

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### **Bramwell Brown Limited – Newsletter – June 2014**

#### **KiwiSaver**

The KiwiSaver anniversary (July 1<sup>st</sup>) is not far away again. Any members who have been in the scheme for a year or more should ensure they have deposited at least \$1,043 with their provider before the end of June. This will ensure you receive the maximum Government matching payment of \$521.43. Up until July 1<sup>st</sup> 2011 this matching payment was dollar for dollar and equalled \$1,042.86, however the rules were changed and the subsidy has been cut in half. It is still worth having however, and I would encourage all members to contribute at least \$1,043. If you contribute less than \$1,043 from your wages you can make voluntary contributions that top it up to the desired amount. Your provider can inform you how to make voluntary contributions. Alternatively you can lodge funds directly to the IRD with deposit slips available at Westpac Bank. You need to provide your IRD number and use “KSS” as the payment code.

You will receive the 50% Government matching payment up until the date you are eligible to withdraw your savings. You become eligible to withdraw your savings when you qualify for NZ Super (currently at the age of 65), or when you have been in the scheme for five years (whichever is later). So if you join KiwiSaver when you are 62, you would have to wait until you are 67 to be able to withdraw your funds. You would receive the 50% subsidy (\$521.43) for each of those five years – not just until you turn 65. A number of our clients have been in the scheme for the required five years, and have reached 65. They are now eligible to withdraw their savings. As soon as you reach this point you are no longer eligible for the Government subsidies, and your employer (if you are still working) is under no obligation to continue contributing to your account. In some instances employers will continue to contribute if that is an agreement you have in your employment contract.

Should you withdraw your funds when you become eligible? This is a question I am often asked. I have an inbuilt aversion to the managed funds industry based on the fees that are charged. My opinion is that we can achieve a better return investing the money ourselves without the need to pay someone a fee. However the KiwiSaver funds have a lower fee structure than the norm, and leaving a small sum in a KiwiSaver account is perfectly acceptable, and may offer a certain amount of diversification.

**CALL THE OFFICE IF YOU WOULD LIKE TO DISCUSS YOUR KIWISAVER OPTIONS.**

## **Budget**

National's sixth budget released in May was in my view confirmation that the Government has handled the financial crisis well. When you look at other countries around the world I think New Zealanders should on the whole be pleased with their lot. I try to remain politically neutral with my newsletter and don't mind admitting I haven't always voted for the same party in the past. At present I think National has the better vision for New Zealand and I will be following the lead up to the election with interest. What I found particularly interesting was reaction to the budget from opposition parties and individuals alike. There seems to be an expectation from some that the Government is there to hand out money to solve people's problems. Demands for increased paid parental leave, subsidies for first-home buyers, and free early childhood education were abundant. It seems to me that as our standard of living increases over time there are plenty of people who lack a sense of personal responsibility, instead expecting the Government (taxpayers) to provide more and more for them. We expect our health system to keep us alive for longer and then to be kept in a level of comfort until we die. A Sky TV satellite dish seems to be the norm on most state houses now. Already one third of Government spending goes on social welfare spending (\$24 billion).

The recent Australian budget came as a bit of a shock to many with significant cuts being made in an effort to curb spending and reduce deficits. Measures designed to bring the country back to surplus include state asset sales, stricter work for the dole requirements, higher taxes on those earning high incomes, and increasing the age of eligibility for state pensions to 70 by 2035. This last point is one thing I think our current Government must address eventually. It seems every financial and political commentator agrees the Government needs to raise the age of eligibility for Government Superannuation, yet John Key continues to stand by his pledge not to do so. I don't think we can have it both ways – we can't pump billions of dollars into health (keeping us alive for longer) and then expect to be paid a pension for those extra years in retirement. The sooner the Government addresses this issue the sooner prospective retirees can plan for the implications.

I'm interested to see the Rudd Government imposing greater taxes on high-income earners. The debate about the gap between rich and poor is at the heart of the difference between socialist and capitalist political parties. Personally I see no problem in individuals wanting to get ahead and become "wealthy." You should not be penalised for doing so. We need people like Sam Morgan (Trade Me) and Rod Drury (Xero) investing their time, capital and knowledge in New Zealand. They have provided jobs for many, and have given others the opportunity to get ahead. They already contribute more than most to the economy – they shouldn't then be expected to contribute a disproportionate amount in tax just because they have been successful, and earn very high incomes.

