BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Bramwell Brown Limited – Newsletter – June 2022

Fixed Interest Offers

More and more bond offers are now being made in accordance with the Financial Markets Conduct Act 2013, as an offer of debt securities of the same class as existing quoted debt securities. What this means is that if a company is issuing a bond with similar characteristics to a bond they already have listed, they can rely on their previous disclosure prospectus. In practice, it means new bond offers now have a shorter application time-frame than they have had previously. In some instances, we have less than a week to gauge interest from our clients before we must place a bid for an allocation of bonds. Contract notes are booked out electronically, with very few issuers now requiring a signed application form. It is a far more efficient system, however it requires us to be able to communicate with a large number of clients quickly. Email is our preferred method of communication. If you are interested in receiving the latest fixed-interest offers, please supply your email address and we will add you to our list of recipients. If you do not have email, please provide your phone number so that we can call you if new offers become available. If you receive this newsletter by post, we would encourage you to consider switching to email instead.

Genesis Energy Bond Offer

Genesis Energy has announced it is offering up to $225 million of unsecured, subordinated, capital bonds, with the option to accept up to $60 million of oversubscriptions.

- Re-settable, fixed rate, unsecured, subordinated thirty-year bond
- Interest paid quarterly in March, June, September and December
- This bond will reset its interest rate after five years, based on the five-year swap rate plus the margin, plus 0.25%
- Indicative margin: 1.75% to 1.90%
- Indicative yield for the first five years: 5.46% to 5.61% (based on the five-year swap rate of 3.71%)
- **Minimum interest rate for the first five years: 5.35%**
- Holders of the Genesis Energy bond maturing on June 9th 2022 (GNE040) will be repaid

Infratil Bond Offer

Infratil has announced it is offering up to $50 million of unsecured, unsubordinated, infrastructure bonds, with the option to accept up to $15 million of oversubscriptions.

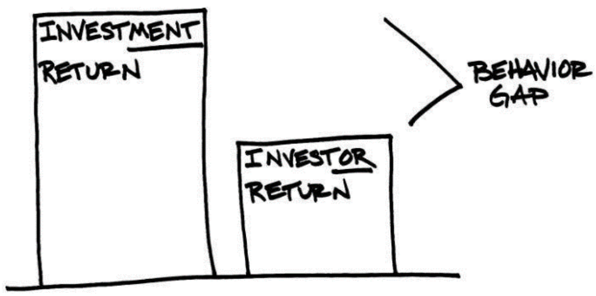
- Re-settable, fixed rate, unsecured, unsubordinated eight-year bond
- Interest paid quarterly in March, June, September and December
- This bond will reset its interest rate after four years, based on the four-year swap rate plus the margin
- Indicative margin: 2.05% to 2.25%
- Indicative yield for the first four years: 5.78% to 5.98% (based on the four-year swap rate of 3.73%)
- **Minimum interest rate for the first four years: 5.75%**

Holders of the Infratil bond that matures on June 15th 2022 (IFT190) will be offered the opportunity to roll their investment over into this new bond. Contact the office and we can arrange this for you.

We have to have our bids for these bonds in on Wednesday morning (June 1st) so please reply as soon as possible if these offers are of interest to you.

Market Timing

Part of this job involves trying to predict what lies ahead of us in relation to the markets, and I'm consistently asked where I see interest rates, share-markets and foreign exchange rates heading. Another question I'm asked often is whether it's a good time to sell all of my shares. More recently the question is whether it's a good time to buy shares. I thought given the most recent market correction it would be worthwhile repeating an article from a previous newsletter on the futility of trying to time markets. Thanks to Ben Brinkerhoff from Consilium for this material. The general consensus is that investors can miss out on potential returns by letting emotion take over from their long-term investment strategy. Some sell out due to nervousness when markets dip only to find in hindsight it was the wrong thing to do. Others invest at the top of the market due to the fear of missing out. When the market pulls back (as it does) they sell out at a loss and vow never to invest in shares again. These investors produce what can be termed the 'behaviour gap,' the difference in returns between what a long-term buy and hold investor would achieve, and that of a market timer.



