REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Client Update

Market & Portfolio Update – March 2015

Global Shares

Global share markets finished the month flat overall, but performance has continued to be mixed across different markets around the world. With a higher United States dollar having weighed on earnings expectations for US companies and some moderation in recent jobs growth, US shares finished down 2%. In contrast, European markets and China both performed well. A range of economic confidence indicators have improved in Europe (which in contrast to the United States, is put in a better competitive positioning by the higher US Dollar), while China's share market posted further gains with expectations of government stimulus in the wings.

New Zealand Shares

The month of March was a fairly quiet month for the New Zealand sharemarket, finishing down slightly. Given the impressive performance of the New Zealand sharemarket over the past few years, the companies that performed well during March were generally those whose performance has lagged the rest of the market over the past 2-3 years. These included Sky Television (+9%), Skellerup (+7%) and Metro Performance Glass (+2%).

A number of the New Zealand retail sector companies announced their financial results in March. Hallensteins Glassons and Pumpkin Patch both showed signs of a turn around after poor results last year, with profits increasing 26% and 35% respectively in 2015. However The Warehouse and Kathmandu's profits were down significantly compared to last year, falling 18% and 45% respectively. Kathmandu's sales over the Christmas trading period were lower than previous years, forcing the company to slow their growth aspirations over the near future.

Australian Shares

After a strong rally at the start of March the Australian sharemarket fell back to be flat for the month in local terms. This was driven by resources companies feeling the continued pressure of falling commodity prices, led by oil drifting down towards US$50. These impacts were clearly represented in the performance of the larger resource companies like Rio Tinto & Santos, which fell 9 & 10% respectively for the month. However the Australian housing market continues to be the silver lining for the economy, with housing approvals remaining elevated coupled with low borrowing costs. The Reserve Bank of Australia is likely to keep interest rates low, supported by rising unemployment and a disinflationary backdrop. This in turn remains supportive for domestic construction businesses like Adelaide Brighton, which added 9% in March and is up over 30% since the start of the year.

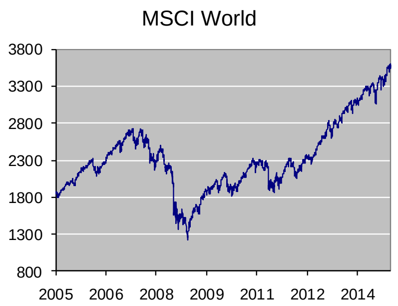
Interest Rates

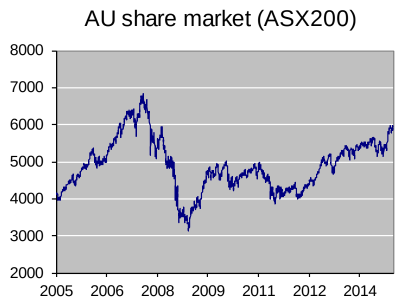
With the European Central Bank having started their €60billion per month program of purchasing sovereign bonds, global interest rates have remained compressed. In contrast to Europe, the United States Federal Reserve is expected to start increasing their Federal Funds rates later this year as its economy appears to be more consistently growing and after having stopped its sovereign bond purchasing program late last year. The Reserve Bank of New Zealand (RBNZ) maintained the Official Cash Rate (OCR) at 3.5% in its March meeting. With inflation expected to remain below the RBNZ's inflation target band of 1-3% for the rest of the year, Governor Wheeler stipulated that the next move in the OCR could be up or down depending on how the upcoming economic data pans out.

