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Volume 24

APRIL 2018

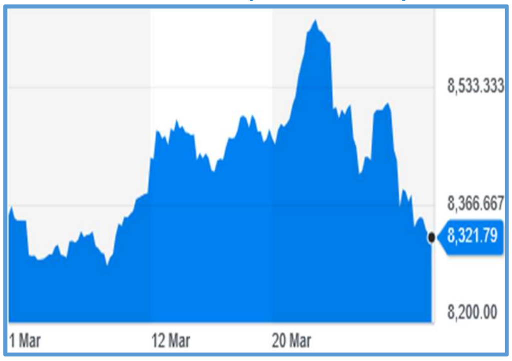
Investment Strategies

March has been a tough month for global equity markets, and New Zealand hasn't been spared. However, investing should be about long-term strategies – those looking for short-term gains are probably better off supporting the TAB.

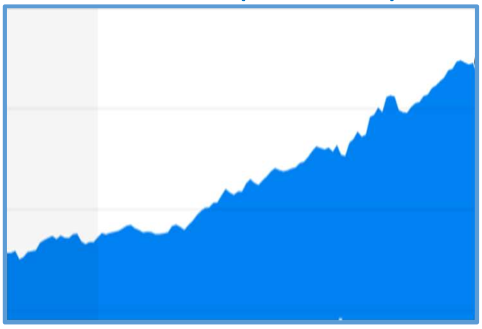
The last 5 years has seen stellar performance across many stocks on both global and (especially) New Zealand markets. The second graph (below) illustrates this beautifully.

My advice is to temper your 2018 expectations, because we live in a volatile world, and to expect the peaches and cream to continue endlessly would be pretty optimistic!

NZX50 Index (March 2018)



NZX50 Index (Last 8 Years)



CONTENTS | PAGE

STATISTICS NZ DATA

Next Census pending

Population

Estimated population at 31 Dec 2017:	4,844,200
Births Sept 2017 year:	58,494
Deaths Sept 2017 year:	33,240
Net migration October 2017 year:	70,694

Employment

Total employed Sept 2017 quarter:	2,593,000
Unemployment rate Sept 2017 quarter:	4.6%
Ave weekly earnings Sept 2017 quarter:	$1,174.64
Wage inflation September 2017 quarter:	1.9%
Cost Price Index September 2017 quarter:	0.5%
Intern. Investment Position Dec quarter:	-$156.7 bn
Change from last quarter:	+$0.5 bn
GDP per capita year ended June 2017:	$56,482
GDP Growth September 2017 quarter:	0.6%
Visitor arrivals Annual October 2017 +7.9%	3,688,013

Source: Statistics New Zealand

RRP $5.00

Website:
vond.co.nz

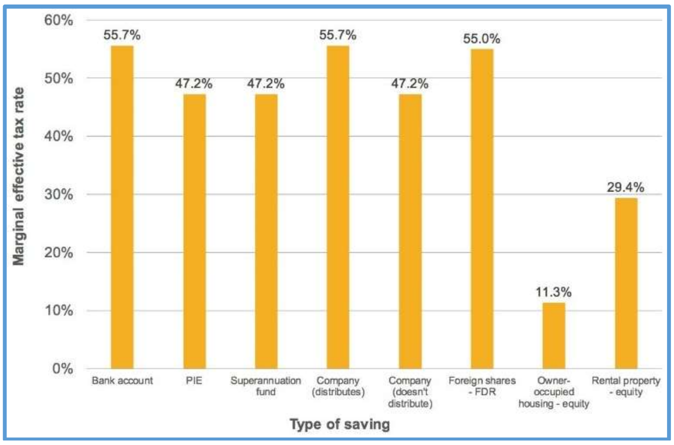
"It is not necessary to do extraordinary things to get extraordinary results."
Warren Buffett

NEW ZEALAND TAX RATES

SOURCE- THE TAX WORKING GROUP'S BACKGROUND PAPER

The Tax Working Group's background paper makes an interesting read, if only for the collection of charts that lay out in stark detail the imbalances in our society and economy that it is seeking to rectify.

MARGINAL EFFECTIVE TAX RATES ON SAVINGS



SOURCE: Treasury/ IRD Analysis

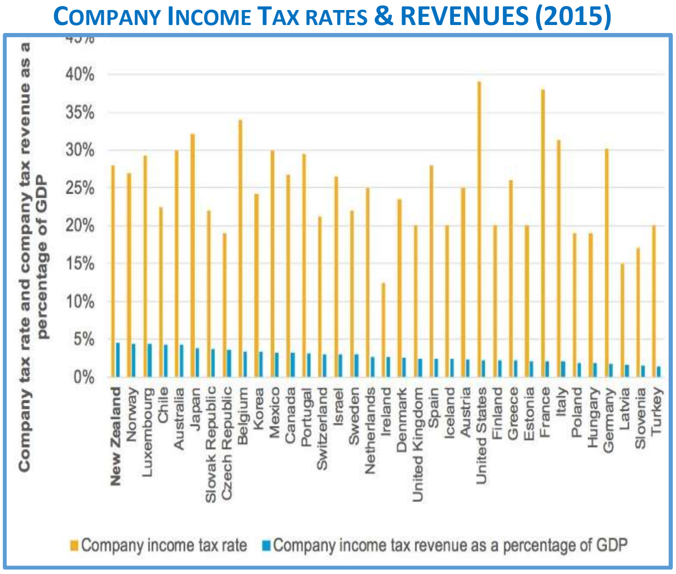
The chart shows why the national obsession with property investment is a rational option that will not go away without reform. Add in the ability to leverage the investment of equity in either your own home or rental properties and there is just no contest. Anyone with spare money to invest is being directed by our tax and banking systems to put it into housing to make super-charged and tax-free capital gains.

Anyone who invests in their own business, someone else's business or some sort of long term savings vehicle like Kiwisaver or a term deposit is being economically irrational. The experience of the last 20 years of property hyper-inflation and the knowledge that we are systematically under-building in the face of extremely fast population growth makes buying as many houses as possible as fast as possible the surest of sure things.

CORPORATE TAX RATES

Corporate taxes are also relatively high, not just in terms of New Zealand's rate, but in terms of the collection of corporate taxes relative to GDP.

COMPANY INCOME TAX RATES & REVENUES (2015)



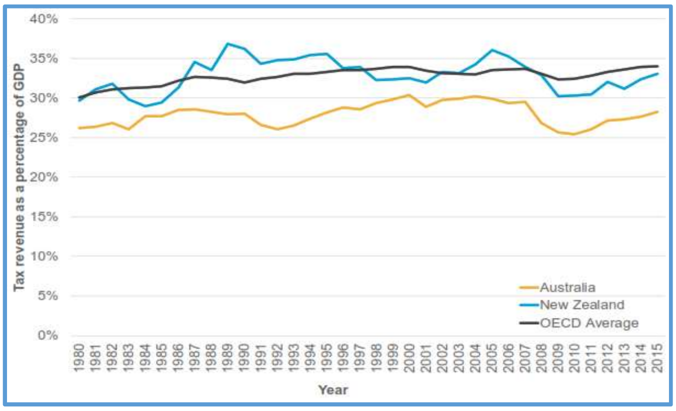
SOURCE: OECD

New Zealand companies are very compliant with our tax rules. Our broad base and low rate approach with few exceptions or exemptions means our collection rate is relatively high. This means increasing corporate taxes is also less attractive, particularly for New Zealand resident companies. Taxes on international companies operating here have room to rise, but the amounts collected and difficulties involved mean it is unlikely to move the dial much.

HOW MUCH DOES NEW ZEALAND TAX?

In New Zealand, the central government spends an amount equivalent to about 30% of GDP on services and transfers, so it needs to raise about the same amount of revenue each year in order to maintain spending without increasing debt. Over time there has been some fluctuation in government revenue, with the current level slightly below the OECD average of tax revenue equivalent to 34% GDP, as illustrated in the graph below. Note that these OECD figures include local government taxes (such as rates) for ease of comparison, but the Group is not considering any changes to local government taxation in New Zealand.

TAX REVENUE AS A PERCENTAGE OF GDP



SOURCE: OECD

WHAT DOES NEW ZEALAND TAX?

Broad base, low rate

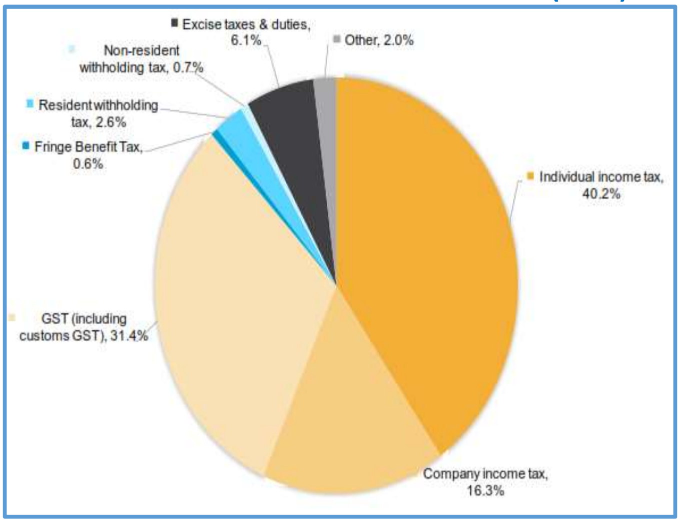
In general terms, a tax base refers to the application of tax to a revenue stream or activity. The largest tax bases for central government in New Zealand are:

- Individual income (individual income tax)
- Company income (company income tax)
- General consumption (goods and services tax)
- Consumption of specific goods and services (excise taxes imposed on sales of tobacco products, alcoholic drinks, and motor fuels)

New Zealand is generally described as having a "broad-based, low-rate" tax system. This refers to the tax base, and tax rate. A broad base means that few things are exempt from a particular tax.

As shown in the graph below, New Zealand gets approximately 90% of its tax revenue from three tax bases (excluding local government taxes) – individual income, company income, and general consumption.

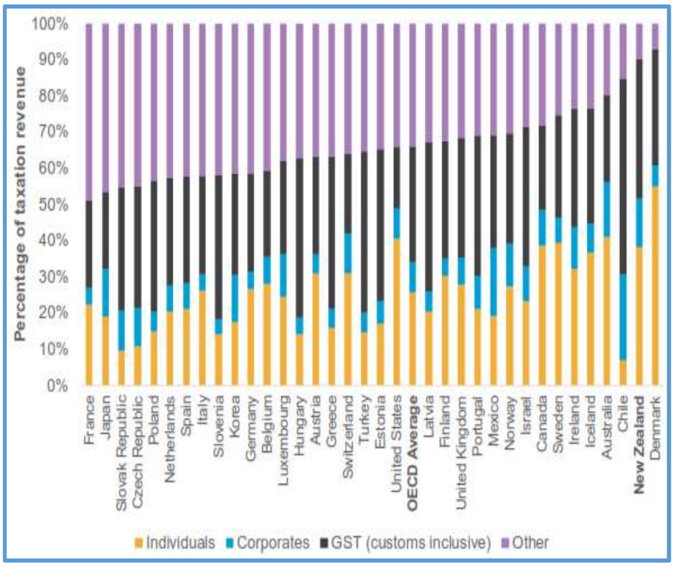
NEW ZEALAND'S SOURCE OF TAXATION REVENUE (2017)



SOURCE: Treasury

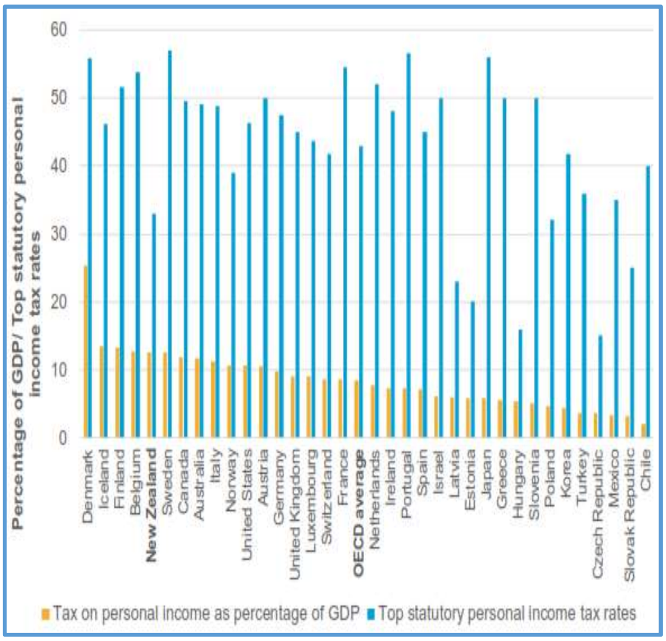
This is a more concentrated source of revenue than most OECD countries, which raise significant proportions of revenue from *social security contributions* and payroll taxes, as shown in Figure 5.

