REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Client Update

Market & Portfolio Update – February 2015

Global Shares

Global share markets have continued their good start to the year, rising a further 6% in February. Although growth has moderated in the United States since late last year, US shares still managed solid gains. In the European economy, a range of indicators have improved despite some wrangling over Greece's debt terms with the rest of the Eurozone. Overall, there are some signs that consumer spending appears to be benefitting from the lower oil prices now compared to during much of 2014.

Having fallen to 72c against the US Dollar from a peak of 88c in July, the New Zealand Dollar staged a 4% recovery in February as key export commodity prices appear to have stabilised. The higher NZD offset some of the return on global shares for the month, although still left gains in positive territory and with returns still at strong double-digit levels over the past twelve months.

New Zealand Shares

Despite being outshone by its big brother across the ditch, the New Zealand sharemarket performed well during February, returning 2.3%. The New Zealand economy continues to perform well although there are signs of slowing growth and increasing risks relating to the Chinese economy and domestic house prices. The impacts of the drought began to show with milk supply falling causing the global milk price to bounce back from its recent lows as well as lifting the currency against New Zealand's largest trading partners.

The month of February represents publication of half or full-year financial results for many New Zealand companies with average reported earnings growing 4%. This is further evidence that the New Zealand economy has had a strong 2014. The stand-out performer for February was Xero (+58%) as they announced a further NZ$147 million capital raising, most of which came from a new large shareholder, Accel Partners – a US venture and growth equity company.

Australian Shares

The Australian share market continued its strong start to the year, rising almost 7% in February, and is now up over 10% for 2015 so far. The resource sector drove performance this month, as energy (+9%) and materials (+12%) sector companies reported earnings with more resilience than most investors expected. Across the whole market earnings have been supported by cost reductions (as opposed to revenue growth). This is underscored by the big miners BHP & Rio Tinto announcing significant success at increasing margins as layers of costs are removed from their businesses. In Rio Tinto's case, this has allowed it the ability to pursue larger capital returns to shareholders, through share buybacks and higher dividends. While meagre revenue growth across the market is not ideal, Australian companies will continue to be well supported as dividend yields remain elevated compared to other income focussed sectors.

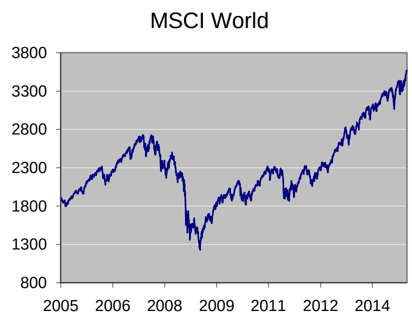
Interest Rates

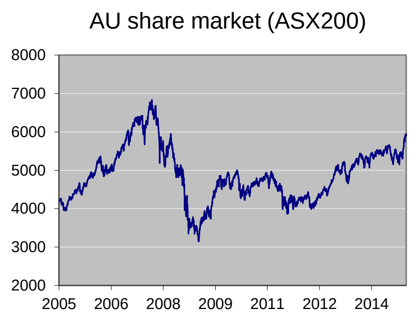
With employment data in the United States continuing to improve, global interest rates rose during the period reversing some of the falls seen in January. Despite global inflation remaining low or absent in most of the major world economies, consistently strong employment growth has led the US Federal Reserve to plan towards raising its cash rate later this year. NZ bond rates also rose, although to a lesser degree than global interest rates, with our stable economy and high yielding securities look attractive. The Reserve Bank of New Zealand is likely to maintain the Official Cash Rate (OCR) in its March meeting as inflation remains below target and remain open-minded on the next move in the OCR, be it up or down depending on how inflation pressures evolve.

