BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Markets

Markets continue to remain volatile around the world. Rising US interest rates, the threat of trade wars, diplomatic crises, and inflation expectations are all contributing to swings in prices. Since last month's newsletter the Dow Jones has dropped a further 4%, however the NZX50 Index has risen by approximately 2%. Investors should ready themselves for a volatile 2018, and should not expect the double-digit returns we have enjoyed in the recent past.

The returns achieved on shares since the 2009 Global Financial Crisis may have lulled some investors into a false sense of security. The growth in asset values has been substantial and consistent in the last ten years. For example, the gains made by companies such as Ryman Healthcare, A2 Milk, Port of Tauranga, Mainfreight and Fisher & Paykel Healthcare have in some respects provided investors with a secondary source of income. Many have (rightly) trimmed share holdings as their value has exceeded a level that causes concerns about exposure to a single entity. Some have distributed these funds elsewhere, whilst others have no doubt spent the proceeds.

My concern is that these capital gains have clouded the true level of income investors are receiving. Have you been relying on these gains in value to supplement your income? If so are you prepared for a reduction in income when share values don't continue to go up? In my experience as incomes increase we have a tendency to spend more. How simple is it to reduce our spending when our income reduces? My advice to investors is to keep a record of their income and expenditure and be aware of the consequences of a reduction in income.

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.

Financial Services Legislation Amendment Bill

The long-running MBIE review of the Financial Advisers Act 2008 and the Financial Services Providers (Registration & Dispute Resolution) Act 2008 is now before Parliament in the shape of the Financial Services Legislation Amendment Bill. The Bill creates a new regulatory regime for the provision of financial advice. The review found a number of problems with the existing regime for financial advice which were hindering investor confidence, participation in financial markets, and informed decision making. According to MBIE the new regime addresses those problems in a way that will:

- Ensure consumers can access the financial advice they need
- Improve the quality of financial advice
- Not impose any undue compliance costs, complexity, or barriers to innovation
- Ensure access to redress

I can't help but feel slightly cynical when I see mention of "no undue compliance costs." Under the new regime (since 2008) the compliance costs to this business have increased by thousands of dollars per annum. I fully accept changes had to me made to the adviser industry post 2008; however the costs of compliance are significant.

The Authorised Financial Adviser (AFA), Registered Financial Adviser (RFA) and Qualifying Financial Entity (QFE) designations will disappear and be replaced by financial advice providers (firms), financial advisers, and nominated representatives. Financial advice providers will be licenced by the Financial Markets Authority and will be able to give advice:

- Directly – for example online (robo-advice)
- Through financial advisers
- Through nominated representatives (who will have less discretion than financial advisers)

Under the new regime anyone giving financial advice must place the interests of the client first. It seems absurd that under current regulations only Authorised Financial Advisers have this obligation. A Registered Financial Adviser is not held to this standard currently. The removal of the requirement for personalised financial advice to be given by a natural person has been removed, which will enable the provision of robo (or digital) advice. In time you will be able to log in to a website, fill in a risk profile questionnaire, and templated advice will be provided based on your answers. This should reduce the cost of obtaining financial advice and I can see the younger generation embracing this type of technology. My concern however is that answers to risk profile questionnaires don't always accurately reflect the reality of an investor's circumstances. It's only through face to face meetings, and time spent getting to know your clients that financial advice can be truly tailored to an individual.

ANZ Bank Bonds

The ANZ perpetual subordinated bonds issued in April 2008 will be repaid on their ten-year anniversary (April 18th). These bonds carried a coupon rate of 5.28% and will be repaid in accordance with the conditions in the investment statement. Unfortunately, ANZ are not looking to offer a replacement debt security which means there will be a further $835 million of investors'money looking for a new home.

Investore Property Bond

Investore Property Limited is making an offer of up to $75 million (with the ability to accept up to $25 million of oversubscriptions) of six-year, secured, fixed rate bonds.

- Maturity Date – April 18th 2024
- Interest Rate – 4.40%
- Quarterly interest paid July, October, January and April
- Secured by first ranking mortgage over its properties
- Minimum application - $5,000
- Closing date – April 12th 2018

Investore Property is a company that was listed on the NZX in July 2016 following its demerger from the Stride Property Group. It holds a portfolio of large-format retail properties throughout New Zealand and is externally managed by Stride Investment Management Limited. It owns around forty properties, with anchor tenants including Countdown, Bunnings, Pak n Save, New World, Mitre 10, Animates and the Warehouse.

CALL THE OFFICE IF THIS OFFER IS OF INTEREST TO YOU

UDC Finance

The ANZ Bank has announced it is exploring the possibility of an initial public offering (IPO) of ordinary shares in UDC Finance. This follows the Overseas Investment Office (OIO) decision to reject the Chinese company HNA's bid to buy UDC. The OIO said it had rejected HNA's application to buy UDC because of unanswered questions relating to HNA's ownership.

UDC is a wholly owned subsidiary of the ANZ Bank and has been lending to New Zealand businesses for over 75 years. It is one of the few finance companies to have survived the 2009 finance company collapse. Its core business is funding vehicles, plant, machinery and equipment. It offers secured term investments and call accounts to investors.

We will watch with interest to see if UDC will in fact come to the market.

Secondary Market Bond Yields

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

Company	**Coupon**	**Maturity Date**	**Yield**
Z Energy	6.50%	November 2019	3.55%
Infratil	6.75%	November 2019	4.15%
Warehouse	5.30%	June 2020	4.00%
Goodman Property Trust	6.20%	December 2020	3.20%
Sky TV	6.25%	March 2021	5.11%
Wellington Airport	6.25%	May 2021	3.46%
Infratil	4.90%	June 2021	4.35%
Kiwi Income Property Trust	6.15%	August 2021	3.56%
Z Energy	4.01%	November 2021	3.75%
Trustpower	5.63%	December 2021	3.80%
Goodman Property Trust	5.00%	June 2022	3.62%
Infratil	6.85%	June 2022	4.20%
Heartland Bank	4.50%	September 2022	3.87%
Trustpower	4.01%	December 2022	3.90%
Meridian Energy	4.53%	March 2023	3.75%
Fonterra	4.42%	March 2023	3.60%
Summerset	4.78%	July 2023	3.90%
Infratil	5.25%	September 2023	4.90%
Kiwi Property Group	4.00%	September 2023	3.87%
Z Energy	4.32%	November 2023	4.10%
Infratil	5.50%	June 2024	5.00%
Kiwi Bank	6.61%	July 2024	4.00%
Precinct Properties	4.42%	November 2024	4.25%
Wellington Airport	5.00%	June 2025	4.15%
BNZ Capital Notes	5.31%	December 2025	3.94%
ASB Capital Notes	5.25%	December 2026	4.05%
Westpac Capital Notes	4.69%	September 2026	4.00%
Mercury NZ Limited	6.90%	July 2044	4.00%

I last had this table in the newsletter in August 2017. Since then every bond except for the March 2021 Sky TV bond has seen a reduction in their yield. Not one bond is now trading above their coupon rate. This is more evidence of an expectation that interest rates are going to remain low for a long time.