SOURCE OF TAXATION REVENUE 2015 – OECD COUNTRIES



SOURCE: OECD

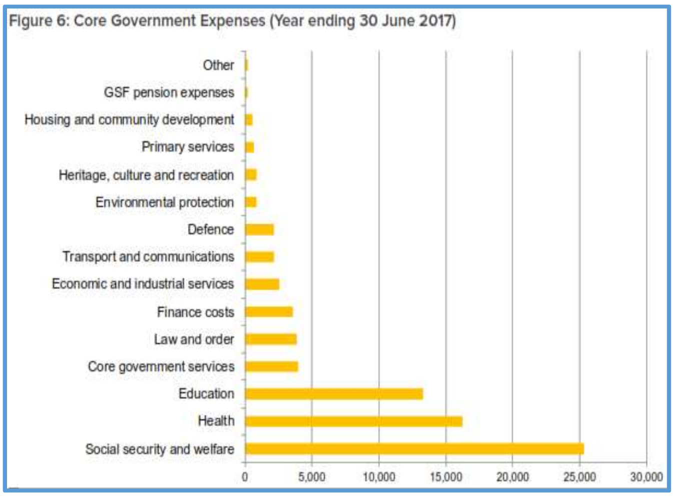
TAXES ON PERSONAL INCOME AS A PERCENTOF GDP



SOURCE: Treasury

CORE GOVERNMENT EXPENDITURE

YEAR ENDING 30 JUNE 2017



SOURCE: Treasury

COMPANY INCOME TAX

In the year ended 30 June 2017, the Government collected $12.6 billion in company tax. This represents 4.6% of GDP in 2017. In 2015, New Zealand's collection of company tax was the highest in the OECD as measured as a proportion of GDP, but when New Zealand data is reported on a consolidated basis it is the fifth highest in the OECD. Once more this suggests a broad and robust tax base. It should be noted, however, that New Zealand's company tax rate is higher than average. As at 2017 New Zealand has the tenth highest company rate of the 35 OECD countries.

Because of New Zealand's imputation system, there is only limited additional tax at the shareholder-level when dividends are paid out of income that has been taxed at the company level. This additional tax applies for taxpayers on the top marginal rate and is the difference between the corporate rate and the taxpayer's marginal tax rate. Many other countries have an additional layer of tax at the shareholder level for domestic shareholders with no credit for tax at the company level. When factoring in imputation, New Zealand's tax rate on domestic shareholders is the sixth lowest in the OECD.

WEALTH INEQUALITY

The central government taxes income and consumption, but not wealth. Wealth is distributed much less equally than income. Part of the reason is that wealth tends to depend on age as people accumulate assets through their working lives. Owner-occupied housing is also strongly associated with higher-wealth quintiles: 40% of owner-occupied housing (by value) is held by the 20% of households with the highest net worth, while 1% is held by the 20% of households with the lowest net worth.

MAORI AUTHORITIES & CHARITIES

It is interesting that the Working Group on Taxation made no mention of the growing inequity in taxation from Maori Authorities. Also, the inequities surrounding the charity status of some commercial businesses.

