CAMELOT
PROFESSIONAL FINANCIAL ADVICE

CLIENT UPDATE

APRIL 2011

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DIVERSIFICATION

Investment rules such as 'don't put all your eggs in one basket' and 'last year's winners will be next year's losers' are tried and trusted strategies that nearly all of us would agree with. Over the last 10 years however, these rules, and many others that are the building blocks of core portfolios, have been sorely tested. The credit boom of the early 2000s distorted the flow of investment capital which then led to incorrect pricing of various asset classes. Price bubbles emerged in property especially as investors poured capital into assets that would give them greater returns. Like all bubbles, the property boom eventually collapsed and the impact was the Global Financial Crisis (GFC) which nearly sank the world economy. The subsequent recession and three years of 'doing it tough' has forced NZ investors to rethink the virtues of diversification. The Christchurch quake is yet another nail in the coffin of the DIY types who think they can pick the right assets at the right time.

In recent years investors who have held diversified portfolios have been extremely disappointed with the returns when compared to a property investment or even a bank deposit. Until recently bank deposits were high (say 6-7%) and property returns were 10% plus year after year. Diversified portfolios were struggling to match the cash rates, even looking at 10 year averages. Since the GFC and the recession this has changed. Property has fallen significantly in value, and the Christchurch quake has thrown real doubt into the future of this asset class, at least locally. Bank rates have dropped considerably as central banks around the world attempt to avert disaster and depression by pump-priming their economies. In NZ we now face the prospect of low interest rates for longer and very uncertain property markets. The diversified portfolio, however, has emerged from the doldrums.

If we transported ourselves back to February 2009, we would not have been surprised to see the 10 year average return for a diversified portfolio at 1.80% p.a. This would have compared very unfavourably with term deposits, bonds and property over the same period. Only two years later, February 2011, the 10 year average return of the diversified portfolio is 5.20% p.a. The last two years have seen the diversified portfolio grow at 10.60% p.a., while interest rates have dropped to the lowest levels in three decades, and property has fallen 10%. Diversified portfolios include all asset classes, and can be constructed to suit low risk income investors, medium risk investors and longer-term growth investors.

DIVERSIFICATION - What are the lessons learned from the last ten years?

1. Despite periods when one asset class can benefit from distortions and bubbles, the only true long term, risk reduction strategy for investors is diversification.

2. In times of crisis and recessions, bubbles deflate rapidly leaving little opportunity for investors to jump ship and sell out. Investors inevitably are left holding the baby and watching the price fall. Investors must remain liquid and able to cash up quickly, or buy quickly if the opportunity arises.

3. We have been frustrated and disappointed at how much information has been hidden from us, and investors, by many institutions we used to recommend. Full transparency, in-depth scrutiny, and global analysis are benchmark strategies now employed for investors.

The core diversified portfolios, much maligned in recent years, are now fighting back. Again markets have shown that no matter what disasters you encounter, no matter how long the recessions, and how catastrophic the quakes and tsunamis; conservative, well-managed portfolios do survive the test of time.

DISASTER RECOVERY PROCESS

February 22 will be forever remembered for the loss of lives and the huge destruction of buildings and infrastructure. The reports from our client and friends only serve to highlight the incredible carnage we, and our city, have been through. Despite the severity of the quake, our business has to continue. Our clients still expect payments to be made, funds transferred, and accounts opened/closed. It was during this time, and the immediate aftermath of the tsunami in Japan, that we are needed the most. Our clients expected reassurance – and rightly so.

Although many of you know our processes, we hope that the following goes some way to alley any fears that you may have had:

1. While we were forced from our offices immediately after the quake, all files were secured and locked before exiting.

2. We had full e-mail and technology restored by Wednesday, less that 24 hours after the quake.

3. Grosvenor immediately implemented emergency procedures so Steve and Michael could commence any withdrawals, payments or investments by mobile phone.

4. David Beattie and his investment team at Grosvenor also implemented a full review of their asset allocation and investment strategies as a result of the quake and changes were immediately made where necessary.

5. Our technology system, including our client database and the investment platform, is operated from a server in Wellington. A full backup server is located in Auckland. Ironically, Christchurch **was** chosen as the place least likely to suffer a natural disaster such as an earthquake and plans were well advanced for a backup server here.

5. The Grosvenor Board has also approved a $50,000 donation to the Canterbury region. You, our client, will be canvassed for feedback on how best to utilise this sizeable donation. This is a tremendously generous donation from a private company, and reflects the importance that Christchurch clients and advisers have had in building Grosvenor over the last thirteen years.

