

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### **Bramwell Brown Limited – Newsletter – September 2017**

#### **Melbourne**

I had an enjoyable week in Melbourne in July, attending my daughter's graduation. At the time most of the media attention was focussed on the attempted terror attacks in Sydney, and we were certainly subjected to heightened security measures flying home. Other headlines showed Australia is grappling with similar issues to New Zealand – Trump, North Korea, interest rates, a rising exchange rate, inequality, housing, poverty, and the environment all featured in the media in the week I was away.

The big business story was the failure of the Commonwealth Bank (CBA) to comply with its Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) obligations. It is alleged CBA contravened the AML/CFT Act on more than 53,000 occasions when it failed to report suspicious transactions. Each contravention of the Act carries a maximum penalty of \$18 million. CBA now faces an investor class action over the breaches, claiming the company did not adhere to its continuous disclosure obligations by informing investors of the allegations. The share price has dropped from \$83.97 on August 3<sup>rd</sup> to \$75.00 at the end of this month – a decrease of 10.68%.

#### **AML/CFT Amendment Act 2017**

Our own AML/CFT laws have been updated recently with the passing of the Anti- Money Laundering and Countering Financing of Terrorism Amendment Act 2017. Phase 1 of the legislation has been in place since 2013, applying to banks, casinos and financial services providers. Phase 2 extends the regime to lawyers, conveyancers, accountants, real estate agents, sports and race betting agencies, and businesses that deal in high value goods. Lawyers and conveyancers will need to put AML/CFT measures in place from July 1<sup>st</sup> 2018, accountants by October 1<sup>st</sup> 2018 and real estate agents by January 1<sup>st</sup> 2019.

Bramwell Brown has been dealing with this compliance since 2013 and at times it can feel like the rules are particularly onerous for small-town, provincial New Zealand. Unfortunately you can't have different rules based on size, location or customer-type. Just like the major trading banks, Bramwell Brown must undertake an AML risk assessment, write an AML programme, identify its clients,

conduct enhanced due diligence on trusts and politically exposed persons, file suspicious transaction reports, and have its AML programme independently audited every two years.

With the extension of the legislation to include lawyers, accountants and real estate agents you can expect to be asked to prove your identity more and more. I would hope in time the Government can facilitate an online system such as their RealMe site to verify identity electronically. In the meantime what is generally required to prove identity includes:

- Current valid passport or firearms licence, or:
- Birth certificate in conjunction with a current valid driver's licence
- Proof of address (rates demand or utilities invoice)

Some businesses will have slightly different requirements around identifying clients. For example Bramwell Brown requires IRD numbers and proof of bank account in order to set up trading accounts, even though this is not required under the AML laws. Please don't be offended when I ask for updated ID or supporting evidence for a change in circumstances, as we are required under the law to conduct ongoing customer due diligence.

### **Rabobank Perpetual Securities (RBOHA)**

Rabobank Nederland has announced it will be repaying the perpetual capital securities it issued in October 2007. These securities were issued prior to the Global Financial Crisis (GFC), with an initial coupon rate of 9.48%. From that point on the interest rate was reset every year at the one-year swap rate plus the margin of 0.76%. At the time these securities were issued those terms were accepted by the market as adequate. However following the GFC, interest rates fell as Governments around the world tried to stimulate their economies. The risk premium on bonds increased and it soon became apparent that a margin of 0.76% was not an acceptable return over and above the one-year swap rate for Rabobank's perpetual securities. In 2009 Rabobank issued a second tranche of perpetual securities (RCSHA); however these had a margin of 3.75%. This shows how much the risk premium had increased following the GFC.

Rabobank's 2007 perpetual securities have unsurprisingly traded at a discount to their face value since their first reset in 2008, at times trading as low as seventy cents in the dollar. It's not Rabobank's fault that market conditions altered so dramatically in 2008, leaving investors with a security that performed poorly for the next decade. However, to their credit they have honoured the inference they made when the securities were issued that they would repay in full on the ten year anniversary. They are not obliged to do this, and can in fact leave these securities on issue until 2037, which is the date on which they gave a firm undertaking to redeem in full. At a current coupon of 2.88% Rabobank is

foregoing a fairly cheap source of funding, so it is heartening to see them honouring their initial intent. It's the sort of behaviour that encourages investors to return when they next seek to raise money from the public.

### **Heartland Bank**

Heartland Bank has announced an offer for up to \$100 million of five-year, unsecured, unsubordinated, fixed rate notes, with the ability to accept oversubscriptions of \$50 million.

- Maturity date – September 21<sup>st</sup> 2022
- Interest rate – 4.50%
- BBB credit rating
- Semi-annual interest paid March 21<sup>st</sup> and September 21<sup>st</sup>
- Minimum holding - \$5,000
- Offer closing date – September 18th

Heartland Bank was formed with the merger of the Canterbury Building Society, the Southern Cross Building Society, Marac, and PGG Wrightson Finance. It has achieved steady growth since it was first licensed as a bank in 2012. The bank's key markets are business loans, motor vehicle finance, livestock finance, reverse mortgages, and personal loans. Points to note include:

- Net profit after tax has increased from \$36 million in 2014 to \$60.8 million in 2017
- Owner of award winning reverse mortgage business Seniors Finance
- Part owner of peer to peer lender Harmony

There is no public pool for this offer and our allocation has been heavily scaled. Contact the office as soon as possible if you would like to reserve an allocation.

### **New Premises**

This time last year I was to be moving to new premises with Craig Clouston from Sellar & Sellar. Following Craig's tragic death that move did not come to fruition. I have recently been offered space with Amy Kerr & Associates in Bannister Street (two doors down from our current premises). With a number of mutual clients there are advantages for both of our businesses; however Bramwell Brown Limited will remain a completely independent business. At this stage the move is planned for November and I will confirm these details in next month's newsletter.

## **Precinct Properties**

Precinct Properties has announced an offer of up to \$150 million of subordinated, convertible notes. The notes are convertible into ordinary shares of Precinct Properties at maturity.

- Maturity date – September 27<sup>th</sup> 2021
- Interest rate – yet to be set, but subject to a minimum of 4.80%
- Quarterly interest paid March, June, September and December
- Minimum holding - \$5,000
- Offer closing date – September 22<sup>nd</sup>

At maturity Precinct can either convert the notes into ordinary shares in the company, or they can elect to redeem the notes in cash. If they convert the notes into shares investors will receive:

- The principal sum invested (including accrued interest) divided by the conversion price
- The conversion price will be the lesser of:
  - \$1.40
  - A 2% discount to the market share price

What this means is that if the notes are converted to shares you will receive at least a 2% premium on what was initially invested. If the share price is above \$1.43 at conversion you will receive an even greater premium, due to the fact that \$1.40 has been set as the conversion price cap.

Rather than converting the notes into shares, Precinct may elect to instead pay a cash amount to noteholders at the maturity date. In this case noteholders would be paid an amount equal to the market price of the shares that would have otherwise been issued to them. Therefore noteholders will similarly benefit from any appreciation in the share price (above \$1.43) prior to the conversion date.

Contact the office as soon as possible if you would like to reserve an allocation.

## **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.

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