Bramwell Brown Ltd
Investment Advisers – Brokers
Director: Brett Dymond – AFA, BBS, GradDipBusStud (Personal Financial Planning)

Bramwell Brown Limited – Newsletter – April 2013

Mighty River Power

The Mighty River Power offer document should be available by the middle of this month. The offer document will outline the number of shares to be sold, the valuation range, the offer price range, and will detail the industry Mighty River operates in and the risks it faces. It will allow investors a chance to consider the offer in more detail and make an informed decision on whether or not to invest. Once the offer opens there will be a three-week application period. All applications will need a valid IRD number, a New Zealand bank account, a New Zealand address, a declaration that the applicant is a New Zealand citizen or permanent resident, and a declaration that they are in New Zealand at the time of the application.

At this stage we are still unsure whether the offer will be distributed through broker firm allocations or through a public pool. It's likely to be a combination of the two. Whether we can source an allocation is also unknown at this stage, but we will be doing our best to satisfy the demand our clients have indicated. I think all investors should be prepared to have their application scaled to some degree. At March 20th over 400,000 people had registered their interest in the float.

Z Energy

Infratil and the New Zealand Superannuation Fund have confirmed they are looking at a partial float of Z Energy later this year. Z Energy was purchased by Infratil and the New Zealand Super Fund from Shell in 2010 and has since been rebranded and upgraded. Latest estimates suggest the business has almost doubled in value under the new management and Infratil and the Super Fund are now looking to extract some of that value to pursue other opportunities. Whether there is more growth potential is a question investors will be asking when more details of the float become available. We will keep you informed as details emerge.

Melbourne

I will be in Melbourne from April 12th until April 22nd visiting my daughter and enjoying a bit of R & R. Sue will be in the office from 10am each day to answer any queries and I will be in touch by phone and email if need be. I will visit Ron Hay at Baillieu's while I am there and will get his views on the Australian market.

Cyprus – Could it Happen Here?

The failure of the banking system in Cyprus, compounded by the ongoing financial crisis in Europe has raised questions about how our Reserve Bank would respond to a similar crisis here. I think the majority of bank depositors in New Zealand have an assumption that their investments in bank deposits are "risk free." This belief has been backed up by Governments' behaviour previously when the BNZ was bailed out in 1990, and more recently when the deposit guarantee scheme was introduced following the global financial crisis. Bank deposits <u>are not</u> guaranteed, although it is generally accepted that banks are too important to an economy to be allowed to fail. What Governments around the world are now trying to do is have policies in place that allow the management of a bank failure with minimal disruption to the financial system and less cost to the taxpayer.

Our Reserve Bank's policy to deal with a bank failure is called Open Bank Resolution (OBR). Its prime objective is to ensure the continuation of the core banking functions of a distressed bank – to keep it "open." A bank may be placed into statutory management on the advice of the Minister of Finance following a recommendation from the Reserve Bank. Under OBR shareholders will be the first to bear any losses, followed by holders of subordinated debt. If there are any further losses these will be allocated to the bank's unsecured creditors <u>which include its depositors</u>. In that instance a proportion of depositors' funds would be frozen based on an estimate of the potential losses of the failed bank. Those frozen funds would be available to the statutory manager to apply against the bank's losses. The unfrozen portion of depositors' funds would be available immediately, and would be supported by a Government guarantee. The guarantee should discourage depositors from rushing to withdraw their funds, but there would be no restrictions on them doing so.

All registered banks in New Zealand with retail funding over $1 billion are required to have systems in place to comply with the new OBR regulations. What that means is that your bank now should have the ability to freeze a portion of your funds immediately, whilst providing next-day access to the remaining portion. What's being reported in Cyprus might sound like highway robbery but I think depositors in New Zealand need to realise their deposits are not (and never have been) without risk. We aren't putting our money in the bank for safe-keeping; we are lending it to them on commercial terms with no security.

Having said that I see no reason for investors to be worried at all about the security of their bank deposits. Our banks have proven they are amongst the soundest in the world following the global financial crisis. My only recommendation (as always) would be that you spread your deposits among two or three banks, rather than choosing only one. Yes, it increases the administration, but it's a small price to pay if the worst was to happen and one of our banks was forced into statutory management.

