

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Markets

I've spent much of April reporting to clients on their portfolios to March 31st. Most investors have seen a substantial increase in the value of their portfolio, with the size of the increase relative to their exposure to equities. Much of this increase is, of course, simply the recovery following the meltdown experienced in March last year due to the arrival of Covid 19. Interestingly, the Financial Markets Authority (FMA) issued a warning to the funds management industry to avoid advertising large investment returns for the twelve-month period to March 31st, 2021, as this could mislead investors. The FMA is concerned investors being marketed returns for the twelve-month period through social media, websites and other channels, without context, may be misled into thinking they are typical market performance, or that particular managers have significant, repeatable skill.

We can see the effect of choosing a particular period to report on, from the following table:

Table 1: NZX50 Gross Index Returns 2020-2021

	April 1st 2020 to March 31st 2021	March 1st 2020 to February 28th 2021
NZX50 Gross Index	28.20%	8.50%
ASX200	32.87%	4.26%

I think the point to remember is that when we value your portfolio, it is a snapshot in time. If we valued your portfolio today, it's likely it will be at a slightly higher value than it was a month ago. For many investors it's not particularly relevant what the value is on a given day. The more important aspect is whether it's providing the income you are seeking. Of course, we have an expectation that our portfolio will keep pace with the market, and for some investors growth is all they are investing for. But for the majority of retirees the income we can generate is more important. We all know this aspect of investing is becoming more and more challenging.

Fixed Interest

As I've just mentioned, the ability to produce the income we desire is becoming very difficult. We can see how far rates have fallen just by looking at the upcoming maturities of bonds throughout the remainder of 2021. Table 2 shows a selection of those bonds, many of which our clients will hold.

Table 2: Bond Maturities 2021

Bond	Coupon Rate	Maturity Date
Chorus	4.12%	May 6 th 2021
NZ Post	4.23%	May 15 th 2021
Wellington Airport	6.25%	May 15 th 2021
Infratil	4.90%	June 15 th 2021
Kiwi Property Group	6.15%	August 20 th 2021
Precinct Properties (Notes)	4.80%	September 27 th 2021
Turners Automotive	5.50%	September 30 th 2021
Z Energy	4.01%	November 1 st 2021

How reassuring it would be to be able to reinvest at those rates. Instead we are left with bank deposits at 1.00% and bonds between 1.00% and 3.00%, at best. It's not hard to see why the share market is enjoying the run it is at present.

Bank Deposit Guarantee Scheme

The Government is bringing in a scheme to protect deposits of up to \$100,000 in banks and other financial institutions, if they were to fail. This initiative is part of a review of the Reserve Bank Act, and is designed to help protect the financial system from the damage caused by a financial institution failing. The financial institutions eligible for the guarantee will include banks, credit unions, building societies and finance companies. It is likely to be funded by levies on those institutions – ultimately somebody has to bear the cost of the insurance. Will this mean bigger margins between term deposit and mortgage rates to cover the cost, or lower dividends to shareholders?

I'm not sure how the scheme will affect the current Open Bank Resolution (OBR) process. Open Bank Resolution's prime objective is to ensure the continuation of the core banking functions of a distressed bank – to keep it "open." A bank may be placed into statutory management on the advice of the Minister of Finance following a recommendation from the Reserve Bank. Under OBR shareholders will be the first to bear any losses, followed by holders of subordinated debt. If there are any further losses these will be

allocated to the bank's unsecured creditors which include its depositors. In that instance a proportion of depositors' funds would be frozen based on an estimate of the potential losses of the failed bank. Those frozen funds would be available to the statutory manager to apply against the bank's losses. The unfrozen portion of depositors' funds would be available immediately, and would be supported by a Government guarantee. The guarantee should discourage depositors from rushing to withdraw their funds, but there would be no restrictions on them doing so.

Sky City Entertainment Bond Offer

Sky City Entertainment Group has announced an offer of up to \$125 million of six-year, unsecured, unsubordinated, fixed rate bonds, with the ability to accept oversubscriptions of \$50 million. The interest rate payable on the bonds will be set on Friday May 14th. The rate will be a combination of the six-year swap rate, plus a margin, subject to a minimum interest rate which will be announced on Monday May 10th. Interest will be paid quarterly in August, February, May and November.

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

Bank Term Deposit Rates

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

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	0.80%	0.85%	0.90%	0.90%	0.90%
ASB	0.80%	1.00%	1.25%	1.50%	1.75%
BNZ	1.00%	1.10%	1.20%	1.30%	1.40%
Heartland	1.00%	1.20%	1.35%	1.55%	1.75%
Kiwibank	0.85%	0.90%	0.90%	0.90%	0.90%
Rabobank	1.00%	1.00%	1.05%	1.05%	1.15%
Westpac	0.80%	0.85%	0.85%	0.90%	0.90%

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.

Bond Yields

Here is a selection of the current yields on commonly traded bonds listed on the New Zealand Exchange.

Company	Coupon	Maturity Date	Yield
Turners Automotive	5.50%	September 2021	5.00 %
Heartland Bank	4.50%	September 2022	1.11%
Infratil	5.65%	December 2022	2.50%
Summerset	4.78%	July 2023	1.60%
WEL Networks	4.90%	August 2023	2.15%
Infratil	5.25%	September 2023	2.50%
Kiwi Property Group	4.00%	September 2023	1.48%
Z Energy	4.32%	November 2023	1.70%
Investore	4.40%	April 2024	1.98%
Infratil	5.50%	June 2024	2.60%
Precinct Properties	4.42%	November 2024	2.00%
Kiwi Property Group	4.33%	December 2024	1.81%
Synlait Milk	3.83%	December 2024	4.00%
Infratil	4.75%	December 2024	2.69%
Wellington Airport	5.00%	June 2025	2.15%
Infratil	6.15%	June 2025	2.89%
Summerset	4.20%	September 2025	2.16%
Property for Industry	4.25%	October 2025	2.02%
Argosy Property	4.00%	March 2026	2.40%
Infratil	3.35%	March 2026	2.88%
Trustpower	3.35%	July 2026	2.25%
Westpac Capital Notes	4.69%	September 2026	1.69%
ASB Capital Notes	5.25%	December 2026	1.73%
Infratil	3.35%	December 2026	2.94%
Ryman Healthcare	2.55%	December 2026	2.45%
Arvida	2.87%	February 2028	2.50%
Infratil	4.85%	December 2028	3.00%
Trustpower	3.97%	February 2029	2.20%
NZX	5.40%	June 2033	2.70%
Genesis Energy	4.65%	July 2048	2.30%
Mercury Energy	3.60%	July 2049	2.30%

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE