

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bank Regulation and Bail-Ins

The term “bail-out” became part of our vocabulary following the financial crisis, as Governments rallied around financial institutions that were deemed too big to fail. The American and European banks attracted the main headlines; however New Zealand had its own bail-outs with the Government guarantee of the banks and finance companies. There may be a new term added to the financial vocabulary this year – the “bail in.”

Germany’s Deutsche Bank is facing some challenges after being fined \$14 billion by the US Justice Department in relation to the sale of defective mortgage products. Angela Merkel has ruled out any chance of a bail-out, and media commentators are now talking about bail-ins. During the financial crisis Governments around the world sought to ensure confidence in the financial markets by bailing out banks and other financial institutions that were considered too important to allow failure. Tax-payer funds were used, therefore bank shareholders were being subsidised by the general public. In hindsight investing in bank shares prior to the global financial crisis was a low risk investment.

Obviously the majority of tax-payers weren’t particularly happy with this subsidisation of bank shareholders – although there’s an argument for the greater good of the economy, where everyone would suffer in a major financial meltdown. The subsequent banking regulations have sought to address the problem by making the banks themselves (rather than the general public) responsible for losses. We have seen it here in New Zealand with the Basel regulations. Banks have issued Tier 1 and Tier 2 securities specifically designed to absorb losses in the case of a bank experiencing major financial difficulties.

In the case of a bank suffering severe financial difficulties it’s unlikely Tier 1 and Tier 2 securities would be enough to cover the losses, and the bank would look to its unsecured creditors (depositors) next. It will be interesting to follow the Deutsche Bank story to see exactly what group ends up funding the recovery, and how far down the line (according to risk) they need to go. For anyone interested in New Zealand’s banking regulations the Reserve Bank has some very good information on their website <http://rbnz.govt.nz/faqs/open-bank-resolution-policy-faqs>. I have also discussed the Basel regulations at length in previous newsletters.

Trustpower Bond Offer

Trustpower has recently conducted a demerger of some of its electricity assets. Under the demerger Trustpower will transfer all of its Australian and New Zealand wind and solar assets to Tilt Renewables. Trustpower will retain its hydro-electricity generation assets in New Zealand and Australia, and its multi-product retailing businesses. As part of the demerger Trustpower is offering to roll over three of their four existing bonds on the same terms, and is also issuing a new six-year bond paying 4.01%. To ensure you participate in the rollover offer you must fill in the exchange form that will be mailed to you and return it to the registry. Failure to do so will result in your investment being repaid. Considering the attractive rates on Trustpower's current bonds, investors are advised not to ignore this offer. Trustpower's current bonds are summarised here:

Code	Maturity Date	Interest Rate
TPW090	15/12/2016	8.00%
TPW100	15/12/2017	7.10%
TPW110	15/09/2019	6.75%
TPW120	15/12/2021	5.63%

TPW090 (maturing in December) will not be rolled over due to the fact it is so close to maturity. Investors in this bond have two options – accept repayment in full and/or invest in the new six-year bond paying 4.01%.

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

Z Energy Bond Offer

Z Energy has announced that it is considering an offer of up to \$350 million of unsubordinated, secured, fixed rate bonds. Proceeds will be used to repay the bonds that mature on October 15th, and to replace some of the bank debt that was taken to purchase the Chevron New Zealand assets. There will be two series of bonds with maturities of five and seven years. Z Energy has announced the interest rates for the bonds will be no lower than 3.95% (five year bond) and 4.20% (seven year bond).

Z Energy have noted that a range of international funding options are available to them, but they believe being a truly Kiwi company lies in also supporting the New Zealand markets and providing opportunities for retail investors.

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Money Week

Money Week is an annual event promoted by the Commission for Financial Capability, and is designed to draw attention to all things financial. This year's focus was on planning for the future and provided some interesting statistics. In retirement the average person will spend:

- \$11,000 on toast
- \$10,000 on eggs
- \$4,000 on beans

These statistics aren't particularly helpful in isolation; however they serve to get people thinking about financial requirements in retirement. Few can accurately estimate how much capital is required to generate a retirement income but promotions such as Money Week should get these conversations started. Here is a table previously published in the newsletter showing what income can be expected from a lump sum over various periods of time.

Years In

Retirement

10**12****13****14****15****20**

Annual

Income

Lump sum needed to generate required income

5,000	46,603	55,223	59,450	63,623	67,743	87,560
10,000	93,207	110,446	118,901	127,246	135,485	175,120
15,000	139,810	165,670	178,351	190,870	203,228	262,679
20,000	186,413	220,893	237,801	254,493	270,970	350,239
25,000	233,017	276,116	297,252	318,116	338,713	437,799
30,000	279,620	331,339	356,702	381,739	406,455	525,359
35,000	326,223	386,562	416,152	445,363	474,198	612,918
40,000	372,827	441,785	475,603	508,986	541,941	700,478
45,000	419,430	497,009	535,053	572,609	609,683	788,038
50,000	466,033	552,232	594,503	636,232	677,426	875,598
55,000	512,637	607,455	653,954	699,856	745,168	963,158
60,000	559,240	662,678	713,404	763,479	812,911	1,050,717

The table shows that if you want an income of \$20,000 per annum over and above Government Super, and you expect to use your capital completely over a twenty year period, you will need to have saved approximately \$350,000 by the time you retire. The figures are based on achieving an after-tax return of 3.30% on your lump sum, with average annual inflation of 2%. The figures aren't precise as they assume your extra income is withdrawn on an annual basis. In reality you would be drawing funds down weekly or fortnightly which requires a slightly higher lump sum than shown in the illustration.

KiwiSaver Performance

When KiwiSaver was first established in 2007 I had to decide which schemes I would promote. I paid for a fairly comprehensive research report on all the providers and decided Bramwell Brown would offer Gareth Morgan (now Kiwibank), Fisher Funds and ING (now ANZ Investments One Answer). KiwiSaver was a small part of our business; however the bulk of what we conducted (including my own) went to Gareth Morgan Investments. Personally I liked his investment philosophy and it was irrelevant to me that he didn't pay a commission to advisers. Now that it's into its tenth year the performance of the KiwiSaver funds can be assessed with relative confidence. I don't mind admitting what has encouraged me to look at this more closely is the poor recent performance of my own investment in Kiwibank's Growth Fund.

Here is a table showing returns for various KiwiSaver Funds (source Morningstar).

Fund	One Year Return	Three Year Return	Five Year Return
One Answer Conservative	5.80%	7.10%	6.90%
Fisher Funds Conservative	6.40%	7.10%	6.70%
Kiwi Wealth Conservative	1.90%	5.80%	6.00%
One Answer Balanced	4.70%	9.50%	9.30%
Fisher Funds Balanced	5.30%	8.60%	7.90%
Kiwi Wealth Balanced	-3.10%	7.70%	7.90%
One Answer Growth	3.10%	11.50%	11.40%
Fisher Funds Growth	4.30%	9.50%	8.90%
Kiwi Wealth Growth	-8.30%	9.30%	9.60%

Kiwi Wealth has clearly not had a great last twelve months; however longer-term returns should always be used when drawing comparisons between providers. One Answer has come out on top in all three categories. One Answer is now Bramwell Brown's preferred KiwiSaver provider, although clients will always be able to choose for themselves.

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.