BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – October 2018

Infratil Bond Offer

Infratil Limited is considering making a new offer of unsecured, unsubordinated bonds in two separate series, with the first series maturing on 15 December 2024 and the second series maturing on 15 December 2028. It is expected that the interest rate on the 2028 bonds will be fixed for the first 5 years, and then reset in December 2023 for a further 5 years. The aggregate amount of bonds offered across both series will be $125 million, with Infratil retaining the discretion to accept up to $125 million of oversubscriptions in aggregate.

Subject to availability, New Zealand resident holders of Infratil's bonds maturing on 15 November 2018 (IFT180) will have the opportunity to exchange all or some of their bonds for new bonds of either series. There is also expected to be a general offer of both series of the new bonds. Full details of the offer will be released in the first week of October, when the offer is expected to open.

PLEASE PHONE THE OFFICE AS SOON AS POSSIBLE IF YOU WOULD LIKE TO PARTICIPATE IN THIS OFFER

Tilt Renewables

Tilt Renewables shareholders should by now have received an offer from Infratil and Mercury Energy to buy their shares at a price of $2.30. Infratil and Mercury are the two largest shareholders of Tilt Renewables, and have formed a joint venture in an effort to procure the remaining shares. At the time of the offer they owned approximately 70% of the shares in Tilt Renewables, with Mercury holding an option to acquire a further 6.80% from the Tauranga Energy Consumer Trust.

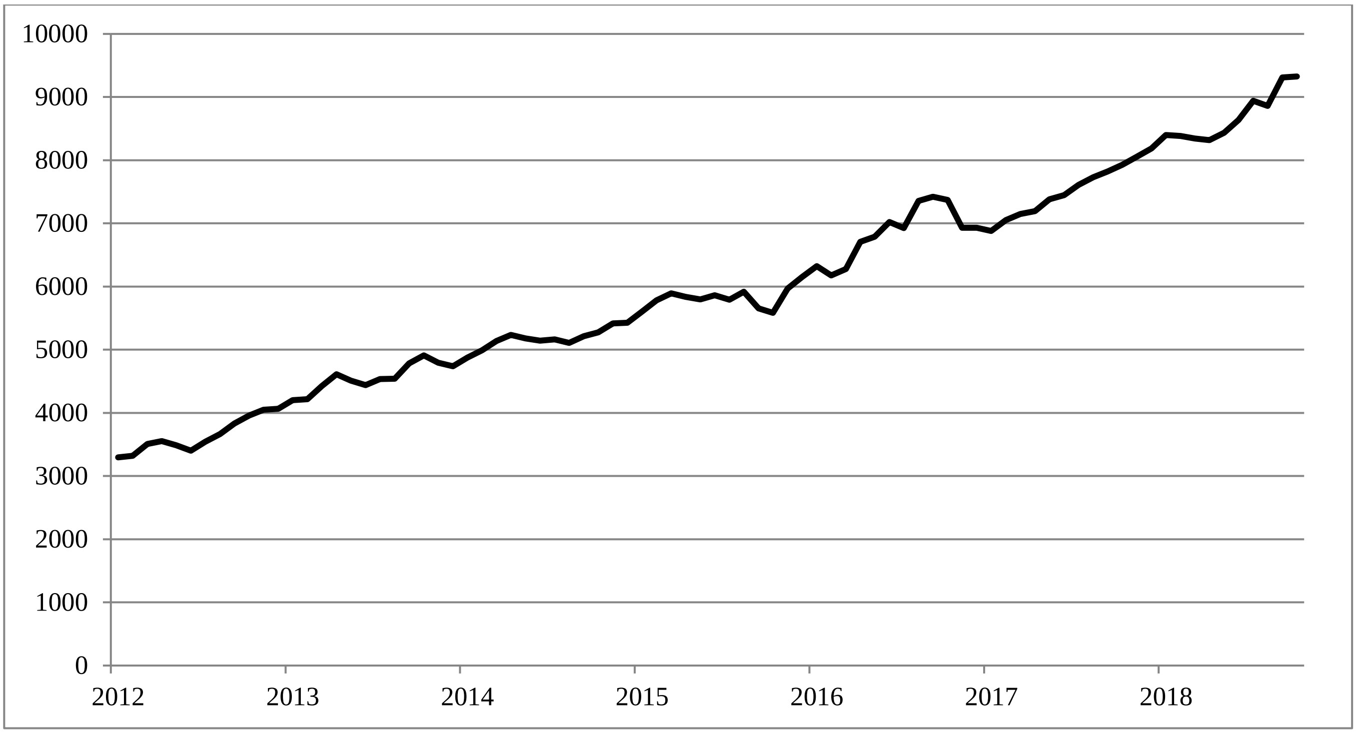
Tilt have issued their Target Company Statement and have recommended shareholders reject the offer. An independent adviser has valued the company at $2.56 to $3.01 per share. The offer is open until October 15th (unless extended).