Official Cash Rate

Interest rates continue their holding pattern with the Reserve Bank keeping the Official Cash Rate at 2.50%. Reserve Bank Governor, Graeme Wheeler, suggested interest rates would remain at this level at least until the end of the year. The Reserve Bank is faced with a dilemma around interest rates with contrasting imbalances limiting its ability to influence the economy. Unemployment remains relatively high, the job market is weak, inflation is at the lower end of the Reserve Bank's target, and the NZ dollar remains stubbornly high. All these factors would encourage the RBNZ to keep interest rates low. In contrast we have a boom in the housing market which influences the Bank to raise rates.

The global financial crisis resulted in a 15% decrease in house prices in New Zealand and a far more cautious approach from the banks to lending. Since then however, bank lending criteria has eased significantly and again we see banks lending in excess of 80% of a property's value. The banks are awash with cash and are happy to profit from lending it to homeowners. Supply is under pressure, particularly in Auckland and as a result house prices are rising again. The Reserve Bank said in its latest monetary policy statement "house price inflation is increasing and the Bank does not want to see financial stability or inflation risks accentuated by housing demand getting too far ahead of supply."

The Official Cash rate is a fairly blunt instrument for influencing behaviour in regard to bank lending and it's not surprising to see the Reserve Bank investigating other measures to control house price inflation. It has released a consultation paper reviewing the housing loan capital adequacy requirements currently in place for banks. Its recommendation is that banks hold a higher proportion of capital, particularly for high loan to value ratio (LVR) loans. These types of interventions from the Reserve Bank are likely to become more common as it seeks to influence the economy by means other than simply raising or lowering interest rates. Under the latest Policy Targets Agreement with the Government, the Bank is now required to consider the efficiency and soundness of the financial system when setting monetary policy, and is explicitly required to monitor asset prices when assessing price stability.

Interest Rates

Bond	**Rate**	**Maturity**	**Yield**	**Feb 2012 Price/$100**	**Current Price/$100**
Wellington Airport	7.50%	November 2013	5.00%	103.78	101.54
Auckland City Council	6.42%	March 2014	3.29%	105.41	103.03
Tower	8.50%	April 2014	5.40%	103.97	103.15
Contact Energy	8.00%	May 2014	4.20%	106.57	104.20

Bond	Rate	Maturity	Yield	Feb 2012 Price/$100	Current Price/$100
Fletcher Building	9.00%	May 2014	5.40%	104.36	103.90
Vector	7.80%	October 2014	4.10%	107.65	105.51
Auckland Airport	7.00%	November 2014	3.70%	107.09	105.29
Kiwi Income Property Trust	8.95%	December 2014	4.85%	107.00	107.00
Trustpower	7.60%	December 2014	5.00%	104.46	104.25
Auckland City Council	6.28%	March 2015	3.71%	106.67	104.89
Fonterra	7.75%	March 2015	3.74%	109.59	107.52
Meridian Energy	7.15%	March 2015	3.88%	107.48	106.14
Goodman Property Trust	7.75%	June 2015	4.60%	107.49	106.60
Warehouse	7.37%	June 2015	5.10%	103.50	104.70
Telecom	8.35%	June 2015	4.25%	109.46	108.59
Trustpower	8.40%	December 2015	5.30%	105.05	107.80
Fletcher Building	9.00%	May 2016	5.30%	107.28	110.55
Goodman Fielder	7.54%	May 2016	5.90%	96.47	104.67
Infratil	8.50%	June 2016	6.10%	101.82	106.96
Z Energy	7.35%	October 2016	5.30%	103.38	106.55
Air New Zealand	6.90%	November 2016	5.60%	101.00	104.21
Auckland Airport	8.00%	November 2016	4.25%	112.44	112.50
Trustpower	8.00%	December 2016	5.40%	107.08	108.70
Infratil	8.50%	June 2017	6.50%	100.00	107.32
Manukau City Council	6.52%	September 2017	4.15%	107.40	109.65
Infratil	8.00%	November 2017	6.30%	100.00	106.79
Trustpower	7.10%	December 2017	5.40%	103.40	107.04
Z Energy Limited	7.25%	August 2018	5.60%	101.83	108.44
ANZ Bank	6.25%	March 2019	4.75%		107.71
AMP	9.80%	April 2019	5.00%	108.01	104.89
IAG	7.50%	December 2036	7.11%	102.40	106.52
NZ Post Group Finance	7.50%	November 2039	5.30%	101.99	103.39
Genesis Energy	8.50%	July 2041	7.36%	103.20	104.99
Contact Energy	8.00%	February 2042	7.49%	100.00	102.60