Bay Brokers Limited

PO Box 880, Tauranga 3140, New Zealand
Ph: 07-578 7453 Mobile: 021-762 440 Email: andrew@vond.co.nz

Volume 28

Investment Strategies

NOVEMBER 2018

New Zealand's economy could be entering a "danger zone", economists warn, where a weak start to the year fed falling business confidence. Our economy could well lose momentum as we head towards 2019. The probability of a recession occurring in the next year remains very low. However, there is little doubt that a recession appears closer than it was a year ago. That said, our NZ Share Market is pretty well insulated, with such strong institutional ownership of many of our company shares. Investors like our Kiwisaver Funds are long term investors, and unlikely to get easily spooked by short term volatility.

Based on various recession indicators, the next US recession seems most likely to occur in the second half of 2020, which suggests that the US equity market should peak a year before, in late 2019. Hence my cautious, but neutral, stance towards investing in equities.

NZX50 Gross Index (Last 2 Years)

NZ equities offer attractive dividend yields, but are unattractive from a valuation perspective. While the RBNZ is not expected to be increasing interest rates any time soon, and the recent fall in the value of the NZ dollar is stimulatory, indicators suggest economic growth is likely to slow, which makes it harder for NZ based companies to grow earnings.

RRP $5.00

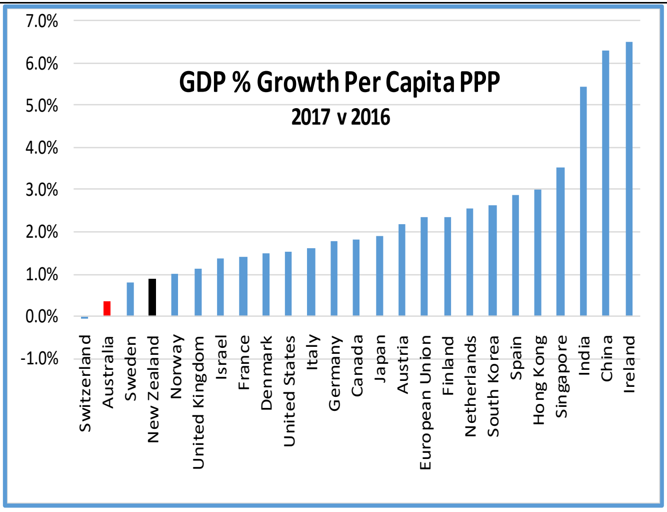
WEBSITE:
vond.co.nz

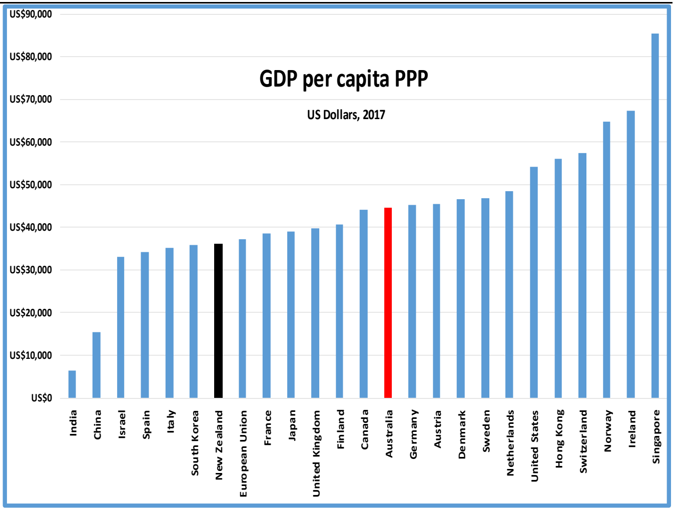
CONTENTS	PAGE

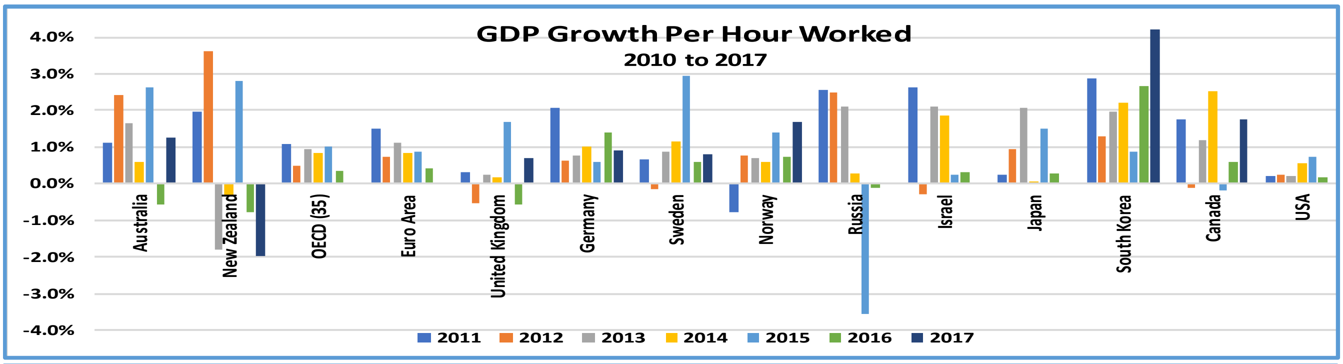
STATISTICS NZ DATA

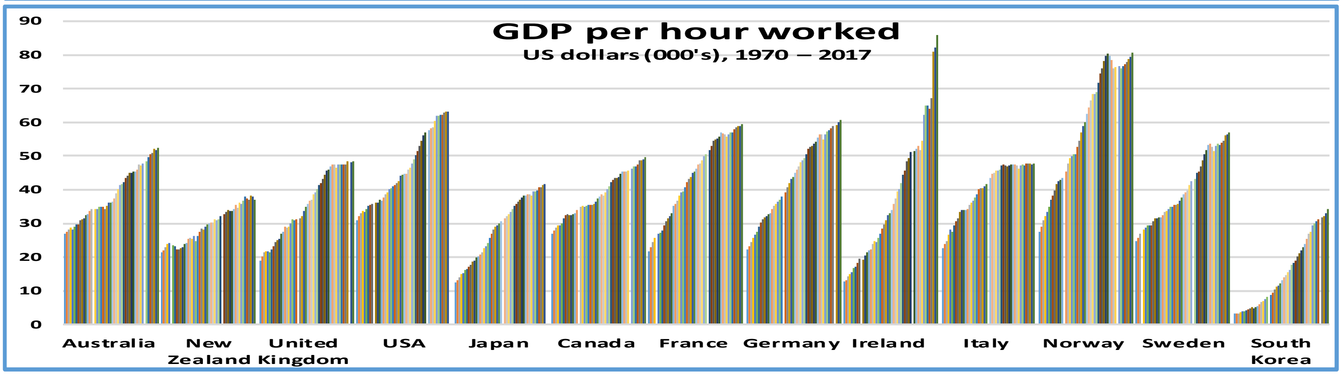
Estimated population at 30 Sept 2018:	4,907,200
Births June 2018 year:	60,393
Deaths June 2018 year:	33,567
Net migration Sept 2018 year (↓11.6%):	62,733
Employment	
Total employed June 2018 quarter:	2,631,000
Unemployment rate Sept 2018 quarter:	3.9%
Ave weekly earnings June 2018 quarter:	$1,124
⇒ Full time men (↑ $32 / 2.7%)	$1,208
⇒ Full time women (↑ $18 / 1.8%)	$1,106
Average ordinary time hourly earnings:	$31.34
The employment rate Sept 2018 quarter	68.3%
Annual inflation September 2018 year:	1.9%
Petrol Price September 2018 year:	19.0%
The size of the NZ Economy 31 March 2018:	**$286 bn**
GDP per capita year ended June 2018:	**$57,218**
GDP Growth (volume) June 2018 year:	**2.7%**
Tauranga City GDP Growth June 2018 year:	3.9%
Visitor arrivals Annual August 2018 (↑ 3.6%)	**3,803,196**

NEW ZEALAND'S PRODUCTIVITY REMAINS AN ISSUE









SOURCE: World Bank, OECD

GDP PER CAPITA

NOTE: The GDP per capita PPP is obtained by dividing the country's gross domestic product, adjusted by purchasing power parity, by the total population.

New Zealand enjoyed strong GDP Growth under the John Key/Bill English National Governments, and this was helped by strong migration. Already we are seeing that slipping under the current Labour-led Government.

GDP PER HOUR WORKED

NOTE: GDP per hour worked is a measure of labour productivity. It measures how efficiently labour input is combined with other factors of production and used in the production process. Labour input is defined as total hours worked of all persons engaged in production. Labour productivity only partially reflects the productivity of labour in terms of the personal capacities of workers or the intensity of their effort. The ratio between the output measure and the labour input depends to a large degree on the presence and/or use of other inputs (e.g. capital, intermediate inputs, technical, organisational and efficiency change, economies of scale). This indicator is measured in USD (constant prices 2010 and PPPs) and indices.

If New Zealand is to increase its competitiveness globally it will need to improve its productivity (as identified using GDP per hours worked).

The problem for New Zealand is that while productivity has grown (see graphs above), the rate of growth has been poor.

If we are to move to a high wage economy (politically both left and right want this), we have to achieve it by increasing our productivity to at least match (or better) that of our trading partners (and competing countries).

The current Labour-led Government has got itself into a huge bind, as it addresses union-led government sector wage bargaining. Their pre-election promises have come back to haunt them, and they are stuck "between a rock and a hard place". The cost of living is increasing dramatically, and will be further fuelled by wage increases. The problem is that they are unable to couple wage increases with productivity gains.

National must develop policies to address our low productivity, if it wants to regain the government benches in 2020.

OUR POLITICAL CLIMATE

SHANE JONES' SLUSH FUND - A RE-ELECTION SHAM

The concept of $3 billion for the regions is spot on. The problem is that the money is being sprayed around, with a typical Shane Jones/Winston Peters lack of accountability. Wasteful, untargeted spending is making New Zealand look third world. It smacks of cronyism and laziness.

JONES' BILLION TREES

How will New Zealand get to carbon neutral? Planting trees is obvious, but is it really the answer. Planting trees is not the "silver bullet" that both Labour and NZ First think. If we look into our history, we know that planting forests is a short-term solution for employment (forest planting was extensively used during the Great Depression), but it then actually destroys rural communities – as we wait for the trees to grow to maturity. The negative impact is likely to far outweigh Shane Jones' magical benefits.

Simon Upton, the Parliamentary Commissioner for the Environment, is also worried that trading forest sinks against fossil emissions may send the wrong signal in a world that needs to significantly reduce its reliance on fossil fuels. Why should the transport decisions made in Auckland strongly influence the land-use and landscapes in our regions?"

Upton is concerned that forestry is seen as a 'bridge' to buy us more time until more options are available for reducing emissions. "But it is a bridge we haven't managed to build, let alone use. Each tonne of carbon dioxide offset through forestry is a tonne not reduced at source. If gross emissions remain high in the near to medium term, it could make it even more difficult and costly to achieve deep reductions in gross emissions in the longer-term."

Currently, forests offset just under 30% of our emissions. But excessive further plantings would push that share far higher. *Moreover, as Upton points out, "forestry comes with real risks."* Planting the right tree species in the right place can provide significant co-benefits such as water quality and erosion control. But those too "can have consequences for our landscapes and communities.

JONES PUTS CHINA ON NOTICE

Shane Jones has put China on notice over its involvement in the New Zealand logging industry. The Minister of Regional Development went to China in late September to promote the new Overseas Investment Office rules and how they apply to forestry.

I have to say that it is not before time that something was done to encourage further processing instead of exporting so many raw logs. If Shane Jones can convert even 50% of our log trade into processed timber, then he will have done well. However, lets hold the roses until we see a positive outcome.

Jones said we're "*the only country in the world that allows our logs to be wholesale exported in the way we do*" - and made it clear the expectation now is for wood to be largely processed in New Zealand.

"I was very, very frank with them, that we value the opportunity to be economic partners...” Mr Jones says China is already making one investment in the Bay of Plenty, but they are concerned there are not enough logs for expanding their activities.

"*They themselves are fearful that if they put hundreds of millions of dollars into processing in New Zealand... will they have certainty of supply?*" he says.

Mr Jones has offered a sweetener, telling China to come to New Zealand as we have "substantial funds for regional investment". He told the Chinese "*You bring a couple of hundred million and we'll give you the certainty of supply to logs. We want them processed here*."

NZ FIRST MP WAS GIVEN A PRISON SENTENCE

Stuff.co.nz recently reported that, Winston Peters “Bagman” Clayton Mitchell, the NZ First List MP behind a "values" bill which could expel migrants was once judged unfit to run pubs because of his criminal record. And yet he wants new migrants to sign up to a cultural "code of conduct" that includes a commitment not to campaign against the legality of alcohol. Mitchell, a former Tauranga City Councillor & publican, had his licence to run a bar was cancelled after a series of incidents. These included being given a prison sentence of nine months, suspended for a year, and fined $2,000 for assault - which a judge called an act of serious violence - and a dangerous driving conviction. Two years later, Mitchell won back his certificate - supported by a reference from former police officer Brad Shipton, who was subsequently disgraced over a rape conviction.

NZ’S NUCLEAR MOMENT - NOT

Ardern insisted to New Zealand media that baby Neve's privacy should be respected, including through an informal agreement that her face always be obscured in photographs. But this did not stop Ardern and her partner Clarke Gayford using Neve to make a political point in perhaps the most public place in the world — the floor of the General Assembly of the United Nations in New York. While our media made a fuss about her UN speech, the timing of it meant that it is unlikely that any of our World leaders would have been present. Jacinda was marginalised by the US’ judicial Kavanaugh saga.

While Jacinda looked for the next photo opportunity, her Ministers continue to falter at home. Whether it’s the Sroubek case; the 1 million tree fiasco; or Kiwibuild, it just won’t stop. Perhaps, now is the time for Jacinda to concentrate on getting her domestic house in order, before our economy spirals downward irrevocably.

ARDERN FINDS A NEW SOCIALIST FRIEND IN NY

Ardern was busy making new friends at the UN. Move over Justin Trudeau, Ardern may have found a new best buddy. She spent a lot of time with Trudeau at the Commonwealth Heads of Government Meeting in April, but it was Spain's new Prime Minister Pedro Sanchez she bonded with at the UN. 46-year-old Sanchez is head of the Socialist Workers' Party in Spain and Ardern is a former president of the International Union of Socialist Youth.

OIL & GAS DECISION

Ardern used the Commonwealth meeting to capitalise on the soundbite regarding the oil and gas ban, and she reiterated it at the UN. This, despite it being obvious Ardern's exploration ban would reduce GDP and increase global greenhouse emissions. Her failure to ask for any analysis ahead of the announcement, meant it could be positioned as the opposite.

Official advice confirms the Government’s arrogant decision to axe offshore oil and gas exploration will cost billions of dollars and lead to an increase in greenhouse gas emissions.

The advice released at the end of September shows just how arrogant and reckless the decision was, and all so the Prime Minister could go offshore and brag about being a leader in the fight against climate change.

MBIE believes that the decision may increase the price of gas and electricity and that the change may actually increase global greenhouse gas emissions, as we just shift to importing gas from overseas.

National Party Energy spokesperson Jonathan Young was quoted as saying *“This is an appalling decision made with no consultation or investigation into the real impact it would have. Now we know even the*

Government's own advisors say it's going to cost New Zealand dearly and the Government is going to try and ram the legislation through to avoid the necessary scrutiny. "The Government must own the mistake, admit to New Zealanders it got it badly wrong and reverse its decision."

HOUSTON – WE HAVE A PROBLEM

A NZ litigation funder (LPF Group) laid a complaint against our (soon to be retiring) Chief Justice, Dame Sian Elias – citing 'conflict of interest' (her family's $500,000 shareholding interest in the company in question) - her husband being Sir Hugh Fletcher.

There is no current mechanism (other than asking another Judge to look at it) to effectively litigate such a claim. This is plain wrong. I agree that we don't want political interference into our judiciary - but we do need to ensure we have an effective 'no conflicts' policy to ensure impartiality. Judges mustn't be seen to be effectively 'above the law'.

PETERS FAILS TO REDUCE MIGRATION

This Labour-led Government promised policies to reduce migration by as much as 30,000, but has actually introduced policies that increased migration by over 1,000 in its first year. Peters, at NZ First's 25th Conference, used it to initiate an obvious and absurd anti-migrant diversion to distract from his failure to achieve his core promise of reducing migration.

Peter's is a master opportunist who knows Clayton Mitchell's 'Respecting New Zealand Values' bill is not going anywhere. The draft private members' bill cannot even get out of New Zealand First's caucus and into the Parliamentary biscuit tin, let alone win the support of Labour and Green MPs to get into law. The idea of codifying 'New Zealand values' into law is as absurd as thinking such a law would not itself break our existing laws on Human Rights and discrimination.

But the New Zealand First leader of 25 years also knows an opportunity to come across as tough on migrants when he sees it, along with a way to obscure his party's repeated failure to achieve its core promise of actually reducing historically high migration. It also distracts from his coalition Government's closely aligned failure to deal with the stress on New Zealand's infrastructure, housing affordability and social services caused by a 10% increase in our population in five years.

Net migration has eased back over the last six months, but only because of a slight turnaround in New Zealanders coming and going from Australia and the departure of temporary workers who arrived three years ago.

BILLIONS OWED IN CHILD SUPPORT PENALTIES

New Zealanders owe billions in child support debt, with some individual parents owing more than $1m. 11% of debtors owe more than $1m each and 53% of debtors owe between $100,000 and $1m. But most of the debt is late payment penalties, leading some to question whether the system is hurting the people it is designed to help. This is a dramatic increase from 2008, when there were no individual debts greater than $1m. Penalties are not returned to the parent who has missed-out on receiving their child support, but are instead pocketed by the Government. That is a lot of money. It equates to roughly 3% of total tax revenue for the 2016-17 financial year and is more than what is raised from tobacco excise.

DOTCOM NEEDS IMMEDIATE EXTRADITION

The Crown bests Dotcom in appeal over alleged information breach. The court recently found Dotcom's requests could be seen as vexatious, and there was a proper basis for the Attorney-General to have found that they were.

They were so broad, not restricted to any period, included any type of communication that mentioned Dotcom's name, and it was wanted urgently.

"All that Mr Dotcom had to do, to avoid a failure to respond on the ground of vexatiousness, was to resubmit the request without the urgency component. He made the deliberate choice not to do that," the court said.

The court overturned the damages award. It said that even if an award was justified, $90,000 would have been "wholly erroneous". The Human Rights Review Tribunal had awarded damages on grounds that were not claimed, such as humiliation, and used emotive language.

"... far from being overly sensitive, the evidence would seem to indicate that Mr Dotcom is a particularly robust character, likely to be well able to take disappointments like the refusal of this request on the grounds that it was vexatious, in his stride," the court said. Dotcom has made a "laughing stock" of our judicial system, costing taxpayers tens of millions of dollars. It is time for Minister Little to say "enough", and ensure the immediate extradition of Dotcom to the US.

LABOUR'S PROPOSED R&D TAX BREAK

Budget 2018 saw the government allocate $1 billion to cover the first four years' cost of a 12.5% tax break, on the basis that around 2,000 firms would take up the incentive. Firms who spent at least $100,000 a year on R&D would qualify. Labour's R&D incentive scheme will be introduced on April 1st 2019.

Ardern has recently announced the rate will now be set at 15%, with the eligibility threshold lowered to $50,000 (the maximum stays at $120m). NZ's looming R&D tax break is modest by international standards, at least by headline rates.

Country	Headline rate and type of incentive	Corporate income tax rate	Implied tax subsidy rate (based on OECD B-Index)
New Zealand (proposed)	15% **tax credit** for all eligible businesses	28%	21% for profitable firms
Australia	43.5% **refundable tax offset** to eligible entities with an aggregated turnover of less than $20 million per annum, provided they are not controlled by income-tax-exempt entities. 38.5% **non-refundable tax offset** to all other eligible entities.	27.5% for entities under $25m turnover 30% for all other companies	19% for small, loss- making and profitable firms 7% for large, profitable firms 5% for large, loss-making firms
Canada	35% **refundable tax credit** for qualifying Canadian Controlled Private Corporations (CCPCs) on up to CAD 3 million of R&D 15% **tax credit** with 40% refundable thereafter	14.48% for SMEs 26.7% for large firms	30% for small, profitable firms 29% for small, loss-making firms 13% for large, profitable firms 10% for large, loss-making firms
United Kingdom	11% **refundable tax credit** for large firms 130% **enhanced allowance** for SMEs	19% for all firms	27% for small, loss-making and profitable firms 10% for large, loss-making and profitable firms
Netherlands	32% **refundable tax credit** for the first EUR 0.35M on and 16% thereafter Redeemable against payroll withholding tax	20% on the taxable amount up to EUR 200,000 and 25% on the excess	21% for all firms
Norway	20% **refundable tax credit** for SMEs 18% **refundable tax credit** for large firms	24% for all firms	19% for small, loss-making and profitable firms 4% for large, loss-making

The OECD's "B Index", which attempts to compare R&D tax incentives across varying schemes in different countries, includes refundable tax credit rates for Canada (35%), the Netherlands (32%), France (30%), Ireland (25%), Norway (20%) and the UK (11% plus a 130% "enhanced allowance" for small business). But once the complete company tax picture is considered, effective rates are a lot lower (see table above).

Despite a blowout across the Tasman where spending on an R&D tax incentive scheme ballooned from an originally budgeted A$1.8b ($1.9b) in 2011 to A$3b last year, Minister Woods maintains our version will stay within budget.

Woods says the government wants to boost R&D spending as a percentage of GDP from the current 1.3% to 2% within a decade - though even that would still lag the OECD average of 2.38%.

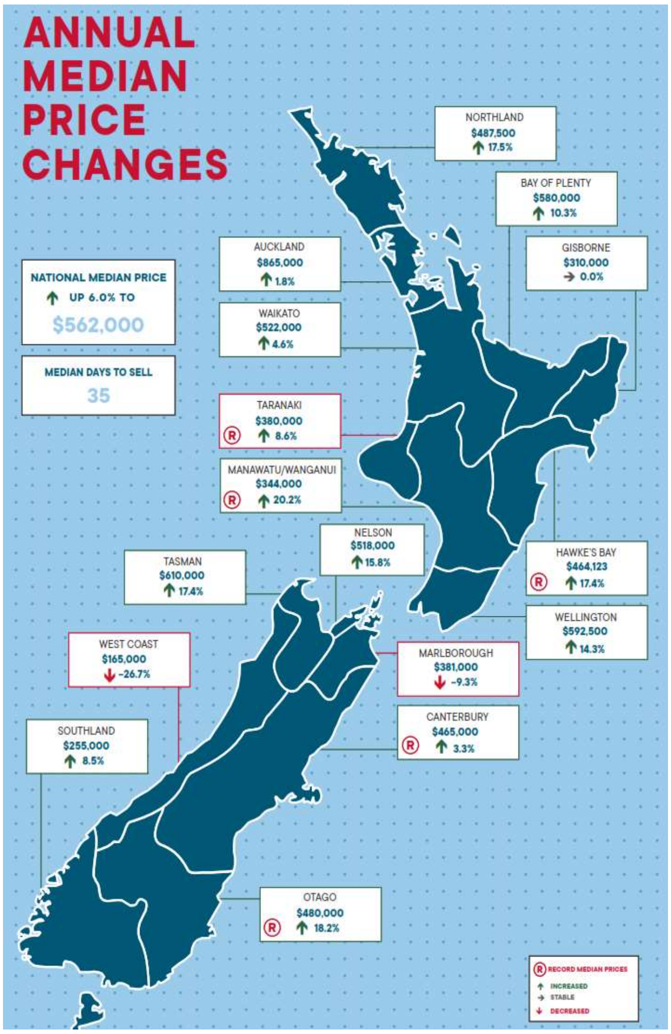
While Woods has been careful not to draw a direct line, and constantly highlights that Callaghan Innovation will have a continued role in supporting R&D, her government is funding the R&D tax break in part by axing Callaghan's Growth Grant programme.

Callaghan dished out some $149.5m in matching R&D funds to successful applicants in 2017. What is the future for Callaghan Innovation and its 384 personnel, now that Growth Grants are being phased out? 200 of these staff are scientists, so presumably they will slot into the R&D sector somewhere. But there will be no more Growth Grants awarded from March 31 next year, though multi-year grants already in place will continue until March 31, 2020.

A long-running debate has seen Labour criticise Growth Grants as an inefficient attempt by government to pick winners, while National has maintained that businesses tried to game the R&D tax break when it was last in place (which was for less than six months before National scrapped it when it came to power in 2008).

Labour's R&D Tax Credit scheme is a slap in the face for innovation start-ups, who historically are not able to utilize tax credits in their early years, because they just don't make taxable income. The Callaghan matching fund was not perfect, but it did encourage innovation from both established and start-up companies alike.

NZ HOUSE PRICES



NEW ZEALAND'S HIGH POPULATION GROWTH

World Bank data shows that in 2017 New Zealand had the second highest population growth in the OECD. Two years earlier (in 2015) Australia had the 3rd highest in the OECD, with growth of 1.38%, and New Zealand was 6th with 1.05% annual population growth. Luxemburg's population is under 600,000, so if you discount them, then New Zealand has averaged 2nd to Israel in population growth over the five years 2012 to 2017.

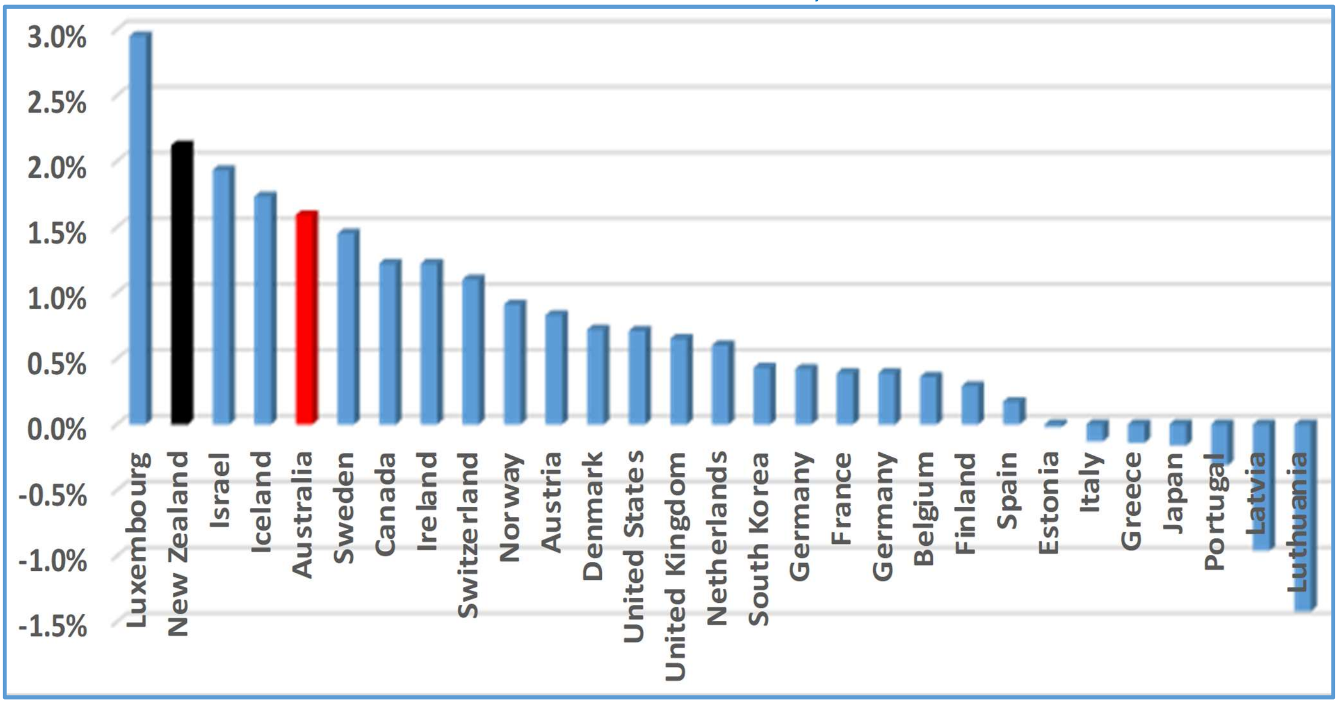
New Zealand's population growth has been a mixture of near double births over deaths, plus high migration.

Many are quick to blame this growth because of our past infrastructure investment, but as a country we need it. A stagnant population would see our standard of living decline (relative to the rest of the developed world).

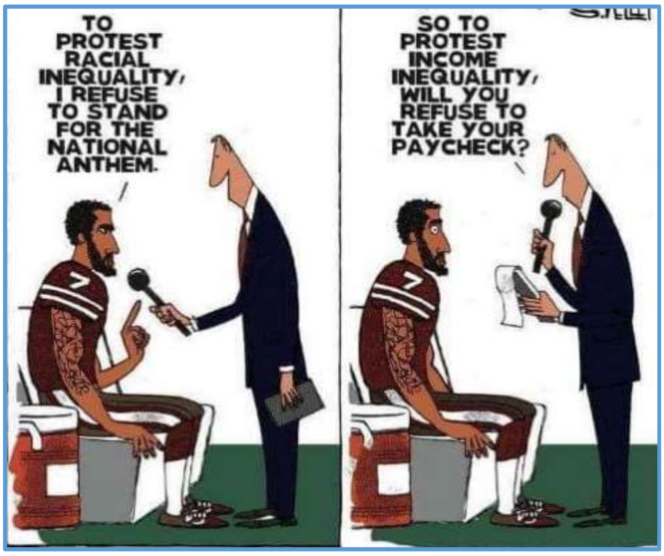
We need to remain competitive, and the key is to lift our per head productivity. Our welfare system is world leading, but it needs to ensure a hand up – not a hand out. This current left-leaning Labour-led Government threatens our well-being, by not putting any obligations on those who are capable, but not willing, to work.

Yes, we do need a safety net – but that net does need to come with responsibilities, if we are to retain our wonderful and envied lifestyle down under.

OECD POPULATION GROWTH, 2017



Source: World Bank, 2017



"There are no secrets to success.
It is the result of preparation, hard work, and learning from failure"
Colin Powell

PLANT & FOOD RESEARCH INSTITUTE

For the past 4½ years I have been a director of Plant & Food Research (PFR). This is a great Crown Research Institute, and a real pleasure to be a part of its governance structure.

PFR delivers research and development designed to grow competitive advantage for customers in horticulture, seafood, food and beverage, wine and cropping.

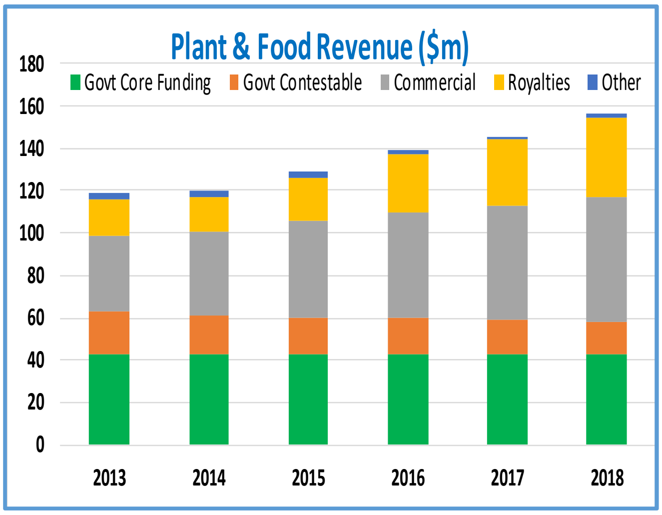
PFR has more than 900 staff based at 14 sites across New Zealand, as well as offices in Australia and the USA.

PFR's revenue is growing at 7% per annum, and has done for the past four years. This allows PFR to ensure it remains relevant to its partners through investment in facilities and people.

Revenue ($000's)	2013	2014	2015	2016	2017	2018
Govt Core Funding	43,103	43,103	43,103	43,103	43,103	43,103
Govt Contestable	19,611	18,378	17,092	16,638	15,937	15,333
Commercial	35,706	38,870	46,023	50,156	53,912	58,337
Royalties	17,780	16,406	20,261	27,871	31,123	37,687
Other	2,851	2,831	2,400	1,980	1,765	1,941
Total	**119,051**	**119,588**	**128,879**	**139,748**	**145,840**	**156,401**

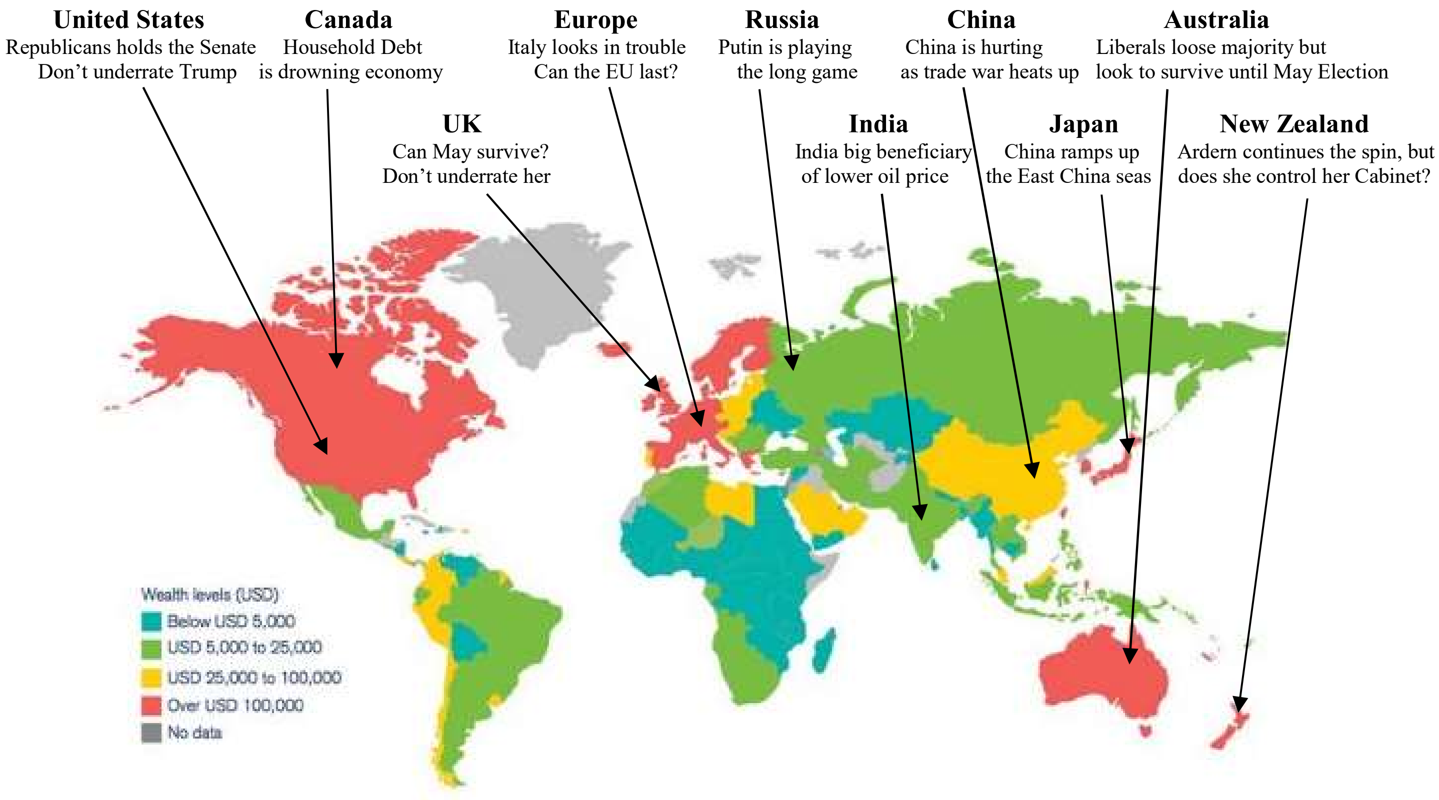
PFR's activities are funded through direct commercial research for our customers, the reinvestment of royalties and the New Zealand Government's investment in science.

Strategic funding — Govt investment allocated directly to each CRI
Contestable — Govt investment allocated through competitive bidding
Royalties — Commercial return from plant varieties and IP
Commercial — Direct investment by customers
Other — All other income sources



"If you can dream it, you can do it."
Walt Disney

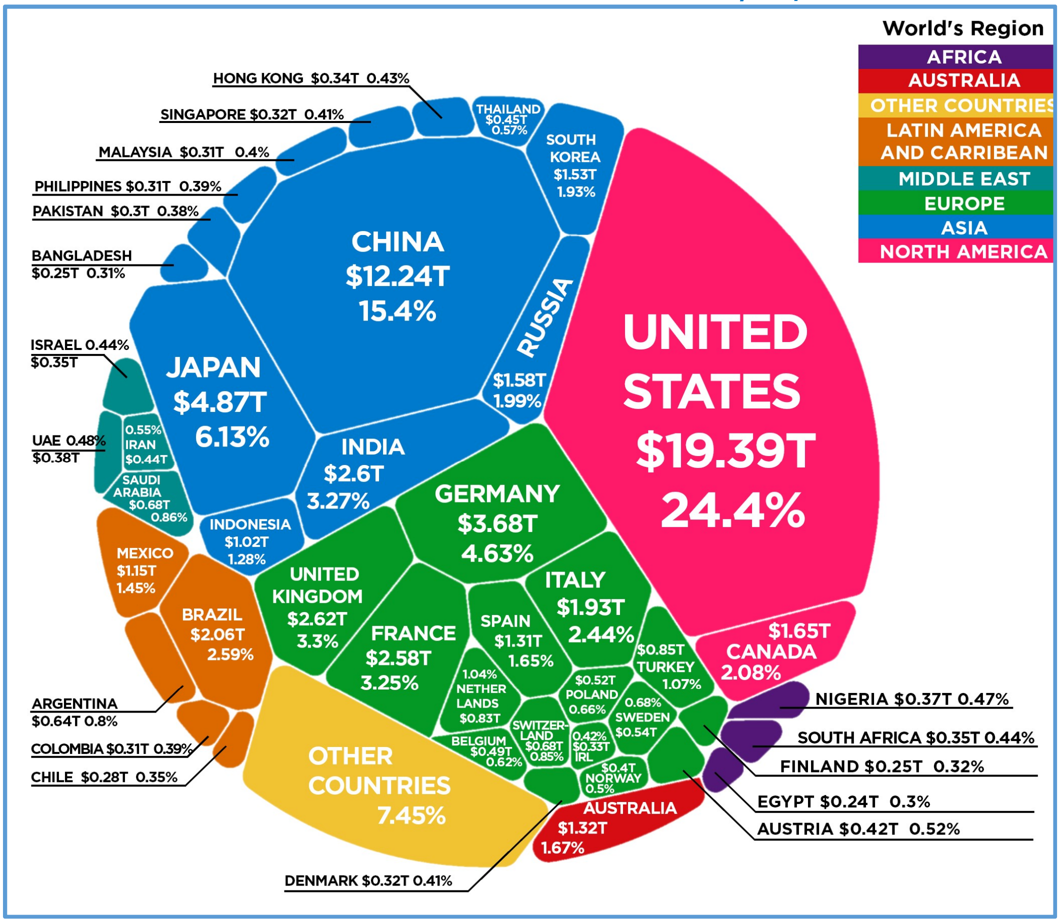
THE WORLD AT A GLANCE – including World wealth levels 2017



THE GLOBAL ECONOMIC OUTLOOK

The IMF downgraded its global growth forecast for this year and next year from 3.9% to 3.7% - its first downgrade in two and a half years. While the global economy is still on track to match last year's pace, which was the strongest since 2011, the new outlook suggests fatigue is setting in and the overall performance masked divergence with mounting weakness in emerging markets from Brazil to Turkey.

THE WORLD ECONOMY - GDP BY COUNTRY, 2017



The US clearly dominates the rankings with over $170k on average per household. The other standout is Switzerland, not far behind the U.S. with $128k of accumulated household wealth on average. The rankings then become much tighter further down the list with countries grouped together in the $70-90k range. There are also a few countries in the OECD for obvious political reasons. It is hard to see why Russia should be counted with only $16,657 in disposable income and $2,260 in net financial wealth.

Household Net Financial Wealth - OECD

OECD DATA 2017, US Dollars	Household net adjusted disposable income ($)	Rank	Household net financial wealth ($)	Rank
UNITED STATES	44,049	1	176,076	1
SWITZERLAND	36,378	3	128,415	2
BELGIUM	29,968	11	104,084	3
JAPAN	28,641	16	97,595	4
SWEDEN	30,553	9	90,708	5
NETHERLANDS	28,783	15	90,002	6
CANADA	29,850	12	85,758	7
UNITED KINGDOM	28,408	17	83,405	8
LUXEMBOURG	41,317	2	74,141	9
DENMARK	28,950	14	73,543	10
ICELAND	30,453	10	64,398	11
ITALY	26,063	18	64,019	12
ISRAEL	24,036	21	61,805	13
AUSTRIA	32,544	7	59,574	14
FRANCE	31,137	8	59,479	15
AUSTRALIA	**33,417**	**6**	**57,462**	**16**
GERMANY	33,652	5	57,358	17
NEW ZEALAND	24,366	20	52,718	18
IRELAND	25,439	19	43,493	19
SPAIN	23,129	22	35,443	20
KOREA	21,723	23	33,495	21
PORTUGAL	20,519	25	31,877	22
FINLAND	29,374	13	27,972	23
CZECH REPUBLIC	21,103	24	24,258	24
HUNGARY	16,821	32	23,289	25
CHILE	16,588	34	21,409	26
NORWAY	35,739	4	20,347	27
SLOVENIA	20,505	26	20,048	28
GREECE	17,002	31	18,117	29
LATVIA	15,269	35	17,105	30
SOUTH AFRICA	10,872	38	17,042	31
ESTONIA	18,665	29	16,967	32
POLAND	18,906	28	14,997	33
SLOVAK REPUBLIC	20,265	27	10,846	34
BRAZIL	12,227	37	7,102	35
MEXICO	13,891	36	4,750	36
TURKEY	17,067	30	4,429	37
RUSSIA	16,657	33	2,260	38

Source: OECD, www.howmuch.net

New Zealand's Economic Outlook

The Government is awash with cash, recording a surplus of $5.5bn - $2.4bn more than forecast. The 2017/18 financial books have been opened and a major tax haul of $80.2 billion has left the Government flush. The tax take is up $4.6bn on last year.

Wages are also up - the hourly pay rate by 3 percent to $31 and unemployment is down slightly by 0.3 percent to 4.5%. Key statistics include:

- 1,580,200 people are employed - up 3.7%
- The average wage is $31 an hour - up 3%
- Unemployment is at 4.5% - down 0.3%
- Core Crown tax revenue is $80.2bn - up 6.1%
- Core Crown expenses are at $80.6bn - an increase of $4.3bn
- The largest increase in core Crown expense was in the Health Sector - up $900m
- Net core Crown debt decreased in both nominal terms and as a share of the economy to $57.5bn
- Nominal GDP is at $289.3bn - up 5.5%
- Real GDP grew 2.7%

The average household income in New Zealand is around $106,000. If you were on that average income and had financial news equally as good as the Government has revealed, that would mean your equity was worth $47,000, up from 40.3% of income or $40,341 last year.

And imagine just about everyone in your household who could work is in a good job and your combined incomes are rising around 5.5% per year. Your debt servicing costs are 1.25% of income, just $1,325 a year.

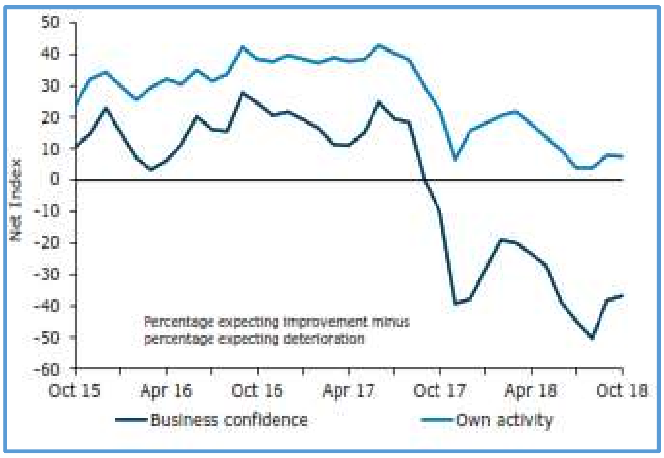
While this is a huge boost for the Labour-led Government, it does need to be remembered that they have actually greatly increased government debt – but hidden it within State Owned Entities.

Detail points to decelerating GDP growth

Key details within the NZIER Quarterly Survey of Business Opinion (October 2018) were at the very low end of our expectations and point to a deceleration in GDP growth heading into the second half of 2018. Over the first half of the year, the QSBO survey responses remained relatively upbeat compared the more pessimistic ANZ survey, with certain measures within the QSBO correctly predicting that the underlying trend in growth would hold up relatively well over H1 2018. However, reported levels of activity within the Q3 report were much weaker than hoped. In particular, firms' views of their trading activity experienced over the past three months fell to net 0.4% - which is consistent with underlying quarterly GDP growth of around 0.4-0.5%.

If we assume this level of activity continues over Q4, then it would point to annual GDP growth slowing from 2.8% in Q2 to just 2.4% by the end of the year, and that growth may struggle to reach 3% over 2019.

NEW ZEALAND BUSINESS CONFIDENCE



Outside of the decline in construction intentions, ANZ says that most indicators were little changed in the October Business Outlook survey. It's clear that business sentiment is not a tailwind for the economy at present, but we remain optimistic that the boost being provided by a strong labour market, still-high commodity prices, a fiscal boost and now a significantly lower NZD will keep things ticking along.

NEW ZEALAND GDP ANNUAL GROWTH RATE

ASB says New Zealand's growth prospects are still looking good, and is picking growth of roughly 3%. Strong population growth in recent years should continue to underpin demand across a range of sectors, particularly construction.

NEW ZEALAND INTEREST RATES

Having never lowered interest rates to the extremely low levels seen overseas, the Reserve Bank of NZ (RBNZ) has kept the Official Cash Rate (OCR) at 1.75%

for over two years. We expect that the RBNZ's approach to monetary policy under the direction of the new Governor, Adrian Orr, and incorporating a new Policy Target Agreement, will be somewhat different. The RBNZ is likely to take a longer-term view when setting monetary policy, be less reactionary to short term economic data and be quite comfortable with inflation anywhere between 1% and 3%. With this in mind, current inflation low, but inflationary pressures building and the full employment target having already been reached, it seems unlikely the OCR will change before the end of 2019. While NZ's economic growth rate appears to be slowing, we expect businesses to pass on most of the cost pressures resulting from the higher oil price, lower NZ dollar, higher wages and other costs.

We expect increased Government spending and the stimulatory impact of a lower NZ dollar (the 4% fall in the NZ dollar trade weighted index has a similar impact on economic growth as a 0.5% interest rate reduction) to prop up economic growth enough to negate the need for the RBNZ to lower interest rates.

QUAD

In response to China's rising power, the US (at APEC) has enlisted powerful regional allies to regroup a regional sub-set of four major players, known as the QUAD. The Quadrilateral Security Dialogue, as it is formally known, includes the US, India, Japan and Australia. The interesting exemption being New Zealand.

My comment would be that our PM's shunning of Trump does have repercussions for both NZ/US security and trade agreements.

AUSTRALIAN ECONOMIC OUTLOOK

GDP Annual Growth Rate in Australia is expected to be 3.0% by the end of this quarter, according to Trading Economics global macro models and analyst expectations. In the long-term, the Australia GDP Annual Growth Rate is projected to trend around 2.4% in 2020, according to their econometric models.

AUSTRALIA GDP ANNUAL GROWTH RATE

The stark contrast between Australia and New Zealand's economic growth is the momentum that strongly favours our neighbours. Our economic gains over the last nine years are looking to have been completely eroded. As in NZ, residential property prices in Australia rose significantly and household debt has ballooned. Over the past year, Australian house prices have fallen 3.5%, with Sydney house prices down 7.4%. Unlike NZ, there is no under-supply of housing in Australia.

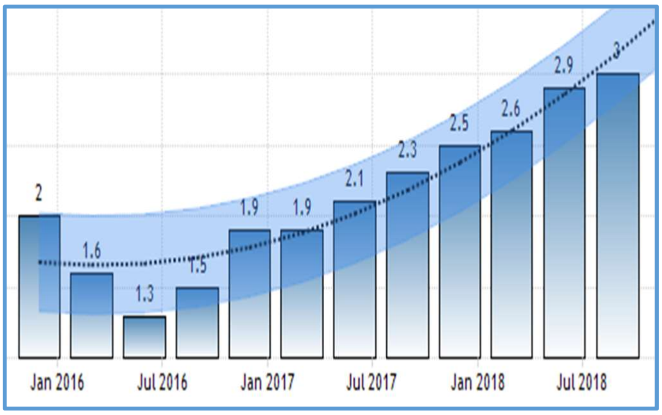
In Australia, bank lending criteria have been tightened as a result of the Royal Commission Inquiry into banking and financial services. Investment in infrastructure is ongoing but appears to be peaking. Australian politics has been volatile with the coalition Government losing its one seat majority. A federal election is due by May next year, which could bring in a Labour Government and some negative policies for property investors.

UNITED STATES ECONOMIC OUTLOOK

October released US jobs data showed unemployment falling there to 3.7% - its lowest level since 1969. You might not like Donald Trump's personality (and I am sure few do) but the US economy has definitely responded positively to his "Make America Great again" campaign.

The US economy is likely continued to expand at a robust pace in the third quarter, after logging a four-year high in the second quarter, although there are signs that momentum could slightly wane heading into the fourth quarter. Industrial production for July to September indicate that the manufacturing sector remained strong in Q3. While consumer confidence remained extremely high in September, private consumption dynamics appear to have lost some ground, as retail sales growth was disappointing in both August and September. On the political front, the mid-term elections on 6 November saw the Republican Party losing its majority in the House, but retaining control over the all-important Senate.

UNITED STATES GDP ANNUAL GROWTH RATE



EUROPEAN ECONOMIC OUTLOOK

Less accommodative monetary policy is likely to drag on the Eurozone economy next year. Nevertheless, growth ought to remain solid thanks to buoyant investment and a healthy labour market. Europe's five-year economic expansion is facing a mid-life crisis as it copes with potential debt troubles in Italy, a US-China trade war and the risk of a disorderly British exit from the European Union.

A key risk is the conflict between Italy's populist government, which wants to spend more on social welfare, and the European Union's executive Commission, which is demanding Italy lower its budget deficit under the rules that go with belonging to the euro. The danger is that if the Italian government persists in running larger deficits, its borrowing costs rise to unsustainable levels and the country is unable to roll over its debt at an affordable interest rate.

Economists project growth of 1.8% in 2019, before decelerating slightly to 1.6% in 2020.

EURO ZONE GDP ANNUAL GROWTH RATE

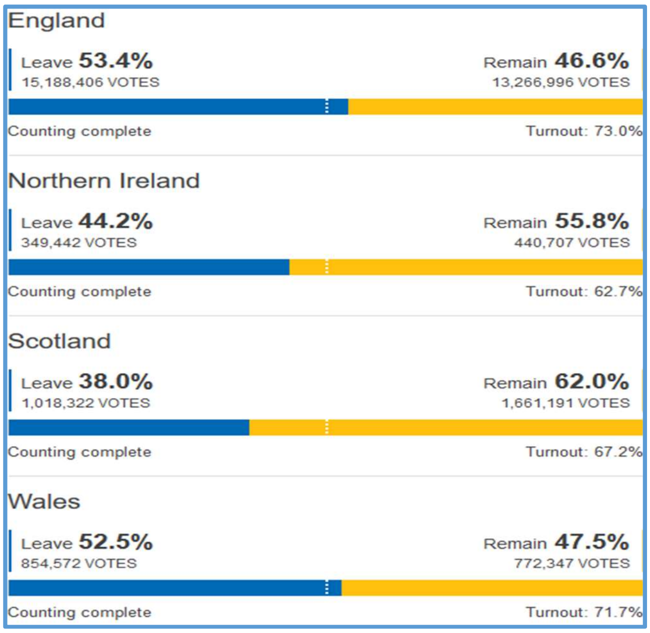
UNITED KINGDOM ECONOMIC OUTLOOK

'Defiant' Theresa May pushes on, as UK and EU officials agreed the draft text of a Brexit agreement, following months of negotiations. The document has been agreed at a technical level by officials from both sides after intensive discussions. Theresa May has received her Cabinet's backing.

The agreement contained a UK-wide customs "backstop" aimed at preventing new border checks in Northern Ireland. There is no additional Northern Ireland-only backstop - but sources wouldn't be drawn on any specific arrangements for Northern Ireland on rules and regulation within the UK-wide one.

This "backstop" has proved to the most contentious part of the withdrawal negotiations, with concerns raised by Brexiteer Tories and the DUP over how it will work.

UNITED KINGDOM BREXIT REFERENDUM VOTE



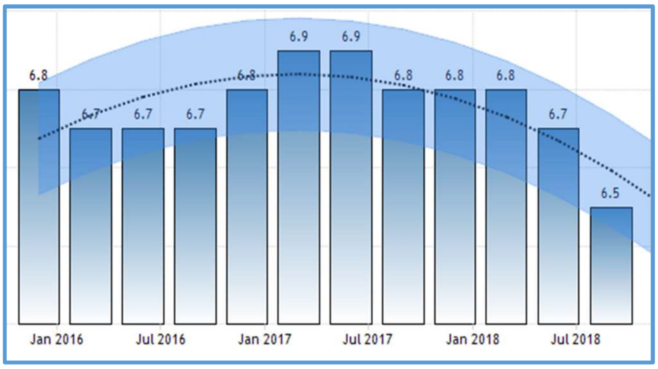
The UK economy performed fairly well in the third quarter, with GDP figures for July and August supported by solid expansions in the mining and quarrying, and wholesale and retail sub-sectors. However, at least part of the strong showing in recent months can be attributed to warm weather boosting consumer spending.

UNITED KINGDOM GDP QUARTERLY GROWTH RATE

Chinese Economic Outlook

Signs are that China's economy is slowing sharply under pressure from its own efforts at deleveraging and Donald Trump's trade war. However, China's problems extend beyond the US trade dispute. China accounts for a third of the US$72 trillion increase in global debt since 2008. This has seen China's debt rise from 145% of Gross Domestic Product (GDP) to 256%. Concerns about China's debt burden hinge on the large proportion (50%) exposed to the housing market and the large amount borrowed by local government which has been invested in low returning assets. Significantly higher levels of household debt have seen debt servicing costs as a proportion of income increase from 18% in 2014, to 28% now. This combined with slower income growth and the adverse impact of an aging population (older people typically consume less on a per capita basis) is putting downward pressure on household consumption. Chinese policy makers have to tread a fine line between reducing debt, structural reform and measures to offset the adverse impact of tariffs Weak retail and property sales figures have prompted fresh talk of new Chinese stimulus and have unnerved global financial markets.

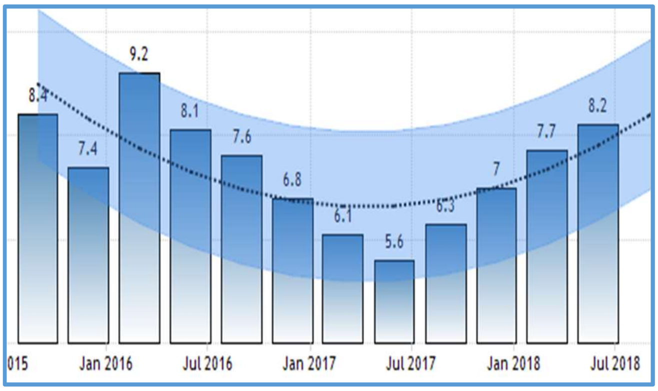
Chinese GDP Annual Growth Rate



Indian Economic Outlook

Economic growth should accelerate in FY 2018, due to fading disruptions from the demonetization of November 2016 and the launch of a goods and services tax in July 2017. However, recent signs of fiscal slippage in the run-up to next year's general elections, escalating global trade protectionism and higher oil prices weigh on the outlook. Expect GDP growth of 7.4% in FY 2018, and 7.4% again in FY 2019.

India's GDP Annual Growth Rate



India purchases about 80% of the oil it consumes from abroad, and recent volatility in oil prices caused the merchandise trade deficit to fluctuate wildly. To help reduce the growing external sector imbalance, the government raised import tariffs on US$12bn worth of imports on 26 September. In addition, excise duties on gasoline and diesel were cut on 4 October to lessen the impact of higher fuel prices on consumers.

Commodities

International benchmark, Brent crude oil price has fallen by more than 20% since early October on concern about excess supply and slowing demand, one of the biggest declines since a price collapse in 2014.

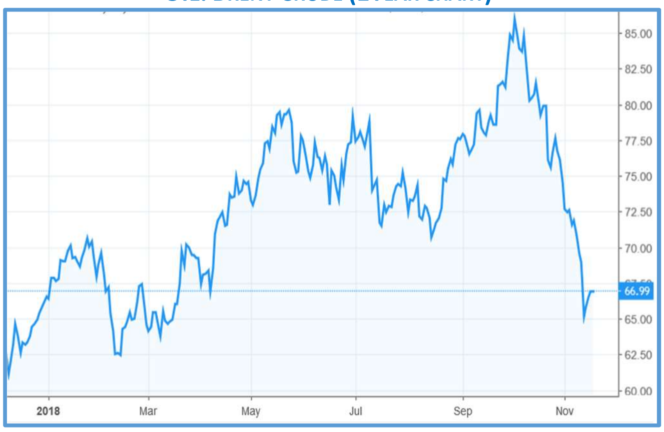
As oil crashed from the high touched in October, natural gas futures soared as much as 56% during that time to a 4½ year high.

Basically, once Brent Oil got to $55 a barrel, which is where the cost of shale oil is, we got to where all the puts were struck for the producer hedging programs. Once you went in there, then swap dealers needed to hedge their position and that's why the oil market was sold off.

Oil markets are being pressured from two sides: a surge in supply from OPEC, Russia, the United States and other producers; and increasing concerns about a global economic slowdown.

The surge in US onshore output has helped overall U.S. crude production hit a record 11.6 million bpd, making the United States the world's biggest oil producer ahead of Russia and Saudi Arabia. Most analysts expect U.S. output to climb above 12 million bpd in the first half of 2019. The rise in U.S. production is contributing to higher stockpiles.

Oil: Brent Crude (1Year chart)



The last couple of months decline in global commodity prices reflected a sizeable drop in prices for agricultural products due to strong harvest pressures and spillovers from the trade war between the United States (a major supplier of agricultural products) and China (a key global buyer of food).

Base metal prices continued to retreat in September on the back of softer growth prospects for China, the largest purchaser of base metals worldwide.

While the price for precious metals was largely unchanged, a more detailed analysis reveals that this was mostly due to soaring palladium prices. Next year, global commodity prices will expand at a faster rate due to a recovery in prices for base and precious metals.

CURRENCY

Since mid-April, the NZD has depreciated 10% against the USD, 3% against the AUD and 5% against the EUR.

Foreign currency translation from a weaker NZD will be negative for companies with net operating cost exposure such as USD jet fuel cost for AIR and SKT, which has around 20% of operating costs in USD and around 10% in AUD. Hedge contracts for AIR and SKT will progressively roll off over the next 12 months.

NZD/AUD & NZD/USD CROSS RATE (SINCE 2001)

SOURCE: Westpac

TIME TO DEBATE GENETIC EDITING

There's a quiet revolution going on in genetics which could be worth millions to our primary industries.

If harnessed genetic editing (GE) technology could mean new apple varieties could be bred faster, cows could provide allergen-free milk, plantation pine trees could be grown to produce the same wood but with no wildings, and mānuka could be bred to be resistant to myrtle rust.

If not harnessed, New Zealand's GE-free products would need to fetch a premium price to make up for the lost production benefits of genetic editing. Either way, the latest discussion paper on the topic of genetic editing says New Zealand's "policy response is not obvious".

Genetic editing is stuck in a friend-zone where some research is taking place, but there's little hope of the research leaping the numerous regulatory hurdles needed to leave the laboratory. Gene editing techniques will allow more targeted and precise genetic changes than what has been possible before in crop and livestock breeding.

The new gene editing techniques include CRISPR, which allow genes to be edited without introducing gene material from other organisms. This means changes can be made without raising the "frankenfood" concerns of the 1990s. Techniques like CRISPR speed up the slow and at times haphazard selective breeding or radiation or chemical-reliant mutagenesis techniques which have been used for decades.

The risk for New Zealand is that we do get left behind. While the science is racing ahead in other countries, New Zealand is keeping gene editing under tight control. No gene edited crops are grown outside of containment and certain councils have restrictions on genetically modified organisms. The risk for New Zealand is we do get left behind. If we take, for example apples - countries like China that use gene editing could very rapidly develop new varieties at a much faster rate than we could do so here.