Dalbar is a US organisation that since 1994 has been measuring the effects of investor decisions to buy, sell and switch into and out of mutual funds. The Dalbar Quantitative Analysis of Investor Behaviour Study 2016 found “no matter what the state of the mutual fund industry, boom or bust: investment results are more dependent on investor behaviour than on fund performance. Mutual fund investors who hold onto their investments have been more successful than those who try to time the market.”

Here are some figures on market crashes and their subsequent recoveries. The data is based on the S&P 500 (US) since 1945.

Loss of	Observations	1 Year Return After Loss	2 Year Return After Loss	3 Year Return After Loss
-5%	36	12.05%	25.09%	40.09%
-10%	14	8.19%	37.58%	35.28%
-15%	10	15.91%	33.93%	29.28%
-20%	7	6.45%	22.77%	24.47%
-25%	5	17.36%	42.24%	41.79%
-30%	3	9.08%	27.94%	38.29%
-35%	3	10.65%	27.94%	42.81%
-40%	3	25.39%	41.65%	59.01%
-45%	1	33.14%	62.67%	69.54%
-50%	1	53.62%	88.30%	97.94%

What do we make of all of this? We can’t predict the future and those who try generally fail. We know with a degree of certainty that markets will fall, but history shows us that more often than not those markets recover to well in excess of the point that they fell from. My advice remains the same:

- Understand the risks you take with investments, and stay within the risk you can tolerate
- Hold a wide variety of asset classes
- Buy good companies and hold them for long periods
- Hold overseas investments as insurance against a shock to the New Zealand economy
- Limit your exposure to individual companies
- Be aware that a market correction will occur at some point
- Don’t attempt to time the market – invest in stages
- Don’t be tempted to sell if the market does fall

Official Cash Rate

The Reserve Bank raised the Official Cash Rate (OCR) for the fifth time since October last year. The OCR is now at 2.00%; its highest level since October 2016. Here is a summary of their decision.

The Monetary Policy Committee today increased the Official Cash Rate (OCR) to 2.00 percent. The Committee agreed it remains appropriate to continue to tighten monetary conditions at pace to maintain price stability and support maximum sustainable employment. The Committee is resolute in its commitment to ensure consumer price inflation returns to within the 1 to 3 percent target range. A larger and earlier increase in the OCR reduces the risk of inflation becoming persistent, while also providing more policy flexibility ahead, in light of the highly uncertain global economic environment.

The level of global economic activity is generating rising inflation pressures, exacerbated by ongoing supply disruptions driven by both COVID-19 persistence and the Russian invasion of Ukraine. The latter continues to cause very high prices for food and energy commodities. The pace of global economic growth is slowing. The broad-based tightening in global monetary and financial conditions is acting to slow spending growth, accentuated by the high costs of basic food and energy staples. European geopolitical uncertainty is also weighing heavily on business confidence and investment intentions worldwide. Likewise, COVID-19 restrictions in significant regions of China are exacerbating supply chain disruptions and adding cost and complexity to trade.

In New Zealand, underlying strength remains in the economy, supported by a strong labour market, sound household balance sheets, continued fiscal support, and strong terms of trade. The reduction in COVID-19 health-related restrictions is also enabling increased economic activity, including hospitality and tourism. However, headwinds are strong. Heightened global economic uncertainty and higher inflation are dampening global and domestic consumer confidence. Asset prices, in particular house prices, have also declined, reflecting higher mortgage interest rates and increased supply of housing.

On balance, a broad range of indicators highlight that productive capacity constraints and ongoing inflation pressures remain prevalent. Employment remains above its maximum sustainable level, with labour shortages now the major constraint on production. The Committee agreed to continue to lift the OCR at pace to a level that will confidently bring consumer price inflation to within the target range. The Committee viewed the projected path of the OCR as consistent with achieving its primary inflation and employment objectives without causing unnecessary instability in output, interest rates and the exchange rate. Once aggregate supply and demand are more in balance, the OCR can then return to a lower, more neutral, level.