REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

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Investment Markets – What's Happening?

If you haven't checked your investment portfolios since your last six monthly report in October, don't worry, you haven't missed much. There has been some volatility, some scary headlines, and some attention grabbing forecasts. On balance very little has actually changed.

What has caused all this noise?

The key headlines over the last 12 months have been China's slowing growth, the increase in interest rates by the US Federal Reserve, the state of the US economy and commodity prices - especially the oil price and, here in NZ, the dairy auction prices. Some media have even mentioned the dreaded "R" word – recession!

China has become very important for New Zealanders. China slipping into recession would be very bad for us, not only directly with our dairy and other commodities, but indirectly for our largest trading partner Australia. It seems that the noise is not about recession, but about growth slowing from above 7.0% to between 6.5% - 7.0%. This may have some impact around the edges but is still significantly above the growth rate for the rest of the world.

The fall in oil prices impacts on share markets and consumers differently. The "big oil" companies dominate the US and UK stock exchanges. Falling oil prices results in falling oil profits and therefore falling share prices of the "big oil". Conversely, for consumers like you and I, falling oil prices equals cheaper petrol at the pump, cheaper travel costs (especially by air) and ultimately lower interest rates because energy costs make up a significant component of inflation.

So, is anybody actually facing recession?

Firstly, what is a recession. It is not just a soft patch or a slowing in growth; it is two consecutive quarters of negative growth. In simple terms, it is a sustained and major contraction of the economy. Recessions are caused by common factors such as consumers and governments living beyond their means. Normally we see signs such as building activity outstripping the need for more houses or buildings, consumer debt levels outstripping growth in wages, or governments spending more than they earn. These are often triggered by inflation.

'We are not, therefore, expecting a recession anytime soon'

Certainly here in New Zealand we are not facing any of the normal factors. China isn't either with growth still around 6.5% to 7.0% predicted for this year. Even the US is not facing any of the normal factors and are on target to achieve normal growth this year. We are not, therefore, expecting a recession anytime soon.

What are we really seeing?

Despite what we may have been lead to believe from media reports, what we have seen recently is an adjustment in asset prices. In New Zealand this can be seen by some volatility in share prices, but also falling property prices and falling interest rates. The impact on portfolios however has been quite subdued. Growth portfolios with higher concentrations in shares and properties are down a little, but income portfolios with higher levels of bonds, are up a little. A well-diversified "balanced" portfolio has hardly changed from its value in October – hardly cause for worry, and certainly not deserving of all the noise we are hearing.

What should you do?

If your money is in the right place for the right reasons, then it is <u>still</u> in the right place, so no action is required. If you wish to talk to Steve or Michael about your investment portfolio, please give them a call. More knowledge is better than no knowledge in these situations, especially given the barrage of attention grabbing headlines.

Responsible Investment in New Zealand

The Responsible Investment Association of Australasia (RIAA) recently released its review of the responsible investment sector in New Zealand. The report states that responsible investment assets have now reached $63.50 billion, a 10% increase on the previous year. There is now a growing consumer confidence in responsible and ethical investing, along with the banking and finance sectors taking even stronger positions on the management of environmental and social issues.

'responsible investment funds are not only about being great corporate citizens, but they are also performing strongly'

What is Responsible Investment?

Responsible investing can take many forms. Some investment funds apply a filter that selects companies on the basis of '*<u>do no harm</u>*'. At the other end of the spectrum, other managers will only invest into 'green' investments where doing no harm is not good enough – the companies must be '*<u>doing good</u>*'. Irrespective of the criteria used, it is becoming clear that environmental, social, and ethical governance (ESG) factors are becoming important drivers of investment outcomes.

Cost versus Performance?

The RIAA report concluded that responsible investment funds are not only about being great corporate citizens, but they are also performing strongly. Responsible Investment funds outperformed their relevant benchmarks over 1, 3, 5 and 10 years. These performance figures dispel the myth that responsible investments underperform.

Accessing Responsible Investment Funds

Grosvenor has offered Socially Responsible Investment (SRI) options via KiwiSaver for a number of years. It is one of only a handful of KiwiSaver schemes with SRI options. Recently they launched SRI options in the non-KiwiSaver Investment Series, adding a Conservative SRI Fund, a Balanced SRI Fund and a High Growth Fund.

These funds exclude investments with more than an incidental proportion of revenue generated from certain activities. Activities excluded through the fund filters are:

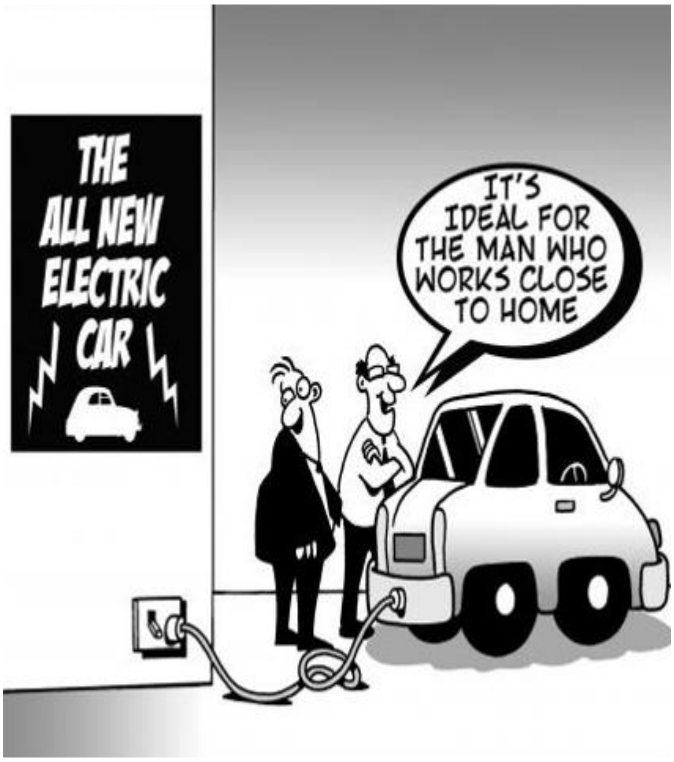
- ✓ Alcohol production
- ✓ Gambling operations
- ✓ Tobacco productions, distributions, supply and retailing
- ✓ Military weapons manufacturing, civilian firearms production, distributions, supply and retailing
- ✓ Nuclear power production, distribution and Uranium mining
- ✓ Fossil fuels exploration, extraction, refinement, distributions, supply and retailing
- ✓ Adult entertainment
- ✓ Genetically modified organisms (GMO), excluding research and development

Although these three SRI options fill a niche, and an ever growing demand for investments that '*do no harm*', there is still more criteria some investors would like to see. Why not exclude banks that finance companies that are environmentally dangerous, or companies promoting high sugar drinks, or companies like McDonalds who promote high fat meals and obesity in our kids? These are serious, and meaty issues, which will surely will be absorbed into mainstream responsible investing over time. In the interim, these three funds go a long way in satisfying demand from the socially responsible investor consumer.

If you wish to discuss SRI options with us, or know of someone or a group that may have a need for advice in this area, please do not hesitate to contact Steve or Michael.

Did You Know? A Futurist's View for 2030

Futurists are people who sit and think about how our world will look in the future. Increasingly these people are in demand by big business and governments because their view of the world can shape policy or product development. Although these predictions are US centric they still have ramifications for the rest of the world. Tony Seba, from Stanford University, is one such futurist. His predictions for 2030 are that:



1. *All energy will be solar and wind* - this prediction makes obsolete the old-world generation of energy from nuclear, coal, gas and diesel.

2. *All new motor vehicles will be electric* - Tesla is leading the charge but all manufacturers are following. Even BMW has stated that all their new cars will be electric by 2025.

3. *All new vehicles will be driverless* – will we need to own a car in the future, or will there be a pool of vehicles which are shared?

Is all this a bit bold? Maybe - maybe not! Who would have thought 15 years ago that we would see the demise of such big names as Nokia and Kodak? Who would have thought that no one would own a typewriter or a Sony Walkman? Who would have anticipated the emergence of new businesses such as Uber or Airbnb? It will be interesting to see how true Tony's predictions are!

What's Coming Up? Our Reporting Timetable

It is hard to believe that another financial year has nearly passed. We will therefore soon be entering our very busy administrative quarter with the financial and tax year-end. Below is timeline for your reference:

MID-APRIL	⇨	Non-Custodial assets will be updated ahead of preparing six-monthly reports.
LATE-APRIL	⇨	Investment Reports for six-months to 31 March 2016 will be finalised and sent.
MID-MAY	⇨	Tax information from various institutions received by us / you.
LATE-MAY	⇨	2016 Tax Packs and Summary of Earnings are issued by Inland Revenue.
MID-JUNE	⇨	Tax worksheets prepared by us, compiling your investment income for 2016 tax year.
JUNE	⇨	2016 tax returns & Trust financial statements progressively prepared leading up to 7th July.

New Staff Member – welcome Michael Borthwick

We are pleased to welcome Michael Borthwick who joined the Rede Advisers team at the start of this year. Another Michael – yes, we know! Michael has quickly settled in, reduced the average age of the team, and by virtue of his youth, automatically increased our ability with technology!

Michael has taken over Jasmine's responsibilities as our KiwiSaver administrator. He is also working alongside Ona, replacing Julie, assisting with client services and administration responsibilities.

Michael is currently studying towards a financial planning degree, with the aim to pursue a career in financial planning.

Key Indicators and Rates

OCR (official cash rate)	2.50%	UDC Finance Deposit – 12 mths	3.75%
90 day Bank Bill	2.36%	Mutual Credit Finance Deposit – 18 mths	5.75%
Enhanced Cash Portfolio	2.75%	Heartland Bank Deposit – 12 mths	3.55%
Income Securities Portfolio – Call	3.25%	Corporate Bond Portfolio *(estimated)*	3.60%
Income Securities Portfolio – 3 mths	3.50%	Income 18 Portfolio *(estimated)*	4.50%
Income Securities Portfolio – 6 mths	3.75%	Income 28 Portfolio *(estimated)*	5.10%
Income Securities Portfolio – 12 mths	4.00%	Income 50 Portfolio (*estimated*)	6.40%

Our Refreshed Website www.rede.co.nz

Our website has had a refresh and we encourage you to take a look. We hope that you find it a useful place to read more about us, what we do, look up our newsletters and market updates; or even to look up our contact details.

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