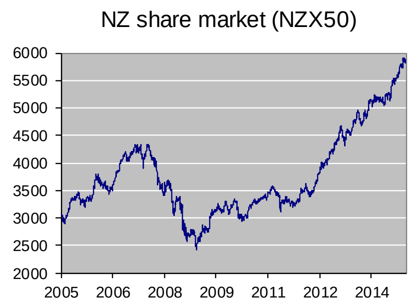
Summary of Market Movements as at 31 March 2015

Share Markets	31/03	28/02	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,834	5,878	-0.8%	4.8%	13.5%	18.5%	12.3%
ASX 200 (local)	52,007	52,038	-0.1%	10.3%	14.1%	15.8%	8.6%
ASX 200 (NZD)	52,981	53,826	-1.6%	7.3%	8.9%	7.8%	3.5%
MSCI (local)	3,549	3,565	-0.4%	4.7%	14.0%	15.6%	11.4%
MSCI (NZD)	6,218	6,257	-0.6%	6.6%	23.1%	15.8%	9.0%
Fixed Interest Markets	**31/03**	**28/02**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.23	3.29	-0.07	-0.44	-1.36	-0.85	-2.75
US 10-Yr	1.92	1.99	-0.07	-0.25	-0.79	-0.29	-1.90
NZ OCR	3.50	3.50	0.00	0.00	0.75	1.00	1.00
Currencies	**31/03**	**28/02**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.7499	0.7568	-0.9%	-4.2%	-15.7%	-3.0%	1.1%
NZD vs. AUD	0.9816	0.9668	1.5%	2.7%	4.6%	6.9%	4.7%
MSCI Weighted NZD			0.2%	-1.9%	-9.1%	-0.2%	2.4%
Commodities	**31/03**	**28/02**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	211.9	224.1	-5.5%	-7.9%	-30.5%	-11.8%	-5.0%
Oil	55.1	62.6	-11.9%	-3.9%	-48.9%	-23.5%	-7.8%
Gold	1,183	1,213	-2.5%	-0.1%	-7.8%	-10.8%	1.2%

Summary of Market Indices as at 31 March 2015







GROSVENOR
INVESTMENT SERVICES LIMITED

The role of bonds in investment portfolios

Bonds make up a key part of diversified investment portfolios, acting as an important “ballast” to portfolio values. Bonds are generally considered an income asset, but also play an important role in also offsetting risk from other parts of the portfolio, such as shares. However, bonds can at times seem difficult to understand, and have some important differences compared to term deposits and other fixed interest investments that are commonly used.

Most investors would be familiar with the general structure of a bond, which is effectively a loan to the bond’s issuer. The issuer promises to pay a pre-agreed interest rate, and repay the original principal amount at the maturity date.

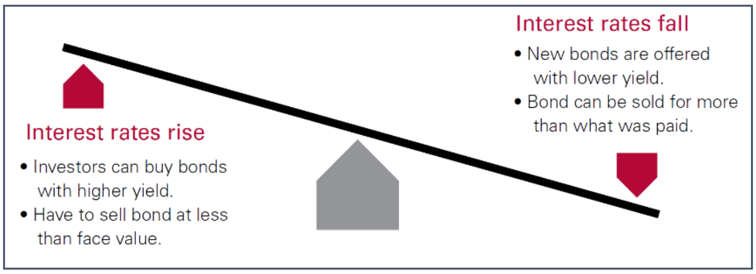
Who issues bonds?

Wholesale fixed interest markets give investors access to a wide range of bond issuers, both in New Zealand and around the world. Issuers usually fall into one of three categories:
Government Bonds – are issued and guaranteed by sovereign governments. Government bonds are effectively backed by the government’s ability to generate taxation revenue (or create new currency), and are used to help fund social and public investment spending.
“Semi-Government” bonds – issued by entities closely related to governments, such as local authorities which may also benefit from their ability to control rates income. Like government bonds, the proceeds are often used for public works projects and regional investment.
Corporate Bonds – issued by companies to expand their businesses, and backed by company assets and future revenues.

What drives the market value of bonds?

The type of bond issuer can be a guide to their credit quality, or the likelihood of living up to the promised interest and principal payments – with government bonds generally giving the highest security. Independent credit ratings are also focussed on assessing credit risk, which Grosvenor supplements by its own in-depth “BondWatch” analysis. The market’s assessment of credit quality is a key factor in the level of interest income that an issuer needs to offer to raise money when issuing new bonds.

While investors would typically expect to receive their capital back at maturity, bonds can also be bought and sold in secondary markets around the world. This means that their value can, and does, fluctuate ahead of maturity. As well as any changes in assessed credit quality, the pricing of bonds in secondary markets depends on market interest rates at the time – if long-term interest rates rise, bond values typically fall, and vice versa. Vanguard Investments illustrate this inverse relationship as a “seesaw”. If long-term interest rates rise, investors can buy new bonds at higher yields. Therefore to attract buyers, the sellers of existing bonds would need to offer their holdings for sale at a lower price to match the new yields in the marketplace. On the other hand, if long-term interest rates fall, existing bonds deliver capital gains as they become more attractive to new buyers. The further into the future that a bond’s maturity is, the larger the effect as there are more future interest payments to take into account.



Source: Vanguard

Key Factors In Bond Portfolio Management

Diversification is key, as in many aspects of investment management. This includes maintaining a range of bonds across different issuers and maturities. Over time, there is also room to add value, and manage risk, by looking at two key factors – the average maturity of bonds in a portfolio, and the level of credit quality. While a careful assessment of credit quality is always prudent, in our last update we discussed how changes in credit margins – the additional yield for taking credit risk – can justify different allocations to corporate bonds in a portfolio. Based on an outlook for long-run interest rates, the average maturity of a portfolio can also be lengthened or shortened to manage the risk associated with the effect on bond values.

Grosvenor’s philosophy for the key role of bonds in investor portfolios is to mitigate and partly offset the volatility and downside risks of more growth-oriented investments, such as shares. The core fixed interest portfolio within Grosvenor portfolios is therefore focussed on a high level of credit quality. Historically this has provided the greatest level of smoothing to overall portfolio returns when share market investments are weak, while our specialist Corporate Bond Portfolio provides a solution more focussed to clients needing a consistent income stream, with less need to balance the variability of their portfolio’s allocation to shares.

GROSVENOR
INVESTMENT SERVICES LIMITED

Summary of Key Portfolio Monitoring Decisions

New Zealand Income Shares Portfolio

- During March we added Westpac Banking Corporation to the New Zealand Shares Income Portfolio. Adding Westpac improves the portfolio's diversification through increased exposure to the Australian economy while capturing some of the long-term benefits of the current strength of the New Zealand dollar against the Australian dollar. To offset the addition of Westpac, we reduced the target weight in TeamTalk from 4% to 2%.

Australian Shares Portfolio

- The portfolio's allocation to the financial sector was broadened during the month with the addition of insurer and wealth manager AMP. AMP gives the portfolio greater exposure to a turnaround in the performance of its life insurance business and cyclical recovery in superannuation cashflows.
- This addition has been offset through a slight moderation in the portfolio's telecommunications allocation, with Telstra reduced 1% to 5% of the portfolio. Telstra is up over 30% in the past twelve months, more than double the wider market's performance of 14%, making the current valuation look stretched as income thirsty investors hunt for high yielding stable businesses.

Global Shares Portfolio

- Early in March we increased our portfolio tilt towards European share markets, away from the United States, from 4% of the global shares sector to 7.5%. This brings our allocation to the level we originally targeted when introducing the allocation last year, and reflects the improvement in a range of economic growth indicators across the region while long-term valuations remain well below those of the United States market.

Global Opportunities Portfolio

- Over the past three years the Global Opportunities Portfolio's investments in international "small-cap" companies has performed well (captured through the Vanguard International Smaller Companies Fund). Growth-focussed small companies have led the way, consistent with the general experience in share markets around the world. However with growth-oriented small-caps having now outperformed their cheaper "value" counterparts by over 50% in the United States since 2011, we have re-focussed the portfolio's small-cap allocation to focus on companies consistent with "value" criteria – with lower price to earnings ratios, greater relative hard asset backing, and higher dividend yields. This has been achieved through replacing the previous Vanguard fund with two exchange-traded funds that allow us to target the small-cap value segment within the United States allocation.