

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

Director: Brett Dymond – AFA, BBS, GradDipBusStud (Personal Financial Planning)

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Donald Trump

Who would have thought a Donald Trump presidency would see share markets rise? Despite his lack of popularity his pro-business policies have struck a chord with investors, with the Dow Jones Industrial Average breaching 20000 recently. Since 2008 the US (along with most other countries) has focussed on pouring liquidity into the economy through lowering interest rates. Trump intends to instead slash taxes, deregulate the economy and embark on major infrastructure projects. The theory is that this encourages economic activity and drives growth. One of the consequences of such policies is an increase in inflation, which can favour ownership of shares.

Consider the investor who holds all their assets in bank deposits and bonds. If they spend the income their investments generate the real value of their investment is being eroded by inflation. Shares however will generally increase in value in line with inflation and is why most investors should hold some shares in their portfolio.

New Zealand's market, and to a lesser extent Australia, have followed the US showing good gains through January. Here are some market indicators showing movements over the last 18 months.

Market Indicator	<u>February 2017</u>	<u>June 2016</u>	<u>June 2015</u>
S&P NZX50 Index	7114	6988	5863
S&P ASX 200	5661	5406	5639
Dow Jones	20093	17675	17898
NZ/AU Exchange Rate	0.9625	0.9326	0.8932
NZ/US Exchange Rate	0.7274	0.6698	0.6834
NZ/GB Exchange Rate	0.5776	0.4483	0.4351
Official Cash Rate	1.75%	2.25%	3.25%
3 Month Bank Bill Rate	1.98%	2.41%	3.28%
5 Year Swap Rate	3.070%	2.475%	3.403%
10 Year Swap Rate	3.578%	2.885%	3.863%

Secondary Market Bond Yields

Here is a selection of commonly traded bonds on the New Zealand exchange.

Company	Coupon	Maturity Date	Yield
Z Energy Limited	7.25%	August 2018	3.95%
ANZ Bank	6.25%	March 2019	3.24%
Contact Energy	5.80%	May 2019	3.70%
Z Energy	6.50%	November 2019	4.40%
Infratil	6.75%	November 2019	4.77%
Warehouse	5.30%	June 2020	4.15%
Goodman Property Trust	6.20%	December 2020	4.11%
Sky TV	6.25%	March 2021	4.50%
Wellington Airport	6.25%	May 2021	4.12%
<u>Infratil</u>	<u>4.90%</u>	<u>June 2021</u>	<u>5.50%</u>
Kiwi Income Property Trust	6.15%	August 2021	4.50%
<u>Z Energy</u>	<u>4.01%</u>	<u>November 2021</u>	<u>4.72%</u>
Trustpower	5.63%	December 2021	4.52%
Goodman Property Trust	5.00%	June 2022	4.60%
Infratil	6.85%	June 2022	5.50%
<u>Trustpower</u>	<u>4.01%</u>	<u>December 2022</u>	<u>4.77%</u>
Meridian Energy	4.53%	March 2023	4.40%
Fonterra	4.42%	March 2023	4.50%
<u>Infratil</u>	<u>5.25%</u>	<u>September 2023</u>	<u>5.90%</u>
<u>Kiwi Property Group</u>	<u>4.00%</u>	<u>September 2023</u>	<u>5.09%</u>
<u>Z Energy</u>	<u>4.32%</u>	<u>November 2023</u>	<u>4.93%</u>
<u>Infratil</u>	<u>5.50%</u>	<u>June 2024</u>	<u>6.10%</u>
Kiwi Bank	6.61%	July 2024	5.31%
BNZ Capital Notes	5.31%	December 2025	5.40%
<u>ASB Capital Notes</u>	<u>5.25%</u>	<u>December 2026</u>	<u>5.45%</u>
<u>Westpac Capital Notes</u>	<u>4.69%</u>	<u>September 2026</u>	<u>5.27%</u>
Mercury NZ Limited	6.90%	July 2044	5.20%

For the first time in a number of years we are seeing some bonds trading at a discount to their issue price. The bonds I have underlined were all issued within the last twelve months and all have yields higher than their coupon rates. For those who have difficulty understanding the intricacies of the secondary bond market here is an explanation of some of the terms used.

