

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### **Bramwell Brown Limited – Newsletter – December 2013**

#### **Asset Sales Referendum**

The referendum initiated by the Green Party, Grey Power, the Labour Party and various others is now before the public, with voting papers being sent in late November. The referendum asks voters the question: “Do you support the Government selling up to 49% of Meridian Energy, Mighty River Power, Genesis Power, Solid Energy and Air New Zealand?” If I had been asked this question before the asset sales programme began I would have said “No.” However, the Government won the election, which in my view gave them the mandate to do what they said they were going to do. Since then the Labour/Greens have done everything they can to derail the process, and have cost the country dearly in doing so. To cap it off we are now forced to spend \$9 million on a referendum which will not change a thing – a complete waste of tax-payers’ money. I will now be voting “Yes.” Whatever the outcome both sides of the debate will find a way to claim victory – the Labour/Greens will no doubt be able to crow about the majority voting “No”, the National Party will point to the fact there was a very low voter turnout. The \$9 million would have been far better spent on health or education, with the public having their say in next year’s election.

#### **David Ross**

It will be of little comfort to investors in Ross Asset Management’s Ponzi scheme to see him jailed recently. His minimum non-parole sentence of five years and five months seems very lenient considering the scale of the fraud, and the length of time over which he offended. It is estimated Ross lost in excess of \$115 million of clients’ money over a twelve year period. Many victims lost their entire life savings. Will his sentence deter further white-collar crime? I doubt it. I have written previously about my aversion to giving an adviser discretion over your money, and the Financial Markets Authority (FMA) has recently reviewed the laws around advisers who provide Discretionary Investment Management Services (DIMs). Advisers (such as Ross) who are licensed to provide DIMs have complete discretion over investors’ money – they can make decisions on when and where funds are invested without consulting their clients. Under new FMA proposals new eligibility requirements will be introduced for DIMs licensees, and any money or investments not held by the client will now have to be held by an independent custodian. Hopefully this will go some way to preventing further frauds against investors who have put their trust in a suitably qualified adviser.

## Fixed Interest

I spoke last month about the limited opportunities in the secondary fixed interest market. Here is a selection of bonds that are trading regularly, with their current yields.

<b>Bond</b>	<b>Coupon Rate</b>	<b>Maturity</b>	<b>Current Yield</b>	<b>April 2013 Yield</b>	<b>Current Price/\$100</b>
Auckland City Council	6.42%	March 2014	3.10%	3.29%	101.03
Tower	8.50%	April 2014	8.00%	5.40%	100.18
Contact Energy	8.00%	May 2014	3.65%	4.20%	101.98
Fletcher Building	9.00%	May 2014	5.45%	5.40%	101.59
Vector	7.80%	October 2014	4.07%	4.10%	103.17
Auckland Airport	7.00%	November 2014	3.85%	3.70%	103.04
Trustpower	7.60%	December 2014	4.70%	5.00%	102.94
Auckland City Council	6.28%	March 2015	3.75%	3.71%	103.22
Fonterra	7.75%	March 2015	3.85%	3.74%	104.85
Meridian Energy	7.15%	March 2015	4.18%	3.88%	103.70
Goodman Property Trust	7.75%	June 2015	4.60%	4.60%	104.67
Warehouse	7.37%	June 2015	5.00%	5.10%	103.48
Telecom	8.35%	June 2015	4.50%	4.25%	105.68
Trustpower	8.40%	December 2015	5.20%	5.30%	106.17
Fletcher Building	9.00%	May 2016	5.40%	5.30%	108.19
Goodman Fielder	7.54%	May 2016	5.60%	5.90%	104.44
Infratil	8.50%	June 2016	5.80%	6.10%	106.34
Z Energy	7.35%	October 2016	5.15%	5.30%	105.80
Air New Zealand	6.90%	November 2016	5.00%	5.60%	105.17
Auckland Airport	8.00%	November 2016	4.84%	4.25%	108.62
Trustpower	8.00%	December 2016	4.90%	5.40%	108.72
Meridian Energy	7.55%	March 2017	5.00%	4.30%	107.65
Infratil	8.50%	June 2017	6.10%	6.50%	107.59
Manukau City Council	6.52%	September 2017	4.66%	4.15%	106.45
Infratil	8.00%	November 2017	6.30%	6.30%	105.92
Trustpower	7.10%	December 2017	5.45%	5.40%	105.95
Z Energy Limited	7.25%	August 2018	5.85%	5.60%	105.73
Infratil	6.85%	June 2022	7.09%		98.47

