BRAMWELL BROWN LTD
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Bramwell Brown Limited – Newsletter – June 2015

Portfolio Construction Forum

I attended the annual Portfolio Construction Forum in Auckland in May and was pleasantly surprised with the quality of presenters, and the very thought-provoking content. Speakers from New Zealand and overseas presented the high-conviction ideas which they believed would shape our markets over the coming years. I found the insights from Retirement Commissioner, Diane Maxwell, particularly interesting. Here are some brief notes I made – some of which I will expand on. Please note not all the presenters agreed with each other, and the comments below are not necessarily my own views.

- The global economy is firing on all cylinders, particularly Asia. Indonesia has been the most stable economy in the last ten years. Bad news sells newspapers and the Western media are determined to predict the next crash because they are embarrassed not to have predicted the last one.
- The drop in oil prices will be a game-changer and will lift global GDP. The US could become self-sufficient in oil production within five years. If this occurs the US won't need to patrol the Persian Gulf. This is not something Saudi Arabia wants; therefore they have a vested interest in keeping the price of oil down.
- European financial fundamentals are compelling – truck sales are up 20% this year.
- The global economy is over-indebted. Quantitative easing is distorting asset prices and postponing deleverage. A credit event will cause the next downturn.
- Cash may not be king, but it's at least a very handsome prince.
- China's property bubble is set to burst. There is a serious over-supply of housing with one in five Chinese homes vacant. China's economy is at risk as this unwinds, with global implications, especially for emerging markets.
- Don't ignore the technology sector for growth investing. Equities are still cheap relative to bonds and cash, and the NASDAQ is cheap relative to the market.
- Get used to low interest rates – maybe for our lifetime. Risk premiums on equities are diminishing as investors look to the other asset classes for higher returns. What can we do about it? Spend less – take more risk to enhance returns – spend capital.

As you can see there are a number of disparate views to consider. There were some very compelling speakers, but that doesn't mean they are right. The overriding message I took away from the conference, and one which most delegates agreed on, was that we should expect interest rates to remain low for a very long time. I'm perfectly happy to be proved wrong on this but all indications are we will have to endure low returns for some time as the global economy recovers.

Retirement Commissioner, Diane Maxwell, presented some very sobering statistics which have implications for younger people in particular.

- Most investors will underestimate their longevity. Every five years longevity increases by one year.
- My grandchildren will live to 100.
- There are currently seven tax-paying workers for every superannuitant. By 2050 there will only be two tax-payers for each pensioner.

She made some very valid points about the current younger generation. There is a large group of people (particularly in Auckland) who are shut out of the housing market due to the skyrocketing prices. When my wife and I were in our early twenties we had a relatively large mortgage. It acted as a great motivator to work hard and save as much money as possible. Because many of today's generation are locked out of the housing market they don't have that incentive to go without, therefore they <u>don't</u> go without. They eat out, they travel, they buy nice clothes and they have the latest electronic gadgets. What position will this group of people be in when they retire? They will be faced with a triple-whammy – they won't have their own home – they will live into their nineties – and the Government won't be able to afford Superannuation as we know it.

Retirement may look very different in future generations. Perhaps we will have our children move back home in their sixties to care for us in our old age. Financial products will probably evolve also, with an increase in the uptake of reverse equity mortgages, and the return of annuities.

For today's retirees the issues are predominantly around interest rates. Incomes have nearly halved over the last six years for those who rely mainly on fixed interest. What can we do about it? I've written previously about the returns on the various asset classes becoming less differentiated as investors chase the best return. Are we chasing that return with a disregard for risk? Is a higher exposure to equities something we simply have to accept in order to boost our income? Can we accept the increased volatility? Can we reach our financial goals over the next twenty years with an average return of 5%? It's a conversation I believe most advisers will be having with their clients over the coming years.

Budget

The Budget threw up a few surprises with the National Party straying into previously held Labour territory. Key points included:

- A $790 million hardship package, increasing the core benefit for beneficiaries with children by $25 per week.
- The axing of the $1,000 kick-start contribution when signing up to KiwiSaver.
- A new border levy (tax in any other language) of $16 for arriving passengers and $6 for departing passengers to boost biosecurity funding.
- The prospect of modest tax cuts in 2017 (the cynic in me realises 2017 is election year).
- A big boost in funding for the SIS and GCSB.

KiwiSaver

The KiwiSaver anniversary (July 1st) 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 1st 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 online or 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.

With the budget announcement that the Government will no longer provide the $1,000 kick-start there has been a slight change to the first home deposit subsidy rules. New KiwiSaver members will now have to leave a minimum of $1,000 in their account if they withdraw their funds for a first home.

Interest Rates

There is a fair bit of debate around at present regarding the outlook for interest rates. The market seems to be pricing in a rates cut and some commentators are predicting the Official Cash Rate will be cut twice before the end of the year. Most banks have reduced their term deposit rates over the last two months. Here is a summary of some of the term deposit rates on offer:

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	4.20%	4.40%	4.50%	4.55%	4.60%
ASB	4.20%	4.40%	4.50%	4.60%	4.65%
BNZ	4.30%	4.35%	4.50%	4.55%	4.65%
Heartland	4.50%	4.65%	4.70%	4.75%	4.80%
Kiwibank	4.20%	4.30%	4.35%	4.35%	4.25%
Rabobank	4.37%	4.57%	4.76%	4.86%	4.96%
UDC	4.20%	4.20%	4.20%	4.30%	4.35%

Goodman Property Trust Bond

The Goodman Property Trust has announced that, continuing its programme of funding diversification, GMT Bond Issuer Limited (a wholly owned subsidiary of the Goodman Property Trust) is considering making an offer of up to $75 million (with the ability to accept up to a further $25 million in oversubscriptions) of secured, unsubordinated retail bonds. The bonds will be direct, secured, unsubordinated debt obligations and will be guaranteed by the Goodman Property Trust. They are expected to have a seven year tenor and mature in June 2022. It is expected that full details of the offer will be released in early June 2015, when the offer is expected to open. No money is currently being sought and no applications for bonds will be accepted or money received until the offer opens and the investor receives a terms sheet.

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

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.