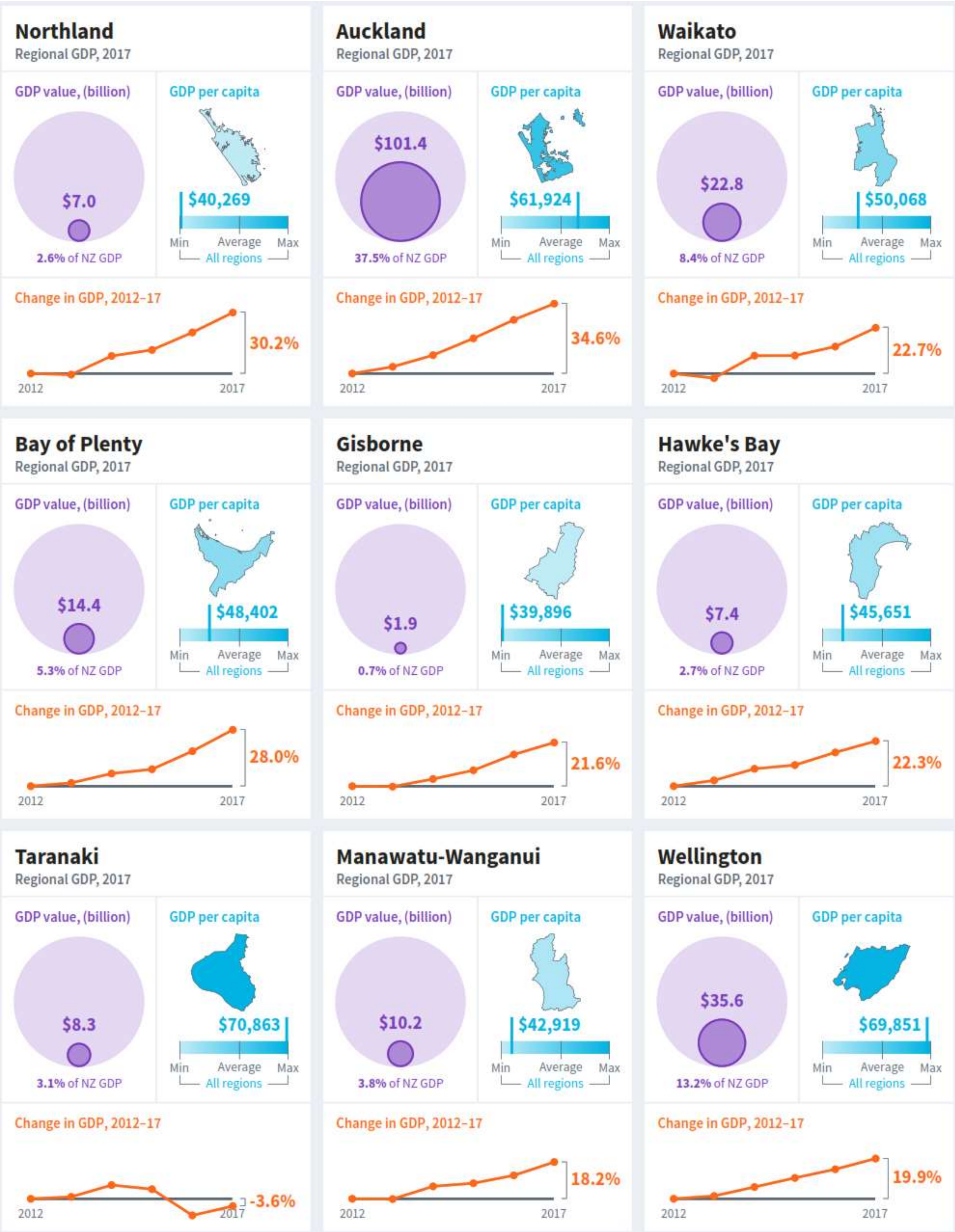
NOTE: *See my January 2018 Newsletter*

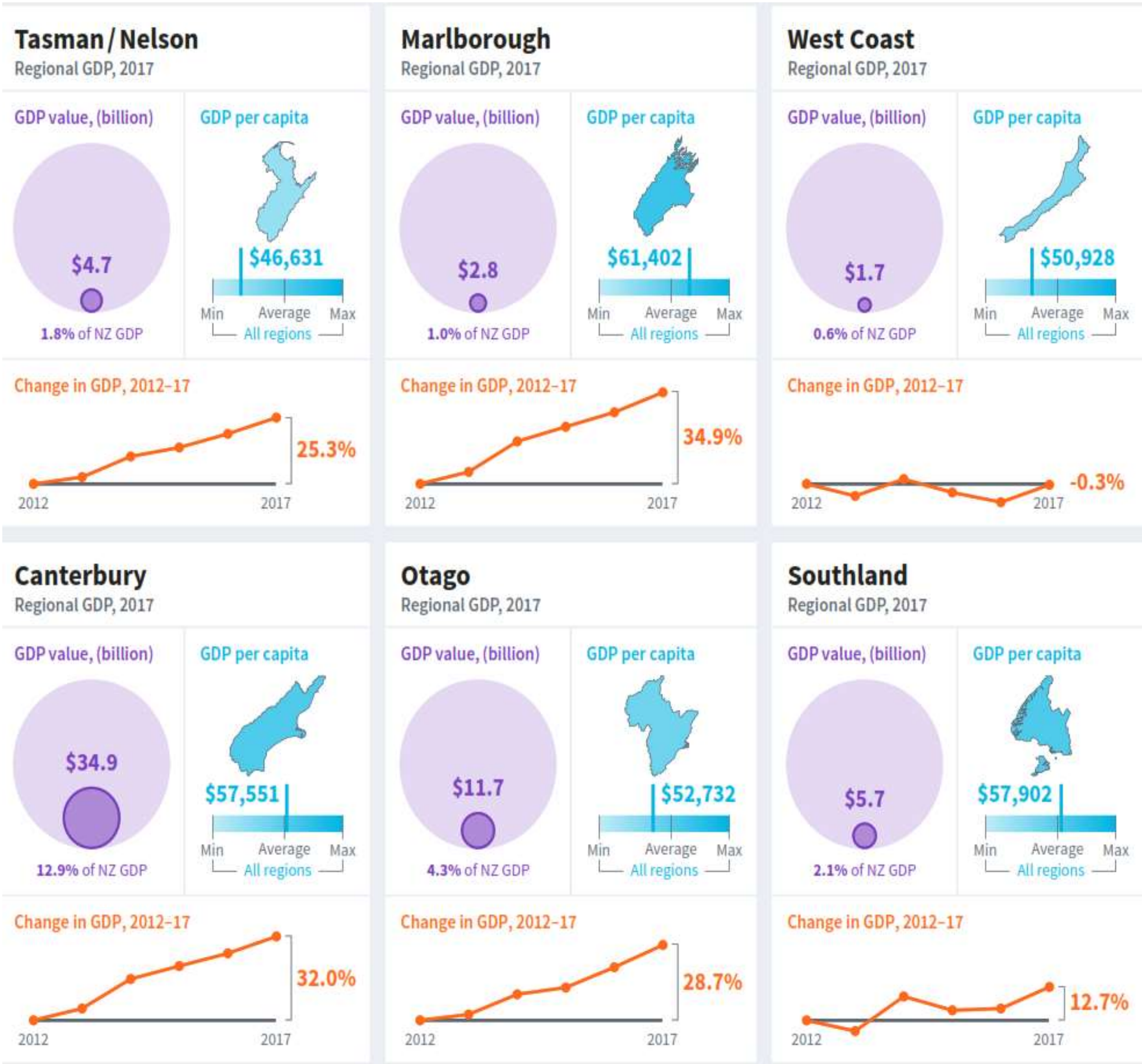
NEW ZEALAND'S REGIONAL ECONOMIES - 2017

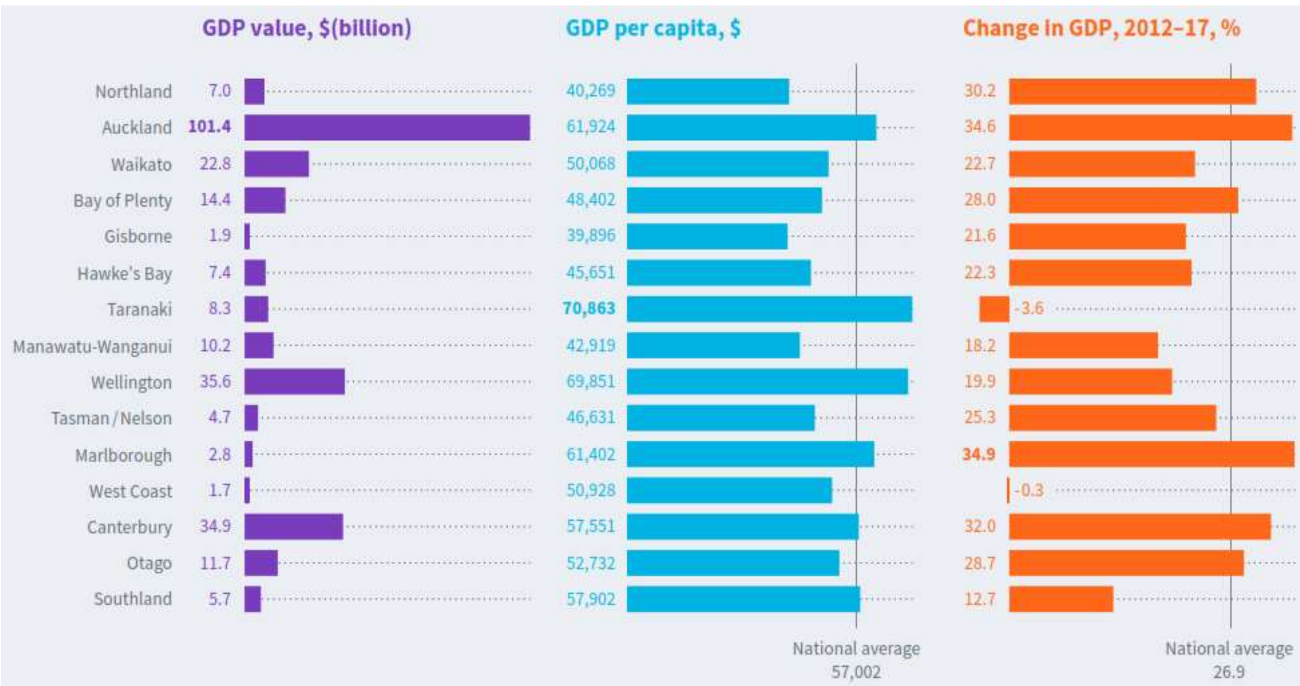
New Zealand's Gross Domestic Product, as at 31-March-2017, sat at $270.6 billion. Auckland accounted for 37.5% of that GDP, with the Bay of Plenty regionally at 5th, with $14.4 billion (5.3% of the New Zealand total). The Bay of Plenty's increase in nominal GDP topped the regions for the second year in a row.

All 15 regional economies in New Zealand recorded increases in nominal GDP, with Bay of Plenty's economy rising by 9.0%; followed by Northland and Waikato (both 8.2%), Southland (7.9%), and Otago (7.1%). The national average was 6.2%.

The Bay of Plenty's increase was mainly due to strong increases in the value of agriculture (horticulture and dairy); construction; and rental, hiring, and real estate services. Agriculture played a significant role in many regions, reflecting the large rise in the milk price payable to dairy farmers in 2017.



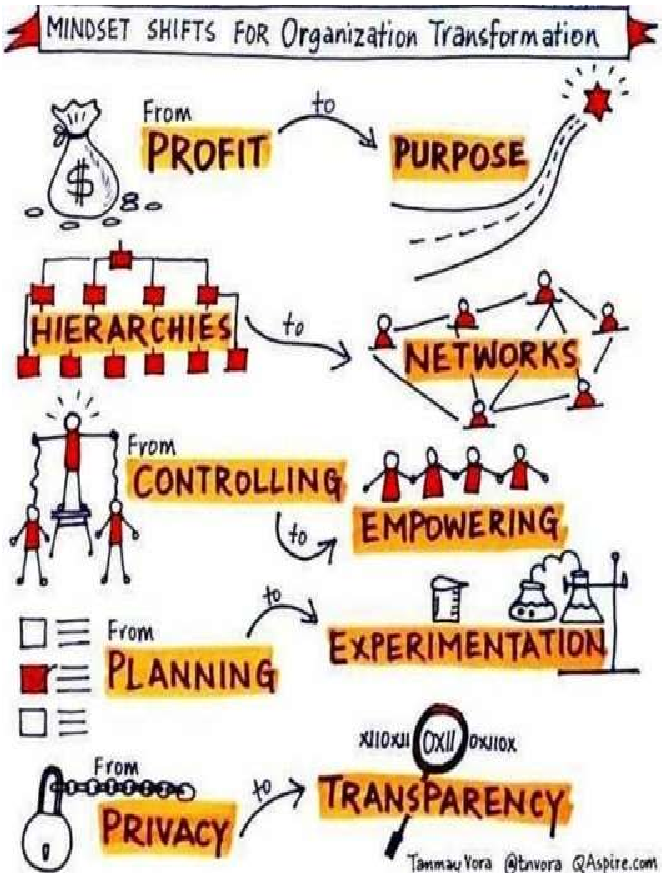




"If you want to go quickly, go alone. If you want to go far, go together."

African Proverb

Business is "on the brink of distrust", declared Edelman's Barometer (an 18-year global survey) earlier in 2017. It is both telling and alarming that trust in all four institutions – government, media, business and NGOs – has deteriorated in 2017 from 2016. This trend reversal is significant given that we've witnessed a major rebound of trust following the financial crisis of 2008 and saw the index climb to post-recession highs – until now.



It is clear that the expectations of business are changing as rapidly as the world around us. "*Corporations must find a way to lead*" was the consensus view that emerged from Edelman's poll. 75% of respondents agreed that "*a company can take specific actions that both increase profit and improve the economic and social conditions in the community where it operates*."

A contemporary CEO cannot afford to ignore this sentiment. The epoch of corporate social responsibility (CSR) as a cost of doing business has passed; the era of "*doing well by doing good*" is upon us. Balancing the profit motive with the creation of societal value is about to become a precondition for the long-term success of any corporation, sector, scale or geographic reach notwithstanding.

As business leaders ponder ways to implement and put into operation this imperative, here are a few ideas to consider:

Firstly, beyond the shareholder value, beyond the mission and the vision, a successful business today needs to develop a genuine narrative; one that congruently articulates the value for society this business creates, defines what the leadership philosophy is and what the company stands for. If the reality is that most businesses stand for something other than their balance sheets, creating societal value over and above serving their customers, and also the case that most corporate boards and CEOs ponder the question of responsive and responsible leadership every day, then it is truly regrettable that very few are able to bring it all together in a compelling narrative.

Tesla's narrative isn't about making cars: it is about "*accelerating the world's transition to sustainable energy*". Unilever – a major consumer goods company – stands for sustainable development. Those examples come to mind because those narratives truly resonate. The commitment of leadership at the top level of these businesses is readily apparent, continuously articulated and backed with real resources. It all comes down to the coherence of rhetoric and action, where societal value is placed at the core of an operating model.

Secondly, the narrative must be complemented by proactive and continuous engagement of the business with its core constituents. Each company should be able to identify the top 100 stakeholders beyond its vendors, suppliers, distributors or other commercial partners. According to a recent study by McKinsey: "*When asked about the most influential stakeholders, executives expect government entities and regulators — as well as customers — will have the greatest effect on their company's value*."

Given the great diversity of stakeholders' interests, be they governments, advocacy groups, industry associations, think tanks or community organizations, a bespoke strategy for engaging with each group is required. To communicate its narrative, a corporation must take every opportunity to regularly check in with its constituents, to be present in relevant conversations and to join and actively participate in germane initiatives.

More importantly though, **engagement with stakeholders must be about listening and not just telling**. Contentious relationships are often a consequence of trust deficit, which on its part results from a lack of interaction and scarcity of opportunity for genuine exchange of ideas. Open dialogue could and frequently does lead to the discovery of convergent interests and can make genuine partnership between a corporation and a stakeholder not just possible, but desirable if not inevitable.

Thirdly, action is required to back it all up. If an effective narrative is focused and easily comprehensible and an effective engagement with stakeholders is continuous and consistent, an effective action is one that substantiates the narrative and builds on engagement.

Delivering on the narrative is not about a drain on resources. It shouldn't be a cost centre in the same way that CSR shouldn't be an afterthought or tick-the-box exercise. When Google announced that it will be powered fully by renewables or when Apple pledged to make its iPhones from recycled materials, this wasn't charity. Those moves make long-term business sense, especially when one accounts for intangible benefits, such as brand value, employee morale, strength of corporate culture and congruence of leadership vision.

Building on these three principles, every company should be able to find space for action in the interest of creating societal as well as business value.

All indicators point to the dawn of a new era – one where a mission-driven corporation will be the rule rather than the exception. Doing well by doing good isn't off limits to some and a natural course for others, it is a matter of choice. It's a matter of responsible leadership and of profound and distinctly attainable vision. As corporations work to rebuild trust, proactive steps can and should be taken to develop a narrative, engage with stakeholders and find opportunities for truly collaborative public-private partnership.

About the author: ***Andrew Chakhoyan*** *is Founder and Managing Partner, Strategic Narrative Consulting. He has a Master of Public Administration, Harvard Kennedy School (USA); Executive Master's Degree in Global Leadership conferred by The World Economic Forum (in partnership with Columbia University, Wharton Business School, INSEAD, LBS, CEIBS).*

THE WORLD'S MOST INNOVATIVE COUNTRIES - *BLOOMBERG*

South Korea remained the global-innovation gold medalist for the fifth consecutive year. Samsung Electronics Co, the nation's most-valuable company by market capitalization, has received more U.S. patents in the 2000s than any firm except International Business Machines Corp. And its semiconductors, smartphones and digital-media equipment spawned an ecosystem of Korean suppliers and partners similar to what Japan developed around Sony Corp. and Toyota Motor Corp.

THE WORLD'S MOST INNOVATIVE COUNTRIES

	Country	Position change from 2017	Total score
1	South Korea	0	89.29
2	Sweden	0	84.70
3	Singapore	+3	83.05
4	Germany	-1	82.53
5	Switzerland	-1	82.34
6	Japan	+1	81.91
7	Finland	-2	81.46
8	Denmark	0	81.28
9	France	+2	80.75
10	Israel	0	80.64
11	USA	-2	80.42
12	Austria	0	79.12
13	Ireland	+3	77.87
14	Belgium	-1	77.12
15	Norway	-1	76.76
16	Netherlands	-1	75.09
17	UK	0	74.54
18	Australia	0	74.35
19	China	+2	73.36
20	Italy	+4	68.88
21	Poland	+1	68.74
22	Canada	-2	67.98
23	New Zealand	-4	67.40
24	Iceland	+1	67.11
25	Russia	+1	66.61

SOURCE: BLOOMBERG

Singapore jumped ahead of European economies Germany, Switzerland and Finland into third place on the strength of its top ranking in the tertiary-efficiency category.

"*Singapore has always placed strong focus on educating her populace, especially in STEM disciplines*," said Yeo Kiat Seng, professor and associate provost at the Singapore University of Technology and Design, referring to science, technology, engineering and mathematics. It also has a "*steadfast commitment to funding R&D and innovation*," added Yeo, who holds 38 patents.

The U.S. fell to 11th place from 9th mainly because of an eight-spot slump in the post-secondary, or tertiary, education-efficiency category, which includes the share of new science and engineering graduates in the labour force. Value-added manufacturing also declined. Improvement in the productivity score couldn't make up for the lost ground. "*I see no evidence to suggest that this trend will not continue*," said Robert D. Atkinson, president of the Information Technology & Innovation Foundation in Washington, D.C. "*Other nations have responded with smart, well-funded innovation policies like better R&D tax incentives, more government funding for research, more funding for technology commercialization initiatives*."

China moved up two spots to 19th, buoyed by its high proportion of new science and engineering graduates in the labour force and increasing number of patents by innovators such as Huawei Technologies Co.

The biggest losers were New Zealand and Ukraine, which each dropped four places. The productivity measure influenced New Zealand's shift, while Ukraine was hurt by a lower tertiary-efficiency ranking.

THE WORLD AT A GLANCE – *including World wealth levels 2017*

United States
US China trade war could shake global economy?

