

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – May 2020

Covid 19

I don't mind admitting that in the early stages of the Coronavirus outbreak I thought it would be quickly contained, and financial markets would return to normal relatively quickly. Various commentators were drawing comparisons to the 2002 SARS outbreak, and the 2009 H1N1 flu pandemic. Both were eventually contained without the social disruption we have seen from Covid 19. It's quite bizarre to think whole countries have come to a standstill in order to contain the virus, however when you see the likes of Spain celebrating their daily death rate dropping to under three hundred you can see why these measures were necessary. It's been disruptive for business, and it's been unsettling, and isolating for many. There is no question Covid 19 will be similar to the 9/11 terrorist attacks, or the Christchurch earthquakes – we will all look back and remember where we were during this time.

I think it will be the catalyst for a whole range of changes in behaviour. We are seeing it already at medical centres with phone or video consultations, and with people working from home realising it actually can be efficient. Internet banking, online shopping, video meetings, and even ordering food online will eventually become the norm rather than the exception. International travel will not return to previous levels quickly, and will I suspect be expensive. The benefit to the environment from an extended period of inactivity will be interesting to see, and I'm sure will create debate around how we care for the environment in the future.

For me, working from home has been relatively seamless. Most of our work is Internet-based, so it doesn't matter where we operate from. The majority of our client communications from the registries now come electronically, rather than by post, so it limits the amount of paper being generated. I have a separate office, and have worked from home occasionally in the past, so it just required some minor tweaks to make it a bit more efficient. The hardest part of being at home is staying on task. When I look outside on a beautiful day and see hedges that need trimming, or cows that need shifting, it's very easy to get side-tracked! Perhaps it's been a good thing that I've been busy with client reporting since the lockdown started. I've missed the social aspect of working with colleagues and clients, so I don't think I'll be making a permanent change to working from home.

Markets

It's been a bit of a rollercoaster for shareholders during the fast-changing crisis. The NZX50 Index dropped 19.50% between March 6th and March 20th, and then dropped a further 7.60% on Monday, March 23rd. On that day you could be forgiven for thinking there was no way back for your investments. However, since then there has been a rally of sorts, with the index gaining 26% to be around 10750 on April 28th. This won't be the last of the volatility – I think we have a long way to go yet. When you see the staggering unemployment figures coming out of the United States it's hard to imagine we will return to normal quickly.

Our own economy will be hard hit by Covid 19. Tourism is New Zealand's largest industry and it has been decimated. It will be a long road back to recovery. New Zealand has a large number of small businesses – many of them will fail, or will struggle to return to their previous levels. People will lose their jobs. The Government will do all it can to support business and individuals through this crisis, however there's a limit to what they can do. What does all this mean for investors, and what steps can you take to mitigate the damage?

- You can expect investment income to decrease in the short to medium-term. Already we have seen companies cutting dividends. Interest rates have fallen and could drop further. Reassess your budget. Many people don't even keep a record of income and expenditure – this could be the catalyst to do just that – if you don't know what you spend each year, how will you know what changes can be made?
- Expect some companies you own shares in to require more capital. We have already seen Auckland Airport and Kathmandu come to shareholders to strengthen their balance sheets. These offers are likely to be at a discount to encourage investment. Phone the office if you need guidance on the merits of each offer.
- Stick to your investment plan, and asset allocation. Don't be afraid to continue regularly investing in shares if that was your strategy before Covid 19. Trying to time the market is difficult at best – continue to invest in stages.
- Seek advice. Don't hesitate to phone or email for guidance on your investment decisions.

ANZ Capital Notes (ANBHB)

The Reserve Bank has instructed locally incorporated banks not to pay a dividend, nor redeem capital notes during the Covid 19 crisis. This is designed to further support the stability of the New Zealand financial system during this period of uncertainty. The ANZ capital notes could have been redeemed on May 25th 2020, however will now be rolled over, with the interest rate reset quarterly at the three-month bank bill rate, plus a margin of 3.50%.

