

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – April 2016

Secondary Market Bond Yields

The reduction in the Official Cash Rate has seen bond yields slide further. I remember when the Goodman Property Trust issued their seven-year bond with a coupon of 5% last June. At the time I thought surely this is as low as bond yields can go. History has proven otherwise and we have seen recent issues from Fonterra, Genesis and Meridian offering rates no higher than 4.53%. Here is a selection of secondary market bonds with their current yields.

Company	Coupon	Maturity Date	Yield
Trustpower	7.10%	December 2017	3.90%
Fletcher Building	7.15%	March 2018	4.20%
Z Energy Limited	7.25%	August 2018	3.99%
ANZ Bank	6.25%	March 2019	3.45%
Contact Energy	5.80%	May 2019	3.67%
Z Energy	6.50%	November 2019	4.10%
Infratil	6.75%	November 2019	4.50%
Warehouse	5.30%	June 2020	4.15%
Goodman Property Trust	6.20%	December 2020	3.60%
Sky TV	6.25%	March 2021	4.10%
Wellington Airport	6.25%	May 2021	4.10%
Kiwi Income Property Trust	6.15%	August 2021	4.15%
Trustpower	5.63%	December 2021	4.10%
Goodman Property Trust	5.00%	June 2022	4.05%
Infratil	6.85%	June 2022	4.95%
Meridian Energy	4.53%	March 2023	4.05%
Fonterra	4.42%	March 2023	4.00%
Infratil	5.25%	September 2023	4.60%
Kiwi Bank	6.61%	July 2024	5.00%
BNZ Capital Notes	5.31%	December 2025	5.12%
Mighty River Power	6.90%	July 2044	4.80%

Lifetime Income Fund

Last month's newsletter mentioned annuities, and the launch of the Lifetime Income Fund. It's a product that has provoked plenty of interest in recent months so a fuller explanation is warranted. The product is an annuity, and as such promises to pay a pre-determined income for life. Even if your fund balance reduces to zero the company promises to pay your agreed rate of income until you die. They can do this by allocating some of your funds to an insurance policy that can be called on if you outlive your investment.

The fund was launched as a supplement to New Zealand Superannuation and is designed to benefit KiwiSaver investors (and others) nearing retirement. It is a relatively simple balanced fund with an additional insurance component that allows a fixed income to be guaranteed for life. The four basic components of the fund are:

- Managing retirement savings conservatively to ensure it grows and lasts as long as possible
- Turning retirement savings, and the returns those savings create, into a regular and sustainable income
- Insuring the income will continue for life, however long that may be
- Always having the balance of the retirement savings available for withdrawal

The fund's guaranteed after-tax rates of income are based on your age at commencement:

Age at first Lifetime Withdrawal Benefit payment	Lifetime Withdrawal Benefit payment rate
65-69	5.00%
70-74	5.50%
75-79	6.00%
80-85	6.50%

When you invest in the fund a Protected Income Base will be established. This is the sum you have invested, less any applicable fees. This is the figure used to determine your Lifetime Withdrawal Benefit. You can invest in the fund and defer making withdrawals to a later date (the deferral period). If your fund balance increases in that time (due to investment returns) your Protected Income Base will also increase. Once a year on the anniversary of the initial investment your balance in the fund is assessed to see if it exceeds the Protected Income Base. If it does a new base is established. Your Protected Income Base is fixed as soon as you receive your first Lifetime Withdrawal Benefit payment, but can be no less than the amount you invested initially.

Your money will be invested in a balance fund which is a Portfolio Investment Entity (PIE), comprising low-cost index funds, cash, shares and fixed interest investments. The minimum investment is \$100,000 and the maximum investment is \$1,000,000. Additional investments of at least \$10,000 (up to a total maximum investment of \$1,000,000) can be made during the deferral period. Investment and risk management is outsourced to Milliman, Vanguard, NZX Smartshares and Harbour Asset Management. The objective of the balanced portfolio is to deliver a target return of 6.50% per annum before fees and taxes, with the least amount of volatility.

There are two phases to a Lifetime Income benefit. The protected income phase begins at the date of the first payment of your benefit, and continues until your balance in the fund falls to zero. The insured income phase commences if you outlive your savings in the fund. The insurance component will then come into play to ensure you continue to receive the same regular payments until the day you die. If you die during the protected income phase the remaining balance of your investment will be paid to your estate. If you die during the insured income phase no further payments will be made.

You can make withdrawals of some of your balance in the fund at any time. The maximum partial withdrawal you can make is 20% of the amount you initially invested in the fund. Withdrawals can be made in one or several withdrawals as long as in total they do not exceed the 20% threshold. If at any time you want to withdraw more than 20% of your balance you will be obliged to withdraw your investment in full.

Fees:

Transaction Costs	Up to 0.25% of the amount invested/withdrawn
Management Fee	0.70% of the gross asset value of the fund
Trustee Fee	0.08% of the gross asset value of the fund
Administration Fee	0.17% of the gross asset value of the fund
Insurance Premium	1.35% of the Protected Income Base
Early Withdrawal Fee	1.0% of the total amount invested (only if withdrawn in the first 3 years)

Who is behind the Lifetime Income Fund?

Ralph Stewart – Managing Director. Former CEO of AXA and ACC.

Diana Crossan – Chairperson. Former Retirement Commissioner.

Martin Hawes – Director. Authorised financial adviser and well known author and columnist.

Other directors are Graeme Mitchell, Tim Paris, John Strahl and Rhys Gwilym. Gareth Morgan has invested capital into the company.

The biggest advantage in this type of product is that payments are guaranteed regardless of how long your capital lasts, or how long you live. It removes the problem of retirees outliving their capital. If you live longer than the actuaries predict the fund will continue to pay your guaranteed income until the day you die. Despite your share of the capital you have invested being depleted you will continue to be paid your regular income. The biggest disadvantage is the effect inflation might have over time. The payments you receive are not inflation adjusted, and will inevitably lose their purchasing power over a long period. There is some relief in that at any time you can withdraw your balance from the fund and reinvest elsewhere.

This is by no means a complete solution to retirement planning, however it could form part of an overall retirement plan. Statistics suggest no more than a third of retirement savings should be invested in such a product, with the balance being spread across other asset classes, some of which have the ability to keep pace with inflation. More information is available at www.lifetimeincome.co.nz or phone the office for a copy of the investment statement.

Financial Markets Conduct Act

The Financial Markets Conduct Act 2013 was introduced to reform the regulation of financial conduct in New Zealand. Its purpose is to promote the development of fair, efficient and transparent financial markets, and to build confidence in our markets. The global financial crisis and the finance company failures were the catalyst for the new legislation. Part of the new law allows issuers of securities to use exemptions in the Act to streamline the process for “same-class” offers, making it easier to raise further capital. We have seen this with recent bond offers from Meridian, Genesis and Fonterra. Because these companies already have bonds listed on the NZX they can fast-track subsequent issues by providing a relatively simple product disclosure statement (PDS). The only disadvantage to this new system is that we have less time to assess the merits of these new issues and get the information to you in a timely manner. Some new issues are done and dusted within a week. If you are in the market for new bond offers please let me know so that I can add your name to our list in order to contact you in plenty of time.

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.