Canada
Trudeau passes controversial anti-hate law

Europe
European economies have bounced back – for now

Russia
Putin holds tough, but no-one believes him

China
Chinese economy set to to overtake Euro Zone

Australia
Unbelievable damage from their cricketing fiasco

UK
Where to from here for Brexit?

India
India to spent US$20bn On new jet fighters

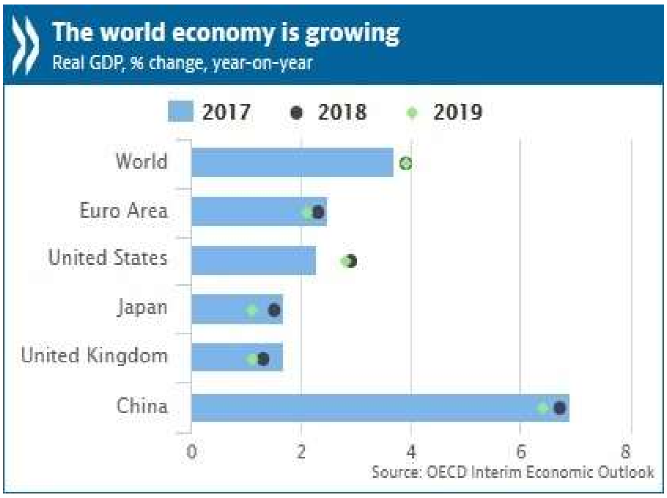
Japan
Economy grew just 1.6 in 2017

New Zealand
Cracks appear in Coalition Is the honeymoon over?

THE GLOBAL ECONOMIC OUTLOOK

OECD sees stronger world economy, but tensions are rising. The global economic expansion is strengthening, as robust investment growth, an associated rebound in trade and higher employment drive an increasingly broad-based recovery, according to the OECD's latest Interim Economic Outlook.

The pace of expansion over the 2018-19 period is expected to be faster than in 2017, but tensions are appearing that could threaten strong and sustainable medium-term growth.



The OECD projects that the global economy will grow by 3.9% in both 2018 and 2019, with private investment and trade picking up on the back of strong business and household confidence. Inflation is set to rise slowly. The projections reflect slight improvements in the global economy since the previous Economic Outlook in November 2017 and cover all G20 economies.

The Outlook underlines the boost to short-term growth expected from new tax reductions and expected spending increases in the United States and expected fiscal stimulus in Germany, but also points out a number of financial sector risks and vulnerabilities, as well as those posed by a rise in protectionism.

NEW ZEALAND'S ECONOMIC OUTLOOK

The new Reserve Bank Governor, Adrian Orr said he was happy with where the economy was at the moment. *"I'd say that we are running a very, very healthy economy at the moment*," he said.

PM Jacinda Ardern and Finance Minister Grant Robertson have been very conscious of avoiding another of 1999/2000 style 'winter of discontent'.

In late 1999, the then new Labour Government initiated an aggressive re-write of labour laws without consultation of big business. That triggered a huge slump in business confidence going into the winter of 2000. Eventually, then Prime Minister Helen Clark and Finance Minister Michael Cullen realized that their anti-business rhetoric was damaging them and bent over backwards to get big business on board. This turn around in attitude worked and economic growth surged. Both Ardern and Robertson worked in Clark's office, and are wary of triggering a repeat this time around. They are paranoid that lack of economic growth will confirm the preconception that a Labour-New Zealand First coalition was not a good economic manager. That said, they don't seem to be able to build confidence, which is now in a slump in confidence about the wider economy, to a nine year low.

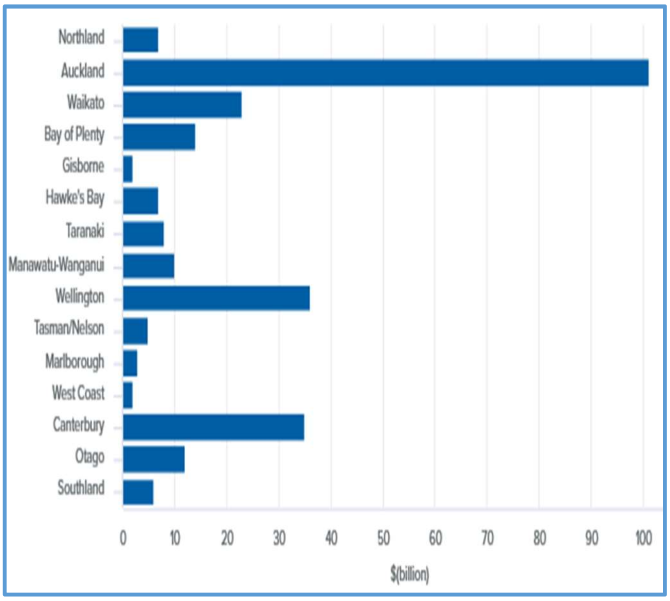
ANZ BUSINESS CONFIDENCE INDEX

SOURCE: ANZ

NEW ZEALAND'S GDP ANNUAL GROWTH RATE

NEW ZEALAND'S GDP BY REGION

Year ended March 2017



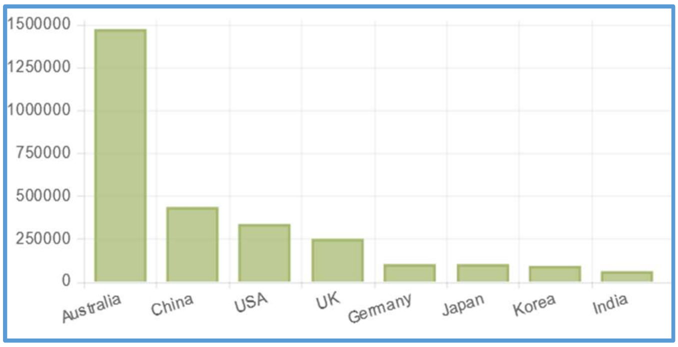
SOURCE: Stats NZ

Bay of Plenty Regional Economy

- From 2012–17, Bay of Plenty's economy increased 28.0% (national increase was 26.9% and Auckland was 34.6%). Bay of Plenty's share of national GDP was unchanged at around 5.3%.
- In 2015, Bay of Plenty's GDP increased 2.0% (Auckland 7.6%). Broad-based rises were led by manufacturing, and transport, postal, and warehousing services; agriculture fell sharply (31.0%).
- In 2016, Bay of Plenty's GDP increased 8.3% (Auckland 7.8%), the highest of all of the regions. This was underpinned by strong increases in manufacturing; rental, hiring, and real estate services; and agriculture (primarily kiwifruit).
- In 2017, Bay of Plenty's GDP increased 9.0% (Auckland 6.3%), again the highest of all the regional economies. This was driven by strong increases in agriculture (dairy cattle farming and kiwifruit), rental, hiring, and real estate services, and construction.

New Zealand International Visitor Arrivals

12 Months to Feb 2018

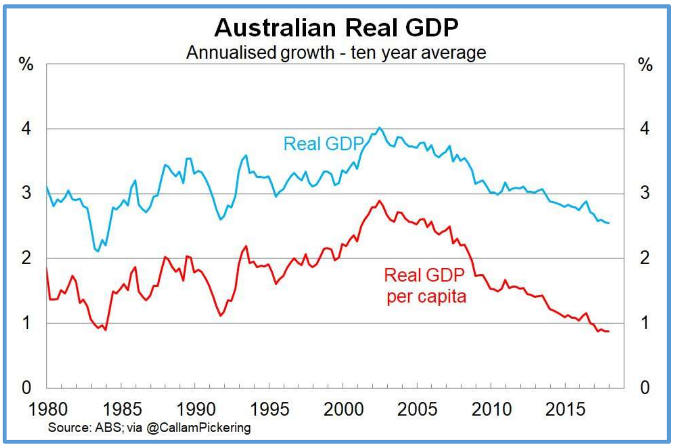


New Zealand Tourism – Total visitor arrivals

	Year ended February					Change 2017–18	
	2014	2015	2016	2017	2018	Number	Percent
Total visitor arrivals(1)	**2,769,436**	**2,909,678**	**3,202,860**	**3,544,219**	**3,775,289**	**231,070**	**6.5**
Top 30 countries of residence							
Australia	1,236,576	1,259,248	1,344,864	1,415,696	1,475,072	59,376	4.2
China, People's Republic of	237,248	287,888	368,256	402,832	436,256	33,424	8.3
United States of America	205,360	226,608	247,920	307,136	337,664	30,528	9.9
United Kingdom	196,384	195,984	211,248	224,416	250,128	25,712	11.5
Germany	73,760	79,888	89,072	101,632	102,848	1,216	1.2
Japan	74,304	81,712	90,560	101,408	102,480	1,072	1.1
Korea, Republic of	52,832	58,144	70,432	82,192	92,384	10,192	12.4
Canada	48,368	49,376	54,016	62,496	69,616	7,120	11.4
India	31,424	39,168	46,544	53,424	61,904	8,480	15.9
Singapore	42,800	47,296	50,320	57,264	58,832	1,568	2.7
Hong Kong (SAR)	28,560	31,648	37,616	46,288	55,328	9,040	19.5
Malaysia	29,408	31,536	35,024	53,280	53,504	224	0.4
France	28,384	31,232	35,312	40,752	43,200	2,448	6.0
Taiwan	21,488	27,872	31,664	36,448	37,024	576	1.6
Netherlands	21,456	21,584	22,864	27,664	29,776	2,112	7.6
Fiji	24,096	24,288	26,192	28,576	29,104	528	1.8
Thailand	21,008	21,376	22,000	27,344	28,992	1,648	6.0
Samoa	16,912	19,024	21,264	23,536	24,512	976	4.1
Philippines	10,336	12,064	14,608	21,152	24,192	3,040	14.4
Indonesia	13,600	15,408	16,448	19,936	24,064	4,128	20.7
French Polynesia	15,648	16,672	16,624	20,304	23,504	3,200	15.8
Switzerland	17,264	18,016	20,208	22,736	22,992	256	1.1
Argentina	4,800	4,064	7,616	16,768	20,640	3,872	23.1
New Caledonia	17,488	17,152	17,904	18,928	20,144	1,216	6.4
Tonga	14,192	15,824	18,032	20,448	19,952	-496	-2.4
South Africa	15,280	15,648	17,664	19,984	19,488	-496	-2.5
Brazil	10,752	12,080	12,832	13,984	18,336	4,352	31.1
Sweden	12,544	13,136	14,256	15,376	16,512	1,136	7.4
Spain	8,432	9,248	10,384	12,592	13,872	1,280	10.2
Denmark	8,992	9,904	10,864	12,544	13,312	768	6.1

Australian Economic Outlook

Australia's GDP growth slipped to 2.4% during 2017. This means that there was no acceleration from 2016, when GDP also grew at 2.4%.



Treasurer Scott Morrison said the figures showed 2017 was "*the year of jobs*" and provided reasons to be optimistic about the economy. "*Today's national account reveals the continued resilience of Australia's domestic economy, with Australians backing themselves, getting jobs, spending more and investing more, particularly where it matters in our economy*," Mr Morrison said. "*Through the year, consumption growth was up almost 3% at 2.9%, and that reflects the growth in consumer confidence that we have been seeing now for some time*," he said.

Productivity continues to slide

CBA's chief economist noted employment grew by 2.2% last year and that would normally point to output growth of about 3%. "*The implication is that productivity growth is weak. GDP per hour worked, a measure of productivity, actually fell by 0.1% in 2017*," Mr Aird said.

United States Economic Outlook

Few topics are less conducive to rational debate than the US national debt. One of the most divisive questions is whether a country can get into trouble issuing debt in a currency it controls. Surely, a nation would face bigger problems if it borrows in foreign currencies or gold than if it only promises to repay in scrip it can print itself.

But how much of an advantage is it to control the borrowing currency? The issue is gaining in importance as the U.S. is poised to more than double to $1 trillion the amount of debt it issues this year to pay for a ballooning budget deficit. A resurgence of inflation seems to be the only salvation for this ballooning US Debt crisis.

Trade wars

China has fired back against new US tariffs, imposing tariffs on US$50 billion worth of US imports, including pork, soybeans, cars, chemicals and other goods. This is the second round of an escalating trade war that again unnerved US stock markets.

Trump's tariffs are hurting American factories with prices skyrocketing. Steel and aluminium are raw materials used across industry, and businesses began stocking up in response to the tariff announcement. Some companies were told that price quotes for steel would be valid for just 24 hours, while others found that the material was gone or were quoted a higher price when they called back a day or two later. These reactions contributed to further driving up prices that had already been rising due to solid demand. "*The reason the price index went up this month was primarily because of the tariffs*," an industry spokesperson said.

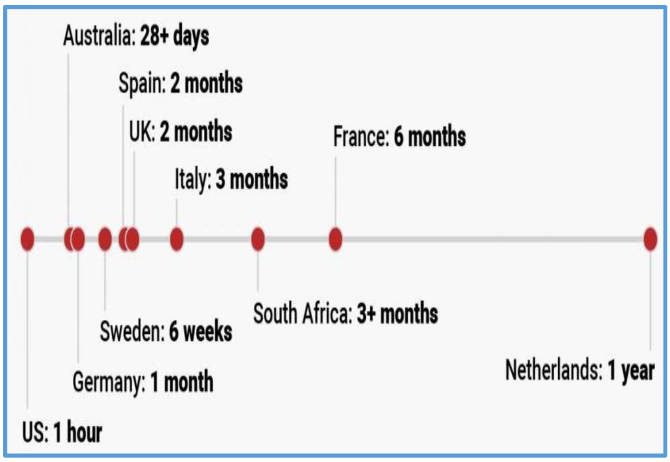
NAFTA

President Trump threatened to pull out of the North American Free Trade Agreement (NAFTA) if Mexico doesn't stop people and drugs from flowing into the U.S. from Central America. "*They must stop the big drug and people flows, or I will stop their cash cow, NAFTA. Need Wall!*" Trump said on Twitter. His answer seems to be to call out the military to guard the Mexican Border.

US struggles with its gun laws

The Gun Lobby in the US is extremely powerful; and it really is "the heart of Trumps's voter base", but he will continue to be pressured by the call for more rigour in the banning of automatic weapons. There is no obvious need to own fully automatic weapons and sooner or later the American Administration needs to realise that banning them doesn't violate the "right to bear arms".

AVERAGE TIME IT TAKES TO BUY A GUN AROUND THE WORLD



UNITED KINGDOM ECONOMIC OUTLOOK

There is now just one year to go before the UK exits the European Union. Before the June 2016 referendum the Treasury famously warned that a "Leave Vote" would result in an instant UK recession. That has not materialised, as Brexiteers frequently delight in pointing out. But opponents of Brexit also stress that the UK's growth has slowed dramatically since 2016.

So just how well or badly has the British economy performed since the country, by a relatively narrow margin, voted to Leave? And what is the best estimate of what we can expect to come as the 12-month countdown to Brexit itself begins?

Currency

The UK's currency, of course, fell through the floor in the early hours of 24 June 2016, when it became clear that the Britons had voted to rupture their 43-year membership of the European Union. Against the US dollar, sterling endured its biggest intra-drop on modern record (11.9%), hitting a 31-year low of $1.3679. This currency slump was an "unambiguous thumbs down" from currency markets for the UK economy in the era of Brexit.

Inflation

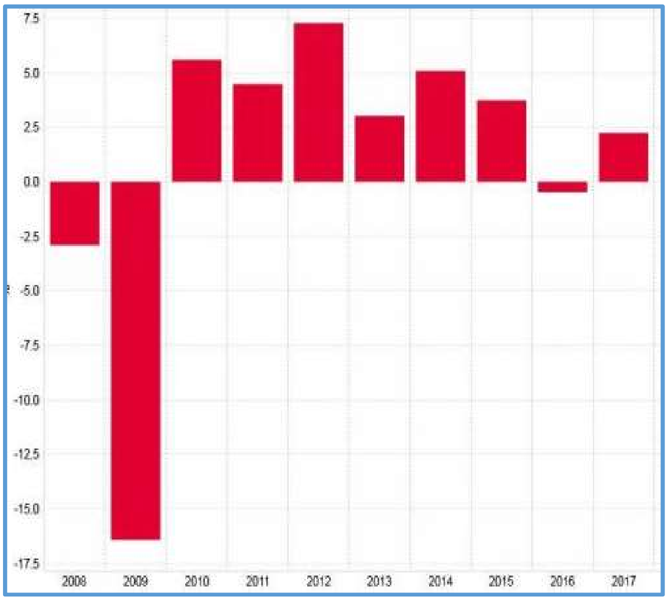
Aside from pushing up the cost of foreign holidays, the most painful impact of the fall in sterling in the wake of the referendum has been to jack up the cost of living. UK firms' import costs rose and they gradually passed that on to consumers in the form of higher prices for goods in the shops. Inflation, which was running at around 0.5% at the time of the vote hit 3% late last year. As prices rose faster than average wages, average UK living standards got squeezed.

Business investment

The reaction of many firms when Britain voted for Brexit was one of alarm. Most large firms think that EU membership has been beneficial for the UK economy. They also think that Theresa May's decision to leave the single market and the customs union will be damaging for their businesses. Surveys suggest this concern has hit investment, with many saying they have paused investment until the post-Brexit trade picture is clearer. This is bad in the short-term, as business investment helps drives GDP growth and national income. It is also negative for the longer-term because business investment contributes to productivity growth.

The national accounts show that business investment fell in 2016 – the first annual decline since recession in 2009. There was growth of 2.5% in 2017. But this was also a year in which the global economy bounced back, meaning that, other things equal, UK investment ought to have grown much more rapidly.

United Kingdom's Business Investment Growth Rate



Growth

Many of the worst fears prior to the Brexit vote have not come to pass, but at the same time the UK's growth has clearly been stifled since the referendum. But the best indicator of the negative impact of the Brexit vote comes when comparing the UK to the rest of the G7. On an annual basis the UK was growing at around 2% at the time of the Brexit vote. This growth rate slipped to 1.4% in the final quarter of last year. But over 2017 the annual growth rates of the rest of the G7 – the US, France, Germany, Canada, Japan and Italy – all accelerated on the back of a healthier global economy. This shows the UK has gone from the top of the G7 growth table to the bottom.

One analysis by researchers from the London School of Economics estimate that the UK economy is today around £20bn smaller than where it would have been without the Leave vote – which translates to a cost of around £300m a week.

European Economic Outlook

Europe is no longer the sick man of the world economy. The 19-nation euro-zone bloc is already enjoying the strongest growth in a decade and now economists at Credit Suisse Group AG and Oxford Economics are declaring that it's heading toward a golden period of low-inflationary expansion.

The turnaround is striking for a region that plunged from the global financial crisis into its own sovereign debt turmoil, record unemployment and near-deflation that threatened the very survival of the currency union. While still to make up most of the ground lost in the dark years, and with productivity still weak, the upturn at least holds out the hope that some scars will start to heal.

"*This is euro-area growth at its best*," said Nathan Sheets, a former international economist at the Federal Reserve and U.S. Treasury. It's the best period of growth for both groupings since 2007, putting Europe just ahead of the 2.3% expansion posted by the U.S. in 2017. Europe had suffered years of anemic growth caused by a series of debt crises.

Chinese Economic Outlook

China imposes tariffs on $3bn US imports

China has retaliated in the global trade war started by US President Donald Trump, announcing tariffs on American imports worth US$3bn, including pork, wine and scarp aluminium. The tariffs will be as much as 25% and come after Trump raised duties on steel and aluminium imports, expressing criticism of China in particular.

China's Belt and Road Initiative (BRI)

BRI has raised mixed opinion in both New Zealand and abroad. Many consider it as a welcome plan to increase connectivity between nations, while others cast it as an attempt by China to develop soft power, and even as a means of projecting its industrial strategy.

Regardless, no one doubts the BRI is here to stay. It is now seen as a central pillar of China's economic strategy, supported at the highest levels of the Chinese Government. BRI is increasingly the framework through which China engages with the rest of the world.

New Zealand is facing greater competition than ever for attention in China. Australia has negotiated a very good FTA, Chile has already upgraded its FTA, European states are making a huge push to develop people-to-people links, and Latin American countries are already staking out their roles in the BRI.

Where does this leave New Zealand? If we choose not to engage, others almost certainly will, and we could find our position in the Chinese market further eroded.

The smart option is to try to develop our participation in a way that builds on our comparative advantage and matches our interests and values. The ability to co-operate for mutual benefit despite fundamental differences is a hallmark of the New Zealand-China relationship, and our involvement in BRI need not be any different.

The positives include tangible benefits to a number of our key sectors, as long as we develop carefully our thinking around the specifics of our contribution and how this can be presented to our Chinese partners. As we move forward to implementing our BRI strategy, we will of course need to continue to monitor developments in China and give thought to any risks in pursuing this course.

One obvious risk may be to underestimate or overestimate the value of participation. The BRI, much like our wider relationship with China, shouldn't replace other important relationships and arrangements with the rest of the world. We can pursue BRI and initiatives like CPTPP at the same time.

BRI will not require us to surrender our sovereignty or our independent foreign policy. It is up to New Zealand and New Zealanders alone to make the running and come up with ideas for how we can take part and add value to our existing relationship. This is work we have to do ourselves. It will require innovative new thinking, open minds and classic Kiwi ingenuity as we work together to chart our own path along the Belt and Road. The question is – Has this current Labour/NZ First/Green Government got the acumen to navigate this transition.

Indian Economic Outlook

Narendra Modi made Indians a commitment that if they voted for him in 2014, they could be assured of good times to come. After a wobble over the past year, India is growing at 7.2% a year, making it the fastest-growing major economy in the world. In reality the country is not growing quickly enough to provide enough new jobs for its rapidly expanding population. According to a recent World Bank calculation it also lags the 8% growth it needs to hit every year for the next 30 if it wants to become an upper-middle income country. In part that is because the Indian population is growing so quickly. Every year 12m young people enter the workforce and providing them all with jobs would need economic expansion of at least 10% a year, according to Raghuram Rajan, India's former central bank governor.

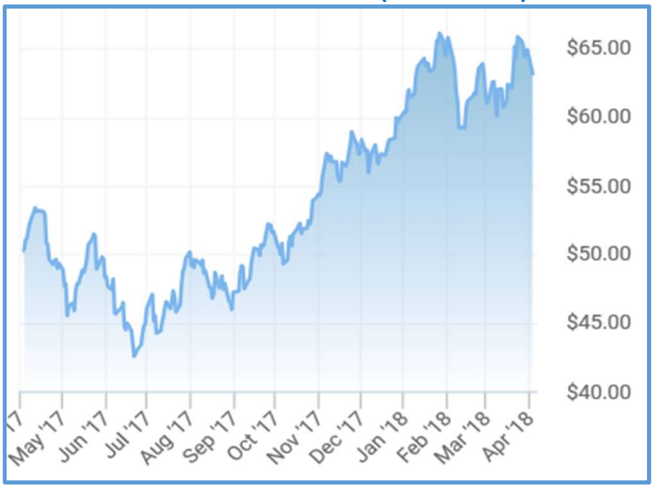
India's GDP Annual Growth Rate

Commodities

Oil has risen from a multiyear low near $27 in January 2016, helped by production cuts led by the OPEC and Russia, which started in 2017 and are due to run until the end of 2018.

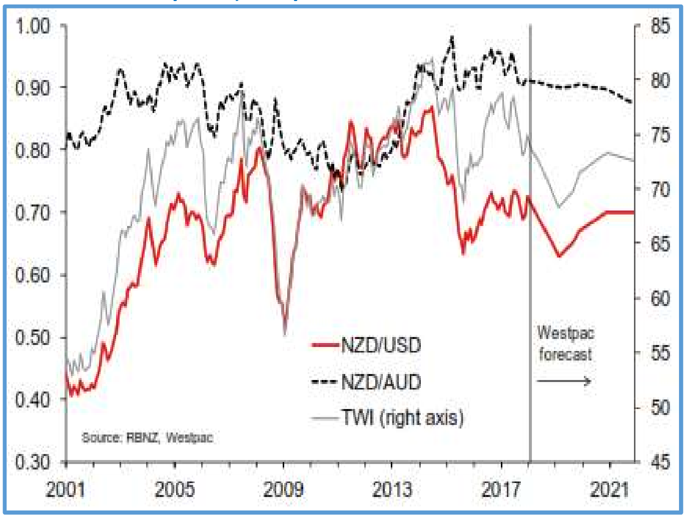
Top oil exporter Saudi Arabia is expected to cut prices for all crude grades it sells to Asia in May to reflect weaker prices for its Middle East benchmark Dubai crude. "*There is speculation that the Saudis are going to lower prices for their Asian customers*," said a New York energy futures specialist. "*That is not really the kind of thing you do when you want to keep production cuts in place*."

Oil: West Texas Crude (1 Year chart)



Currency

NZD/AUD, NZD/USD & TWI cross rate



NZD/AUD & NZD/USD cross rate (1 year)

Source: Westpac

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

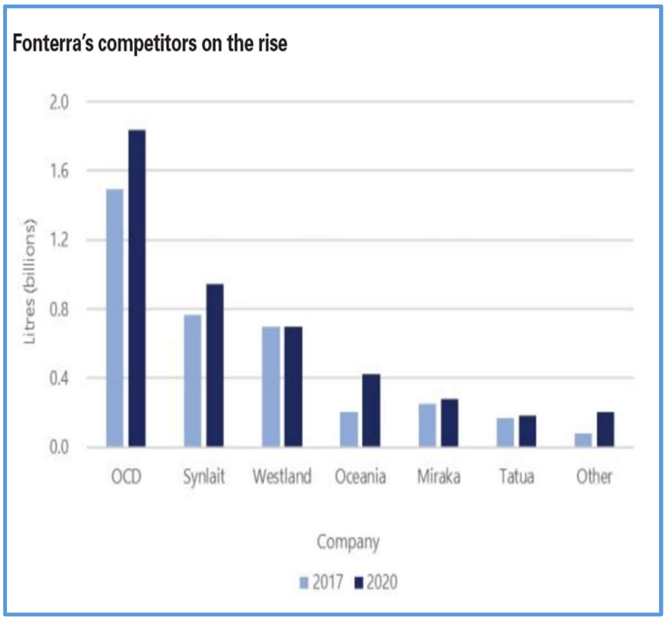
On 21st March Fonterra announced a $348m bottom-line loss for the six months to January, mostly arising from a $183m legal settlement with Danone and a $405m write-down from its investment in Chinese infant formula company Beingmate.

Spierings said there had been hits and misses since he started at Fonterra in 2011. He said he underestimated the complications arising from investing in a China-listed entity - Beingmate - and acknowledged that Fonterra had been slow to recognise the value in the alternative milk company a2 Milk - which is now New Zealand's biggest listed company.

However, Spierings said that there had also been significant wins, among them a return to profitability for Fonterra's substantial European and US operations. *"Europe is now a massively profitable business whereas at the time it was losing a lot of money*," Spierings said. He noted that in Australia, which has long been a problem, there had been a big turnaround in profitability - where it has been financially bleeding $100m a year - to earning more than $100m a year. In South America - where Fonterra has a substantial presence - the co-op's operations have been thoroughly restructured.

All up, Spierings said the co-operative was "*highly placed*" compared with the competition in other parts of the world. "*Offshore, people talk about us being the envy of the dairy world*," he said. Fonterra's Chinese operations have mushroomed out to an enterprise value of $5 billion.

On the miss side, Spierings said Fonterra had been slow to recognise the potential of a2 Milk. "*We co-owned the intellectual property 15 years ago so, and in my view, we should have had 50 per cent of the company at that point*." Another opportunity arose in 2013 to get involved with a2 Milk but management were too deeply involved in the WPC80 whey protein scare and product recall to consider it. "*I have always believed in the value of a2, so in that sense we have a partnership now that has multiple touch points*," he said. The a2 Milk deal gives Fonterra the right to make a2 butter, cheese and liquid milk in New Zealand.



Fonterra has performed poorly over the past seven years with Theo Spierings as chief executive and John Wilson as chairman:

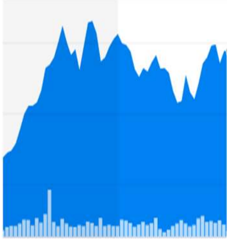
- Shareholder equity was $6.5bn in the 2011 annual report but had only inched up to $6.6bn at January 31 this year.
- Over the past seven seasons the milk payout averaged $5.90 per kg of milk-solids, up 45 cents on the average of the previous seven years. But those are set by international prices of dairy commodities, which were rising, not by the co-op's performance.
- The dividend is, the best measure of the co-op's ability to add value to milk, but was unchanged at 30c a share on average over the latest seven years.

This looks to me to be a company that shareholders (farmer suppliers) need to demand a massive shakeup.

STOCKS TO WATCH NEW ZEALAND

NOTE: THESE ARE ALL ONE YEAR GRAPHS

Prices as at 6th April 2018



Air New Zealand

Fuel costs aside, AIR delivered further productivity gains in its 1st Half. The company highlighted efficiency savings of $33m in the period. Labour efficiency was notable with costs up 1.9% to $635m in the 1st Half, with FTE headcount increasing 0.3% to 10,896 on a 3.4% increase in capacity. While no specific guidance range was made for full year, AIR's statement that they are "expecting 2018 earnings before taxation to exceed the prior year" aligns with FNZC's PBT forecast of $530m (vs pcp $527m).

26.120018 P/E: 8.6 2019 P/E: 9.3

NZX Code:	**AIR**
Share Price:	**$3.33**
12mth Target:	**$3.00**
Projected return (%)	
Capital gain	-10.0%
Dividend yield (Net)	7.3%
Total return	**-2.7%**
Rating:	**NEUTRAL**
52-week price range:2.41-3.82	

Auckland International Airport

The exit of Emirates from AIA's Trans-Tasman routes will drive further slowing of momentum across the balance of FY18. In contrast to slowing aeronautical growth, FNZC observes improving trends in AIA's non-aeronautical segments, with the completion of the first tranche of the major upgrade of the international departure retail precinct delivering strong Duty Free sales growth in late 1H18. They now forecast retail income per international PAX to increase by +26% between FY17 and FY20, with this representing a material step change when compared to total growth per passenger of only +3.2% between FY11 and FY17.

20018 P/E: 28.1 2019 P/E: 27.3

NZX Code:	**AIA**
Share Price:	**$6.34**
12mth Target:	**$5.30**
Projected return (%)	
Capital gain	-16.4%
Dividend yield (Net)	3.6%
Total return	**-12.8%**
Rating:	**NEUTRAL**
52-week price range:6.02-7.36	

The a2 Milk Company

ATM's 1st Half performance delivered as a 5-8% beat across the board at the revenue, gross profit, earnings and net profit levels. From a standing start in FY14, driven by demand in China, ATM now has an annualised US$500 million in infant formula revenue. This places the company inside the ten largest early-life nutrition businesses globally. With significant financial capacity and commitment to further invest in marketing and in the brand, FNZC expects the company to double this revenue stream in ten years.

20018 P/E: n/a 2019 P/E: 40.6

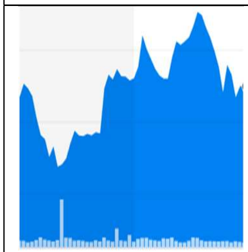
NZX Code:	**ATM**
Share Price:	**$13.97**
12mth Target:	**$12.75**
Projected return (%)	
Capital gain	-1.7%
Dividend yield (Net)	0.0%
Total return	**-1.7%**
Rating:	**OUTPERFORM**
52-wk price range: 3.09-14.62	

Chorus

CNU faces a lot of challenges with competition and line loss continuing to put downwards pressure on revenues. There is little CNU can do on operating costs in the nearer-term on high activity levels and a significant weight of capex still in front of it. On the opportunity side, CNU has a desire to leverage its network investment into 5G but this is not without policy/regulatory (including spectrum) and competition/customer issues. The regulatory outlook remains challenging and CNU needs to be careful not to let regulatory outcomes cloud its approach on pricing should competitive pressures continue.

20018 P/E: 18.7 2019 P/E: 33.9

NZX Code:	**CNU**
Share Price:	**$4.05**
12mth Target:	**$4.12**
Projected return (%)	
Capital gain	1.6%
Dividend yield (Net)	5.9%
Total return	**7.5%**
Rating:	**NEUTRAL**
52-week price range: 3.67-4.77	



Comvita

1st Half revenue growth concentrated in the Functional Foods category ($58m vs. pcp of $30m). Excluding royalties in the pcp, revenue was broadly flat YoY across other product categories (Healthcare, Personal Care, Medical). FNZC looks for growth in these categories as a signal CVT is successfully executing on innovation. Its Maiden China JV earnings suggest the economics of substituting grey channel sales for direct sales to China are likely to be marginal. 1st Half margins suggest a focus on growing direct sales to China appears unlikely to restore margins to levels achieved prior to regulatory changes in the China cross-border e-commerce channel. That said, FNZC notes it is still relatively early in the integration, expansion, and transformation of Comvita China.

20018 P/E: 20.7 2019 P/E: 17.8

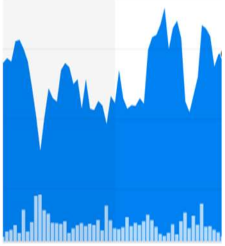
NZX Code:	**CVT**
Share Price:	**$7.25**
12mth Target:	**$7.83**
Projected return (%)	
Capital gain	8.0%
Dividend yield (Net)	2.4%
Total return	**10.4%**
Rating:	**NEUTRAL**
52-week price range: 5.14-9.21	

Contact Energy

A possible catalyst for CEN rerating could be a mid-2017 commitment to lift its dividend payout. CEN is a cash generative ex-growth stock with defensive qualities and continues to produce cash flow well above its current dividend level, the difference previously channelled into debt reduction—a nearly finished effort that sees the company able to materially lift dividends in FY18. Although the new ordinary dividend target of 80% to 90% of operating free cash flow (FCF) target is less tax efficient than buybacks for NZ shareholders, it will mean CEN's previously unremarkable ordinary dividend yield may now screen well on offshore investors' filters. We note the company retains the flexibility to institute buybacks at a later time.

20018 P/E: 25.3 2019 P/E: 19.8

NZX Code:	**CEN**
Share Price:	**$5.26**
12mth Target:	**$6.50**
Projected return (%)	
Capital gain	23.6%
Dividend yield (Net)	5.9%
Total return	**29.5%**
Rating:	**OUTPERFORM**
52-week price range: 5.04-5.85	



Ebos Group

EBO's 1st Half result highlighted successful integration of acquisitions, earnings per share growth and good cash flow discipline. These have been hallmarks of the business through time with positive outcomes achieved in competitive markets and in spite of regulatory pressures. FNZC maintains that EBO is a highly effective operator of assets and expect little to change with the upcoming change of CEO. The outlook for equity holders hinges more on confidence around known challenges: pressure on underlying healthcare growth, pressure on ethical drug pricing, competition in pharmaceutical supply and the availability of suitably accretive acquisition targets.

2018 P/E: 19.3 2019 P/E: 18.3

NZX Code:	**EBO**
Share Price:	**$18.13**
12mth Target:	**$18.45**
Projected return (%)	
Capital gain	1.8%
Dividend yield (Net)	4.1%
Total return	**5.9%**

Rating: NEUTRAL

52-wk price range: 16.55 -18.90

Fletcher Building

FBU delivered a 1st Half result that was broadly in line with expectations, excluding the company's Building and Interiors Unit (B&I) within the Construction Division. FBU reiterated the company's FY18F $680-$720m earnings guidance, excluding B&I losses of $660m. Investors continue to question the quality of earnings as weaker contribution in NZ Building Products was offset by higher earnings from its Australian counterpart and also higher earnings in Property and Land Development. The completion of FBU's strategic review, go-forward plan as well as the stabilisation of the company's B&I unit are key to a re-rating of the stock.

