CAMELOT
PROFESSIONAL FINANCIAL ADVICE

Rede Advisers Limited
Level 1, 567 Wairakei Road
P O Box 39 100, Harewood
Christchurch 8545
Phone (03) 964 4207
Facsimile (03) 357 0008
Email: rede@camelotgroup.co.nz

Rede Advisers Ltd
2012 Year-End Function and Presentation

Please find below a summary of the key take-home points from our recent presentation.

Michael Shears – "Trusts in the 21st Century"

- **Three Certainties** required for a valid Trust to exist – an **Intention** to create a Trust, **Subject** or Trust property and an **Object** or Trust purpose (or beneficiaries); otherwise Trust may be considered a sham. Documentation is required to prove that these exist when Trust is established.
- **Current Reasons for having a Trust** include:
  - asset protection (from creditors, matrimonial/relationship claims, legal claims and social security/WiNZ)
  - holding particular assets or providing for a specific beneficiary
  - estate planning and succession
  - taxation planning (where incidental benefits may result)
- Key changes have impacted the use of Trusts, including:
  - **Property (Relationships) Act 1976** – replaced old Matrimonial Property Act 1976 from 2002. Extended application of law to de facto relationships as well as marriages, and the law now applies on death as well. Need to protect assets from claims, especially with definition of relationship is not as definite as a marriage.
  - **Estate & Gift Duties Act** - gift duty removed from 1 October 2011, however the social security legislation that sets gifting limits for residential care subsidies is unchanged – gift of $27,000 per annum remains. Any gifts over that amount in any year, not matter how long ago, are counted as assets when calculating entitlements.
  - **Law Commission 'Review of the Law of Trusts'** – Government review to update old Trustee Act 1956 and amendments. Major change is formalisation of trustee duties, including duty of honesty and good faith and duty to exercise care and skill.
- **Role of a trustee** is an onerous one, with trustees being personally liable for trust debts. Trustees need to take the role seriously and responsibly, taking into account their duties and obligations to beneficiaries. With the increased focus on Trusts and how they are used, Trusts need to be run properly with appropriate documentation to record decisions made and to be able to account to beneficiaries. Ongoing review of Trust management and assets required.

David Beattie – "Investment Strategies in a Low Interest Rate Environment"
Chief Investment Officer & Joint CEO, Grosvenor Financial Services Group

- **2012 Performance** –market returns to October 2012 are strong with NZ shares returning 18.8% and Global shares 8.2% (NZD) or 11.1% (local currency) - approx 3% negative impact of currency. Cash return of 2.5% reflects low OCR and NZ Fixed Interest returns strong at 8.5% for the year.
- **Demand for Yield** – returns from NZ Shares and Fixed Interest particularly reflect investors chasing bank deposit alternatives with interest rates staying lower for longer.
- **Income Yields: Shares v Bonds** – income from US shares (dividend yield) is higher than income from US bonds (bond yield) for the first time since 1958. Shares are more attractive for income investors due to dividend rates. NZ dividend yield of 6% is higher than NZ bond yield of 3.5% - the biggest difference since deregulation in 1990. Current real global bond yields (in US, Germany and the UK), after allowing for inflation, are negative.
- **Forecast Returns** – forecasts for cash and fixed interest over next 10 years is lower at approximately 4% p.a., with Governments having no incentive to increase interest rates as this helps to reduce their debt servicing costs. Expectations for shares higher at over 10% p.a. and valuation indicators confirm that shares are not overvalued.
- **Global Growth Outlook** – expectations are now that the global recovery will now take longer than initially thought, with growth in GDP not expected until 2015. This is confirmed by business confidence indicators, and reflects continuing Government 'austerity' measures and debt repayment. This will be helped with an improving US housing market, stabilizing employment rates and low interest rates. China has slowed but is still holding up well.

- **Currency** – the USD remains overvalued which reinforces Grosvenor's unhedged currency strategy. However without any major negative events, the currency continues to rise, negatively affecting returns in NZ dollars from global shares. Despite this, the unhedged strategy remains a key risk management tool in the event of negative news. Grosvenor believes that markets have little capacity to deal with any shocks and risks remain with European debt and the US fiscal cliff looming.

- **Income Options** – in light of the market expectations with low interest rates, adding some credit risk and dividend yielding NZ shares to complement existing investments may be appropriate for some portfolios. As an illustration, expected net returns after fees and tax at 17.50% are:

• Balanced Portfolio - 50% Cash & Fixed Interest / 50% Shares	6.5%
• Income Focus 50 Portfolio - 50% Corporate Bonds / 50% NZ Income Shares	6.0%
• Income Focus 18 Portfolio - 82% Corporate Bonds / 18% NZ Income Shares	5.0%
• Corporate Bond Portfolio	4.5%
…… compared to Term Deposits – Official Cash Rate + 1.0%	*2.9%*

As always, please feel free to contact us if you have any questions regarding the above. To review your portfolio and consider the above, please contact Steve or Michael.

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