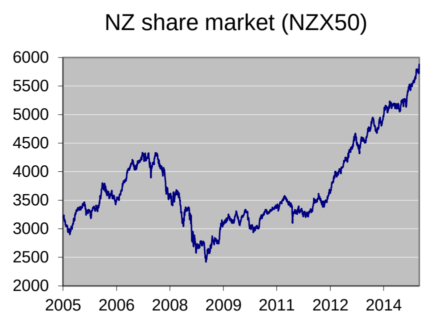
Summary of Market Movements as at 27 February 2015

Share Markets	27/02	31/01	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,878	5,744	2.3%	8.4%	17.8%	20.9%	13.2%
ASX 200 (local)	52,038	48,685	6.9%	12.7%	14.5%	16.3%	9.8%
ASX 200 (NZD)	53,825	52,237	3.0%	7.2%	11.2%	8.3%	5.2%
MSCI (local)	3,565	3,368	5.9%	4.3%	14.7%	16.4%	12.9%
MSCI (NZD)	6,257	6,166	1.5%	6.1%	20.0%	17.7%	10.1%
Fixed Interest Markets	**27/02**	**31/01**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.29	3.18	0.11	-0.62	-1.26	-0.79	-2.46
US 10-Yr	1.99	1.64	0.35	-0.17	-0.65	0.02	-1.62
NZ OCR	3.50	3.50	0.00	0.00	1.00	1.00	1.00
Currencies	**27/02**	**31/01**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.7568	0.7258	4.1%	-3.7%	-11.0%	-3.7%	1.6%
NZD vs. AUD	0.9668	0.9317	3.6%	4.9%	2.9%	6.9%	4.2%
MSCI Weighted NZD			4.4%	-1.8%	-5.3%	-1.3%	2.8%
Commodities	**27/02**	**31/01**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	224.1	218.8	2.4%	-11.9%	-25.9%	-11.4%	-4.0%
Oil	62.6	53.0	18.1%	-10.8%	-42.6%	-20.1%	-4.2%
Gold	1,213	1,279	-5.1%	3.2%	-8.2%	-10.8%	1.6%

Summary of Market Indices as at 27 February 2015





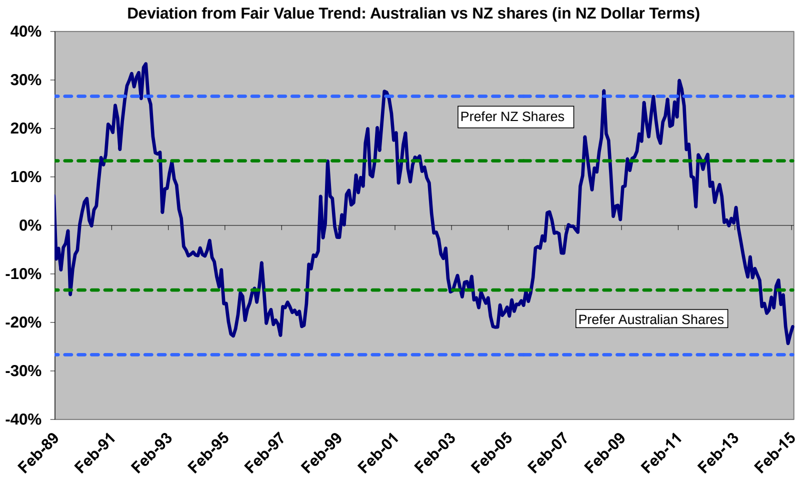


GROSVENOR INVESTMENT SERVICES LIMITED

A Balancing Act for Trans-Tasman Shares

Most investors will have been pleased by the performance of NZ shares over the past few years. Since 2011, the NZX 50 Index, a good indicator of the general market, has gained 70% - equating to just under 15% per annum, on average. In contrast, just across the Tasman, returns have been much more moderate. Gains of only around 4% per annum on Australian shares (in New Zealand Dollars) have added up to more than a 50% gap when compared to the New Zealand market's performance.

One way of looking at relative returns between the two markets is to look at how each market compares to "trend" levels. When looking at how the two markets compare on this basis, the lower performance of Australian shares has pushed them well below "trend" and, in statistical terms, almost two standard deviations below normal. This outcome has been further reinforced by the high New Zealand Dollar, which having risen to AUD 97c from under AUD 75c has increased New Zealand investors' purchasing power in the Australian market.



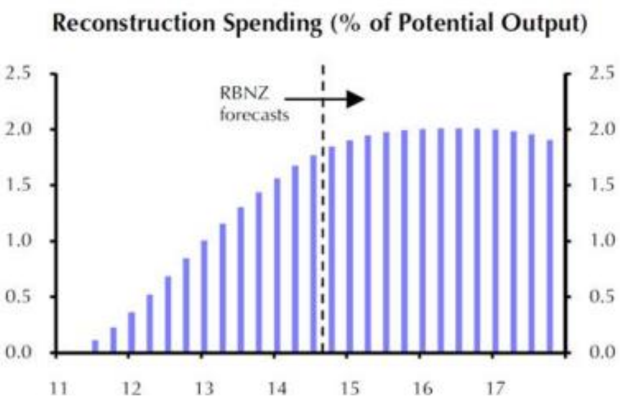
Why the gap?

New Zealand's economy has done well, especially compared to much of the developed world, with growth averaging 3% per year. Relatively high dividend yields have also helped results as investors have been attracted to "yield" investments globally.

In contrast, Australia's economy and share market have both felt the effects of lower export commodity prices, leading to a tailing off in resource sector expansion. As a key driver of jobs growth (which accounted for over 6% of annual economic activity at its peak), expansion spending has slowed and this has contributed to lower confidence levels for both consumers and businesses.

Where to from here?

Without doubt, Australia's economy is working through a realignment that is necessary after strong performance during the resource boom. Jobs growth has shifted away from the resource sector (which is now shedding employees) to other parts of the economy, notably construction, where activity has picked up after a number of years of under-investment in new housing. As a result, relatively unexciting growth in overall employment has recently masked some progress in working through the necessary adjustment phase.



Source: Capital Economics, RBNZ

At the same time, the rate of New Zealand's economic growth looks to be slowing after its recent "rock star" performance. Reconstruction spending in Canterbury is likely to soon reach a peak, and over time its contribution to further economic growth should start to move backwards. General business confidence levels have also fallen back from their extreme highs amid lower dairy prices and suggest a more moderate level of growth going forward. As a result, New Zealand's recent growth advantage over Australia looks to be losing momentum, reminiscent of the Black Caps' recent performance against Australia in the world cup.

This change in the balance of valuations and prospects has supported us moving some of your NZ shares allocation to the Australian market, looking ahead over the coming 3-4 years. Having recently maintained a level of New Zealand shares higher than Australia (reflecting the tax advantages of receiving NZ dividends), we have now shifted to a 50/50 allocation between the two markets. As well as locking in some of the strong gains in the New Zealand market, this provides a more robust allocation which is more supported by the combination of relative valuations and exchange rate differences between the two markets.

Summary of Key Portfolio Monitoring Decisions

New Zealand Shares Portfolio

- During the month of February we reduced the portfolio's weight in the Warehouse Group, following the recent weak Christmas trading period and declining profitability. To offset this reduction, we added Property for Industry to the portfolio to increase the portfolio's exposure to the buoyant New Zealand commercial property market.

Global Opportunities Portfolio

- 7% of this portfolio has been allocated across a group of the top five "super-major" oil companies around the world: BP, Exxon Mobil, Royal Dutch Shell, Chevron, and Total. This reflects one of the portfolio's aims to search for contrarian value opportunities, while international oil prices have fallen around 50%. Although lower oil prices weigh on revenues, the large oil companies purchased are strongly positioned to lower their expansion spending to compensate, with the effect of supporting their dividend yields (as a group, they have a dividend yield around twice the general market level). They are also positioned well to benefit from some recovery in the oil price over time as lower expansion activity slows the rate of production.

New Zealand Shares Income Portfolio

- Similarly to the New Zealand Shares Portfolio changes, we removed the Warehouse from the New Zealand Income Shares Portfolio and added ANZ Banking Group. ANZ provides the portfolio with another level of diversification, given their exposure to Australian and Asian markets.

Corporate Bond Portfolio

- During the period we replaced the maturing 2% holding of Rabobank February 2015 bonds with a holding of the Local Government Funding Agency April 2023 bonds to maintain the portfolio's overall yield and credit quality.