

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – March 2021

Contact Energy

Contact Energy is looking to raise equity of up to \$400 million to reduce debt, and to fund the Tauhara Geothermal Project. The four-year electricity supply agreement between New Zealand Aluminium Smelters (Tiwai Point) and Meridian Energy has given Contact the confidence to proceed with the Tauhara project. The Retail Offer to existing shareholders of \$75 million is at the lower of \$7.00 per share, or a 2.50% discount to the average share price in the five days leading up to the close of the offer. No brokerage is payable by investors.

The offer closes on Friday March 5th. Applications can be made online at www.contactshareoffer.co.nz. If you would like to discuss this offer don't hesitate to contact the office.

Kingfish Warrants

Some of you will have Kingfish warrants, and it might be timely to explain again how they work. A warrant is a security that entitles the holder to buy a share in a company at a predetermined price. The important terms of warrants are the exercise price, the underlying share price, and the exercise date. Kingfish investors received one warrant for every four shares held in February 2020.

The Kingfish warrants now have an exercise date of March 12th 2021, and an exercise price of \$1.51. Each warrant gives the holder the right to buy a Kingfish share for \$1.51 up to March 12th. The underlying Kingfish share price is currently at \$1.90; therefore the warrants are valuable in their own right. All things being equal the warrants usually trade at a price reflecting the difference between the exercise price (\$1.51) and the underlying share price (\$1.90), although the upcoming dividend affects the price differential. At present the warrants are trading at about 26 cents. If you would like to discuss your options in relation to selling or exercising your warrants, please phone the office. The important thing is to do something – either sell the warrants or take them up and purchase more shares. If you do nothing the warrants will lapse. The last day for trading the warrants is Wednesday March 10th.

Official Cash Rate

The Reserve Bank's Monetary Policy Committee met on February 24th to review the Official Cash Rate. Here is their policy assessment.

“The Monetary Policy Committee agreed to maintain the current stimulatory level of monetary settings in order to meet its consumer price inflation and employment remit. The Committee will keep the Official Cash Rate (OCR) at 0.25 percent, and the Large Scale Asset Purchase (LSAP) Programme of up to \$100 billion and the Funding for Lending Programme (FLP) operation unchanged. Global economic activity has increased since the November Monetary Policy Statement. However, this lift in activity has been uneven both between and within countries. The initiation of global COVID-19 vaccination programmes is positive for future health and economic activity. The Committee agreed, however, that there remains a significant period before widespread immunity is achieved. In the meantime, economic uncertainty will remain heightened as international border restrictions continue.

Economic activity in New Zealand picked up over recent months, in line with the easing of health-related social restrictions. Households and businesses also benefitted from significant fiscal and monetary policy support, bolstering their cash-flow and spending. International prices for New Zealand's exports also supported export incomes, although the New Zealand dollar exchange rate has offset some of this support. Some temporary factors were currently supporting consumer price inflation and employment. These one-off factors include higher oil prices, supply disruptions due to trade constraints, the recent suite of supportive fiscal stimulus, and a spending catch-up following the easing of social restrictions. The economic outlook ahead remains highly uncertain, determined in large part by any future health-related social restrictions. This ongoing uncertainty is expected to constrain business investment and household spending growth. The Committee agreed that inflation and employment would likely remain below its Remit targets over the medium term in the absence of prolonged monetary stimulus.

The Committee agreed to maintain its current stimulatory monetary settings until it is confident that consumer price inflation will be sustained at the 2 percent per annum target midpoint, and that employment is at or above its maximum sustainable level. Meeting these requirements will necessitate considerable time and patience. The Committee agreed that it remains prepared to provide additional monetary stimulus if necessary and noted that the operational work to enable the OCR to be taken negative if required is now completed.”

Yet again the tone of the statement gives little comfort to investors relying on fixed interest to supplement their income. Various commentators are predicting an increase in the Official Cash Rate this year, however I think it will be a long and slow return to the interest rates we enjoyed four or five years ago.

Financial Adviser Regulation

The new regime for financial advisers comes into force on March 15th. Initially you may not notice much difference in the way we do business, however there will be incremental changes throughout the year.

Disclosure

Disclosure will be the first noticeable change. The new regulations will require specified information to be disclosed:

- Information is to be made publicly available on a website (if the provider has one), or on request. The information to be disclosed includes the provider's license status, the types of products they advise on, the fees that may be payable, and commissions or conflicts of interest that may apply.
- Information is to be given to the client when the scope of advice to be given becomes known. This information is disclosed to help clients decide whether to seek, obtain or act on advice from a particular provider. The information to be disclosed includes material limitations on the scope of advice, disciplinary history of the person giving advice, and the fees, commissions or conflicts of interest that may apply.
- Information to be given to the client when the advice is given. This information is disclosed to help clients decide whether to act on the advice given. The information to be disclosed includes any changes from the information given in the initial disclosure, along with confirmation of fees payable and applicable commissions and conflicts of interest, and the legal duties of the provider.
- Information to be given if a complaint is received. This includes information about the provider's internal complaints handling process and how to access its external dispute resolution scheme.

Conduct

The Code of Professional Conduct for Financial Advice Services is a new iteration of the Code of Professional Conduct for Authorised Financial Advisers. It is not as prescriptive as the old code and covers the following areas:

- Treat clients fairly
- Act with integrity
- Give financial advice that is suitable
- Ensure that the client understands the financial advice
- Protect client information
- Have general knowledge, competence and skill
- Have particular competence, knowledge and skill for designing an investment plan
- Have particular competence, knowledge and skill for product advice
- Keep competence, knowledge and skill up to date

Treating clients fairly and acting with integrity go without saying, however we need to be able to prove to the regulators how we do this. You may find in the future we survey clients to get their views on our interactions with them. Do we communicate clearly? Do we treat you with respect? Do we listen to you?

Giving financial advice that is suitable. Under this Code Standard we must ensure that financial advice fits with the client's circumstances including their financial situation, needs, goals and risk tolerance. In some cases we provide clients with a transaction-only service, where we buy or sell securities on a client's instructions. At the other end of the spectrum we are running clients' portfolios for them, and must have a complete understanding of their overall situation. There are some grey areas in between that will need to be tidied up. We will update our client documentation to include an agreed scope of service that lists exactly what we will do for you, and what we take into account when we advise you.

Ensuring the client understands the financial advice. Section 431J of the Financial Markets Conduct Act states "a person must not give regulated financial advice to a retail client unless the person has taken reasonable steps to ensure that the client understands the nature and scope of the advice being given, including any limitation on the nature and scope of the advice." Understanding the advice includes the client having sufficient comprehension of the content, risks and consequences of the financial advice, and of the nature of any ongoing and other services related to the financial advice, to be able to make timely and informed decisions about the financial advice. What amounts to "reasonable steps" by us to ensure client understanding is debateable, so this will be a work in progress. I don't want to get to a point where a client must sign a form stating they understand our advice every time we interact with them.

Protecting client information is something we take seriously. Late last year we engaged Technology Solutions to review our data security, with their view being we are doing everything necessary to ensure client information is secure.

The competence, knowledge and skill provisions have not changed significantly from the previous Code.

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.