As a business, we are very pleased how effectively we came through this very traumatic experience. As clients, we hope you also gain significant satisfaction from the knowledge that you are dealing with well resourced and well managed professionals that make up ‘your team’, looking after your financial assets.

INVESTMENT PERFORMANCE

In the last issue we wrote about the difficulty research analysts have in comparing 'apples with apples' when researching fund performance. In that article we highlighted the performance of KiwiSaver funds managers as a useful guide due to the increased scrutiny and regulation around reporting KiwiSaver performance. The latest performance comparison figures are now available and compare managers over six months, 12 months and three year periods. As managing long term growth assets involves a long term strategy, we always look to the longest term available, in this case KiwiSaver funds have only been operational for just over three years. The following table compares the performance of our preferred provider Grosvenor with the rest of the KiwiSaver managers. In the important 'Balanced' category Grosvenor was ranked second out of all participating managers.

Three Year Returns to 28 February 2011
(% per annum)

Fund	Grosvenor	Median	Difference
Enhanced Income	5.1	4.8	0.3
Conservative	5.8	5.2	0.6
Balanced	5.2	3.7	1.5
High Growth	2.3	2.2	0.1

SPOTLIGHT ON INVESTMENT OPPORTUNITIES

In this section we will look more closely at an investment opportunity that we have been actively promoting. At each new issue of the newsletter we will select a different investment and provide an analysis. In this issue we are going to put the spotlight on Christchurch real estate, and more specifically 'The Hub', the retail mall in Hornby.

This investment commenced in 2003 and was principally promoted by HFK Ltd Chartered Accountants, and then subsequently Camelot. The investment company, Shopping Centre Investments Ltd, owns The Hub and a substantial amount of land in and around the mall. The mall investment company has embarked on a major renovation and expansion programme, funded principally by shareholders taking up a number of rights issues. Any surplus rights have been picked up by existing shareholders, or by the introduction of new shareholders through Camelot. The Hub now boasts some of the country's best performing retailers and unique shopping experiences such as the 'banking precinct'.

Plans are now well advanced to proceed with the next and largest expansion stage. This involves a second, very large anchor tenant, and more top of the line retail space to accommodate the long list of retailers who wish to gain access. Again, the bulk of the funding required to proceed with this stage will come from shareholders through another rights issue. This could lead to another chance for Camelot investors to access shares at a discounted right's issue price however this may be limited if it is underwritten.

The quakes in September, Boxing Day and more recently in February have had no impact on the structural integrity of the mall buildings. Turnover through the mall has increased substantially and the demographic shift of the population from eastern suburbs to the south of Christchurch has permanently changed the future outlook.

Who would this investment appeal to?

1. Clients looking for a solid income investment with excellent capital growth prospects. The dividend yield is 8 cents per share.
2. Clients who wish to leverage into property by borrowing against their existing facilities and using the dividends to meet the bank debt interest payments. This would provide an excellent leveraged property investment for growth orientated clients.
3. Clients who strongly feel that the demographic changes to Christchurch will mean significant growth in the value of The Hub.

For further information, please ring Steve on (03) 964 4209.

REPORTING TIMETABLE

We are now entering our usually very busy administrative quarter with the financial and tax year-end. Over the next three months, we will be working on the following for you:

mid-April	• All Non-Custodial assets will have their values updated ahead of generating six-monthly reports.
late April	• Six Month Investment Performance Reports will be available. • Tax certificates from financial institutions should have all been received.
mid-May	• 2011 Tax Guides will be issued by Inland Revenue. • Grosvenor RWT and PIE Tax Certificates will be issued. • We will commence preparation of 2011 Tax Worksheets, compiling all investment income for the year ending 31 March 2011. These will be issued to you unless you have instructed us to send them to your accountant or hold them. This is usually completed by mid-June.
late May	• 2011 Tax Packs and Summary of Earnings are issued by Inland Revenue. • Clients wishing us to prepare their tax returns and Trust financial statements should have forwarded us all information by the end of May.
June	• 2011 Tax Returns & Financial Statements will be progressively prepared ahead of Inland Revenue's 7 July filing deadline.

FUTURE NEWSLETTERS – BY E-MAIL?

More and more of our clients wish to receive our newsletters by e-mail. If you are currently receiving them by snail mail, but would like to receive future issues by e-mail straight to your inbox, please e-mail us at rede@camelotgroup.co.nz and we will grant you your wish!

A Disclosure Statement under the Financial Advisers Act 2008 relating to Stephen Benton and Michael Shears is available on request and free of charge.

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