Fixed Interest

The financial meltdown has not only seen a drop in share prices, but also an increase in the yields of some secondary market bonds. Here is a selection of commonly traded bonds listed on the New Zealand exchange.

| Company | Coupon | Maturity Date | Yield |
|-----------------------|---------------|----------------------|--------------|
| Turners Automotive | 5.50% | September 2021 | 4.00% |
| Heartland Bank | 4.50% | September 2022 | 3.20% |
| Infratil | 5.65% | December 2022 | 5.00% |
| Summerset | 4.78% | July 2023 | 3.25% |
| WEL Networks | 4.90% | August 2023 | 3.10% |
| Infratil | 5.25% | September 2023 | 5.00% |
| Kiwi Property Group | 4.00% | September 2023 | 2.85% |
| Z Energy | 4.32% | November 2023 | 4.00% |
| Investore | 4.40% | April 2024 | 3.00% |
| Infratil | 5.50% | June 2024 | 5.30% |
| Precinct Properties | 4.42% | November 2024 | 3.35% |
| Kiwi Property Group | 4.33% | December 2024 | 3.00% |
| Synlait Milk | 3.83% | December 2024 | 4.20% |
| Infratil | 4.75% | December 2024 | 5.10% |
| Wellington Airport | 5.00% | June 2025 | 3.60% |
| Infratil | 6.15% | June 2025 | 5.75% |
| Summerset | 4.20% | September 2025 | 3.50% |
| Property for Industry | 4.25% | October 2025 | 3.00% |
| BNZ Capital Notes | 5.31% | December 2025 | 3.99% |
| Argosy Property | 4.00% | March 2026 | 3.60% |
| Infratil | 3.35% | March 2026 | 5.45% |
| Trustpower | 3.35% | July 2026 | 3.00% |
| Westpac Capital Notes | 4.69% | September 2026 | 3.75% |
| ASB Capital Notes | 5.25% | December 2026 | 4.02% |
| Infratil | 3.35% | December 2026 | 5.15% |
| Infratil | 4.85% | December 2028 | 5.20% |
| Trustpower | 3.97% | February 2029 | 3.25% |
| NZX | 5.40% | June 2033 | 4.35% |
| NZ Refining | 5.10% | March 2034 | 6.30% |
| Genesis Energy | 4.65% | July 2048 | 3.33% |
| Mercury Energy | 3.60% | July 2049 | 2.95% |

Newsletters

I would encourage anyone who is receiving this newsletter by post to please provide your email address. Email the office at brett@bramwellbrown.co.nz

Inflation

I wonder what effect a global shock like Covid 19 will have on inflation. Governments are borrowing billions of dollars to prop up economies, and eventually this money has to be repaid. Will some Governments allow inflation to reduce the real value of their debt over time? Economic theories can be a bit murky for me, however I do know that inflation can significantly affect people's wealth. How many renters have been priced out of the housing market in the last ten years due to the significant rise in prices? How many elderly investors have seen the real value of their wealth decrease due to only holding bank term deposits? Too often I see financial commentators suggesting only young people should be taking risk with their investments – at 65, for some reason investors should be invested only in bonds and bank deposits. I agree that we should take less risk as we age, however I would strongly advocate most investors hold some assets that keep pace with inflation. If inflation rears its ugly head again in the future, you want to own at least some assets that will increase in value in line with that inflation.

Bank Term Deposit Rates

Here is a summary of some of the bank rates on offer at present.

| | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years |
|------------------|---------------|----------------|----------------|----------------|----------------|
| ANZ | 2.30% | 2.30% | 2.30% | 2.35% | 2.45% |
| ASB | 2.30% | 2.25% | 2.25% | 2.25% | 2.25% |
| BNZ | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% |
| Heartland | 2.70% | 2.60% | 2.60% | 2.60% | 2.60% |
| Kiwibank | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% |
| Rabobank | 2.62% | 2.58% | 2.58% | 2.58% | 2.77% |
| Westpac | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% |

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.