Bramwell Brown Ltd

Investment Advisers – Brokers

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Bramwell Brown Limited – Newsletter – May 2013

Mighty River Power

The Mighty River Power share offer continues its bumpy ride with the Labour/Greens proposals for electricity reform throwing another spanner in the works. The Opposition is proposing a new power supply-controlling company that will purchase all electricity generated in New Zealand, which it will then sell to consumers. The cynic in me suspects this policy is pure politicking, designed to disrupt the sales process further. Investors might be happy given that they are likely to now receive their shares at a much lower price, however taxpayers have every right to feel aggrieved given the Government is now likely to receive hundreds of millions of dollars less for these assets than they otherwise would have.

I try to maintain a neutral stance regarding politics in this newsletter, but do the majority of New Zealanders really want to go back to such interventionist policies? Did the Opposition think this through or is it a blunt attempt to instil diffidence in the Government's asset sales programme? Shareholders in Contact Energy and Trustpower will be particularly displeased, with the value of those assets dropping by ten percent since the Opposition's announcement. If the same discount applies to Mighty River, Genesis and Meridian, then the Opposition electricity reform policy has cost taxpayers somewhere between 500 and 700 million dollars. Infratil have been forced to delay their latest bond issue to update their disclosure prospectus to incorporate the increased regulatory risk now present in the industry. It also comes at a time when the Government is trying to rebuild investor confidence in New Zealand's' capital markets.

For those who believe the increased risk attached to the electricity sector will be fairly reflected in the price of Mighty River shares, you have until Friday May 3rd to apply. Applications must be at the registry by 5pm:

Computershare Investor Services
Private Bag 92119
Auckland 1142

Alternatively you can apply on-line at **https://www.governmentshareoffers.govt.nz/home/** If you need assistance with this please phone the office.

Melbourne

My wife and I had a very nice break in Melbourne in early April, visiting our daughter. We were most impressed with their public transport system which caters for over 4 million people. There must be some lessons there for our councils who are currently grappling with their own transport issues. I guess providing that sort of infrastructure only becomes cost-effective when you have a large number of people in a relatively small area. The fixed cost of building tram and train tracks doesn't change based on population, but the variable costs of running the system are so much lower if you have 2 million people using the system instead of 1 million.

An AFL game at the MCG was a feature, attended by 82,000 people. Another highlight was the opportunity to see first-hand the work our daughter was involved in at the Practical Research Autism Centre. In addition to her research work she works as a teacher-aide one day a week. We spent a morning with four high-spectrum autistic teenage boys. These boys are highly intelligent, yet lack some of the social skills we would normally expect. One of the boys speaks four languages fluently, has just taught himself Macedonian, and at the end of year concert will be singing "A Hard Day's Night" in Yiddish – it was an experience we won't forget in a hurry!

I spent some time with Ron Hay from Baillieu Holst, the brokers we use when we invest in Australia. Some of you may remember Ron from the presentation he spoke at in 2010. The main theme I took from my time with Ron was the effect the low-interest rate environment is having on markets around the world. Low interest rates have forced share prices up as investors chase yield. We see the same thing happening here in New Zealand to the point where the differentiation between the asset classes is now nowhere near defined as it should be. Secondary market bond yields were the first to come under pressure and are now as low as bank term deposit rates. The sharemarket took longer, however it too has got to the point where yields are very close to bank deposit rates. The risk/return relationship seems to be being ignored to a certain degree by many investors.

I attended a briefing at Baillieu's by Amcor, the world's largest packaging company. They reiterated what Ron Hay was expressing; suggesting the managed funds industry in Europe is awash with cash looking for a home. Large Australian companies paying a 5% yield become very attractive to the overseas fund managers who have client money on deposit earning only 1%. Yes, they take some currency risk when they invest overseas, however the difference in returns is now enough to either take the risk, or insure against it. To highlight the level of interest rates in the Euro-zone, Amcor has just borrowed ten-year money in €2.70%. This sort of rate would previously only have been available to banks. To me this is further evidence that interest rates will remain low for some time yet.

Infratil

Infratil has announced it is issuing up to $100 million of unsecured, unsubordinated debt securities.

- Interest rate – 6.85%
- Maturity Date – June 15th 2022
- Interest paid quarterly (March, June, September and December)
- Minimum investment – $5,000
- Closing date – June 27th

Please call the office as soon as possible if you would like to discuss this opportunity.

Dorchester Pacific

Investors who held Dorchester Finance debentures are now likely to hold a handful of shares and options in Dorchester Pacific. The options expire at the end of May and investors will need to make a decision on whether to exercise their options or sell them. The options allow you to purchase Dorchester shares at 12.5cents before May 31st. The current share price is 30cents; therefore the options have some value. If you hold Dorchester options and would like to discuss this further, please call the office.

Unsolicited Offers

Various unsolicited offers have been made for shares recently, and investors need to be on their guard to ensure they don't fall into the trap of accepting a significantly discounted price for their shares. Fletcher Building, Vector, and the New Zealand Refining Company shareholders have all recently been the subject of unsolicited approaches to sell shares. The rules around such offers have been tightened recently, but unfortunately it has not prevented some investors being duped into selling their shares at huge discounts to their current price. If you receive an unsolicited offer to buy shares and you are in any doubt about its authenticity please ring the office for confirmation.

Listed Property versus Direct Investment

I'm often asked for my opinion on the merits of commercial property and property syndication. Offers of $50,000 shares in larger commercial properties are often made to investors. Depending on an individual's financial circumstances more often than not I prefer to opt for listed property investments. The main thing I like about the listed property trusts is the diversification they offer. Your risk is spread across many properties, rather than being exposed to one only. Your risk is also spread geographically instead of being centred in one location (think Christchurch earthquake for example). The other point to consider is liquidity. A share in a syndicated property might take months to sell, whereas shares in a listed property trust can be sold with the standard three day settlement.

Some of the more popular property trusts listed on our stock exchange include:

Argosy Property Trust

- Owns a mixture of retail, commercial and industrial properties
- Mainly centred in Auckland and Wellington

Goodman Property Trust

- Owns a mixture of high quality office and industrial properties
- Mainly centred in Auckland, Wellington and Christchurch
- Owns the 150 hectare Highbrook business park in Auckland

Kiwi Income Property Trust

- New Zealand's largest listed property trust
- Owns a mixture of high quality office and retail properties
- Mainly centred in Auckland and Wellington
- Owns the Sylvia Park shopping centre in Auckland
- Owns the Northlands shopping centre in Christchurch
- Owns the Plaza shopping centre in Palmerston North
- Owns the North City shopping centre in Porirua

Property for Industry

- Owns only industrial property
- Mainly centred in Auckland

Precinct Properties (formerly AMP Office Trust)

- Owns high quality office properties
- Mainly centred in Wellington

Vital Healthcare Property Trust

- Owns only medical and healthcare properties
- Mainly centred in Auckland
- Recent acquisitions in Australia