A scenario explored in the discussion paper looks at how to speed up the breeding of new types of apples. Currently this involves taking one tree with desirable traits such as tartness and crossing it with another tree with a different trait, such as crispness. The process has a five-year wait time for results while the tree reaches fruiting age to see if the pairing produced a tart, crisp apple. Using CRISPR to knock out a gene which supresses flowering can reduce the five years to eight months. For an industry hoping for growth, the advantage to speeding up the breeding cycle is clear. New Zealand's apple and pear exports totalled $700 million in 2017 and the industry has a target to increase this to $1 billion by 2022.

China has increased its apple exports by 41% since 2013 and is now the biggest exporter in the world. It's also investing heavily in gene editing science. China is probably investing more in science now than the US. There's a huge amount of activity. They've been to the forefront with gene editing in human embryos and animals.

Milk is another product where genetic editing could open up a new market for New Zealand. Around 65% of people experience intolerance to lactose after infancy, with people from regions such as East Asia more likely to be intolerant. Through genetic editing of cow embryos, the gene which produces beta-lactoglobulin, a common allergen in milk, can be removed.

Before New Zealand farmers could farm genetically edited cows to capture the allergen-free market, a labyrinth of government regulations would need to be navigated. The Royal Society hopes New Zealanders use their discussion paper as a conversation-starter.

CLIMATE CHANGE MITIGATION – AT WHAT COST?

IPCC REPORT STOKES THE METHANE DEBATE

A new IPCC (Intergovernmental Panel on Climate Change) special report warns that "large, immediate, and unprecedented global efforts to mitigate greenhouse gases" are needed to avoid catastrophic warming. It says to keep below 1.5 degrees Celsius of warming, compared to pre-industrial levels, global methane has to be reduced by 35% by 2050.

"If New Zealand is serious about being a leader in climate change, that matters," University of Canterbury political scientist Bronwyn Hayward (the lead author) says. Hayward says the report will be "a wake-up call and a bit of a shock" for New Zealand because a 35% reduction, compared to 2010 levels, is far higher than recent reports suggesting the country could farm cows and have a clean climate conscience by roughly stabilising methane or cutting it by 10-22%. Plus, "It really ups the standards for what's expected globally." New Zealand has the largest per-capita emission rate of the gas in the world – six times the global average.

Federated Farmers' climate change spokesman Andrew Hoggard says: "You've got a bunch of PhDs saying one thing and a bunch of PhDs saying the other thing. Which PhD's correct?"

In Jacinda Ardern's UN General Assembly address about climate change, she said the effects were "*not academic, or even arguable*" – that undermining climate-related targets and agreements will be catastrophic. Call me a cynic, but this latest IPPC report just diverts attention away from this Labour-led Coalition's failure to take any decisive actions (expect taxing us more).

AN ALTERNATE VIEW ON METHANE

Victoria University of Wellington professor of climate change Dave Frame disagrees with Hayward. While the IPCC report's valuable for pointing out the scale of decarbonisation needed to limit warming to 1.5^{C}, he says the problem is mainly about carbon dioxide. Frame's view – which he's sticking to in the face of the IPCC report – is that cuts to methane can be made later, before global warming peaks. Carbon dioxide's a "stock" pollutant while methane's a "flow" pollutant – one builds up and the other dissipates. "I would wait on doing more on methane until you see that you've really got the CO_2 under control." Frame also knocks Hayward's view – and that of environmental groups – of New Zealand becoming a world leader in climate change. Big players, like the United States and China, will determine the outcome, he says. If either country continued on a business as usual trajectory for greenhouse gas emissions, he says that would effectively make it impossible for all other countries to limit warming to 1.5^{C}. "You could spend a huge amount of money turning off all the carbon tomorrow and the rest of the world wouldn't really notice," noted Dave Frame.

New Zealand's best to tackle climate change as part of a cluster of countries, Frame says – like a cycling peloton. "We want to be one of the countries who are working quite hard on this problem, but we don't have to go charging off on our own." He adds: "You could spend a huge amount of money turning off all the carbon tomorrow and the rest of the world wouldn't really notice.

IS IT TIME TO ACT?

The current Government is reviewing the ETS and considering setting a net zero emissions target by 2050 under a proposed Zero Carbon Act. This latest IPCC report highlights the need for the act – but has it really added anything new? New Zealand doesn't need to get way ahead of other countries but it needs to react to the science, giving certainty to businesses, so they can confidently make investment decisions. Given New Zealand's two biggest industries are tourism (including long-haul, international flights) and agriculture, any move to make deep greenhouse gas cuts poses real headaches for the Government. It may have to re-think its decision to extend existing oil and gas exploration permits.

The real test for Ardern's coalition Government is certainty for agriculture. At her election campaign launch in August last year, Ardern said of climate change: "*There will always be those who say it's too difficult. There will be those who say we are too small, and that pollution and climate change are the price of progress. They are wrong.*"

Farmers – don't expect too many "breaks" from this government – they love to tax for "envy".

Fortunately, the 3-headed coalition monster should keep a hand-brake on too many ridiculous decisions. That said – ask the Taranaki Oil & Gas industry!

"Don't take too much advice. Most people who have a lot of advice to give.
With a few exceptions — generalise whatever they did.
Don't over-analyze everything. Just build things and find out if they work."
Ben Silbermann

AGRIBUSINESS – LOOKING FROM THE OUTSIDE IN

PRIMARY INDUSTRY EXPORT REVENUE 2004-2020^{F}

Units - NZ$m	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018^{F}	2019^{F}	2020^{F}
Dairy	6,092	5,982	6,986	7,848	10,359	11,036	10,312	12,912	13,379	13,139	17,791	14,050	13,289	14,638	16,710	16,840	17,060
Meat & wool	6,848	6,761	6,659	6,776	6,939	7,824	7,111	7,836	7,781	7,793	8,163	9,001	9,201	8,356	9,160	8,910	9,100
Forestry	3,294	3,242	3,249	3,648	3,295	3,615	3,921	4,588	4,332	4,527	5,199	4,683	5,140	5,482	6,090	6,000	6,010
Horticulture	2,212	2,270	2,325	2,649	2,896	3,338	3,279	3,383	3,560	3,547	3,807	4,187	5,002	5,152	5,370	5,560	5,760
Seafood	1,257	1,266	1,278	1,312	1,272	1,460	1,405	1,563	1,545	1,546	1,500	1,562	1,768	1,744	1,850	1,940	2,010
Arable	94	90	108	110	142	157	146	157	182	229	232	181	210	197	240	230	235
Other primary sector[3]	1,114	1,299	1,336	1,489	1,525	1,587	1,542	1,676	1,773	1,936	1,908	2,314	2,612	2,532	2,810	2,780	2,860
Primary industries	**20,910**	**20,909**	**21,942**	**23,831**	**26,427**	**29,017**	**27,716**	**32,114**	**32,553**	**32,717**	**38,600**	**35,978**	**37,223**	**38,101**	**42,230**	**42,260**	**43,035**

SOURCE: Ministry of Primary Industries

Note: [3] Other primary sector exports & foods include: live animals, honey, and processed foods such as chocolate and tomato sauce.

FONTERRA

Since 1990, nearly a million hectares of sheep and beef land has been converted to dairying, bringing with it nearly 2.5m additional cows, with 20% more cows per hectare, and each cow now producing nearly 50% more milk on average. The result has been a tidal wave of extra milk, nearly all of which has to be exported.

Despite decades of strategy hype about "moving up the value chain", the reality is that Fonterra has been driven not by what consumers demand but rather by what its suppliers push. Fonterra's prime role as a producer co-operative is to serve its supplier-shareholders. This imperative requires Fonterra to pour large sums of scarce capital into new factories to process that white tidal wave. By default, most of the milk is turned into commodities, especially whole-milk powder.

While Fonterra likes to think of itself as also being a multinational marketing company and an international capital investor, at its core, it is an extension of its members' farms — a club in which farmers jointly own plant to provide shared services that they can't afford individually. So how has the average Fonterra dairy farmer fared? The average price received for his or her milk has barely increased in real terms since Fonterra was formed 17 years ago. Their shares in Fonterra are worth only 28% more than in 2001, while over the same period the NZX50 index (and predecessors) has increased by more than 400%.

Over the last 10 years, while production on the average farm increased by 40%, term borrowings have nearly doubled. Annual return on assets has averaged just 5.7% (this includes changes in capital value, which averaged 1.4% per year). Over the same 10-year period, average return on equity for the average farmer was just 5.6% (which includes changes in capital value).

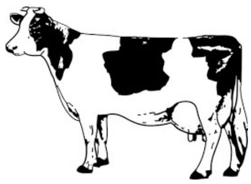
Fonterra and its suppliers must change tack - and be driven by profitability, not volume, with a higher standard of disclosure and performance monitoring.

SITUATION AND OUTLOOK FOR PRIMARY INDUSTRIES

Even though New Zealand's primary sectors are performing well overall, the Mycoplasma bovis incursion and response has been a significant challenge for affected communities and Primary industry exports are forecast to have grown 11.8 percent in the year ending June 2018 to $42.6 billion.

This export performance is also reflected in rising on-farm profitability. All primary industry sectors are contributing to the $4.5 billion increase from the prior year, led by double-digit percentage growth in the three largest export sectors.

DAIRY +13.6%

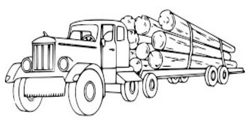


The recovery in dairy exports has continued in 2018, with forecast exports expected to reach $16.6 billion, an increase of $2.0 billion on the previous year. Strength in butter and whole milk powder prices have driven export growth, despite an expected 1.0% fall in dairy production for the 2017/18 season. Growth in infant formula continues, with exports expected to reach $1.2 billion, up 53% on the previous year.

MEAT & WOOL +12.4%

Exceptional export prices for red meat have supported solid growth in meat and wool exports for the 2018 year, up 12% to $9.4 billion. In particular, sheep meat export revenue is expected to rise 24% to over $3.5 billion as exports shift toward China and the US and prices are supported by limited supplies out of Australia and New Zealand.

FORESTRY +15.8%



New Zealand's forestry export revenue is forecast to reach $6.4 billion for the year ending June 2018. This is an increase of 15.8% from 2017, and can be largely attributed to record log export volumes and strong log prices.

FORESTRY EXPORT REVENUE (NZ$m)

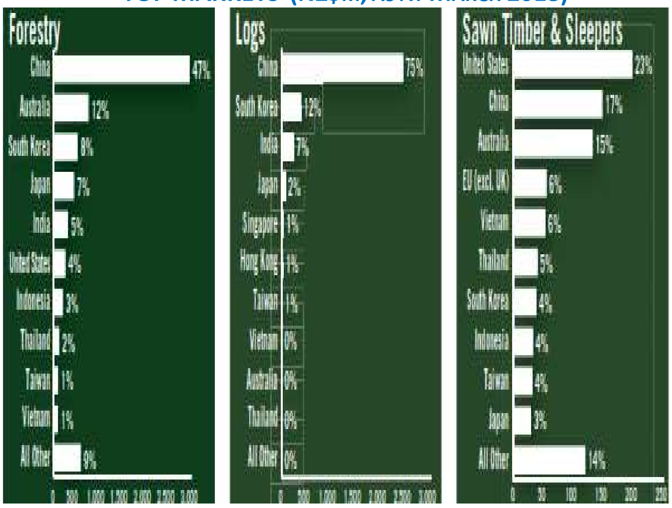
Year to 30 June	2014A	2015A	2016A	2017A	2018F	2019F
Logs	2,541	2,059	2,224	2,687	3,310	3,310
Sawn timber & sleepers	787	751	860	830	890	940
Pulp	606	631	687	655	820	810
Paper & paperboard	477	470	518	484	490	470
Panels	407	451	512	476	510	530
Chips	51	52	64	59	60	60
Other forestry products*	331	268	275	290	280	250
Total	5,199	4,683	5,140	5,482	6,350	6,370
% Change	14.9%	-9.9%	9.8%	6.7%	15.8%	0.3%

SOURCE: Stats NZ, MPI

* Other forest products include: structural or moulded wood, furniture, and prefabricated buildings.

Harvest volumes have hit a new high at 33.6 million cubic metres in the year ending March 2018 and this high harvest volume is likely to remain near current levels over the outlook period due to labour constraints on further volume growth.

TOP MARKETS (NZ$M, AS AT MARCH 2018)

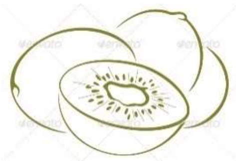


Timber demand has been strong domestically, mainly driven by increased residential construction in Auckland. Timber exports also remain strong due to high construction activity in China and the US. The graph above shows that China currently makes up 75% of NZ's log trade, but only 17% of our sawn timber trade. We also export 34% of our Pulp Export to China – next highest is Australia (at just 13%).

Record export volumes and strong log prices are expected to increase forestry exports to a record $6.4 billion for the year ending June 2018. Exports to our largest trading partner, China, continue to grow, accounting for 75% of log export revenue and 47% of overall forestry exports. In response to these high prices, harvest volumes have reached a new high at 33.6 million cubic metres in the year ended March 2018.

These figures would appear to add credence to Shane Jones asking China to convert our log trade to sawn timber. It is only China (75%) and India (7% of our log trade) that require our use of Methyl Bromide for log treatment. The reduction (or elimination) of Methyl Bromide is a very desirable outcome locally.

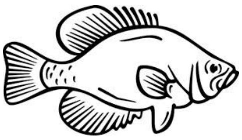
HORTICULTURE +6.4%



Horticulture exports are forecast to reach a record $5.5 billion for the year ending June 2018. Good yields for the current season and growth in demand for gold kiwifruit has underpinned a 12% increase in kiwifruit exports, our largest horticultural export category. Wine export growth is forecast to reach 3.6%. Apple and pear export revenue is also expected to see strong growth, up 10%, on the back of increased plantings and a favourable 2017/18 growing season.

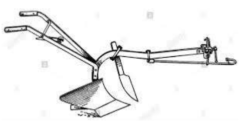
Horticulture hectares	2002	2005	2007	2009	2011	2012	2014	2017	Growth 2014-17
Wine grapes	17,300	24,793	29,616	33,422	34,060	34,562	33,761	33,981	0.7%
Kiwifruit	11,841	12,071	13,080	13,287	13,066	12,757	10,979	11,705	6.6%
Potatoes	11,082	10,850	10,050	11,398	10,724	11,578	9,163	9,450	3.1%
Apples	11,717	10,982	9,247	9,284	8,995	8,845	8,417	8,615	2.4%
Onions	5,621	4,931	4,594	4,511	5,142	5,718	5,067	6,009	18.6%
Squash	6,560	6,981	7,774	6,825	6,467	6,837	6,501	5,794	(10.9%)
Avocados	3,106	3,400	4,004	4,117	3,976	4,149	3,893	3,979	2.2%
Olives	2,612	2,433	2,173	2,016	1,792	1,657	1,325	921	(30.5%)

SEAFOOD +5.5%



Strong volume and price growth is expected to push seafood exports to $1.8 billion for the year ended June 2018. Longer term, the outlook is expected to remain positive as demand growth in our key export markets (particularly China and Europe) and constraints on international supply underpins increasing export prices.

ARABLE +11.6%



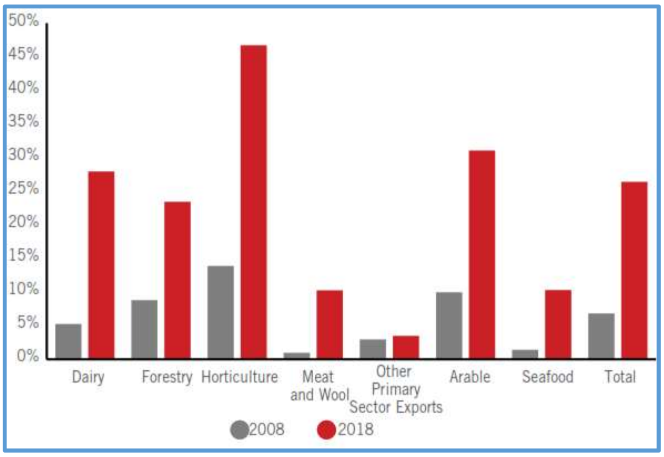
A difficult growing season with wet planting conditions and high summer temperatures for arable farmers has resulted in lower yields for the 2018 growing season. This will lower seed export revenue through to the year ending June 2019, after which moderate long term growth will resume.

OTHER PRIMARY SECTOR EXPORTS +6.6%

Growth in other primary industry exports are primarily driven by exports of innovative processed foods and honey. The June 2018 year is expected to see export revenue reach $2.7 billion, up 6.6% on the previous period. Honey exports are forecast to reach $352 million (up 7.3%) driven by strong demand from the US. Within the innovative foods category, large growth in key export markets of Hong Kong, Australia and Singapore has contributed to a 26% increase in export revenue to $840 million for the year ending June 2018.

CHINA'S SHARE OF PRIMARY SECTOR EXPORTS

2008-2018



The importance of China as an export market is highlighted by the fact that it is now our largest primary sector export market, more than double our next largest partner, Australia, and larger than New Zealand's next six biggest trading partners combined.

Ten years on from the original agreement, New Zealand is working on an FTA upgrade with China. Negotiations began in April of 2017. The aspiration is that an upgraded agreement will provide an opportunity to modernise the FTA and make further improvements that further free up trade barriers between China and New Zealand.

China now accounts for 26% of our total primary sector exports, up from 7% 10 years ago, including 47% of New Zealand's forestry exports, followed by 31% of seafood and 28% of dairy exports go to China.

While the growth of exports to China has been transformational for New Zealand's primary sector, increased diversification of trading partners would increase resilience for the primary sector. To support this diversification, the signing of the CPTPP in March of this year represents the next opportunity for New Zealand's primary sector growth story. Members to the agreement represent 13.4% of global GDP, making this the third largest trade agreement after the North American Free Trade Agreement and the European Union common market.

In addition, as the importance of China as a trading partner rises as a result of our FTA with that nation, the CPTPP represents another opportunity for our primary sector, not just to add to that growth, but also to further diversify our export market base, providing increased long-term resilience to our primary industries.

TATUA PAYOUT $8.10 AFTER RECORD RESULT

Tatua's 112 shareholders will receive a payout of $8.10 per kilogram of milk solids after the dairy co-operative posted record annual revenue for the 2017-18 year. This result pays Tatua farmers $1.41 more than Fonterra.

The Waikato-based co-op confirmed operating revenue of $357m and earnings of $127m. The board also confirmed a pre-tax payout of $8.62 per kg/MS, with 52c/kg to be retained for reinvestment and $8.10 per kg/MS ($7.60 pcp) to be paid to shareholders.

Tatua's record result follows the release of Fonterra's first ever financial loss of $196m and a total cash payout of $6.79 per kg/MS.

Westland Milk Products results for the 2017-18 financial year saw a $3.3m pre-tax profit and a payout of $6.07 per kg/MS of milk solids after a 5c retention.

Tatua's Chair said the co-op had deliberately chosen to have a different business model, which had been carefully thought out before the dairy industry was deregulated. Tatua's focus on growing its value-add businesses had contributed to the extra revenue and the concept was often misunderstood.

"*Given that as a country we can only feed 40-50m people and there are a lot more people than that in the world. We might as well try and be the niche provider from New Zealand to the rest of the world and try to do that well to compete with other countries which produce more product*."

Tatua processed 14.7m kilograms of milk solids from its 112 shareholder-suppliers over the season. This was a slight reduction from the 15m kilograms the previous year, reflecting less favourable farming conditions in the first half of the season.

"Don't worry about failure; you only have to be right once"

Drew Houston, founder and CEO of Dropbox

SIR PETER GLUCKMAN – THE FUTURE OF FARMING

Sir Peter Gluckman's final report as the Prime Minister's Chief Science Advisor made some striking points about the future of farming.

Methane matters

Gluckman's final report emphasised that cutting methane is crucial to New Zealand's efforts to slow climate change. NZ's proposed Zero Carbon Bill is modelled on a British law that mostly only had to deal with fossil fuels. Here in New Zealand, our emissions are skewed to harder-to-cut sources like animal burps and urine. We can reduce cows, plant forests, or hope for technical break-throughs, but we can't, as the UK can, make major gains merely by replacing our dirty power stations.

Whether to ignore, eliminate or "stabilise" methane, the single biggest climate impact from cattle farming, has been major feature of debate about New Zealand's proposed Zero Carbon Bill. The Government mooted three paths to 2050: reducing all gases to net zero, reducing CO2 to net zero and "stabilising" methane, or setting no goal at all for methane. The discussion document did not say at what level methane might be stabilised, leaving something of a void.