## Reset Securities

With the expectation interest rates will rise over the longer-term the resettable securities have seen an increase in value. Here is a selection of the perpetual and resettable securities. They have varying characteristics and care needs to be taken interpreting the figures. The yield to next reset figure in particular needs to be understood. This figure gives the return you would achieve from now until the next reset date (**if on that date you also received your capital back in full**). In some instances the securities are rolled over on that date for another term at an interest rate yet to be determined. So your yield past the next reset date is impossible to determine with any accuracy. Call the office for a fuller explanation of these securities.

Security	Coupon	Benchmark	Margin	Next Reset	Price	Yield to Next Reset
ASB	4.31%	1 year swap rate	1.30%	15/11/14	91.50	14.10%
ASB	3.68%	1 year swap rate	1.00%	15/05/14	88.00	33.10%
ANZ	5.28%	5 year swap rate	2.00%	18/04/18	98.10	5.90%
BNZ	9.10%	5 year swap rate	4.09%	30/06/14	103.00	6.46%
Genesis Energy	6.19%	5 year swap rate	2.15%	15/07/18	100.20	6.43%
Infratil	4.53%	1 year swap rate	1.50%	15/11/14	73.00	39.90%
Kiwi Bank	8.15%	5 year swap rate	2.90%	04/05/15	104.50	5.27%
Origin Energy	4.50%	1 year swap rate	1.50%	15/10/14	73.10	45.20%
Quayside Holdings	5.42%	3 year swap rate	1.70%	12/03/14	95.10	28.20%
Rabobank	3.70%	1 year swap rate	0.76%	08/10/14	93.20	12.40%
Rabobank	8.77%	5 year swap rate	3.75%	18/06/14	107.10	3.00%
Works Finance	6.82%	1 year swap rate	4.05%	15/06/14	101.50	6.64%

Here are the current swap rates to give you an idea of what these securities “might” pay at their next reset date. There is no guarantee of course, as interest rates change on a daily basis.

Swap Rate	Current	December 2012
1 Year Swap Rate	3.17%	2.49%
2 Year Swap Rate	3.71%	2.58%
3 Year Swap Rate	4.06%	2.71%
4 Year Swap Rate	4.33%	2.86%
5 Year Swap Rate	4.55%	3.02%
7 Year Swap Rate	4.87%	3.34%
10 Year Swap Rate	5.13%	3.68%

## **Goodman Property Trust Bond Offer**

GMT Bond Issuer Limited (a wholly owned subsidiary of the Goodman Property Trust) has recently announced it intends to make a public bond offer. It is considering making an offer of up to \$75 million (with the ability to accept a further \$25 million in oversubscriptions). The bonds will be fixed-rate, secured, unsubordinated debt obligations of GMT Bond Issuer Limited and will be guaranteed by the Goodman Property Trust. They will have a maturity date of December 4<sup>th</sup> 2020, and it is expected full details of the offer will be released in early December.

**CALL THE OFFICE IF THIS OFFER IS OF INTEREST TO YOU.**

## **Rabobank**

Bramwell Brown Limited has an intermediary agreement with Rabobank. Even if you have an existing relationship with Rabobank you are able to access these interest rates through Bramwell Brown. We charge a small administration fee for this service.

<b>Term</b>	<b>Rate (annual interest)</b>
Premium Saver (call account)	4.20%
1 year	4.35%
2 years	4.90%
3 years	5.10%
4 years	5.60%
5 years	5.80%

## **UDC**

We can also offer term deposits with UDC. Here are their current rates.

<b>Term</b>	<b>Rate (annual interest)</b>
6 months	4.10%
1 year	4.50%
2 years	4.70%
3 years	5.00%
4 years	5.30%
5 years	5.60%

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**