.84%	-1.31%
	Eurozone					
	Russell Eurozone		-8.42%	3.04%	13.38%	8.40%
	Japan					
	Russell Japan		-12.68%	8.18%	26.51%	13.68%
	Pacific ex Japan					
	Russell Asia Pacific ex Japan		-12.50%	-5.20%	5.32%	3.57%
	United Kingdom					
	Russell United Kingdom		-4.80%	1.02%	8.09%	7.27%
	Emerging Markets					
	Russell Emerging Markets		-11.77%	-5.89%	3.83%	2.59%
	Russell Frontier		-7.86%	-14.46%	8.53%	3.90%
		Yield				
Fixed Interest	S&P/NZX 90-day Bank Bill Index	2.84	0.81%	3.61%	3.12%	3.02%
	S&P/NZX NZ Government Bond Index	2.75	2.23%	9.01%	3.95%	5.58%
	Barclays Global Aggregate Index NZD Hedged		2.08%	6.91%	6.10%	6.46%
	Citigroup World Government Bond Index NZD Hedged		2.68%	7.57%	6.49%	6.36%
Property	Global					
	FTSE EPRA/NAREIT (NZD Hedged)		-0.24%	16.71%	14.45%	12.36%
	United States					
	FTSE NAREIT Equity REITs (USD)		0.99%	7.84%	9.04%	11.86%
	Australia					
	S&P/ASX 200 LPT (AUD)		1.11%	20.32%	16.20%	13.68%
Commodities	Dow Jones - UBS Commodity Index (USD)		-14.47%	-25.99%	-16.02%	-8.89%
	S&P GSCI Total Return Index (USD)		-19.30%	-41.74%	-19.84%	-9.79%
		30-Sep-15	30-Jun-15	30-Sep-14	30-Sep-12	30-Sep-10
	Gold spot price (USD)	1114.3	1169.4	1212.8	1774.5	1301.5
	Oil spot price (USD)	45.1	59.5	91.2	92.2	80.0
Currencies	NZD/USD	0.6397	0.6763	0.7794	0.8307	0.7355
	NZD/AUD	0.9109	0.8799	0.8907	0.7988	0.7597
	NZD/GBP	0.4223	0.4300	0.4808	0.5144	0.4668
	NZD/EUR	0.5731	0.6070	0.6170	0.6457	0.5388
	NZD/JPY	76.61	82.76	85.50	64.63	61.45
	Trade Weighted Index	69.50	71.29	75.96	74.65	68.24
Volatility	CBOE Volatility Index (VIX)	24.50	18.23	16.31	15.73	23.70

All returns stated in local currency terms unless otherwise stated.

Russell Indices are constructed to provide a comprehensive and unbiased barometer for the relevant segment and are completely reconstituted annually to reflect accurately the changes in the market over time.

Index Definitions

Equities

New Zealand

Russell NZ Domestic Gross: A market-weighted index with target capitalisation of the pool of tradable securities listed on the New Zealand Stock Exchange. The index is calculated with gross dividends reinvested including adjustments for imputation credits.

Global Equities

Russell Global Large Cap: The index measures the performance of the largest securities in the Russell Global Index, based on market capitalisation. The index includes approximately 3000 securities and covers 87% of the investable global market.

Russell Developed Large Cap: Offers investors access to the large-cap segment of the developed equity universe representing approximately 70% of the global equity market. The index includes the largest securities in the Russell Developed Index.

Russell Developed Large Cap Value: Measures the large-cap value segment of securities located in developed countries globally. It includes companies with lower price-to-book ratios and lower forecasted growth values. The index includes the largest securities in the Russell Developed Value Index.

Russell Developed Large Cap Growth: Measures the large-cap growth segment of securities located in developed countries globally. It includes those companies with higher price-to-book ratios and higher forecasted growth values. The index includes the largest securities located in the Russell Developed Growth Index.

United States

Russell 1000: Measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the US market.

Russell 2000: Measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalisation of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 3000: Measures the performance of the largest 3000 US companies representing approx 98% of the investable US equity market.

Australia

Russell Australia: Measures the performance of the equity market in the Australia based on all its investable equity securities.

United Kingdom

Russell United Kingdom: Measures the performance of the equity market in the UK based on all its investable equity securities.

Japan

Russell Japan: Measures the performance of the equity market in Japan based on all its investable equity securities.

China

Russell China: Measures the performance of the equity market in China based on all its investable equity securities.

Eurozone

Russell Eurozone: Measures the performance of the equity markets located in the Eurozone, based on all investable equity securities in the region. The index covers 15% of the investable global market.

Pacific ex-Japan

Russell Asia Pacific ex-Japan: Measures the performance of the equity market in the countries in Asia Pacific, excluding Japan and including Australia and New Zealand based on all its investable equity securities.

Emerging Markets

Russell Emerging Markets: Measures the performance of the largest investable securities in emerging countries globally, based on market capitalisation. The index covers 20% of the investable global market.

Frontier Markets

Russell Frontier: Constructed using float-adjusted market capitalisation weights and represents 98% of the cumulative, liquid market capitalisation of frontier countries.

Fixed Interest

S&P/NZX 90-day Bank Bill Index: A measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. The 90-day Bank Bill index is valued on a mark to market basis, i.e. valued at current market yields not at purchase yields.

S&P/NZX Government Stock Index: Tracks movement in the NZ Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The index calculation assumes the full amount of all coupon payments are reinvested in the index.

Barclays Global Aggregate Bond Index NZD Hedged: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically, Barclays Capital Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index.)

Citigroup World Government Bond Index NZD Hedged: A market capitalisation weighted bond index consisting of the government bond markets of developed countries.

Property

Global

FTSE EPRA/NAREIT: A Global Real Estate Index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposal and development of income-producing real estate. The index series covers Global, Developed and Emerging indices, as well the UK's AIM market.

United States

FTSE NAREIT Equity REIT Index: An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.

Australia

S&P/ASX 200 LPT Index: An index of Australia's listed property trust (LPT) sector.

Commodities

Dow Jones UBS Commodity Index: A futures commodity index listing 19 different commodities in the US. It is a diversified and liquid index tracking the performance of physical commodities in the US. It weights the commodities listed according to liquidity and dollar-adjusted production data. However, unlike other commodity indices, the DJ-UBS sets limits on its weighting so as to maintain its own diversification.

S&P GSCI Total Return Index: Measures a fully collateralised commodity futures investment that is rolled forward from the 5th to the 9th business day of each month. Currently the S&P GSCI includes 242 commodity nearby futures contracts. The S&P GSCI Total Return Index is significantly different than the return from buying physical commodities.

Gold spot price (USD): London PM fixed spot price.

Oil price (USD): Price of barrel of light, sweet crude oil as traded on the New York Mercantile Exchange (NYMEX).

CBOE Volatility Index (VIX): An index that measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices.