REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Client Update

Market & Portfolio Update – April 2015

Global Shares

Global share markets delivered further gains during April, albeit at a slower pace than generally seen so far in 2015. While the United States economy has had a slow start to the year, confidence has held up well and the US sharemarket managed to build positively on its earlier returns. In Europe the level of bank lending has begun to expand after years of falling, a positive sign for future growth. While in China, the government has continued to adopt a range of policies to stimulate the economy and maintain growth at its 7% annual target. Chinese shares responded very positively, rising 16% and capping a near 25% gain for the year to date.

New Zealand Shares

April was another quiet month for the New Zealand sharemarket, as signs of slowing economic growth began to show in returns. Signals from the Reserve Bank of New Zealand indicated they have opened up the possibility of a reduction in interest rates if inflation pressures were to continue to ease. This signal drove positive returns of the listed property companies, including the retirement village operators - Summerset, DNZ Property Trust and Ryman Healthcare all returned of over 4% for the month.

One of the major talking points over the last few months has been the fall in global milk prices, which continued to fall during April. The implications of the lower farmers' incomes on the wider economy have not yet been evident but will continue to be monitored closely by economists and New Zealand investors over the coming months.

Australian Shares

While the wider Australian market was down during the month, a rebound in commodity prices, led by oil (+21%), was a welcomed change for Australian resource companies after a difficult first quarter. Santos Energy led the recovery (+18%), closely followed by Origin Energy, and iron ore miner Fortescue metals. Fortescue was able to renegotiate its debt maturity profile, which the market viewed favourably. However, the theme of reversal from recent trends also flowed over to the banking sector, which after outperforming over the past year, gave up 5% in April.. This performance weighed on the market and despite banks' yields still holding attraction to income investors, the market has become less comfortable that the sector can continue to grow earnings strongly in the face of a sluggish economy and the potential for increased regulation.

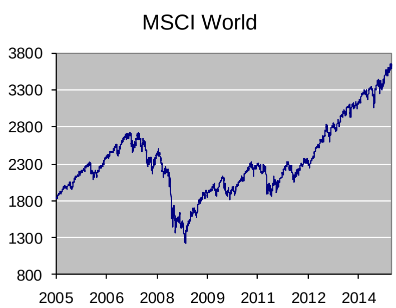
Interest Rates

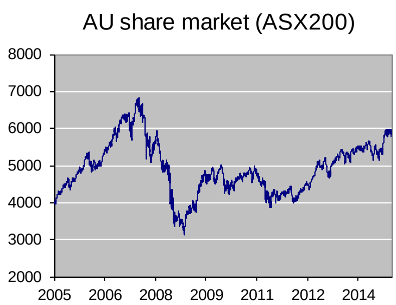
Global bond rates rose, driven by the prospect of the United States Federal Reserve lifting its Federal Funds rates later this year. European interest rates also rose over the period as economic data suggested that it continues on its slow path to recovery. In New Zealand, the Reserve Bank maintained the Official Cash Rate (OCR) at 3.5% in its April meeting. With inflation expected to remain below the 1-3% target band, Governor Wheeler said the RBNZ is not currently considering any increase in OCR and has specified that if inflationary pressures continue to ease, it would be appropriate to lower the OCR further. However, any OCR decrease may result in adding further pressure to the domestic housing market, creating some reluctance by the RBNZ to cut the OCR.

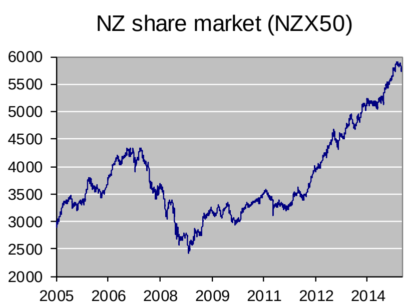
Summary of Market Movements as at 30 April 2015

Share Markets	30/04	31/03	1 Month Return	3 Month Return	12 Month Return	3 Year Return (p.a.)	5 Year Return (p.a.)
NZX50	5,791	5,834	-0.7%	0.8%	10.7%	17.7%	12.0%
ASX 200 (local)	51,121	52,007	-1.7%	5.0%	10.2%	14.6%	8.5%
ASX 200 (NZD)	52,961	52,981	0.0%	1.4%	5.9%	7.0%	4.1%
MSCI (local)	3,589	3,549	1.1%	6.6%	14.5%	16.6%	11.6%
MSCI (NZD)	6,270	6,218	0.8%	1.7%	21.7%	16.6%	9.8%
Fixed Interest Markets	**30/04**	**31/03**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZ 10-Yr	3.45	3.23	0.22	0.26	-0.96	-0.54	-2.46
US 10-Yr	2.03	1.92	0.11	0.39	-0.61	0.12	-1.62
NZ OCR	3.50	3.50	0.00	0.00	0.50	1.00	1.00
Currencies	**30/04**	**31/03**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
NZD vs. USD	0.7613	0.7499	1.5%	4.7%	-12.8%	-2.4%	0.8%
NZD vs. AUD	0.9653	0.9813	-1.7%	3.5%	3.9%	6.6%	4.1%
MSCI Weighted NZD			0.3%	4.9%	-7.2%	0.1%	1.8%
Commodities	**30/04**	**31/03**	**1 Month Change**	**3 Month Change**	**12 Month Change**	**3 Year Change (p.a.)**	**5 Year Change (p.a.)**
CRB Index	229.5	211.9	8.3%	4.9%	-25.9%	-9.1%	-3.7%
Oil	66.8	55.1	21.2%	26.0%	-38.2%	-17.6%	-5.2%
Gold	1,182	1,183	-0.1%	-7.5%	-8.8%	-10.8%	0.0%

Summary of Market Indices as at 30 April 2015







GROSVENOR
INVESTMENT SERVICES LIMITED

Corporate Governance and Proxy Votes

Investors in equity markets quite literally own the companies in which they purchase shares. One of the rights of an owner is the right to determine how the company is run, by voting for the board of directors and on various resolutions at the Annual General Meeting (AGM). This is a privilege of ownership and one that Grosvenor takes seriously for all shares held on your behalf.

What is a proxy vote?

Generally, it is not practical to attend the AGM of a company in person, as the location is often a long distance away. That is particularly true of the international shares in your portfolio. Through the use of Proxy Votes, Grosvenor is able to instruct the chairman of the meeting on how to vote the shares in their absence.

By using proxies and attending New Zealand-based AGMs, Grosvenor is able to cast votes with the ultimate goal of having better run companies which should lead to better returns.

Grosvenor's philosophy

All proxy ballots contain recommendations from the board on how to vote. Some shareholders follow these recommendations without exception and others simply don't vote at all. Grosvenor's philosophy is to review every resolution and nominee for the board of directors and then vote every proxy in accordance with their opinion regarding what is in the best interests of client shareholders.

From a practical perspective, Grosvenor will take the recommendation of the board of directors under advisement, but will make the final determination as to what it feels is best in the name of good, transparent corporate governance. Often, companies have good boards and their recommendations are sound. In those cases voting along with the board is perfectly acceptable. The key is that this philosophy allows for the flexibility to vote against a resolution that Grosvenor feels is unfavourable, even if the board does not agree.

Philosophy in action

Recently there has been a good example where Grosvenor took specific action relating to proxy votes. Summerset Group Holdings Limited held their 2015 AGM recently, at which a shareholder proposed two resolutions relating to the resource consent application of a new retirement village.

The first proposal was requesting for the Board and management to comply with Summerset's philosophy, in particular that they conduct business in an "upfront, open and honest" manner. The board abstained from voting, as they deemed the motion as unnecessary. Reading the proposal and hearing the proposing shareholder speak at the AGM, we agreed it was unnecessary and voted against it as we currently have full confidence in the Board and management and the manner that they conduct business.

As an aside, a significant element of Grosvenor's company analysis focuses on the competency and expertise of the Board of Directors and management. This may include meeting with management, to gauge first-hand how they rate on both aspects.

The second proposal requested that Summerset withdraw the current resource consent application and resubmit an amended application due to deviations between the plan and stakeholders expectations. The board recommended shareholders vote against this resolution, and after attending the annual meeting and listening to all the facts of the case we also agreed. The resource consent process provides room for all stakeholders to have input and given the current consent is still progressing; therefore we believe that supporting the resolution and withdrawing the consent application is premature.

Having a philosophy that allows for flexibility, but requires action, allows Grosvenor to vote proxies in the best interests of our clients - the shareholders they ultimately represent. By doing this, Grosvenor is able to support and promote better, and more transparent, corporate governance. As the world continues to seek ways to avoid a repeat of some of the causes of the global financial crisis, it has become increasingly important for all shareholders, both big and small, to continue to take a proactive approach to utilising their collective power to make changes where these are required.

Summary of Key Portfolio Monitoring Decisions

New Zealand Shares Portfolio

- During April we reduced the weights of Xero and Contact Energy. Xero's reduction was following a strong run for the quarter after they announced they raised a further NZ$147 million, most of which came from a new large shareholder - Accel Partners, a US venture and growth equity company. There is still a large amount of uncertainty regarding the scale of Xero's future earnings and the increase in share price provided an opportunity to reduce the Portfolio's holding. To offset these reductions we increased the Portfolio's holdings in Mainfreight and Meridian Energy. Both Mainfreight and Meridian had sold-off recently and provided attractive prices relative to other New Zealand listed companies.

New Zealand Income Shares Portfolio

- Within the New Zealand Income Shares Portfolio we also reduced the portfolio's weight in Contact Energy and offset this by increasing the holding in Meridian Energy. Meridian Energy pays a similar dividend while also indicating the possibility of special dividends and share buybacks over the next few years.

Australian Shares Portfolio

- In the financial sector Cover-More Group has been added to the portfolio at a 1% weight, offset by some minor changes within the resource sector.
- Cover-More is the leading travel insurance provider with an integrated medical assistance division and have a 30 year history of dominating this niche area. Based in Australia with a 40% market share, they also operate across New Zealand, the UK and Asia. Cover-More's revenue is generated through its two business segments, Travel Insurance and Medical Assistance, providing insurance to more than 2.2 million travellers and managing more than 40,000 medical assistance cases globally per annum.

Global Shares Portfolio – Rothschild Direct Shares

- Continuing the financial sector theme, the direct shares portfolio has increased its weight in the financial sector from 16% to 20%, through two new direct holdings. American Express and UK based insurer Admiral Group have been added to the direct shares portfolio at a 4% and 3% weight respectively.
- American Express is part of the global payments market, which has grown from $16 trillion to over $37 trillion since 2000, while the non-cash based payments has grown from $5 trillion to over $20 trillion and spans 36m merchants, 14,000 banks and 2bn customers. American Express has an 8% market share, through its payment network, which generates revenues from the rate charged to merchants and passing a portion of it back to customers as rewards. American Express' network is hard to replicate and the rewards offered make consumer behaviour extremely sticky.
- Admiral Group is a direct provider of property & casualty insurance, and currently is third by market share in the UK, importantly with a 20 year track record of expanding with a focus on profit growth, rather than market share for its own sake. The direct channel has grown from 30% to 60% market share in the UK motor insurance industry over the past 20 years, and Admiral has been able to capture over 11% of the total market. They are currently expanding from this base into overseas markets, building on their low-cost base and competitive advantages.
- These additions have been offset by a reduction in the S&P 500 Financial ETF and the Consumer Staples sector. Consumer staples Reckitt Benckiser and Procter & Gamble have performed strongly against the wider market over the past 15 months, predominantly driven by price, rather than earnings, and the reduction allows the portfolio to lock in some of the profits in both companies.

NZ Fixed Interest Portfolio

- Global demand is likely to keep demand high for NZ bonds as they currently look relatively attractive compared to historically low global yields, especially in the Eurozone. With this view, we have increased the portfolio's average maturity slightly to 4.75 years. This was achieved by reducing the shorter-maturity holdings, including selling the BNZ bonds maturing in August 2015 and NZ Government bonds maturing in March 2019. Replacement holdings included NZ Government bonds maturing in 2021, 2023, and 2027 as well as BNZ bonds which mature in 2019.