Bramwell Brown Ltd

Investment Advisers – Brokers

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Bramwell Brown Limited – Newsletter – September 2020

Mercury Energy Green Bonds

Mercury Energy has announced an offer of up to $150 million (with the ability to accept up to $50 million in oversubscriptions) of seven-year, unsecured, unsubordinated, fixed-rate bonds maturing on Tuesday September 14th 2027. The offer is expected to open on Monday August 31st, and close on Friday September 4th. At the time of writing the interest rate payable on the bonds was unknown. That will be set after a book-build on Monday August 31st. I expect the interest rate will be under 2%.

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

Bank Term Deposit Rates

Unfortunately, interest rates continue to decline, with bank term deposit rates following the reductions in the Official Cash rate. 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	1.40%	1.40%	1.45%	1.45%	1.50%
ASB	1.25%	1.20%	1.30%	1.35%	1.40%
BNZ	1.25%	1.50%	1.30%	1.65%	1.65%
Heartland	1.65%	2.00%	1.80%	1.30%	1.30%
Kiwibank	1.40%	1.40%	1.40%	1.45%	1.50%
Rabobank	1.44%	1.44%	1.49%	1.49%	1.59%
Westpac	1.35%	1.40%	1.40%	1.40%	1.40%

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.

Markets

The New Zealand share market continues to shrug off concerns around Covid 19, and any impact the virus might have on our economy. The expectation of low interest rates for years into the future, together with a considerable amount of cash looking for a home is driving the growth in share prices. Figure 1 shows the NZX50 Gross Index from January 1st 2020. You can see it has recovered all of the losses suffered during the Covid outbreak in March.

Figure 1: NZX50 Gross Index

To me this graph highlights the futility of trying to time markets by predicting highs and lows. I think very few financial commentators would have expected our market to recover the way it has since March 23rd. My advice remains the same:

- Understand the risks you take with investments, and stay within the risk you can tolerate
- Hold a wide variety of asset classes
- Buy good companies and hold them for long periods
- Hold overseas investments as insurance against a shock to the New Zealand economy
- Limit your exposure to individual companies
- Be aware that a market correction will occur at some point
- Don’t attempt to time the market – invest in stages
- Don’t be tempted to sell if the market does fall

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

Official Cash Rate

The Reserve Bank's Monetary Policy Committee met again on August 12th to determine the Official Cash Rate (OCR). Here is an excerpt from their discussions.

The Monetary Policy Committee agreed to expand the Large-Scale Asset Purchase (LSAP) programme up to $100 billion so as to further lower retail interest rates in order to achieve its remit. The eligible assets remain the same and the Official Cash Rate (OCR) is being held at 0.25 percent in accordance with the guidance issued on 16 March. Reflecting a possible need for further monetary stimulus, the Committee also agreed that a package of additional monetary instruments must remain in active preparation. The deployment of such tools will depend on the outlook for inflation and employment. The package of further instruments includes a negative OCR supported by funding retail banks directly at near-OCR (a Funding for Lending Programme). Purchases of foreign assets also remain an option.

Over recent months New Zealand had contained the spread of COVID-19 locally, allowing a relaxation of social restrictions and a recovery in economic activity. Recent indicators highlight that the faster return to social norms and a higher proportion of employees working from home has seen output and employment recover sooner than projected in our May Monetary Policy Statement. Recent spending also reflected pent up demand resulting from the lockdown period. However, the severe global economic disruption caused by the pandemic is persisting. Any significant change in the global and domestic economic outlook remains dependent on the containment of the virus, which is highly uncertain as evidenced today by the return to social restrictions in New Zealand. Such uncertainty is stifling household and business spending appetites, as highlighted in confidence surveys. Given the ongoing health uncertainty, there remains a downside risk to our baseline economic scenario.

International border restrictions will continue to significantly curtail migration and tourism, and lead to the activity outlook being uneven across industries and regions. Commodity prices for New Zealand's exports remain robust, but this has been partly offset by a rise in the New Zealand dollar exchange rate moderating the return to local export producers. Ongoing support for domestic economic activity is being provided through significant government spending on business assistance and household income support. This will be supported by a rising level of government investment. However, there will be a transition of policies in the near-term, with the announced end of the Wage Subsidy likely to coincide with a decline in employment.

Monetary policy will continue to provide important economic support in the period ahead. Its effectiveness is evidenced by retail banks' lower funding costs and lending rates, which are benefiting businesses and households. It remains in the long-term interest of banks to fully pass on the benefits of lower funding costs to their customers.

Bonus Bonds

The ANZ Bank has decided to close the long-running Bonus Bonds fund. They cite the inability to generate significant prizes due to low interest rates as the reason. The September and October prize draws will be held as scheduled, but no new bonds will be issued. Investors have two options – they can withdraw their funds before the wind-up begins, or they can stay in the scheme and be entitled to a share of the remaining reserves, after expenses, when the scheme is wound up. Those who choose to stay in the scheme during the wind-up phase will have their investment locked in during this process, which could take up to twelve months.

Call the office if you own Bonus Bonds and are unsure what course of action to take.

Dividends

With the ever-decreasing interest rates at present, investors are looking to the share-market in search of income. Here are some current share prices (August 27th) together with their most recent annual dividends. Of course, no guarantee can be given that future dividends will remain the same.

Company	**Price**	**Dividend (Cents Per Share)**	**Yield**
Argosy Property Limited	1.40	6.37	4.55%
Australian Foundation Investment Co.	6.92	24.00	3.47%
Chorus	8.67	24.00	2.77%
Contact Energy	6.25	39.00	6.24%
Freightways	7.46	15.00	2.01%
Genesis Energy	3.02	17.20	5.69%
Goodman Property Trust	2.35	6.31	2.68%
Hallenstein Glasson	4.54	39.00	8.59%
Infratil	5.00	17.25	3.45%
Kingfish	1.72	12.64	7.34%
Mercury Energy	5.31	15.80	2.97%
Meridian Energy	5.05	19.34	3.82%
Precinct Properties	1.71	6.30	3.68%
Ryman Healthcare	13.50	24.20	1.79%
SmartShares (Dividend Fund)	1.14	4.75	4.16%
Spark	4.94	25.00	5.06%
Trustpower	6.95	32.50	4.67%
Vector	4.28	16.50	3.85%