2018 P/E: n/a 2019 P/E: 10.4

NZX Code:	**FBU**
Share Price:	**$5.84**
12mth Target:	**$8.40**
Projected return (%)	
Capital gain	43.6%
Dividend yield (Net)	1.6%
Total return	**45.2%**

Rating: OUTPERFORM

52-week price range: 5.748.78

Fisher & Paykel Healthcare

FPH's execution has been faultless in recent years. Key upside potential includes continued momentum of Respiratory and Acute Care (RAC) new applications and OSA masks, corporate activity and further meaningful deterioration in the NZD/USD exchange rate. Additional upside includes gross profit expansion on the back of lower production costs out of Mexico and product mix. Key downside risks include irrational pricing in OSA market, with Resmed and Respironics being key competitors, the NZ dollar rallying against the US dollar, and further unfavourable changes to the reimbursement regime as it relates to competitive bidding and the potential trickle-down risk to the private insurance sector, or other regulatory change.

2018 P/E: 38.8 2019 P/E: 34.2

NZX Code:	**FPH**
Share Price:	**$13.26**
12mth Target:	**$12.00**
Projected return (%)	
Capital gain	-9.5%
Dividend yield (Net)	1.9%
Total return	**-7.6%**

Rating: UNDERPERFORM

52-wk price range: .9.54-14.49

Fonterra Shareholder Fund

The 1st Half 2018 result saw FSF take a $433m reduction in Beingmate's carrying value to more realistic levels in line with market pricing. The 1H18 operating result was disappointing although the key Ingredients engine performed well despite low volumes and FSF is confident of a turnaround in 2H18 Food Services & Consumer performance. FSF retains its full year adjusted EPS guidance of 45–55cps (ex 37cps of Danone/Beingmate impact) and has expressed confidence in the range, albeit that a significant turnaround is required on 1H18 adjusted EPS of 15cps.

2018 P/E: 12.4 2019 P/E: 8.8

NZX Code:	**FSF**
Share Price:	**$5.69**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	7.6%
Dividend yield (Net)	7.2%
Total return	**14.8%**

Rating: NEUTRAL

52-week price range: 5.67-6.66

Freightways

FRE has delivered a 1st Half result that was broadly in line with expectations at a Group level. Express Package volume growth continued to track at an above-trend level that is consistent with positive macro conditions and structural change that is supporting a shift in freight volume from palletised to courier business-to-customer (B2C). FNZC's analysis indicates that, despite capacity investment, the Express Package division reversed a previous downtrend in margins to deliver positive operating leverage in 2Q18. In contrast, and following a strong 1Q18 result, the Information Management division delivered a disappointing decline in margin in 2Q18.

2018 P/E: 20.2 2019 P/E: 18.4

NZX Code:	**FRE**
Share Price:	**$7.60**
12mth Target:	**$7.25**
Projected return (%)	
Capital gain	-4.6%
Dividend yield (Net)	4.7%
Total return	**0.1%**

Rating: NEUTRAL

52-week price range: 7.26-8.19

Genesis Energy

GNE's strategy, comprising three broad initiatives (intended to transform from a yield stock into a "yield + growth" play) can leverage its distinct competitive advantages. But it is trading above underlying value, likely due to strong dividend yield (albeit sustainable over the medium term, based on FNZC's free cash flow modelling).

2018 P/E: 22.8 2019 P/E: 20.3

NZX Code:	**GNE**
Share Price:	**$2.30**
12mth Target:	**$2.16**
Projected return (%)	
Capital gain	-6.1%
Dividend yield (Net)	7.6%
Total return	**1.5%**

Rating: UNDERPERFORM

52-week price range: 2.04-2.62

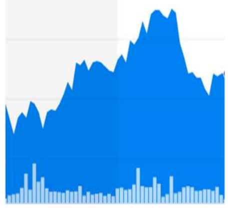
Heartland Bank

HBL's headline 1st Half result was below expectations, especially after the relatively strong growth in net finance receivables HBL achieved in 1Q18. However, HBL noted some one-off factors weighing on the 1st Half result and HBL remains confident in can achieve toward the upper end of its FY18 net profit guidance of $65-$68m, given underlying growth trends in net finance receivables. HBL's medium term growth outlook remains positive with good momentum across its key business areas and HBL initiating a number of smaller growth options that could grow over time.

2018 P/E: 15.1 2019 P/E: 141

NZX Code:	**HBL**
Share Price:	**$1.73**
12mth Target:	**$1.83**
Projected return (%)	
Capital gain	5.8%
Dividend yield (Net)	5.3%
Total return	**11.1%**
Rating: NEUTRAL	
52-week price range: 1.64-2.14	

Infratl

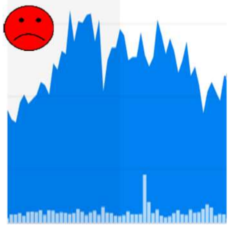


IFT trades at a 9% discount to valuation, in contrast with the long term historical 15% average, but consistent with expectations and recent experience. Applying a 10% trading discount to FNZC's valuation translates into a $3.20 per share target price, partly based on Trustpower and Tilt target prices of $5.33 and $2.27 respectively, and after applying valuation roll-forward for the unlisted assets.

2018 P/E: 31.7 2019 P/E: 22.4

NZX Code:	**IFT**
Share Price:	**$3.11**
12mth Target:	**$3.20**
Projected return (%)	
Capital gain	2.9%
Dividend yield (Net)	5.7%
Total return	**8.6%**
Rating: NEUTRAL	
52-week price range: 2.89-3.37	

Mercury

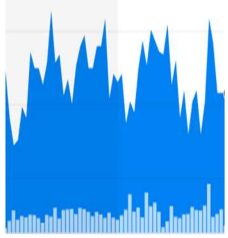


MCY remains an attractive pure-play in renewable generation and retailing, and they think it is the most "bond-like" in the sector. If bond yields rise further, the yield-trade shine may start to tarnish and we'd expect MCY to trade nearer FNZC's estimate of underlying value. It is also potentially exposed to any adverse outcomes from the government's power price review, which may present risks which the market hasn't yet priced in.

2018 P/E: 25.1 2019 P/E: 28.0

NZX Code:	**MCY**
Share Price:	**$3.30**
12mth Target:	**$3.07**
Projected return (%)	
Capital gain	-7.0%
Dividend yield (Net)	5.2%
Total return	**-1.8%**
Rating: UNDERPERFORM	
52-week price range: 3.10-3.60	

Meridian Energy



MEL's NZ earnings prospects look stable. Hydrology exhibits strong mean-reversion, and so expect investors to look beyond this year's inflow sequence impact on FY18. Retail pricing is not expected to decline materially from current levels, but neither is there much hope for price gains in the current environment of strong competition. Australian second round of growth looks well-founded, and international Powershop opportunities will be watched closely.

2018 P/E: 37.5 2019 P/E: 31.7

NZX Code:	**MEL**
Share Price:	**$2.85**
12mth Target:	**$2.83**
Projected return (%)	
Capital gain	-0.9%
Dividend yield (Net)	6.8%
Total return	**5.9%**
Rating: NEUTRAL	
52-week price range: 2.74-3.02	

Metlifecare

FNZC generates a valuation well in excess of MET's share price and continue to view the stock as providing attractive relative value on a strong balance sheet with capacity for growth (no new land acquisitions factored into valuation). Like other operators in the sector, MET is exposed to the housing market, and investors may be waiting to see evidence that MET can hold onto the recent gains in embedded resale bank before taking a more positive view. MET is a longer game.

2018 P/E: 19.6 2019 P/E: 17.5

NZX Code:	**MET**
Share Price:	**$5.96**
12mth Target:	**$7.64**
Projected return (%)	
Capital gain	28.2%
Dividend yield (Net)	2.0%
Total return	**30.2%**
Rating: OUTPERFORM	
52-week price range: 5.23-6.30	

Michael Hill International

Reflecting MHJ's material share price decline (–18%) since FNZC downgraded their rating to NEUTRAL and their assessment of fundamental value they once again upgrade MHJ to OUTPERFORM. While FNZC welcomes the exit from the US business and the repositioning of Emma & Roe,it is important to note that they remain cautious as to the near-term earnings profile for MHJ and the potential for greater than expected ongoing losses in Emma & Roe during the repositioning of the concept.

2018 P/E: 13.9 2019 P/E: 13.4

NZX Code:	**MHJ**
Share Price:	**$1.18**
12mth Target:	**$1.45**
Projected return (%)	
Capital gain	21.8%
Dividend yield (Net)	4.3%
Total return	**26.1%**
Rating: OUTPERFORM	
52-week price range: 1.10-1.50	

NZ Refining

Global refining margins and exchange rate call the tune, but management can whistle a few extra notes. FY17's $220m EBITDAF was $53m above pcp due to a US$1.5/bbl gross refining margin uplift, but also $11m (6%) better than FNZC had expected on a $9m opex beat and $2.9m insurance recovery. $78.5m NPAT was $4.7m, (6%) above their forecast and 66% above the pcp. Net debt fell to $155m, leaving ~$35m headroom to NZR's 20% target gearing ceiling.

2018 P/E: 9.9 2019 P/E: 12.4

NZX Code:	**NZR**
Share Price:	**$2.37**
12mth Target:	**$3.02**
Projected return (%)	
Capital gain	27.4%
Dividend yield (Net)	6.6%
Total return	**34.0%**
Rating: OUTPERFORM	
52-week price range: 2.28-2.67	

NZX

NZX reported FY17 EBITDA of $29.0m. This was driven by a combination of stronger revenue and lower operating costs. The key areas that outperformed expectations were Agri, Trading and Clearing revenues and capitalised staff costs. NZX is adopting a higher dividend pay-out going forward and for now a capital return appears off the table. NZX has the potential for continued earnings growth over the next few years from incremental growth in its core operations, continued growth from Dairy and its Funds business and cost management.

2018 P/E: 17.1 2019 P/E: 16.1

NZX Code:	**NZX**
Share Price:	**$1.08**
12mth Target:	**$1.16**
Projected return (%)	
Capital gain	7.4%
Dividend yield (Net)	6.1%
Total return	**13.5%**
Rating: NEUTRAL	
52-week price range: 1.04-1.24	

Pacific Edge

PEB has developed a suite of molecular diagnostic tests to detect and monitor bladder cancer. It is a leader in this field and is just gaining traction in the key US market. While PEB's investment case is derisking and offers potentially large returns if its tests become accepted within the industry, execution risk and a lack of visibility on key medium and longer-term drivers means PEB remains higher risk.

2018 P/E: n/a 2019 P/E: n/a

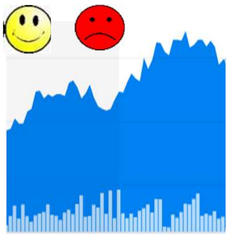
NZX Code:	**PEB**
Share Price:	**$0.37**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	37.0%
Dividend yield (Net)	0.0%
Total return	**37.0%**
Rating: OUTPERFORM	
52-week price range: 0.31-0.59	

PGG Wrightson

FNZC likes PGW's growth strategy which focuses on improving existing business through share gain in segments where PGW is under-represented and on segments and geographies with structural growth opportunities. Key long-term opportunities for PGW include potential for share gain of rural retail supply in the NZ dairy sector, the irrigation sector, as well as seeds and irrigation solutions in Latam, especially in Uruguay. However, it is uncertain how PGW's current strategic review would alter the direction of the company going forward.

2018 P/E: 13.2 2019 P/E: 12.5

NZX Code:	**PGW**
Share Price:	**$0.62**
12mth Target:	**$0.61**
Projected return (%)	
Capital gain	-1.6%
Dividend yield (Net)	6.2%
Total return	**4.6%**
Rating: NEUTRAL	
52-week price range: 0.54-0.64	



Port of Tauranga

FNZC has long held the view that unsustainably low returns earned by international shipping lines on NZ trade routes would force structural change to the container trade industry. Decisions by Maersk and Hamburg Sud over the last 12-18 months to include Tauranga on big ship service rotations, resulting in a step change of increased container volume, signalling that a hub and spoke network strategy is gaining momentum in NZ. They maintain Tauranga can reach their long-term forecast of approximately 58% share of New Zealand container trade volume. Special dividends continue to roll out. **I remain a believer!**

2018 P/E: 35.7 2019 P/E: 33.3

NZX Code:	**POT**
Share Price:	**$4.85**
12mth Target:	**$3.80**
Projected return (%)	
Capital gain	-21.6%
Dividend yield (Net)	2.7%
Total return	**-18.9%**
Rating: ~~UNDERPERFORM~~	
52-week price range: 3.70-5.23	

Scales Corp oration

While still early in the company's apple harvest programme, this current demand supply dynamic is expected to be positive for SCL's volume and pricing outcome in FY18F. In addition, the stronger-than-expected momentum in SCL's Storage and Logistic Division in FY17A has so far also continued into FY18F. For these reasons, FNZC has upgraded their EBITDA forecasts by 3% in each of FY18F-FY20F.