Into that void came a report commissioned by Simon Upton, the Parliamentary Commissioner for the Environment. In this report Upton noted that calculations by greenhouse expert Andy Reisinger found that "*if New Zealand shaved 10-22% off its methane emissions by 2050, and shrunk them by 20-27% by 2100, our livestock burps would no longer be adding new heat to the climate. Methane has contributed 40% of total global warming since 1750, and it is the gas that has contributed most to farming's increasing emissions since 1990*."

The ongoing debate is around the importance of "stock" (long-lived) gases (like CO2) versus "flow" pollutants (like methane). Gluckman noted "*Describing methane as a 'flow pollutant' does not imply that it moves through the atmosphere without causing permanent climate effects, though the effects are different from those of CO2. Methane is a very potent warming agent in the short-term, so it is contributing significantly to current warming trends … Although methane does not accumulate in the atmosphere like CO2 does, it has potent effects on near-term warming, and this potency increases with increasing rates of methane emissions over time*."

Gluckman notes that cutting methane quickly buys the planet time. He said that "*While noting that methane emissions from agriculture cannot, and need not be, reduced to zero, reducing global methane emissions quickly will [reduce] the peak warming temperature and the rate at which CO2 emissions need to be reduced." "The delay will allow more time to bring direct CO2 emissions to net zero*."

Gluckman also noted that another bonus for this thesis is to give our products a marketing edge. He said "*There are many reasons to act aggressively to reduce [livestock] emissions. This goes beyond arguments of short-lived versus long-lived gases; there are also strong market and reputational reasons for driving down agricultural emissions while making farms more efficient and sustainable*."

We don't have a good way to measure farmers' efforts

The stark reality for anyone trying to claim credit for cutting greenhouse gases, is that if you can't measure it, you can't manage it.

But neither the modelling tool Overseer, which many farmers are already using, nor any other tool we currently have, is up to the job of telling us accurately how well farmers are cutting emissions. We need something better and more comprehensive – ideally a single reporting system that incorporates water quality, animal welfare and other measures in the same tool. "*A key decision that will need to be made is whether to try and manage GHG production from farms with a direct priced-based system based on some estimate of GHG emissions at an individual farm basis or at the level of a consolidator (e.g. a milk company - or to use some other approach such as a farm-plan,*" Gluckman stated. His preference would be individual farm plans, albeit a considerably beefed-up version from the ones dairy groups are already working on implementing.

The comprehensive farm plans, Gluckman has in mind, would be devised by specially-trained advisers, and could incorporate bits that work from Overseer, lifecycle analyses of carbon footprints and other tools. They'd show farmers the first priorities to cut emissions on their farm, track trends as well as total emissions, and bring in as many as possible optional ways of cutting gases.

We need to talk about changing land use ... and GMOs

The report doesn't address the vexed question of how many cows the county can sustain, long-term, at least not to the extent of trying to estimate a number. But it does raise bigger questions about the future of New Zealand farming. The Government's Biological Emissions Reference Group (BERG) is working on a major report on animal emissions, but the early modelling supplied to Gluckman's office suggests that farm management practices that could be employed right now might reduce animal emissions somewhere between 2-10%. That might include better breeding, precision fertiliser-use, and other measures largely aimed at raising efficiency so farms can produce more meat and milk for their gas output.

Gluckman's final report notes that, long-term, these kinds of measures won't be enough - meaning game-changing new technologies or big changes to our land use, or both, will likely be needed. Gluckman advocates for farmers to consider diversifying into forestry or making money from other crops. But, "*for larger reductions from the primary sector, technological innovations will be needed*."

This led him to implore the Government to revisit our national feelings about genetic technologies such as transgenic, low-methane grasses for cows to eat, trees with enhanced carbon sequestration, and other potentially controversial crops that could turn a profit on what is now livestock-farming land.

"*The increasing global interest in plant- based milks and meats may offer opportunities for diversification, but the challenge will be to achieve economic returns to the farmer. This is less likely unless new plant breeding techniques – for which social license remains highly uncertain and controversial – are used*," he says.

"*New Zealand scientists have developed promising forages using genetic technologies that could be used to make major progress through higher energy, lipid rich ryegrasses which are now in field trials in the United States. However, these have not been and effectively cannot be subjected to field testing in New Zealand ... The inability to assess these technologies in New Zealand conditions may be to our long-term disadvantage*."

The New Zealand-developed, US-tested grass might cut methane by up to 20% per farm. He urged Ardern to weigh up these genetic technologies alongside other big possible changes – namely significant cuts in cow numbers and investing in carbon offsets – to decide how to get the reductions we need.

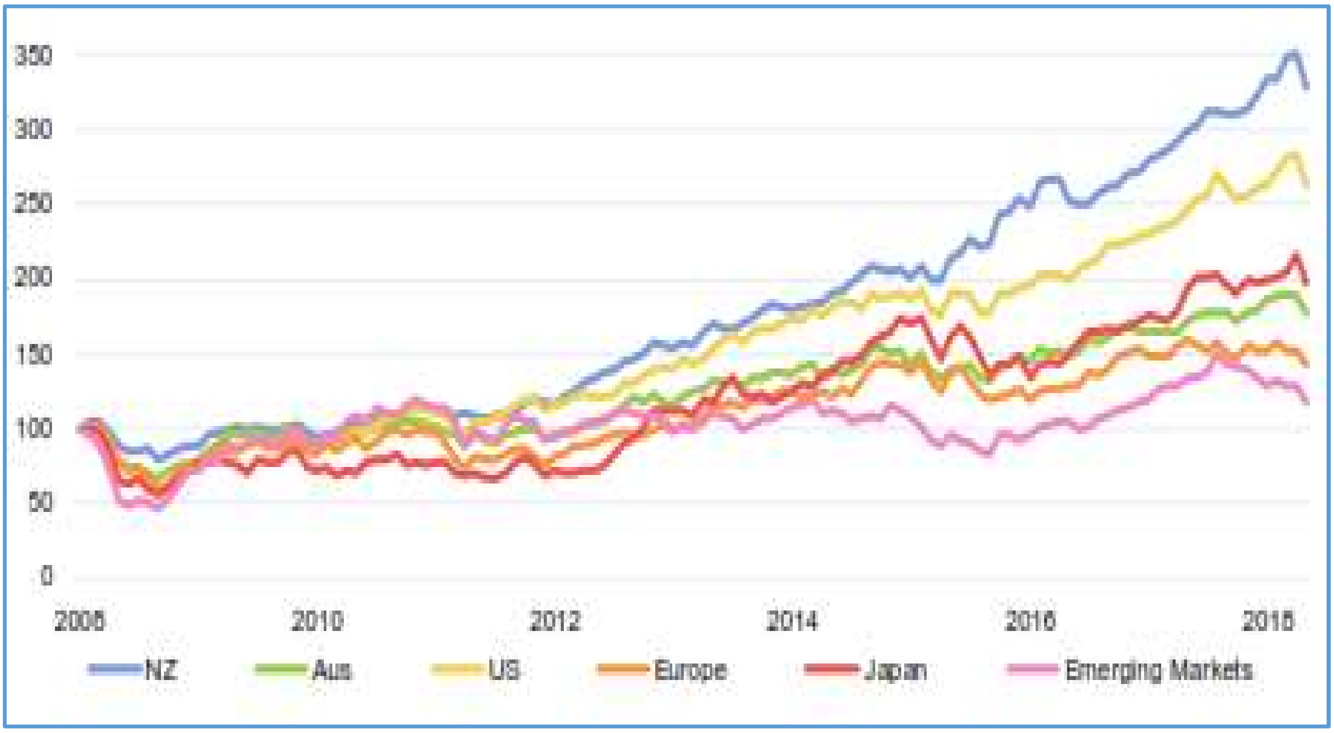
TECHNOLOGY IS STILL A WILD CARD

Genetic technology aside, work is underway on other hopeful gas-shrinking technologies, like conventional breeding of low-methane and low-nitrogen animals, nitrogen-cutting pasture species, such as plantain, and greenhouse gas-reducing feed additives for animals. Globally, the methane-cutting product that is closest to reaching the market is not from around here - it's a Dutch methane inhibitor called 3-nitrooxypropanol (3NOP), which has shown considerable promise in feedlot farms overseas, where it cuts methane burped by about a third, on average. Before it could be used here, scientists need to find a way to get it into New Zealand's grazing animals, such as a long-acting or slow-release formulation (perhaps a tasty pill a cow could munch on her way to each milking). "New Zealand has the skills to develop such a formulation, but there is also a need to be able to manufacture large amounts of the compound, which would require significant capital investment and would itself have a carbon footprint," says Gluckman's report.

The holy grail – still being sought by AgResearch scientists at Palmerston North – remains a methane-inhibiting vaccine, which could theoretically work on all ruminant livestock (dairy, beef, lamb, goats) to shrink emissions after a single injection. It's yet to be proven to work on live animals, though, with Gluckman calling progress on the vaccine "somewhat disappointing".

"The reality is that there are no 'zero emissions' technologies available for pastoral agriculture, so eliminating these emissions completely is not feasible, but reductions are both possible and consequential," says Gluckman's parting report.

GLOBAL EQUITY MARKET GROSS PERFORMANCE *(LOCAL CURRENCY)*



Source: FNZC, Bloomberg

The A2 MILK COMPANY (ATM.NZ)

CURRENT PRICE: $10.17 **FNZC TARGET PRICE:** $12.70
RECOMMENDATION: NEUTRAL

The primary driver of ATM's share price is infant formula sales into China, which made up circa 70% of 2018 sales. Momentum remains strong with ATM growing its market share to 5.6% in September (June: 5.1%), helped by expanding its distribution agreements with mother and baby stores (MBS) to 12,000 stores (June: 10,000). Balancing this positive outlook, is the risk relating to China's recently passed cross-border e-Commerce laws, which might adversely impact the daigou (consumer-to-consumer) import distribution channel. FNZC estimates the daigou channel represented more than 50% of ATM's sales in 1H18.

If the volume of infant formula distributed by ATM through the daigou channel reduced by 20%, ATM's valuation would fall by over $2/share. Despite this uncertainty, FNZC believes ATM's outlook is positive reflecting the impact of a new product launch, ramp up of the expanded MBS channel and price increases (+5% in September). Following the 20% share price decline over the past two months, ATM is trading on a FY19 price-to-earnings (PE) ratio of 27x. With 29%pa forecast earnings growth over the next three years, ATM's FY21 PE ratio falls to 18x.

HALLENSTEIN GLASSON (HGL.NZ)

CURRENT PRICE: $5.38 **MY RECOMMENDATION:** HOLD

Hallenstein Glasson Year to 30 June		2018A	2019F	2020F	2021F
Adjusted	NZ$m	94	100	107	116
Earnings	NZc	13.8	14.8	15.7	17.0
PE Ratio	x	35.7	33.3	31.3	29.0
Cash/Share	NZc	14.6	16.1	17.2	18.5
Dividend/share	NZc	12.7	13.8	14.5	15.5
Imputation	%	100	100	100	100
Net Div. Yield	%	3.4	3.7	2.8	3.0
Gross Div. Yld	%	5.1	5.5	4.2	4.5

Hallenstein Glasson Holdings confirmed annual profit rose 58%. Under the stewardship of new chief executive Mark Goddard, who took over in April last year, the retailer on April 30 this year sold its unprofitable Storm retail chain and is focusing its efforts on expanding its two major brands across New Zealand, Australia, and online. It confirmed that profit in the year to August 1 was $27.4m, in line with its forecast last month for profit of $27.1m to $27.6m. Annual sales rose 16% to $277.6m.

Whilst the trading environments remain tough in both New Zealand and Australia, HGL brands have responded and adapted to these conditions to deliver the strong result. It will pay a 24c final dividend on December 17, taking the annual dividend to 44c, well ahead of 31.5c the previous year.

In its largest business, the Glassons womenswear brand, annual profit in New Zealand rose 31% to $10.6m as sales lifted 8.1% to $96.7m. Profit at Glassons Australia jumped to $8m from $1.4m as sales surged 57% to $78.4m. It opened new stores in Melbourne Central and Charlestown, while Warringah and Chermside were refurbished in line with its new concept. It recently refurbished stores in Bondi, Highpoint and Parramatta and said it has more refurbishments planned, along with store openings in The Glen and Liverpool and others under consideration.

Its menswear brand Hallenstein Brothers increased profit 19% to $8.9 million as sales lifted 6.4% to $96.9m. It refurbished its Queenstown store in line with a new concept and closed two small underperforming stores.

Its three Hallenstein stores in Australia have performed "steadily" and the company said it remains positive about the opportunity that exists for the brand in that market. Further investment in stores is planned for the current financial year as well as an extension to the distribution centre to accommodate the growth in online sales,

The divested Storm chain reported a loss of $732,000, compared with a loss of $313,000 in the 2017 financial year. It didn't disclose the sale price, which it said wasn't significant.

"The group's focus is on expanding its other two much larger fashion brands, namely Glassons and Hallenstein Brothers in both New Zealand and Australian markets," the company said.

"The group continues to improve and build on its buying strategies, speed-to-market, and customer services." Online sales grew 64% and now represent 13% of group turnover, the company said.

"We will continue to invest in technology and resources to build momentum in this strategic area of the business into the future," it said. "Strategic investment continues in digital, as well as in new and refurbished stores. Customers have reacted positively to new season stock and web sales continue to grow."

"Fortunes are built during the down market and collected in the upmarket."
Jason Calacanis, founder of LAUNCH Ticker

NZ REFINING (NZR.NZ)

CURRENT PRICE: $2.36 **FNZC TARGET PRICE:** $2.78
RECOMMENDATION: OUTPERFORM

With NZR's 1-in-15 year refinery maintenance shut down behind it, NZR expects the refinery to run without any shutdowns for all of 2H18 and FY19. Despite the shutdown's larger than expected impact on profit, management announced a $0.03/share interim dividend, which suggests management remain confident in NZR's outlook. FNZC forecasts a $0.25/share FY19 dividend (14% gross dividend yield) based on NZR's dividend policy to pay 80% of free cash flow. Even at this elevated level, gearing is forecast to fall from 26% to below 20% in FY19. They acknowledge that the main drivers of NZR's profit (the NZ dollar and refining margins) are almost entirely outside management's control. Given these two profit drivers are highly variable, NZR's profit can be volatile. We take comfort in that NZR appears to offer good value and we don't expect NZR's new CEO to deviate much from the company's current sound strategy.

EROAD (ERD.NZ)

CURRENT PRICE: $2.89 **TARGET PRICE:** $3.60

EROAD Year to 31 March		2018A	2019F	2020F	2021F
Adjusted NPAT	NZ$m	0	8	16	18
Earnings /share	NZc	0.3	12.2	23.1	26.9
PE Ratio	x	n.m	26.4	14.0	12.0
Cash/Share	NZc	3.2	35.8	45.7	51.3
Dividend/share	NZc	0	0	0	0

Source: Company data; NZX; First NZ Capital Estimates

After ERD benefited from large fleet customer wins assisting Australasian growth in FY18, forecasting growth in FY19 is dependent on how many large customers it may win. At 1Q19 ERD said it expected "lumpy" growth in FY19 with a lift in 2Q19 and 3Q19. 2Q19 growth was slightly lower than we expected and this means ERD's 2H19 growth needs to rise to meet our forecast. ERD noted in September 2018 it signed a number of customer contracts for delivery of over 1,500 units in 2H19, which should assist 2H19 growth.

North American unit growth is difficult to forecast, given a lack of market transparency, and ERD currently sitting between the ELD mandate deadline of 31 March 2018 for those with no electronic logging device (ELD) or 16 December 2019 for those with a grandfathered device. News reports and ERD have noted there still remain a number of operators that aren't ELD compliant, and some ELD products themselves are likely to not be compliant and thus operators will need to replace them with compliant products. We expect the 2H19 to benefit from these trends. The fact the 2Q19 was consistent with 1Q19 was a good

achievement but we wait to see whether ERD can get traction with some larger fleets and whether ERD will expand its distribution capability as a result of its strategic review of its North American operations.

XERO (XRO.AX) UNDERPERFORM

CURRENT PRICE: A$41.29 **TARGET PRICE:** A$35.00

Xero (ASX Listed) Year to 31st March		2018A	2019F	2020F	2021F
Revenue	NZ$m	407	552	722	922
EBITDA	NZc	26	70	166	250
PE Ratio	x	(215)	(513)	168	67.8
Earnings/Share	NZc	(0.20)	(0.01)	0.29	0.64
Dividend/share	NZc	0.0	0.0	0.0	0.0

Source: Company data; NZX; First NZ Capital Estimates

Acquisitions mark a new phase of life. With the issue of US$300m convertible note placed to pursue its acquisition agenda. This took another step forward with the purchase of UK accounts preparation and tax filing solution Instafile for a maximum of GBP5.25m over three years, and follows the purchase of Canadian data capture business Hubdoc in August (US$70m). FNZC likes both, but highlight that these are initial steps in a long-dated platform strategy. Further, that value attributable to add-ons or embedded technology is difficult to separate from what the market already assumes to be possible.

Scale outside Australasia remains key. While new capability is helpful, FNZC remains focussed on subscriber growth as a priority. Group additions are showing signs of flattening-out and, with the A/NZ contribution likely to ease at some point, they look to other geographies to step-up further. UK revenue growth was encouraging in 1H19 but centred on complex and higher-value customers. They expect a broader approach through time, with a wider array of entry-level products one strategy that may be considered. In the meantime features announced alongside Instafile at Xerocon UK should enhance prospects as 'Making Tax Digital' comes to into play next year.

FNZC remains a supporter of XRO's strategy, but continue to believe the price premium understates the company's risks. That said, there are also Upside Risks, including: Acceleration of growth in North America or South East Asia, uptake of add-on product.

"Take care of your employees and they will take care of you. It's as simple as that"
Richard Branson

PORTS OF AUCKLAND - NPAT RISES 27%

Ports of Auckland reported a 27% lift in net profit, boosted by some one-off gains and a full year of revenue from its Nexus Logistics and Conlinxx units. Reported net profit for the year to June 30 was $76.8m, up from $60.3m the year before. But that included $17.6m for items related to asset valuation changes and impairments, compared to $5.3m in the 2017 year.

Ports of Auckland will pay a dividend of $51.1m to the Auckland Council, slightly down from $51.3m the year before.

Group revenue was $243.2m, up $20.8m. Freight volumes increased and the port benefited from buying out its joint venture partner in Nexus Logistics in May 2017. That brought Conlinxx, which manages Ports of Auckland's Wiri inland port, back under its control.

The country's largest port said that container volumes were up 2.2% to the equivalent of 973,722 twenty-foot units, while breakbulk and bulk volumes were up 4.8% to 6.77m tonnes. The average crane rate of 35.63 moves an hour this year - up nearly one move / hour on the previous year. The company said significant progress has been made on the automation of its container terminal, due to go live in the second half of the 2019 calendar year.

It has also completed earth works at the Waikato Freight Hub and started construction of the first freight handling facility for Open Country Dairy. Road and rail connections will be built during the next 12 months and the hub will open for business by mid-2019, it said.

As a result, capital expenditure was $130.5m, versus $88.2m in the year to June 2017. "*We're making a significant investment in our people, technology and infrastructure to establish a platform for sustainable future returns, with multiple projects, including automation, underway this year*," said CEO Tony Gibson.

Container shipping lines continue to consolidate, with the top 10 lines globally now accounting for 80% of all container traffic. In New Zealand, the largest line has captured around 50% of the market and the number of container lines calling at Ports of Auckland is down to eight as a result of mergers and acquisitions. "*We face relentless pressure to increase efficiency and cut costs*," Chair Liz Coutts said. She noted the potential threat to the global economy from the rise of protectionism and a possible trade war. Any global economic slowdown that resulted would probably affect New Zealand and reduce global shipping volumes. However, "the company is in a good position to weather such an event," she said.

PORT OF TAURANGA

Port of Tauranga - FINANCIAL (Year to 30 June)	2018	2017	2016	2015	2014	2013	2018 Growth	2017 Growth	2016 Growth	2015 Growth	2014 Growth
Operating income	283,726	255,882	245,521	268,460	266,538	244,147	10.9%	4.2%	(8.5%)	0.7%	9.2%
EBITDA	169,200	152,385	143,180	143,161	141,642	134,992	11.0%	6.4%	0.0%	1.1%	4.9%
Surplus after taxation – reported	94,273	83,441	77,314	79,148	78,252	112,123	13.0%	7.9%	(2.3%)	1.1%	(30.2%)
Surplus after taxation – underlying	94,273	83,441	77,314	79,007	78,252	77,228	13.0%	7.9%	(2.1%)	1.0%	1.3%
Dividends paid related to earnings	115,017	108,893	72,142	69,419	63,035	63,035	5.6%	50.9%	3.9%	10.1%	0.0%
Total equity	1,121,980	931,943	885,684	887,550	812,419	793,878	20.4%	5.2%	(0.2%)	9.2%	2.3%
Net interest bearing debt	398,262	374,816	308,420	287,379	254,471	190,787	6.3%	21.5%	7.3%	12.9%	33.4%
Total assets	1,657,031	1,422,600	1,322,367	1,297,018	1,154,883	1,112,581	16.5%	7.6%	2.0%	12.3%	3.8%
Interest cover (times)	8.0	7.5	7.0	7.2	7.8	8.3	6.7%	7.1%	(2.8%)	(7.7%)	(6.0%)
Gearing ratio (%)*	26.2	28.7	25.8	24.5	23.9	19.4	(8.7%)	11.2%	5.3%	2.5%	23.2%
Return on average equity (%)	9.2	9.3	8.7	9.3	9.7	10.1	(1.1%)	6.9%	(6.5%)	(4.1%)	(4.0%)
Share price ($)**	5.10	4.45	3.90	3.46	3.09	2.78	14.6%	14.1%	12.7%	12.0%	11.2%
Market capitalisation ($)	3,470,964	3,028,586	2,654,267	2,354,811	2,072,096	1,864,215	14.6%	14.1%	12.7%	13.6%	11.2%
Underlying earnings per share (cents per share)**	14.0	12.4	11.4	11.6	11.7	11.5	12.9%	8.8%	(1.7%)	(0.9%)	1.7%

Port of Tauranga - OPERATIONAL	2018	2017	2016	2015	2014	2013	2018 Growth	2017 Growth	2016 Growth	2015 Growth	2014 Growth
Cargo throughput (000 tonnes)	24,458	22,194	20,120	20,179	19,737	19,065	10.2%	10.3%	(0.3%)	2.2%	3.5%
Containers (TEU)****	1,182,147	1,085,987	954,006	851,106	759,587	848,384	8.9%	13.8%	12.1%	12.0%	(10.5%)
Net crane rate (container moves per hour)*****	35.5	36.2	35.6	35.5	36.9	34.5	(1.9%)	1.7%	0.3%	(3.8%)	7.0%
Ship departures	1,747	1,651	1,482	1,555	1,612	1,529	5.8%	11.4%	(4.7%)	(3.5%)	5.4%
Berth occupancy (%)	48	47	46	46	43	40	2.1%	2.2%	0.0%	7.0%	7.5%
Total cargo ship days in port	2,643	2,589	2,504	2,528	2,364	2,232	2.1%	3.4%	(0.9%)	6.9%	5.9%
Turn-around time per cargo ship (days)	1.5	1.4	1.6	1.6	1.5	1.5	7.1%	(12.5%)	0.0%	6.7%	0.0%
Cargo tonnes per ship	14,000	13,442	13,549	12,510	12,921	12,469	4.2%	(0.8%)	8.3%	(3.2%)	3.6%
Average cargo ship gross tonnage (GT)	30,218	29,654	26,665	25,018	24,924	24,641	1.9%	11.2%	6.6%	0.4%	1.1%
Average cargo ship length overall (metres)	200	199	190	185	187	187	0.5%	4.7%	2.7%	(1.1%)	0.0%
Number of employees – Port of Tauranga Limited	208	206	194	193	191	185	1.0%	6.2%	0.5%	1.0%	3.2%
Lost time injuries (LTI – frequency)******	2.8	2.8	5.6	2.9	3.1	14.1	0.0%	(50.0%)	93.1%	(6.5%)	(78.0%)
Total injury (frequency rate)	5.5	5.6	5.6	14.7	3.1	31	(1.8%)	0.0%	(61.9%)	374.2%	(90.0%)

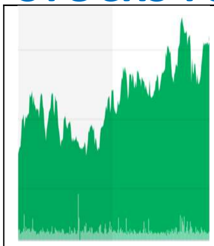
*Net interest bearing debt to net interest bearing debt + equity

**On 17 October 2016, the Parent Company completed a 5:1 share split. Prior years adjusted for the split.

***Based on 680,581,230 shares.

STOCKS TO WATCH

NEW ZEALAND NOTE: THESE ARE ALL ONE YEAR GRAPHS — **Prices as at 17th November 2018**



Auckland International Airport

The Commerce Commission has released its final report reviewing AIA's pricing decisions and expected performance for the PSE3 period. The report concludes that AIA has not sufficiently justified a targeted regulated asset base (RAB) return of 7.06% in PSE3 vs the Commission's calculated midpoint return benchmark of 6.41%. However, the Commission also stated that not all of the higher return that AIA is targeting is necessarily excessive. Contrary to FNZC I now rate this stock a HOLD.
20019 P/E: 30.6 2020 P/E: 30.7

NZX Code:	**AIA**
Share Price:	**$7.24**
12mth Target:	**$5.40**
Projected return (%)	
Capital gain	-23.5%
Dividend yield (Net)	3.2%
Total return	**-20.3%**
Rating:	~~**UNDERPERFORM**~~
52-week price range:6.11-7.49	

The a2 Milk Company

ATM says FY19 Q1 revenue is in line with expectations, and anticipates further growth in revenue particularly from nutritional products in Australia, New Zealand, and China, and from liquid milk in the U.S. My concern was seeing that ATM's Managing Director and CEO Carla Jayne Hrdlicka sold all of her ATM shareholding (178,616 ordinary shares) in late September. This doesn't appear a rational move for a confident CEO, noting that she only took over this position in July.
20019 P/E: 29.1 2020 P/E: 23.0

NZX Code:	**ATM**
Share Price:	**$10.14**
12mth Target:	**$12.20**
Projected return (%)	
Capital gain	19.9%
Dividend yield (Net)	0.0%
Total return	**19.9%**
Rating:	**NEUTRAL**
52-wk price range: 7.48-14.62	

Comvita

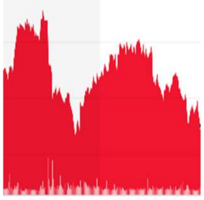
CVT has restructured its apiary business to improve product mix and reduce volatility. CVT estimate, on FY18 honey yields, the (pro forma) after-tax loss contribution from the reshaped business would improve by $4m. FNZC analysis of sensitivities (based on CVT scenarios) suggests in a 'mean year' profitability in the reshaped business would be in line with historical budgets. This is despite deterioration in underlying margins in FY18 (loss broadly in line with FY17 on higher honey yields).
20019 P/E: 16.2 2020 P/E: 14.4

NZX Code:	**CVT**
Share Price:	**$5.85**
12mth Target:	**$5.37**
Projected return (%)	
Capital gain	-11.7%
Dividend yield (Net)	2.7%
Total return	**-9.0%**
Rating:	UNDER**PERFORM**
52-week price range: 5.59-9.21	

Ebos Group

EBO has distinguished itself as a best-in-class wholesaler which continues to grow despite competition and regulatory headwinds in Australia. The recent successful tender for the Chemist Warehouse Group (CWG) supply contract (FY20 revenue impact of $1.1 billion) and taking full control of the Terry White pharmacy group locks in strategic wholesale distribution channels. It also brings additional scale, which solidifies EBO's position at the lower end of the industry cost curve. EBO has relied on an acquisition strategy to drive earnings growth.
2019 P/E: 20.4 2020 P/E: 17.4

NZX Code:	**EBO**
Share Price:	**$21.60**
12mth Target:	**$20.05**
Projected return (%)	
Capital gain	-11.0%
Dividend yield (Net)	3.6%
Total return	**-7.4%**
Rating:	**NEUTRAL**
52-wk price range: 17.01 -23.00	



Fletcher Building

FBU's recapitalization saw investors give it capacity for M&A again and while FBU has a reset of its own (an unsolicited non-binding and indicative offer to acquire rival steel distribution and processing business, Steel & Tube) that it is progressing FNZC views a transaction of this type (consolidation in a core NZ business) as on strategy, albeit somewhat opportunistic and with a number of hurdles to overcome.
2019 P/E: 13.5 2020 P/E: 13.0

NZX Code:	**FBU**
Share Price:	**$5.67**
12mth Target:	**$6.01**
Projected return (%)	
Capital gain	-3.8%
Dividend yield (Net)	5.2%
Total return	**1.3%**
Rating:	**NEUTRAL**
52-week price range: 5.49-7.62	

Fonterra Shareholder Fund

In a clear signal FSF is distancing itself from the past six years, it outlined two priorities for FY19: improved financial performance (including opex) and a reduced capex envelope, indicative of a more disciplined use of capital going forward. In addition, FSF made positive steps to lift transparency in the business with more to come, and signalled some asset sales as it looked to return to ratings headroom. These priorities (particularly sustained financial performance improvement) are important precursors to lifting both farmer and investor confidence in FSF. With a reset in strategy, expect FSF to review its portfolio in detail.
2019 P/E: 13.2 2020 P/E: 10.7

NZX Code:	**FSF**
Share Price:	**$4.84**
12mth Target:	**$5.09**
Projected return (%)	
Capital gain	4.7%
Dividend yield (Net)	4.5%
Total return	**9.2%**
Rating:	**NEUTRAL**
52-week price range: 4.51-6.66	

Freightways

Despite supportive trading conditions, FNZC observed a flat underlying EBITDA margin profile for FRE's Express Package operations between FY11 and FY18, with positive operating leverage offset by competitive pricing and increasing volume skew to low margin B2C deliveries. FRE is looking to counter this trend with a pricing strategy that FNZC expects should include a residential surcharge for B2C customers.
2019 P/E: 17.3 2020 P/E: 15.8

NZX Code:	**FRE**
Share Price:	**$7.09**
12mth Target:	**$7.35**
Projected return (%)	
Capital gain	3.1%
Dividend yield (Net)	4.8%
Total return	**7.9%**
Rating:	**NEUTRAL**
52-week price range: 6.81-8.40	

Goodman Property Trust

GMT reported 1H19 net operating earnings of $51.7m and cash earnings of $46.7m. GMT reaffirmed its FY19 cash earnings guidance of ~7.0cpu and DPU guidance of 6.65cpu. GMT's portfolio continues to perform well with occupancy increasing slightly to 98.4% (from 98.2% as at 30 March), while the portfolio WALT reduced to 5.5 years from 6.1 years (reflecting recent office divestments). Under-renting of 5%-6% across the portfolio provides scope for rental uplift on future market events.
2019 P/E: 19.3 2020 P/E: 21.4

NZX Code:	**GMT**
Share Price:	**$1.51**
12mth Target:	**$1.43**
Projected return (%)	
Capital gain	-5.3%
Dividend yield (Net)	4.4%
Total return	**-0.9%**
Rating:	**NEUTRAL**
52-wk price range: 1.30 – 1.58	

Infratil

IFT is roughly mid-way through an investment cycle – we like its growth platforms (renewables, data, transport and retirement) and expect swift deployment of organic capital across the first three. RetireAustralia has been the exception: growth has been underwhelming to date. IFT reported a strong underlying 1H19 EBITDAF of NZ$339m (pcp NZ$291m), but in FNZC's view the necessary consolidation and equity accounting treatments makes this figure indicative, rather than definitive. With TPW, TLT and WIAL results separately disclosed, FNZC focuses more on parent cash, CDC EBITDAF run-rate, Long-road prospects, and progress of NZ Bus and Perth Energy scoping reviews. Net Debt was in-line at NZ$916m, and a 6.25cps interim dividend has been declared (pcp 6cps).

2019 P/E: 17.6 2020 P/E: 15.8

NZX Code:	**IFT**
Share Price:	**$3.52**
12mth Target:	**$3.49**
Projected return (%)	
Capital gain	0.1%
Dividend yield (Net)	5.1%
Total return	**5.2 %**

Rating: NEUTRAL

52-week price range: 3.02-3.60

Mainfreight

MFT has delivered a 1H19 result that was ahead of FNZC forecasts following better-than-expected performance in the Americas and Europe. Strong underlying growth across most regions, positive currency translation and cycling of a weak comparative period were drivers of EBITDA growth of +22.1% to $108.3m. While New Zealand, Australia and Asia segments delivered broadly in-line results, the Americas and Europe segments delivered positive earnings surprise vs expectations.

2019 P/E: 22.7 2020 P/E: 19.9

NZX Code:	**MFT**
Share Price:	**$31.05**
12mth Target:	**$25.50**
Projected return (%)	
Capital gain	-15.9%
Dividend yield (Net)	1.9%
Total return	**-13.5%**

Rating: UNDERPERFORM

52-week price range: 23.50-31.05

Michael Hill International

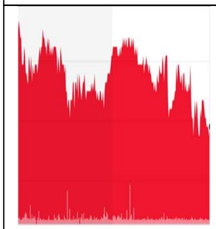
MHJ reported a weak first quarter trading update, with group revenue of -8.8% to A$112.1m, with same store sales of -11.0%. Sales weakness was broad based across all three key markets, Australia -12.8%, New Zealand -7.6% and Canada -11.0%. This sales deterioration was partly offset by a +150bp improvement in gross margin to 64.6%, driving a 6.7% YoY decline in gross profit. This poor sales result was driven by the company's shift away from reliance on discount-based pricing; however, this change was made without sufficient levels of marketing and promotional activities to drive top-line sales.

2019 P/E: 9.0 2020 P/E: 8.1

NZX Code:	**MHJ**
Share Price:	**$0.71**
12mth Target:	**$1.01**
Projected return (%)	
Capital gain	36.5%
Dividend yield (Net)	6.2%
Total return	**42.5%**

Rating: OUTPERFORM

52-week price range: 0.99-1.45



NZX

NZFC has reduced their FY18 and FY19 EBITDA forecasts by 3% and 4%, respectively, to reflect 3Q18 revenue coming in below expectations and revised assumptions for 4Q18 revenue given the relatively subdued capital markets. The highlight of NZX's 3Q18 revenue update was strong revenue growth from Funds Services, which resulted in an upgrade to FNZC's FY18 assumptions for this division. NZX has the potential for incremental earnings growth driven by growth in its Funds business, executing on its Wealth Technologies platform moving from loss making to profitability and incremental gains for its core operations.

2018 P/E: 23.1 2019 P/E: 17.9

NZX Code:	**NZX**
Share Price:	**$1.04**
12mth Target:	**$1.06**
Projected return (%)	
Capital gain	2.9%
Dividend yield (Net)	6.0%
Total return	**8.9%**

Rating: NEUTRAL

52-week price range: 1.01-1.16

Pacific Edge

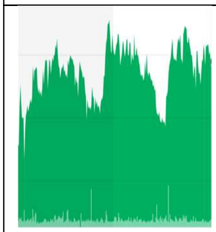
While recognising PEB's near-term cash flow issues and the need to get a US Local Coverage Determination (LCD), FNZC notes the significance of obtaining CPT codes and CMS reimbursement rates. Private insurers often wait for CMS approval before contracting with providers. As such investors should monitor whether PEB starts announcing more deals with private payers and it could attract more US capital. News that John Hopkins Medicine has commenced a commercial evaluation of Cxbladder, means another well-respected entity is reviewing its potential.

2019 P/E: (10.4) 2020 P/E: (13.0)

NZX Code:	**PEB**
Share Price:	**$0.41**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	29.9%
Dividend yield (Net)	0.0%
Total return	**29.9%**

Rating: OUTPERFORM

52-week price range: 0.19-0.45



Port of Tauranga

POT reported 8% cargo growth in the September quarter, with containers up almost 9% more than a year earlier. POT's forecast guidance was $96m to $101m for the 2019 year – up from $93.4m in the June year. Yes, POT's share price is high, but the proof is there that this company can continue with stellar performance year in, year out. The Port has announced definitive plans for further expansion, including the container wharf extension and another crane - so stay invested.

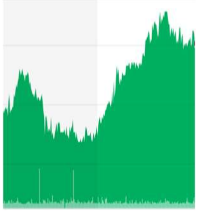
2019 P/E: 33.3 2020 P/E: 31.30

NZX Code:	**POT**
Share Price:	**$5.07**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	-22.0%
Dividend yield (Net) *	3.6%
Total return	**-19.5%**

Rating: ~~UNDERPERFORM~~

52-week price range: 4.60-5.27

***Includes Special Dividend**



Precinct Properties NZ

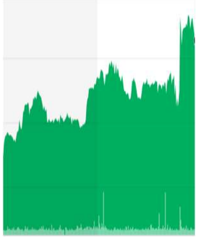
Wynyard Quarter Stage Two gets green light - PCT has committed to developing Wynyard Quarter Stage Two at 10 Madden St. This will comprise a seven level office building with 8,290m^2 of NLA. TPC is $72m with PCT expecting a yield on cost of >7% once fully leased and a 15% return on cost. Construction will commence November 2018 and complete late 2020. PCT is undertaking the project on a spec basis, highlighting its confidence in Auckland's occupier market, and new space entering Wynyard Quarter is already largely pre-leased.

2019 P/E: 21.4 2020 P/E: 20.8

NZX Code:	**PCT**
Share Price:	**$1.41**
12mth Target:	**$1.38**
Projected return (%)	
Capital gain	-1.6%
Dividend yield (Net)	4.3%
Total return	**2.7%**

Rating: NEUTRAL

52-week price range: 1.25-1.47



Restaurant Brands New Zealand

RBD has received a non-binding indicative approach from Finaccess Capital, a Mexico based investment firm, to acquire up to 75% of its shares for NZ$9.45 cash per share. This offer implies a 12month forward EV/EBITDA multiple of 12.7x. The proposal does not constitute a takeover notice, RBD and Finaccess are in discussions to finalise the takeover implementation arrangements. Any formal offer will be subject to Overseas Investment Office consent and approval from Yum! Brands. Reflecting an offer price that is at a 24% premium to the last close and 34% premium to FNZC's DCF based 12-month forward target price of $7.05 they view this non-binding offer as compelling.

2019 P/E: 24.6 2020 P/E: 21.3

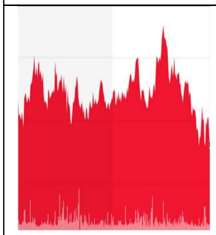
NZX Code:	**RBD**
Share Price:	**$8.33**
12mth Target:	**$8.85**
Projected return (%)	
Capital gain	2.1%
Dividend yield (Net)	3.0%
Total return	**5.1%**
Rating: NEUTRAL	
52-week price range: 6.57-8.72	

Skellerup Holdings

Expect SKL to show incremental earnings growth over the next few years, with its Industrial division having good recent revenue and earnings momentum with good growth in the US. SKL trades on reasonable multiples. SKL stated that 1Q19 trading had generated EBIT in excess of 10% ahead of the pcp. SKL expects improved profitability in FY19, with increased earnings in its "Industrial Division offsetting the recent softening in international dairy markets and the uncertainty surrounding international trade".

2019 P/E: 13.4 2020 P/E: 12.5

NZX Code:	**SKL**
Share Price:	**$2.04**
12mth Target:	**$2.16**
Projected return (%)	
Capital gain	3.3%
Dividend yield (Net)	6.4%
Total return	**9.7%**
Rating: NEUTRAL	
52-week price range: 1.75-2.22	



SkyCity Entertainment

SKC has announced the sale of its Darwin business to hospitality operator Delaware North for A$188m. SKC had previously disclosed that it would consider monetisation options for existing non-core assets within its portfolio, with the 'capital lighter' strategy inclusive of evaluating the potential to divest SKC Darwin. Sale proceeds exceed the asset's carrying value by around A$8m and follows the impairment of the property's A$95m goodwill in early FY18. FNZC believes the decision to divest SKC Darwin is the correct one.

2019 P/E: 15.6 2020 P/E: 16.3

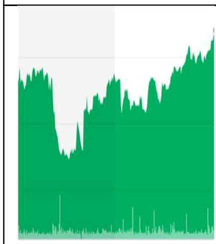
NZX Code:	**SKC**
Share Price:	**$3.71**
12mth Target:	**$3.85**
Projected return (%)	
Capital gain	0.5%
Dividend yield (Net)	5.4%
Total return	**5.7%**
Rating: NEUTRAL	
52-week price range: 3.63-4.36	

Synlait Milk

SML commits to new investment in break-out profit year; a lot of capacity to fill. FY18 was a stand-out profit year with SML making a clear statement on its growth ambitions as it seeks to diversify away from a single site, customer and market. SML announced a $125m advanced liquid milk processing facility and $250m+ investment at Pokeno to add 50% more capacity in base Infant Formula. With pending investment into a cheese plant and SML investing ~$15mn in R&D in FY19, there is a lot to like as SML positions itself away from "toll manufacturing" status and follows through on its intent to pursue the domestic everyday dairy market.