There is no comparison (in ability or wealth) between me and Sam Morgan or Rod Drury, but when I left school I had \$130 in my bank account. My wife and I worked long hours over an extended period of time. At one stage I was working two jobs through a particularly severe summer drought. I was milking 180 cows in the morning in time to be at the Sanitarium factory in Palmerston North by 8am. I would feed Weet-Bix boxes into a folding machine until 5pm. I even went without beer for an extended period in an effort to save for the deposit on a herd of cows! I don't think I should be penalised (in excess of anyone else) for making those sacrifices and getting ahead. Here are some quotes on the subject that I was sent recently.

You cannot legislate the poor into prosperity by legislating the wealthy out of prosperity.

What one person receives without working for, another person must work for without receiving.

The government cannot give to anybody anything that it does not first take from somebody else.

You cannot multiply wealth by dividing it.

When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that is the beginning of the end of any nation.

The election result is something investors should be watching with interest. Anyone who invested in the state-owned power companies will likely be keen to see a National win. The Labour/Greens policy to regulate power prices would without doubt have a negative influence on the share prices of all the listed power companies. Conversely a National win should see those share prices rise.

## **Australia**

Given all the doom and gloom around the Australian budget, should we be worried about our Australian investments? Australia provides a good source of diversification for investors, and access to industries and companies that are not represented on our stock exchange. The analysts we deal with still consider Australia a good bet for New Zealand investors, particularly given the historically high exchange rate. Anything over 90 cents is considered a good entry point to get funds into Australia. As the Australian economy improves it's likely the exchange rate will drop, leading to an increase in the value of your Australian investments. Also, as I've mentioned often on previous occasions, one of the key reasons I like investors to get money out of the country is to provide a form of insurance against a shock to the New Zealand economy.

Call the office if you would like to discuss opportunities for investment in Australia.

## **Mighty River Power Bond**

Mighty River Power has announced that it is considering making an offer to the New Zealand public of up to \$250 million of unsecured subordinated capital bonds, including an option to accept an additional \$50 million of oversubscriptions. Chief Financial Officer, William Meek, said proceeds from the offer would be used for general corporate purposes including the repayment of bank debt and extending Mighty River Power's average term of its funding profile.

Mr Meek said that full details of the offer would be released in the next three weeks with the minimum interest rate finalised following a book-build process. The minimum interest rate will be announced on or prior to the opening of the offer. The Company expects the capital bonds to be eligible for intermediate equity content (50%) from Standard & Poor's.

**CONTACT THE OFFICE AS SOON AS POSSIBLE IF THIS OFFER IS OF INTEREST TO  
YOU**

## **Reset Securities**

The recent increase in short-term interest rates has had little effect on the prices paid for the resettable securities. The BNZ will repay their security (BNSPA) at the end of June. Here are the current values of some of the resettable securities trading on the secondary debt market.

<b>Security</b>	<b>Coupon</b>	<b>Benchmark</b>	<b>Margin</b>	<b>Next Reset</b>	<b>Price</b>
ASB	4.31%	1 year swap rate	1.30%	15/11/14	87.60
ASB	4.62%	1 year swap rate	1.00%	15/05/15	86.10
ANZ	5.28%	5 year swap rate	2.00%	18/04/18	97.55
Genesis Energy	6.19%	5 year swap rate	2.15%	15/07/18	98.70
Infratil	4.53%	1 year swap rate	1.50%	15/11/14	77.00
Kiwi Bank	8.15%	5 year swap rate	2.90%	04/05/15	102.00
Origin Energy	4.50%	1 year swap rate	1.50%	15/10/14	76.20
Quayside Holdings	5.88%	3 year swap rate	1.70%	12/03/17	93.10
Rabobank	3.70%	1 year swap rate	0.76%	08/10/14	93.50
Rabobank	8.77%	5 year swap rate	3.75%	18/06/14	107.50
Sky TV	3.62%	1 year swap rate	0.65%	16/10/14	97.60
Works Finance	6.82%	1 year swap rate	4.05%	15/06/14	102.50

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