Bramwell Brown Ltd
INVESTMENT ADVISERS – BROKERS
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Bramwell Brown Limited – Newsletter – May 2016

Portfolio Reviews

I have been busy throughout April completing portfolio updates and reviewing progress with clients. Common themes are apparent across most portfolios. The New Zealand share market in particular continues to perform well, largely driven by low interest rates. Investors continue to seek yield from shares as returns on bonds and bank deposits fall to very low levels. The NZSX50 Index has grown a further 15% to March 31st – the seventh consecutive year of positive returns. We are all asking how long this can continue, however I am confident that as long as interest rates remain at these very low levels we will continue to see support for New Zealand shares.

The Australian market continues to disappoint, with the ASX All Ordinaries Index dropping 11% to March 31st. The recent drop in the value of our dollar has helped offset this to some degree; however there is no hiding the fact it is a poor result. Australia is more closely tied to the sectors of the Chinese economy that are slowing, and its transition away from mining is proving a slow process. International markets have also suffered with a major correction at the end of 2015; however I would urge investors not to be overly concerned. In my view it is essential for most to hold investments outside New Zealand in order to spread your risk and diversify your portfolio. You will find there will be a time in the future where we will be thankful for holding international shares, as they will be the best performing asset class, helping to boost the return of your portfolio.

My message to clients has been consistent – regularly review your holdings and assess whether or not they continue to match your risk profile, your goals and your ability to absorb a loss. Has the increase in share prices meant your allocation to shares is now much higher than it ought to be? Should you be taking some profits and investing in low-risk securities?

New investors entering the market for the first time should not have unrealistic expectations. It is unlikely that we will see another seven years of positive share market performance; however what or when the catalyst is for a correction is hard to predict. Money still needs to be invested but those seeking higher returns than those offered by the banks must consider the possibility of a correction in share values in the future.

Official Cash Rate

The Reserve Bank left the Official Cash Rate unchanged at 2.25 percent at its most recent review. Here is Graeme Wheeler's statement:

The outlook for global growth has deteriorated over recent months due to weaker growth in China and other emerging markets. Prices for some commodities, including oil, have picked up but remain weak.

Monetary conditions are extremely accommodative internationally, with considerable quantitative easing and negative policy rates in some countries. Financial market volatility has eased in recent weeks, but markets continue to watch closely the policy settings of major central banks. Domestically, the economy is being supported by strong inward migration, construction activity, tourism, and accommodative monetary policy. Dairy export prices have improved slightly, but are below break-even levels for most farmers.

The exchange rate remains higher than appropriate given New Zealand's low commodity export prices. A lower New Zealand dollar is desirable to boost tradables inflation and assist the tradables sector. There are some indications that house price inflation in Auckland may be picking up. House prices remain at very high levels and additional housing supply is needed. Housing market pressures are building in some other regions.

There are many uncertainties around the outlook. Internationally, these relate to the prospects for global growth, particularly around China, and the outlook for global financial markets. The main domestic risks relate to weakness in the dairy sector, the decline in inflation expectations, the possibility of continued high net immigration, and pressures in the housing market.

Headline inflation remains low, mostly due to low fuel and other import prices. Annual core inflation remains within the target range. Long-term inflation expectations are well-anchored at 2 percent. However, as we have previously noted, there has been a material decline in shorter-term expectations.

We expect inflation to strengthen as the effects of low oil prices drop out and as capacity pressures gradually build. Monetary policy will continue to be accommodative. Further policy easing may be required to ensure that future average inflation settles near the middle of the target range. We will continue to watch closely the emerging flow of economic data.

Analysts I speak to expect further cuts to the Official Cash Rate this year so be prepared for it to get worse before it gets better. Five percent returns on bank deposits and bonds are now a thing of the past – three and four percent returns are now the new reality.

Wellington Airport Considers Bond Offer

Wellington Airport has made the following announcement to the NZX:

Wellington International Airport Limited ("**WIAL**") is considering an offer of up to $50 million of unsecured, unsubordinated, fixed rate bonds to New Zealand retail and institutional investors, with the ability to accept up to $25 million oversubscriptions at WIAL's discretion. The bonds are expected to have a term to maturity of seven years. It is expected that the full details of the offer will be released the week beginning 2 May 2016.

WIAL has appointed ANZ, First NZ Capital, Forsyth Barr and Westpac Banking Corporation (acting through its New Zealand branch) as Joint Lead Managers in relation to the proposed offer. Any offer will be made in accordance with the Financial Markets Conduct Act 2013. The bonds are expected to be quoted on the NZX Debt Market. Investors can register their interest by contacting one of the Joint Lead Managers, as detailed below, or their financial advisor. Indications of interest will not involve an obligation or commitment to acquire the bonds of any kind. No money is currently being sought and no bonds can be applied for or acquired until the offer opens and the investor has received a copy of the offer document in relation to the bonds.

You will note the mention of the Financial Markets Conduct Act 2013, which I explained in last month's newsletter. Because Wellington Airport already has securities listed on the NZX the FMCA allows them to fast-track subsequent issues using simple product disclosure documents.

Infratil

Infratil has a bond maturing on June 15th, and the company has announced it will be redeeming these bonds for cash. However in the same announcement they have indicated they are considering offering a new bond to refinance the maturing bond.

<u>**IF EITHER OF THESE BONDS OFFERS ARE OF INTEREST TO YOU PLEASE PHONE THE OFFICE AS SOON AS POSSIBLE**</u>

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.

Bank Rates

Here is a summary of some of the bank rates on offer at present.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	3.45%	3.55%	3.65%	3.70%	3.75%
ASB	3.25%	3.30%	3.40%	3.50%	3.60%
BNZ	3.35%	3.40%	3.45%	3.55%	3.70%
Heartland	3.40%	3.60%	3.70%	3.75%	3.80%
Kiwibank	3.30%	3.25%	3.40%	3.50%	3.60%
Rabobank	3.60%	3.55%	3.60%	3.85%	3.95%
UDC	3.45%	3.40%	3.40%	3.45%	3.60%
Westpac	3.20%	3.25%	3.30%	3.35%	3.40%

Asia Region Funds Passport

New Zealand investors will benefit from more competition for their investment dollar and more choice of investment options as a result of an international agreement signed in April. The Asia Region Funds Passport, signed by New Zealand, Australia, Japan and Korea, facilitates the offering of high-quality managed funds among the signatory economies. This means that fund managers from the other signatory countries can offer products to New Zealand investors, bringing more choice and more competition to the New Zealand managed fund market. The agreement also benefits local fund managers, as it allows them to access and offer their products in the other signatory countries.

Fund managers wanting to offer new funds here – and New Zealand fund managers wanting to offer funds offshore – need to apply for a special licence. The conditions of the licence include that the fund manager must have significant scale, a track record of having offered funds for at least five years and that the offered fund includes only highly diversified, vanilla investments. The Financial Markets Conduct Act (FMCA) will apply to any offshore fund manager wishing to sell products to New Zealanders. And it is the existence of the FMC Act that meant New Zealand was able to participate in the agreement, as New Zealand could demonstrate that it has in place a strong regulatory framework compliant with International Organisation of Securities Commission (IOSCO) principles.

The Memorandum of Co-operation comes into effect on 30 June 2016 and some other regional economies are expected to join before then. Over time, the aim is to ensure all other eligible APEC economies are able to participate in the Passport. Participating economies have up to 18 months from 30 June 2016 to implement domestic arrangements in accordance with the rules.

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