2019 P/E: 23.9 2020 P/E: 20.6

NZX Code:	**SML**
Share Price:	**$8.40**
12mth Target:	**$7.65**
Projected return (%)	
Capital gain	-34.6%
Dividend yield (Net)	0%
Total return	**-34.6%**
Rating: UNDERPERFORM	
52-week price range: 6.26-13.53	

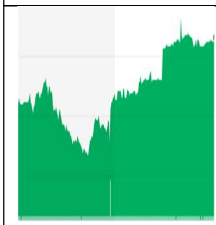


Trustpower

TPW's interim result was mostly in-line despite slightly lower retail prices (consistent with FNZC's longer-term thesis): TPW reported a $130m EBITDAF (pcp $152m), and underlying NPAT of $66m' with Net Debt of $487m; and a fully-imputed 17cps interim Dividend plus large 25cps special was declared, with another special possible in 2H19. 2H19 is likely to benefit from very high spot prices: A fact often forgotten is TPW's strong third-party offtake agreements make it a net generator, so likely to benefit from high >NZ$300/MWh Oct spot prices. FNZC continues to be impressed by TPW's retail execution/strategy. I continue to rate this company, and personally rate it a HOLD.

2019 P/E: 16.3 2020 P/E: 18.7

NZX Code:	**TPW**
Share Price:	**$6.41**
12mth Target:	**$5.54**
Projected return (%)	
Capital gain	-12.1%
Dividend yield (Net)	7.4%
Total return	**-4.5%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 5.11-6.45	

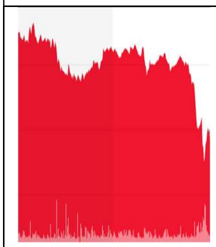


Tilt Renewables

It was a strong interim result, but no surprises, and FY19 guidance remains unchanged. A$66.9mn 1H19 EBITDAF and A$8.5m NPAT was in line with FNZC estimates. Net Debt was A$591mn, A$19m above forecast. An interim A1.6cps dividend surprised, given the large anticipated capital raising. More significant was confirmation of Final Investment Decision (FID) to proceed with the A$560m 336MW Dundonnell wind farm, and the further 15-year PPA for 50% of its LGCs and energy.

2019 P/E: 56.5 2020 P/E: 32.6

NZX Code:	**TLT**
Share Price:	**$2.32**
12mth Target:	**$2.35**
Projected return (%)	
Capital gain	2.6%
Dividend yield (Net)	1.1%
Total return	**3.7%**
Rating: NEUTRAL	
52-week price range: 1.78-2.41	



Z Energy

Interim earnings and dividends disappointed, and another guidance downgrade was issued: pinches from the refinery extended shut and crude lag were already expected – but an additional $26m gross margin decline (circa 1.3cpl vs pcp) was larger than expected and due to gross margin compression on elevated crude prices, NZD/USD depreciation and ongoing investment by independent competitors. 1H19 RC EBITDAF was $175m and FY19 guidance was downgraded $20m to a $400-$435m range. A fully-imputed 12.5cps interim dividend was declared, a step up from pcp 10.4cps, but a large miss vs FNZC's 17.5cps forecast. Dividend policy remains unchanged, but the previous 50-55cps FY19 dividend guidance was dropped.

2019 P/E: 11.6 2020 P/E: 11.3

NZX Code:	**ZEL**
Share Price:	**$5.79**
12mth Target:	**$6.48**
Projected return (%)	
Capital gain	17.2%
Dividend yield (Net)	8.2%
Total return	**25.4%**
Rating: OUTPERFORM	
52-week price range: 5.18-8.04	

NZ LISTED COMPANIES	Ticker	Mrkt Cap	Price	Target Price	Price Earnings (x)		Net Yield (%)	
19th November 2018			19-Nov-18					
Source: First NZ Capital, CSFB		(NZ$m)	(NZ$)	(NZ$)	FY18	FY19	FY18	FY19
TELECOMS								
Chorus	CNU	2,150	4.93	4.19	24.9	44.2	4.5%	4.7%
Spark NZ	SPK	7,675	4.18	3.28	18.2	17.9	6.0%	6.0%
MEDIA								
NZME	NZM	123	0.63	0.76	6.1	6.4	8.7%	7.9%
Sky Network Television	SKT	969	2.49	2.35	8.1	9.3	6.0%	6.0%
Trade Me Group	TME	2,044	5.15	4.7	21.2	19.9	8.1%	4.3%
CONSUMER DISCRETIONARY								
Kathmandu	KMD	589	2.61	3.25	10.6	9.8	5.7%	6.1%
Michael Hill International	MHJ	258	0.71	0.93	6.9	8.8	7.5%	6.0%
Restaurant Brands NZ	RBD	1,036	8.33	8.85	25.4	23.6	3.4%	2.2%
SKYCITY Entertainment	SKC	2,546	3.73	3.85	14.9	15.2	5.4%	5.4%
The Warehouse Group	WHS	739	2.13	2.05	12.5	9.3	7.5%	8.0%
Tourism Holdings	THL	619	5	5.09	16.7	20.3	5.1%	4.3%
Turners Automotive	TRA	246	2.75	3.29	8.5	9.3	5.6%	5.9%
CONSUMER STAPLES								
Comvita	CVT	267	5.85	5.37	41.5	15.6	1.0%	2.7%
Delegat Group	DGL	961	9.5	8.7	21.4	18.9	1.6%	1.8%
Fonterra Shareholders' Fund	FSF	493	4.84	5.09	22.4	13.2	2.1%	4.1%
Green Cross Health	GXH	182	1.27	2.2	9.6	8.8	5.5%	5.5%
NZ King Salmon	NZK	369	2.66	2.6	25.4	22.8	1.9%	2.2%
Sanford	SAN	674	7.2	7.39	17.3	15.2	3.2%	3.2%
Scales Corporation	SCL	642	4.59	4.71	17.5	15.4	4.3%	4.9%
Synlait Milk	SML	1,505	8.4	7.65	20.2	16.8	0.0%	0.0%
The a2 Milk Company	ATM	7,532	10.25	12.2	38	27.4	0.0%	0.0%
ENERGY								
NZ Refining	NZR	731	2.34	2.78	22	10.6	3.4%	10.5%
Z Energy	ZEL	2,332	5.83	6.48	11	14.6	5.5%	7.7%
FINANCIALS								
Heartland Group Holdings	HGH	859	1.52	1.69	12.2	11.3	5.9%	6.3%
NZX	NZX	288	1.06	1.06	18.1	17.1	5.8%	5.8%
HEALTH CARE								
Pacific Edge	PEB	190	0.4	0.5	-8.8	-10.8	0.0%	0.0%
Fisher & Paykel Healthcare	FPH	7,681	13.4	12	40.2	36.4	1.6%	1.8%
AFT Pharmaceuticals	AFT	219	2.25	2.86	-17.2	179.6	0.0%	0.0%
HEALTH CARE PROVIDERS & SERVICES								
Arvida	ARV	546	1.32	1.3	14.8	14.5	3.8%	4.1%
Ebos Group	EBO	3,280	21.5	20.05	21.8	20.9	3.2%	3.4%
Metlifecare	MET	1,246	5.84	7.65	23.7	17.8	1.7%	2.1%
Oceania Healthcare	OCA	714	1.17	1.22	15.4	13.6	4.0%	4.1%
Ryman Healthcare	RYM	5,940	11.88	9.13	41.3	39.7	1.7%	1.9%
Summerset Group Holdings	SUM	1,492	6.62	7.63	37.7	32.6	2.3%	2.7%
LOGISTICS								
Air New Zealand	AIR	3,475	3.1	2.85	8.9	11.1	7.1%	7.1%
Auckland Airport	AIA	8,682	7.19	5.4	32.9	31.2	3.0%	3.1%
Freightways	FRE	1,092	7.03	7.35	18.3	17.6	4.2%	4.7%
Mainfreight	MFT	3,102	30.8	25.5	27.6	23.1	1.5%	1.7%
Port of Tauranga	POT	3,435	5.05	4	36.7	34.2	2.5%	2.7%
INDUSTRIALS								
Fletcher Building	FBU	4,864	5.7	6.01	-70.8	12.3	0.0%	5.7%
Methven	MVN	85	1.16	1.3	12.5	10.3	6.9%	7.8%
Metro Performance Glass	MPG	158	0.85	0.82	8.6	8.8	8.7%	8.9%
Skellerup Holdings	SKL	403	2.07	2.16	14.6	13.3	5.3%	6.3%
Steel & Tube	STU	212	1.28	1.67	14.7	13.7	5.5%	5.5%
INFORMATION TECHNOLOGY								
EROAD	ERD	197	2.89	3.6	861.2	23.6	0.0%	0.0%
Gentrack Group	GTK	660	6.7	6.3	32.8	27.3	2.7%	3.1%
Vista Group International	VGL	622	3.76	3.6	37.2	27.7	1.3%	1.8%
PROPERTY								
Asset Plus	APL	95	0.59	0.71	16.3	16.3	6.2%	6.2%
Argosy Property	ARG	914	1.11	1.09	16.7	16.4	5.6%	5.7%
Augusta Capital	AUG	96	1.1	1.14	16.6	14.7	5.1%	5.5%
Goodman Property Trust	GMT	1,950	1.51	1.43	19.1	19.3	4.4%	4.4%
Investore Property	IPL	393	1.51	1.47	19.2	18.4	4.9%	4.9%
Kiwi Property Group	KPG	1,930	1.35	1.39	18.5	19.2	5.1%	5.1%
Precinct Properties NZ	PCT	1,714	1.42	1.38	22.4	21.6	4.1%	4.2%
Property for Industry	PFI	848	1.7	1.64	20.2	19.8	4.4%	4.5%
Stride Property Group	SPG	694	1.9	1.9	17.9	18.5	5.2%	5.2%
Vital Healthcare Property Trust	VHP	933	2.1	2	19.8	20.2	4.1%	4.2%
UTILITIES								
Contact Energy	CEN	4,207	5.87	6.15	32.3	25.6	5.5%	6.2%
Genesis Energy Limited	GNE	2,591	2.55	2.3	44.7	59.5	6.6%	6.7%
Infratil	IFT	1,966	3.52	3.49	30.2	17.8	4.8%	5.0%
Mercury NZ	MCY	4,693	3.45	3.1	23.7	26.1	4.4%	4.5%
Meridian Energy	MEL	8,202	3.2	2.86	39.8	32.3	6.0%	6.1%
TILT Renewables	TLT	681	2.32	2.16	-245.4	58.1	1.4%	1.2%
TrustPower	TPW	2,003	6.4	5.54	14.8	16.5	5.3%	10.8%
Vector	VCT	3,300	3.3	3.5	21.4	25.1	4.9%	5.0%
Market Average*					**21.4**	**19.7**	**4.1%**	**4.5%**

**PE ratios exclude: AFT, ERD, FBU, PEB, TLT*

FNZC'S NZ EQUITY RECOMMENDATIONS SOURCE: FNZC

AS AT 19TH NOVEMBER 2018

NEW ZEALAND	UNDERPERFORM	NEUTRAL	OUTPERFORM
Hotels, Restaurants	Tourism Holdings (THL)	Restaurant Brands (RBD) Sky City Entertainment (SKC)	
Internet		Trade Me Group (TME)	
Media	Sky Network Television (SKT)	NZME (NZM)	
Retail		Warehouse Group (WHS) Kathmandu (KMD)	Michael Hill International (MHJ) Turners Automotive (TRA)
Food & Beverages	Comvita (CVT) Delegat Group (DGL) Synlait Milk (SML)	The a2 Milk Company (ATM) Fonterra Shareholders' Fund (FSF) NZ King Salmon (NZK) Sanford (SAN) Scales Corporation (SCL)	Green Cross Health (GXH)
Oil & Gas			NZ Refining (NZR) Z Energy (ZEL)
Financials	Heartland Bank (HBL)	NZX (NZX)	
Healthcare	Fisher & Paykel Health (FPH)	Arvida (ARV) Ebos Group (EBO) Orion Health (OHE)	AFT Pharmaceuticals (AFT) Pacific Edge (PEB)
Aged Care	Ryman Healthcare (RYM)	Summerset Group Holdings (SUM)	Metlifecare (MET) Oceania Healthcare (OCA)
Transportation	Auckland Airport (AIA) Mainfreight (MFT) Port of Tauranga (POT)	Air New Zealand (AIR) Freightways (FRE)	
Building Products / Industrials	Fletcher Building (FBU)	Metro Perform. Glass (MPG) Skellerup Holdings (SKL) Steel & Tube (STU)	Methven (MVN) Steel & Tube (STU)
Software	Gentrack Group (GTK) Vista Group International (VGL)	EROAD (ERD)	
Property	Vital Healthcare Property (VHP)	Argosy Property (ARG) Goodman Property Trust (GMT) Investore Property (IPL) Kiwi Property Group (KPG) Precinct Properties NZ (PCT) Property for Industry (PFI)	Asset Plus (APLG) Augusta Capital (AUG) Stride Property Group (SPG)
Telecom	Spark NZ (SPK)	Chorus (CNU) Z Energy (ZEL)	
Energy	Genesis Energy (GNE) Mercury NZ (MCY) Meridian Energy (MEL) Trustpower (TPW)	Contact Energy (CEN) Infratil (IFT) TILT Renewables (TLT) Vector (VCT)	

AUSTRALIAN EQUITIES

The dividend yield on offer in Australia is somewhat lower than in NZ when imputation credits are included. However, from a valuation perspective, Australian equities are more appealing. From an economic perspective, the Australian labour market isn't as tight as in NZ. Investment in infrastructure is ongoing but appears to be peaking.

BRAMBLES (BXB.AX)

CURRENT PRICE: A$10.337 **TARGET PRICE:** A$11.50
RECOMMENDATION: OUTPERFORM

BXB margins have come under pressure in recent years due to rising costs. To help offset this, BXB has introduced lumber and transport surcharges. In 1Q19, BXB managed to offset about two-thirds of the higher costs. There is likely to be an acceleration of this pricing benefit over the next 18 months. We believe the higher costs are likely to impact BXB's competitors more than BXB due to their smaller scale and weaker profit margins. Longer term, BXB expects to improve US profit margins by 2-3%. This will be achieved primarily through increasing automation in its US business from 20% to 85%, a level already achieved in its European pallet business. Hence, we believe that BXB's margins are at a cyclical low point. Finally, the expected divestment of BXB IFCO business in FY19 could result in $0.70/share upside depending on the sale price achieved.

CSL (CSL.AX)

CURRENT PRICE: A$183.67 **TARGET PRICE:** A$230.00
RECOMMENDATION: OUTPERFORM

Since reaching an all-time high of $232/share in early September, CSL's share price has declined 18% to $190. We believe that CSL justifiably trades on high earnings multiples. This reflects CSL being the lowest cost producer of plasma products, good long-term revenue visibility, strong track record of launching new products resulting in margin expansion and its flu vaccine business, Sequris, which is now performing better than expected. CSL remains well placed to benefit from the growth in demand for plasma derived products due to their increased use in healthcare globally. Due to CSL's strategy of aggressively expanding plasma centres over the past 3 years, CSL is not constrained by plasma supply. With CSL now appearing to offer fair value, we believe the correction in share price provides an investment opportunity.

WOODSIDE PETROLIUM (WPL.AX)

CURRENT PRICE: A$33.02 **TARGET PRICE:** A$40.50
RECOMMENDATION: OUTPERFORM

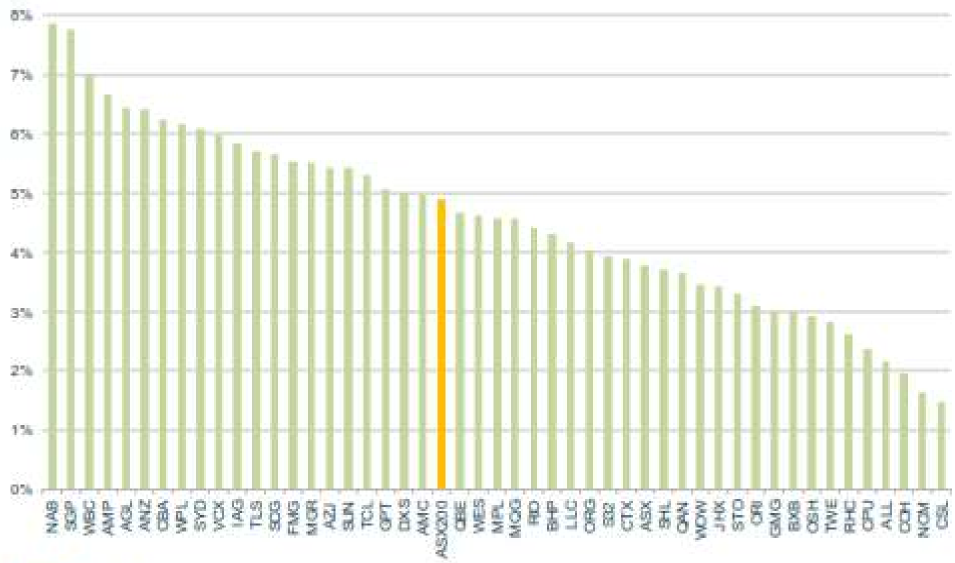
WPL is a proven oil and gas operator with a low marginal LNG (liquefied natural gas) production cost and long-life assets. The strategy is now to maximise value of its existing oil/gas fields and LNG plants. WPL has a pipeline of growth projects that should see production increase over the next 10 years. The continued ramp up of Wheatstone and start-up of Greater Enfield should see WPL's production increase to 100 Mmboe (Million Barrels of Oil Equivalent) in 2020. Beyond 2020, production will be underpinned by Senegal (in 2022), Scarborough (2023) and Browse (2026). This should help alleviate WPL's main downside risk of declining Pluto reserves. WPL should benefit from increased LNG demand as China aims to increase the share of gas in its energy mix from 5.3% in 2015 to 8.3-10% in 2020. Given China's domestic gas production has plateaued, China now imports 40% of its gas needs. WPL has the appetite, balance sheet strength and credentials to gain more direct LNG market exposure which provides compelling upside.

	Underperform			Neutral			Outperform	
	AGL	RHC	MPL	AMP	BHP	ANZ	ALL	BXB
	ASX	SHL	NAB	CBA	CPU	APA	AMC	CSL
		SYD	NCM	COH	CTX	AZJ	LLC	WPL
			ORG	GPT	MGR	FMG	QAN	
			TWE	ORI	OSH	IAG	S32	
			TCL	STO	QBE	JHX		
			WBC	SUN	SGP	MQG		
				WOW	WES	RIO		
						SCG		
						VCX		

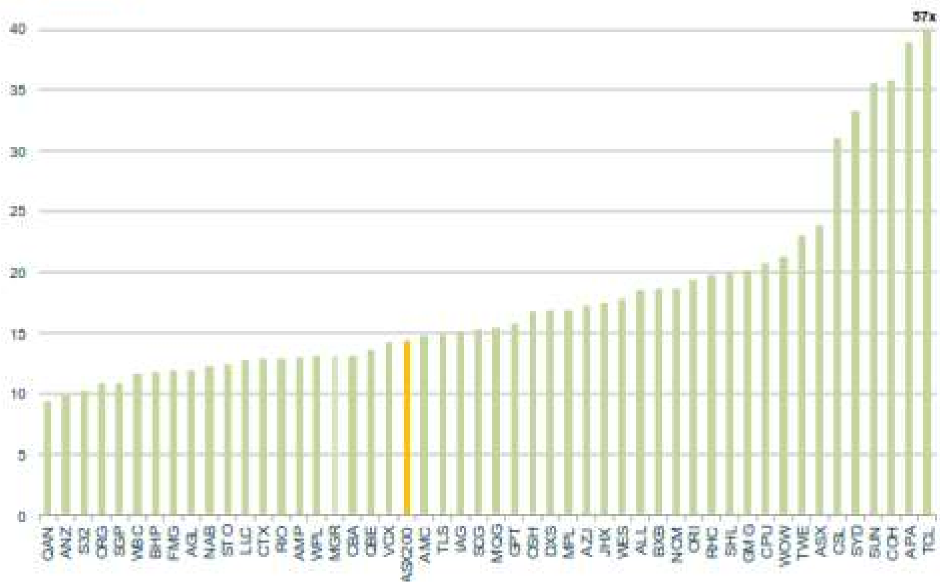
AUSTRALIAN EQUITIES

Security	Issuer Name
AGL	AGL Energy
ALL	Aristocrat Leisure
AMC	Amcor
AMP	AMP Limited
ANZ	ANZ Banking Group
APA	APA Group
ASX	ASX
AZJ	Aurizon
BHP	BHP Billiton
BXB	Brambles
CBA	Commonwealth Bank
COH	Cochlear
CPU	Computershare
CSL	CSL
CTX	Caltex Australia
DXS	Dexus
FMG	Fortescue Metals
GMG	Goodman Group
GPT	GPT Group
IAG	Insurance Australia
JHX	James Hardie Industries
LLC	Lend Lease
MGR	Mirvac Group
MPL	Medibank Private
MQG	Macquarie Group
NAB	National Australia Bank
NCM	Newcrest Mining
ORG	Origin Energy
ORI	Orica
OSH	Oil Search
QAN	Qantas
QBE	QBE Insurance
RHC	Ramsay Health Care
RIO	Rio Tinto
S32	South 32
SCG	Scentre Group
SGP	Stockland Group
SHL	Sonic Healthcare
STO	Santos
SUN	Suncorp Group
SYD	Sydney Airport
TCL	Transurban
TLS	Telstra Corp
TWE	Treasury Wine
VCX	Vicinity Centres
WBC	Westpac
WES	Wesfarmers
WOW	Woolworths
WPL	Woodside Petroleum

Cash Dividend Yield %



P/E Ratio x



GLOBAL EQUITIES

Being in the mature phase of the economic cycle warrants a degree of caution when investing. However, the current decline in equity prices appears to be a "correction" rather the start of a more substantial fall. Consequently, investors with a more active approach to investing should consider this as an opportunity to increase the proportion of their portfolio invested in equities. As always, there is a need to be vigilant, looking for events that signal the end of the current economic cycle.