PHONE THE OFFICE IF YOU WOULD LIKE TO DISCUSS THIS OFFER.

Markets

Share markets continue to defy gravity due to the presence of long-term low interest rates. The chart below shows the incredible run the New Zealand share market has had in recent years.

NZX50 Gross Index



What will stop this run, and are you ready for it? All other things remaining equal, low interest rates should continue to sustain the rise in share prices. As interest rates fall, investors look to other asset classes offering better returns. The problem is that "other things" seldom remain equal. Any number of events could trigger a correction in markets. Political upheaval, war, an oil shock, or a natural disaster could set the wheels in motion for the next downturn. There are plenty of prophets of doom out there, suggesting we are due for a meltdown that will eclipse even the 2008 Global Financial Crisis. However, many of those doomsayers have been issuing warnings for the last five years – look at the gains they have foregone in that time. 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
- Don’t be tempted to sell if the market does fall

Melbourne

I will be taking a few days off this month to visit my daughter in Melbourne. I will be out of the office from Wednesday October 17th, returning Tuesday October 23rd. Phone the office as normal if you have any queries. You will reach AnneMarie at reception, and she will be able to take a message or put you through to Angeline if you need further assistance.

Brokers Stock Picks

I was recently trawling through some old files at work and found a spreadsheet containing the top five stock picks of the large share-broking firms. This was from 2007 and it makes interesting reading.

Broker 1	**Broker 2**	**Broker 3**	**Broker 4**
Mainfreight	Pumpkin Patch	Fletcher Building	Port of Tauranga
GPG	Tower	Dominion Finance	Infratil
F&P Healthcare	F&P Healthcare	Provenco	F&P Healthcare
Ryman	Sky TV	Ryman	Ryman
Restaurant Brands	CanWest Media	Tower	Auckland Airport

Clients of Brokers 1 and 4 would be pleased with their choices, however Brokers 2 and 3 may have some explaining to do. The point however, is to ensure you diversify your holdings adequately to avoid one or two poor-performing companies having a significant effect on your wealth. Five individual shares is never enough to achieve adequate diversification, yet I still see clients investing large sums in their favourite company.

Here is a similar set of recommendations from December 2016.

Broker 1	**Broker 2**	**Broker 3**	**Broker 4**
CBL	Synlait Milk	Fonterra	Fonterra
Tourism Holdings	Xero	Mainfreight	Mainfreight
F&P Healthcare	F&P Healthcare	F&P Healthcare	Gentrack
Evolve Education	Tegel	Evolve Education	Restaurant Brands
Infratil	Contact Energy	Contact Energy	Contact Energy

Again, there are some success stories in these picks. Fisher & Paykel Healthcare, Gentrack, Synlait Milk, Xero and Mainfreight have all done well. However, CBL and Evolve Education have not, and this reinforces the message to adequately diversify your holdings.

Official Cash Rate

There were no surprises yet again when the Reserve Bank reviewed the Official Cash Rate recently. Here is the statement from Reserve Bank Governor, Adrian Orr.

"The Official Cash Rate (OCR) remains at 1.75%. We expect to keep the OCR at this level through 2019 and into 2020. The direction of our next OCR move could be up or down. Employment is around its sustainable level and consumer price inflation remains below the 2 percent mid-point of our target, necessitating continued supportive monetary policy. Our outlook for the OCR assumes the pace of growth will pick up over the coming year, assisting inflation to return to the target mid-point. Our projection for the New Zealand economy, as detailed in the August Monetary Policy Statement, is little changed. While GDP growth in the June quarter was stronger than we had anticipated, downside risks to the growth outlook remain.

Robust global economic growth and a lower New Zealand dollar exchange rate is expected to support demand for our exports. Global inflationary pressure is expected to rise, but remain modest. Trade tensions remain in some major economies, increasing the risk that ongoing increases in trade barriers could undermine global growth. Domestically, ongoing spending and investment by both households and government is expected to support growth.

There are welcome early signs of core inflation rising towards the mid-point of the target. Higher fuel prices are likely to boost inflation in the near term, but we will look through this volatility as appropriate. Consumer price inflation is expected to gradually rise to our 2 percent annual target as capacity pressures bite. We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation."

There seems to be little at present that would indicate an increase in interest rates. Unfortunately, we are going to have to endure low rates for some time yet. For those investors who have been sitting on large sums of cash, waiting for interest rates to increase, it has been a long and expensive wait.

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.