Coupon – the interest rate at which the bond was issued. In most circumstances the coupon rate does not change throughout the life of the bond. Some bonds are issued with the ability to reset the interest rate at various times.

Maturity Date – the date at which the bond matures and the initial investment is repaid in full.

Yield – this is the return a buyer of the bond in the secondary market would achieve. If you buy a bond with a yield to maturity that is higher than its coupon rate you will pay less for this bond than the original purchaser. There is an inverse relationship between price and yield.

Look at the Infratil bond maturing in June 2024. It is trading at a yield of 6.10%, whereas its coupon is 5.50%. Anyone buying that bond in the secondary market will pay less than the initial investors (but will pay brokerage) and will achieve a yield until maturity of 6.10%. An investor wanting to buy 10,000 of these bonds in the secondary market at a yield of 6.10% will pay approximately \$9,700. At maturity they will be repaid \$10,000.

Conversely investors buying the Infratil bond that matures in June 2022 will pay more than the initial investor. Its coupon is 6.85% however secondary market investors are happy to achieve a lower return, and are prepared to pay more to yield only 5.50%. In order to achieve a 5.50% yield they must pay the initial holder of the bond more than what was originally paid. An investor wanting to buy 10,000 of these bonds in the secondary market at a yield of 5.50% will pay approximately \$10,950.

Wellington Airport Bond

Wellington International Airport Limited has announced an offer to New Zealand retail investors of up to \$75 million of unsecured, unsubordinated, fixed rate bonds, with the ability to accept oversubscriptions of up to \$25 million.

- Issuer – Wellington International Airport Limited
- Credit Rating – BBB+ (Standard & Poors)
- Maturity Date – June 16th 2025
- Interest rate – 5.00% per annum
- Interest payments – semi-annually on June 16th and December 16th
- Minimum application - \$10,000

**PLEASE CONTACT THE OFFICE AS SOON AS POSSIBLE IF YOU WOULD LIKE TO
PARTICIPATE IN THIS BOND OFFER**

Reset Securities

Here are the current values of some of the resettable securities trading on the secondary market.

Security	Coupon	Benchmark	Margin	Next Reset	Price
ASB	3.42%	1 year swap rate	1.30%	15/11/17	79.00
ASB	3.20%	1 year swap rate	1.00%	15/05/17	76.00
ANZ	5.28%	5 year swap rate	2.00%	18/04/18	102.19
ANZ	7.20%	5 year swap rate	3.50%	25/05/20	104.50
Credit Agricole	5.04%	3 month bill rate	1.90%	19/12/17	94.10
Fonterra	4.38%	1 year Govt stock	1.95%	10/07/17	93.00
Genesis Energy	6.19%	5 year swap rate	2.15%	15/07/18	102.20
Infratil	3.63%	1 year swap rate	1.50%	15/11/17	66.40
Kiwi Bank	7.25%	5 year swap rate	3.65%	27/05/20	104.55
Quayside Holdings	5.88%	3 year swap rate	1.70%	12/03/17	95.00
Rabobank	2.88%	1 year swap rate	0.76%	08/10/17	96.80
Rabobank	8.34%	5 year swap rate	3.75%	18/06/19	105.70
Works Finance	6.29%	1 year swap rate	4.05%	15/06/17	103.50

Bank Term Deposit Rates

Here is a summary of some of the bank rates on offer at present. We have seen slight increases in the longer term rates in the last month.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ*	3.60%	3.70%	3.95%	4.20%	4.25%
ASB	3.20%	3.65%	3.80%	4.00%	4.10%
BNZ	3.25%	3.35%	3.80%	4.00%	4.10%
Heartland	3.40%	3.40%	3.70%	3.75%	3.80%
Kiwibank	3.65%	3.40%	3.60%	3.70%	3.85%
Rabobank*	3.60%	3.65%	3.99%	4.23%	4.33%
UDC	3.80%	3.75%	3.85%	4.05%	4.15%
Westpac	3.40%	3.70%	3.80%	4.00%	4.10%

* ANZ and Rabobank rates are available through an intermediary relationship with Bramwell Brown.

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