	Underperform			Neutral			Outperform	
NESN.EU	T.US	ITX.EU	PFE.US	0941.HK	7203.JP	NEE.US	AIR.EU	GOOGL.US
			0857.HK	XOM.US	GE.US	JNJ.US	ORCL.US	SLB.US
			DIS.US	HD.US	CVX.US	MRK.US	INTC.US	8306.JP
			WMT.US	WFC.US		MA.US	1398.HK	MS.US
						MSFT.US	GS.US	BASF.EU
						1288.HK	BP.LN	FB.US
						UNH.US	LVMH.EU	ASML.EU
						MMM.US	0939.HK	AMZN.US
						V.US	UNP.US	9984.JP
						CMCSA.US	BAC.US	CAT.US
						1299.HK	BA.US	NFLX.US
						JPM.US	C.US	

KIWI STARTUP HATCH – AN ONLINE US SHARE TRADING PLATFORM

A Kiwi investment company has teamed up with an American technology firm to provide cheaper and simpler access to people wanting to buy US-listed shares and exchange-traded funds.

KiwiWealth, a sister company to Kiwibank, has launched Hatch - an online trading platform which aims to under-cut brokers and allow people to buy fractions of shares in companies like Apple, Facebook and Amazon for the first time from New Zealand.

Hatch has taken a technology approach to investing as opposed to a financial approach through linking up with US fintech DriveWealth. The online platform is targeted at existing investors who want control over where their money goes and have the time, interest and knowledge to manage their investments.

The Hatch CEO said it hoped to turn the traditional brokerage model on its head by making it easy to access US-listed shares. "We pass those savings on to investors through lower brokerage fees." The platform has no subscription fees or commission but charges a fee of 2c per share with a US$8 minimum to buy or sell a full share or US$3 to buy or sell a fraction of a share.

UK INVESTMENT TRUST PERFORMANCE FIGURES SOURCE: FNZC

PRICES AS AT 15TH NOVEMBER 2018

Share Price GBP	Net Asset Value	(Discount) Premium	FNZC View *	Investment Trust Company	Market Cap £m	Net Yield %	12 Month % Discount Average	High	Low	1 Yr % NZ$ Price	NAV	3 Yr % PA NZ$ Price	NAV	5 Yr % PA NZ$ Price	NAV
As at close 15 November 2018				**Global Equity**											
730.0	767.0	-4.8%	Hold	Alliance[1]	2,531	1.8	-5.4	-8.0	-4.1	-0.3	0.3	8.6	5.9	12.3	8.5
829.0	838.2	-1.1%	Buy	Bankers[1]	1,091	2.2	-3.9	-8.5	-0.2	-0.2	-2.2	6.6	4.7	9.9	7.8
716.4	771.4	-7.1%	Hold	British Empire Trust[1]	856	1.6	-10.4	-12.5	-8.6	1.0	-1.4	14.9	7.9	12.3	6.8
2,830.0	3426.6	-17.4%	Hold	Caledonia Investments[1]	1,468	2.0	-16.0	-21.5	-10.6	3.6	3.7	1.3	0.9	9.7	7.2
822.0	790.1	4.0%	Buy	Edinburgh Worldwide[1]	542	0.0	-6.1	-12.7	3.6	16.0	13.2	15.3	13.7	14.5	13.3
1,340.0	1358.3	-1.3%	Hold	F & C Global Smaller	824	1.0	0.8	-1.3	2.1	-0.5	-0.3	6.3	6.2	10.7	10.0
676.2	674.9	0.2%	Buy	Foreign & Colonial[1]	3,709	1.5	-6.7	-9.1	-4.1	8.7	1.5	10.9	6.2	14.0	9.5
598.0	572.0	4.6%	Hold	Independent Investment Trust	424	0.9	-0.5	-10.3	12.3	-11.7	-8.0	13.4	7.6	18.9	14.2
309.0	310.0	-0.3%	Buy	JPM Global Growth & Income[1]	412	3.8	-1.2	-6.6	3.3	-2.0	-5.1	10.8	4.4	12.6	8.4
572.0	640.5	-10.7%	Hold	Law Debenture Corp[1]	724	2.9	-8.7	-14.2	-5.0	-0.9	-5.5	0.4	5.0	4.6	6.6
490.0	476.2	2.9%	Buy	Mid Wynd	184	1.0	1.1	-2.2	4.3	3.2	3.1	7.8	7.4	13.6	11.8
771.0	736.8	4.6%	Buy	Monks Investment[1]	1,790	0.2	-0.8	-7.2	4.6	1.4	-1.0	16.9	10.8	14.8	10.7
1,080.0	1076.9	0.3%	Buy	Murray International[1]	1,486	4.6	1.5	-3.2	4.7	-11.8	-8.5	6.8	3.7	3.5	1.3
39,700.0	39270.0	1.1%	Hold	Personal Assets Trust[1]	878	1.4	0.0	-3.2	2.2	0.5	-0.3	0.1	-1.1	5.1	3.4
1,990.0	1827.9	8.9%	Hold	RIT Capital Partners[1]	3,130	1.6	6.2	0.6	11.8	4.8	7.5	4.0	1.4	11.4	6.9
364.5	348.4	4.6%	Hold	Scottish American IT[1]	514	3.0	4.1	-1.9	7.0	2.1	-0.9	9.2	5.2	10.7	6.2
483.0	461.8	4.6%	Buy	Scottish Mortgage[1]	7,192	0.6	2.4	-4.1	5.1	8.5	5.7	17.2	15.0	19.9	17.4
				Benchmark MSCI International						NA	5.1	NA	9.8	NA	11.9
				European											
627.8	697.3	-10.0%	Hold	Edinburgh Investment Trust[1]	1,356	3.9	-6.1	-10.5	-8.1	-5.3	-8.3	-5.1	-5.9	6.1	2.9
396.5	395.9	0.2%	Buy	City of London[1]	1,541	4.2	1.6	-0.6	3.4	-3.2	-6.8	-0.6	-4.6	5.4	1.3
814.0	890.5	-8.6%	N/R	The European Trust[1]	392	2.5	-11.6	-15.9	-7.2	-8.9	-10.7	1.5	0.3	4.4	2.0
273.0	314.1	-13.1%	Buy	JP Morgan European (Growth)[1]	226	2.3	-9.2	-16.4	-4.6	-12.1	-10.9	0.9	1.7	6.9	5.2
362.0	403.0	-10.2%	Buy	JPMorgan European Smaller	662	1.7	-11.0	-16.5	-4.4	-9.5	-5.7	7.3	8.5	12.2	11.4
1,165.0	1204.8	-3.3%	N/R	Henderson European Focus[1]	273	2.4	-0.0	-9.2	2.8	-16.8	-9.0	0.2	1.2	7.3	6.7
329.0	340.1	-3.3%	N/R	BlackRock Greater European	305	1.5	-4.4	-7.1	-0.6	-3.0	-1.4	5.5	4.8	7.8	7.0
886.0	954.8	-7.2%	Buy	TR European[1]	550	1.1	-6.5	-15.5	2.8	-28.6	-18.8	9.0	8.1	12.6	10.7
				Benchmark - MSCI European						NA	-3.1	NA	4.5	NA	6.7
As at close 15 November 2018				**Asia/Pacific Funds (incl. Japan)**											
776.0	726.6	6.8%	Buy	Baillie Gifford Japan[1]	763	0	4.3	-2.1	10.5	-3.6	-1.8	11.6	11.3	15.3	15.1
293.5	342.4	-14.3%	N/R	Witan Pacific	214	1.8	-13.5	-18.7	-10.6	-9.6	-8.8	4.9	3.3	6.3	5.0
398.0	431.3	-7.7%	Buy	JP Morgan Japan	727	1.1	-11.4	-15.5	-7.2	0.4	-5.4	8.2	6.0	11.3	9.9
333.0	322.6	3.2%	Buy	Henderson Far East Income	455	5.7	1.4	-1.6	4.7	-6.3	-11.3	5.9	-0.1	6.0	-0.2
204.0	210.9	-3.3%	Buy	Schroder Japan Growth Fund	273	0.9	-7.8	-11.4	-3.5	-1.3	-5.8	5.1	4.1	12.4	9.8
				Benchmark- MSCI Far East incl. Japan						NA	NA	-4.7	NA	9.4	NA
				Global Emerging Markets											
652.0	706.5	-7.7%	N/R	Genesis Emerging Markets	943	1.5	-12.8	-14.5	-11.1	-8.7	-11.8	4.9	3.8	2.9	3.4
789.0	893.9	-11.7%	Buy	JP Morgan Emerging Markets	1,058	1.3	-12.8	-14.9	-10.7	-6.1	-6.8	-7.8	6.1	6.4	6.0
687.0	743.9	-7.7%	Buy	Templeton Emerging Markets	1,971	2.2	-12.8	-14.4	-9.8	-12.4	-15.4	11.2	9.1	4.0	2.5
				Benchmark -MSCI Emerging						NA	-7.7	NA	8.3	NA	6.1
				Latin American Emerging											
424.0	492.7	-13.9%	N/R	BlackRock Latin American[1]	173	2.8	-13.3	-17.0	-8.0	-27.8	0.5	20.1	11.3	7.7	-0.1
				Benchmark -MSCI Latin						NA	2.9	NA	14.6	NA	2.5
				Far East Exc Japan											
214.0	238.5	-10.3%	Hold	Aberdeen New Dawn[1]	272	1.9	-13.0	-15.3	-10.7	-11.4	-12.5	5.5	3.8	4.2	3.2
353.0	379.3	-6.9%	Buy	Edinburgh Dragon[1]	720	0.9	-12.3	-13.7	-10.5	-8.8	-11.4	6.3	4.3	4.8	4.3
194.2	215.6	-9.9%	Buy	Fidelity China Special Situations	1,420	1.7	-13.2	-17.1	-9.2	-19.9	2.7	6.2	13.4	13.7	18.4
635.0	724.5	-12.4%	N/R	JP Morgan India[1]	705	0.0	-11.0	-16.9	-8.6	-21.8	-19.2	-1.1	0.6	11.3	11.4
313.0	290.3	7.8%	N/R	Pacific Horizon[1]	206	0.0	-9.9	-14.4	-6.1	-6.0	-14.1	11.5	8.5	11.5	8.7
397.0	435.8	-8.9%	Buy	Schroder AsiaPacific	774	1.2	-11.4	-13.8	-8.6	-7.2	-15.4	15.0	6.7	13.0	8.7
336.0	312.6	7.5%	Buy	Schroder Asian Total Return[1]	327	1.3	-2.1	-6.1	4.7	-13.0	-10.8	8.1	8.5	10.0	9.6
238.0	225.7	5.5%	Hold	Schroder Oriental Income[1]	657	3.9	-1.0	-5.9	2.9	-6.9	-11.0	6.4	2.1	8.6	3.9
				Benchmark -MSCI Emerging						NA	-7.4	NA	8.3	NA	7.7
				European Emerging Market											
680.0	774.3	-12.2%	Hold	Baring Emerging Europe	97	5.0	-12.2	-17.4	-8.8	-8.7	-11.7	9.2	6.6	0.8	-2.4
321.5	314.8	2.2%	Hold	BlackRock Eastern European[1]	122	3.4	-8.4	-12.9	-3.7	-7.5	-10.4	11.4	6.2	2.8	0.7
				Benchmark - MSCI Emerging						NA	-1.3	NA	8.5	NA	-0.4
As at close 15 November 2018				**Other/ Specialist ITCs**											
1,355.0	1399.2	-3.2%	Buy	North American Income Trust[1]	371	2.8	-8.3	-11.1	-3.9	7.8	5.8	13.9	9.9	12.1	11.0
1,380.0	1724.2	-20.0%	Buy	HarbourVest Private Equity	993	0.0	-15.5	-23.2	-8.9	6.7	17.0	11.2	11.3	17.2	12.9
269.0	260.8	3.1%	Buy	IMPAX Environmental Markets	490	0.9	-10.9	-13.0	-6.5	5.2	-4.7	14.0	8.8	13.5	9.8
1,005.0	1093.0	-8.1%	Buy	Jupiter US Smaller Companies[1]	176	0.0	-11.9	-17.3	-4.1	14.9	19.6	10.9	11.8	8.1	11.0
440.0	448.5	-1.9%	Buy	JPMorgan American[1]	924	1.2	-4.8	-6.1	-2.3	13.9	12.9	11.3	11.0	14.9	14.8
172.3	181.1	-4.9%	N/R	Jupiter Green[1]	40	0.7	-5.3	-7.9	-2.5	-9.2	-8.2	2.1	2.5	4.9	5.3
344.0	378.5	-9.1%	Hold	BlackRock World Mining	718	4.6	-12.0	-17.4	-8.0	-7.7	-7.6	14.7	11.7	-1.0	-5.8
1,166.0	1196.8	-2.6%	Buy	Polar Capital Technology[1]	1,643	0.0	0.0	-6.4	3.2	2.4	-8.5	17.9	3.7	19.8	1.3
395.0	393.1	0.5%	Buy	TR Property Trust[1]	1,295	2.9	-7.8	-15.4	1.7	1.2	5.0	6.8	0.8	17.4	10.8
2,565.0	2497.1	2.7%	Buy	Worldwide Healthcare Trust[1]	1,292	0.6	-0.2	-5.7	2.1	10.1	0.7	5.4	4.5	14.3	15.6
				Benchmark - NZSX 50 Index						NA	7.4	NA	13.5	NA	12.3
				Benchmark - Index MSCI USA						NA	12.8	NA	13.0	NA	16.7

*FNZC View

Our aim is to identify Company's where the share price will outperform the benchmark on a risk adjusted total return basis. This may be through either a narrowing of the discount or outperformance of the underlying portfolio. Through the 'FNZC View' we seek to identify buying opportunities for investors in each asset class. Our time frame is 12-18 months. Our view will take into account valuation, but will place a greater emphasis on the quality of management, performance record and risk characteristics (including portfolio diversification, gearing and any outstanding commitments). We will typically focus on the outlook for relative, rather than absolute share price performance. For instance, we may recommend a Company investing in Japan because we believe it will outperform the TSE 1st Section, but this does not necessarily mean that we favour the Japanese market. When making recommendations we take account of trading liquidity and, all things being equal, favour the larger and more liquid Companies.

1 From time to time the Company may use derivative instruments to hedge, enhance and protect positions, including currency exposures, and for investment purposes.

NZ DAILY FIXED INTEREST RATE SHEET

PRICES AS AT 19TH NOVEMBER 2018 — **NOTE: Indicative pricing only**

Secondary Market	Code	Maturity/ Call Date	Bond Rating	Coupon	Freq.	Issue Size ($m)	Offer Yield
Contact Energy	CEN020	15-May-19	BBB	5.80%	Q	222	2.64%
ASB Bank (15-Jun-24)	ABB030	15-Jun-19	BBB	6.65%	Q	400	3.62%
Mercury NZ (11-Jul-44)	MCY010	11-Jul-19	BB+	6.90%	Q	300	3.98%
Kiwi Capital Funding (15-Jul-24)	KCF010	15-Jul-19	BB+	6.61%	SA	100	3.73%
Trustpower	TPW160	15-Sep-19	NA	6.75%	Q	114	3.88%
Infratil	IFT200	15-Nov-19	NA	6.75%	Q	69	4.01%
Z Energy	ZEL030	15-Nov-19	NA	6.50%	Q	135	3.28%
NZ Post Group Finance (15-Nov-39	NZP010	15-Nov-19	BB+	6.35%	SA	200	3.85%
University of Canterbury	UOC010	15-Dec-19	NA	5.77%	SA	50	3.64%
Infratil	IFT090	15-Feb-20	NA	8.50%	Q	80	4.06%
The Warehouse	WHS020	15-Jun-20	NA	5.30%	SA	125	3.60%
Goodmans Property Trust	GMB020	16-Dec-20	BBB+	6.20%	SA	100	3.00%
BNZ (17-Dec-25)	BNZ090	17-Dec-20	BBB	5.31%	Q	550	3.80%
Sky Network Television	SKT020	31-Mar-21	NA	6.25%	Q	100	4.22%
Infratil	IFT220	15-Jun-21	NA	4.90%	Q	94	4.28%
Kiwi Property Group	KPG010	20-Aug-21	BBB+	6.15%	SA	125	3.25%
Z Energy	ZEL040	1-Nov-21	NA	4.01%	Q	150	3.55%
Contact Energy	CEN030	15-Nov-21	BBB	4.40%	Q	150	3.17%
Trustpower	TPW140	15-Dec-21	NA	5.63%	Q	83	3.63%
Precinct Properties	PCT010	17-Dec-21	NA	5.54%	SA	75	3.51%
Genesis Energy (9-Jun-47)	GNE040	9-Jun-22	BB+	5.70%	Q	225	4.30%
Infratil	IFT190	15-Jun-22	NA	6.85%	Q	94	4.41%
Vector	VCT010	15-Jun-22	NA	5.70%	SA	307	4.68%
SKYCITY Entertainment Group	SKC040	28-Sep-22	BBB-	4.65%	Q	125	3.76%
Air New Zealand	AIR020	28-Oct-22	NA	4.25%	SA	50	3.65%
Trustpower	TPW150	15-Dec-22	NA	4.01%	Q	128	3.81%
Infratil	IFT240	15-Dec-22	NA	5.65%	Q	100	4.47%
Meridian Energy	MEL030	14-Mar-23	BBB+	4.53%	SA	150	3.58%
Summerset Group Holdings	SUM010	11-Jul-23	NA	4.78%	Q	100	4.08%
Genesis Energy (16-Jul-48)	GNE050	16-Jul-23	BB+	4.65%	Q	200	4.46%
WEL Networks	WEL010	2-Aug-23	NA	4.90%	Q	150	4.73%
Goodmans Property Trust	GMB050	1-Sep-23	BBB+	4.00%	SA	100	3.66%
Kiwi Property Group	KPG020	7-Sep-23	BBB+	4.00%	SA	125	3.70%
Z Energy	ZEL050	1-Nov-23	NA	4.32%	Q	70	3.82%
Infratil	IFT210	15-Sep-23	NA	5.25%	Q	122	4.57%
Infratil (15-Dec-28)	IFT270	15-Dec-23	NA	4.85%	Q	135	4.89%
Meridian Energy	MEL040	20-Mar-24	BBB+	4.88%	SA	150	3.70%
Investore Property	IPL010	18-Apr-24	NA	4.40%	Q	100	4.13%
Goodmans Property Trust	GMB040	31-May-24	BBB+	4.54%	SA	100	3.84%
Infratil	IFT230	15-Jun-24	NA	5.50%	Q	56	4.67%
Precinct Properties	PCT020	27-Nov-24	NA	4.42%	SA	100	4.06%
Property for Industry	PFI010	28-Nov-24	NA	4.59%	Q	100	4.08%
Infratil	IFT260	15-Dec-24	NA	4.75%	Q	60	4.82%
Kiwi Property Group	KPG030	19-Dec-24	BBB+	4.33%	SA	125	3.97%

Limitations and Disclaimer