2018 P/E: 16.1 2019 P/E: 15.1

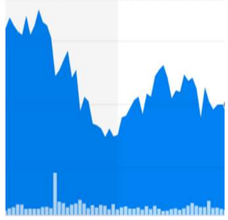
NZX Code:	**SCL**
Share Price:	**$4.52**
12mth Target:	**$5.00**
Projected return (%)	
Capital gain	10.6%
Dividend yield (Net)	4.3%
Total return	**14.9%**
Rating: OUTPERFORM	
52-week price range: 3.21-4.92	

Skellerup Holdings

SKL is a collection of businesses that design, manufacture and distribute plastic and rubber products for dairy and industrial customers. SKL has weathered a slowdown in Mining and Oil & Gas spend and some volatility in dairy prices relatively well. The business is well managed and should show incremental earnings growth over the next few years as it benefits from improved market conditions.

2018 P/E: 14.3 2018 P/E: 13.2

NZX Code:	**SKL**
Share Price:	**$1.80**
12mth Target:	**$1.90**
Projected return (%)	
Capital gain	5.6%
Dividend yield (Net)	6.2%
Total return	**11.8%**
Rating: NEUTRAL	
52-week price range: 1.49-1.95	



Sky City Entertainment

Following a period of underperformance, better value is emerging. Positive revisions to earnings forecasts following better-than-expected cost containment in the 1st Half contribute to FNZC's 12-month price target increasing from $3.60 to $3.75/share.

2018 P/E: 16.5 2018 P/E: 153.7

NZX Code:	**SKC**
Share Price:	**$3.90**
12mth Target:	**$3.75**
Projected return (%)	
Capital gain	-3.8%
Dividend yield (Net)	4.9%
Total return	**1.1%**
Rating: NEUTRAL	
52-week price range: 3.66-4.56	

Sky Network Television

John Fellet, the godfather of pay television in New Zealand, recently announced he would resign later this year after 17 years as Sky TV CEO. Fellet probably left five years too late to retain a spotless legacy but stayed because of his love for the company he built and unbending loyalty to his colleagues. That love and loyalty both helped and harmed Sky TV.

2018 P/E: 8.0 2019 P/E: 11.5

NZX Code:	**SKT**
Share Price:	**$2.35**
12mth Target:	**$2.29**
Projected return (%)	
Capital gain	-2.6%
Dividend yield (Net)	6.6%
Total return	**4.0%**
Rating: NEUTRAL	
52-week price range: 2.06-3.93	

Spark NZ

SPK is executing on its strategy to address the earnings headwinds resulting from ongoing declines in high margin legacy fixed revenues, which remain substantial. This is a multipronged strategy with SPK looking to gain market share in mobile; stabilising retail access and broadband revenues (still difficult in a very competitive market with low barriers to entry); focusing on simplification aimed at taking cost out of the business and making SPK more market responsive; and investing in IT services through acquisition and infrastructure investment.

2018 P/E: 17.2 2019 P/E: 16.0

NZX Code:	**SPK**
Share Price:	**$3.34**
12mth Target:	**$3.17**
Projected return (%)	
Capital gain	-4.9%
Dividend yield (Net)	7.2%
Total return	**2.3%**
Rating: UNDERPERFORM	
52-week price range: 3.28-3.97	

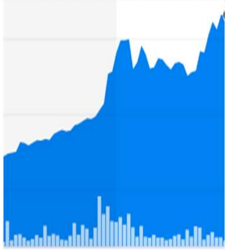
Summerset Group

If market conditions remain supportive and SUM continues to execute well, then it is positioned for growth that can add considerable value relative to its asset base but would be sensitive to a retracement in unit pricing. FNZC views SUM's track record as building and its leverage to growth as stronger than RYM. SUM's still low operating cash flows are a function of its maturity and the value in its older asset base but FNZC saw strong growth in this in FY17. SUM could de-risk the proposition for investors if it bucked a trend set by RYM and recycled equity.

2018 P/E: 34.1 2019 P/E: 28.2

NZX Code:	**SUM**
Share Price:	**$6.94**
12mth Target:	**$7.37**
Projected return (%)	
Capital gain	14.1%
Dividend yield (Net)	2.2%
Total return	**16.3%**
Rating: OUTPERFORM	
52-week price range: 4.60-7.10	

Synlait Milk



SML reported a very strong 1st Half 2018 growth with the positive leverage to a near doubling of finished Infant Formula (IF) volumes on 1H17 expected but SML also generating strong Ingredients margins on a range of factors, some of which SML does not expect to repeat in 2H18 (we note Ingredients margin has an inherently variable nature to it). While SML may be guiding to lower profit in 2H18 because of this, expectations for more finished IF growth in FY19 and beyond mean that the earnings growth outlook remains attractive.

2018 P/E: 22.4 2019 P/E: 19.8

NZX Code:	**SML**
Share Price:	**$8.96**
12mth Target:	**$6.64**
Projected return (%)	
Capital gain	-25.9%
Dividend yield (Net)	0%
Total return	**-25.9%**
Rating: NEUTRAL	
52-week price range: 3.3-9.75	

Tilt Renewables

TLT's existing wind portfolio provides a stable earnings base for investors. Its Australian wind build opportunity is unquestionably large. FNZC's spot valuation for existing windfarm values is $1.89 per share, to which they add an $0.27 per share of option value for potential new Australian windfarms. FNZC believe that TLT could secure roughly $1 per share upside, optimistically up to $2 per share ($0.27 of which is already included in their valuation).

2018 P/E: n/a 2019 P/E: 28.5

NZX Code:	**TLT**
Share Price:	**$1.86**
12mth Target:	**$2.03**
Projected return (%)	
Capital gain	9.1%
Dividend yield (Net)	6.6%
Total return	**157%**
Rating: OUTPERFORM	
52-week price range: 1.78-2.27	

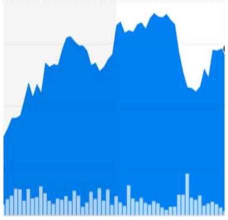
Tourism Holdings

A strong 1st Half NPAT of $21m, driven by strong momentum in NZ Rentals and well-controlled operating costs. FNZC sees a number of arguments (with merit) for excess returns (scale benefits from multi-brand digital strategy, AMLP JV supporting the flex fleet, back-to-back season rentals from UK JV, etc.), but still believes that risks of petrol prices, currency and visitor numbers have not been factored into the currently optimistic share price.

2018 P/E: 18.0 2019 P/E: 16.2

NZX Code:	**THL**
Share Price:	**$6.00**
12mth Target:	**$5.23**
Projected return (%)	
Capital gain	-12.8%
Dividend yield (Net)	4.4%
Total return	**-8.4%**
Rating: UNDERPERFORM	
52-week price range: 3.45-6.30	

Trustpower



Tauranga Electricity Consumer Trust (TECT) has withdrawn its proposal to wind up the current trust after roughly two-thirds of trust beneficiary submissions opposed the plan. 2018 distributions will now revert to previous levels, and FNZC's modelling reverts to their original assumption that TECT arrangements will be retained into the foreseeable future.

2018 P/E: 11.6 2019 P/E: 14.4

NZX Code:	**TPW**
Share Price:	**$5.61**
12mth Target:	**$5.35**
Projected return (%)	
Capital gain	-4.6%
Dividend yield (Net)	7.2%
Total return	**2.6%**
Rating: NEUTRAL	
52-week price range: 4.48-6.05	

Vector

VCT's core regulatory business has a relatively flat earnings profile over the next few years as it looks forward to the 2020 electricity reset to hopefully provide earnings momentum. Near-term earnings growth will be driven by VCT's Technology division and its roll out of smart meters in NZ and Australia. FNZC expects VCT's dividend should incrementally increase each year and to provide a reasonable dividend yield.

2018 P/E: 25.1 2019 P/E: 25.8

NZX Code:	**VCT**
Share Price:	**$3.19**
12mth Target:	**$3.60**
Projected return (%)	
Capital gain	12.9%
Dividend yield (Net)	5.1%
Total return	**18.0%**
Rating: NEUTRAL	
52-week price range: 3.11-3.51	

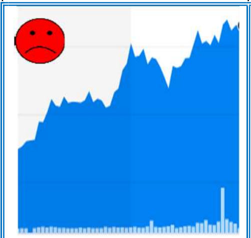
Z Energy

Management has a proven record of delivering operational and strategic gains, with recently launched Strategy 3.0 the main source of earnings growth to FY20. But with "top-of-cycle" retail fuel margins, plus regulatory risk and a "sunset" outlook for liquid fuels, it is hard to muster confidence that large earnings upsides beyond FY20 are waiting in the wings. The largest key strategic options available to ZEL, and flagged since 2010, all appear to have been identified and either successfully executed or underway.

2018 P/E: 12.9 2019 P/E: 12.0

NZX Code:	**ZEL**
Share Price:	**$7.04**
12mth Target:	**$7.70**
Projected return (%)	
Capital gain	9.4%
Dividend yield (Net)	8.0%
Total return	**17.4%**
Rating: NEUTRAL	
52-week price range: 6.80-8.04	

Xero (Australia listing only)



XRO's strategy and execution have impressed in recent years and, looking forward, expect growth to be supported by: (1) dominance of Australasian cloud market; (2) improving UK performance; (3) further margin expansion, thanks to sales & marketing efficiency; along with (4) monetisation of platform services. The challenge from here is finding sources of positive surprise given the significant share price rerating in the last year.

2018 P/E: n/a 2019 P/E: n/a

ASX Code:	**XRO.AX**
Share Price:	**A$34.08**
12mth Target:	**A$31.43**
Projected return (%)	
Capital gain	-7.8%
Dividend yield (Net)	0.0%
Total return	**-7.8%**
Rating: UNDERPERFORM	
52-week range: A18.00-A36.00	

NZ LISTED COMPANIES 3rd April 2018	Ticker	Mrkt Cap	Price 3-Apr-18	Target Price	Price Earnings (x)		Net Yield (%)	
Source: First NZ Capital, CSFB		(NZ$m)	(NZ$)	(NZ$)	FY18	FY19	FY18	FY19
CONSUMER DISCRETIONARY								
Restaurant Brands NZ	RBD	890	7.20	7.15	21.3	19.3	3.4%	3.8%
SKYCITY Entertainment	SKC	2,599	3.82	3.75	15.6	14.9	5.2%	5.2%
Tourism Holdings	THL	759	6.25	5.23	19.0	17.1	3.7%	4.4%
Kathmandu	KMD	536	2.43	2.35	11.6	10.8	5.3%	5.6%
Michael Hill International	MHJ	449	1.23	1.36	13.1	12.6	4.3%	4.3%
NZME Limited	NZM	172	0.88	0.82	6.9	8.0	8.5%	7.4%
Sky Network Television	SKT	876	2.25	2.29	8.0	11.4	6.7%	6.7%
The Warehouse Group	WHS	708	2.04	2.00	13.5	9.7	6.4%	7.8%
Trade Me Group	TME	1,768	4.45	4.42	18.4	16.9	4.6%	5.3%
Turners Automotive	TRA	259	3.05	3.60	10.4	10.1	4.9%	5.2%
CONSUMER STAPLES								
The a2 Milk	ATM	8,971	12.31	12.75	50.7	36.0	0.0%	0.0%
Fonterra Shareholders' Fund	FSF	801	5.88	6.12	12.4	8.8	6.0%	8.0%
Synlait Milk Limited	SML	1,455	8.12	6.64	19.7	17.4	0.0%	0.0%
Comvita Limited	CVT	316	6.94	7.83	17.6	15.1	2.5%	3.0%
Delegat Group	DGL	858	8.48	7.60	20.2	17.6	1.7%	1.8%
Green Cross Health Ltd.	GXH	243	1.70	2.22	12.9	12.2	4.1%	4.1%
New Zealand King Salmon	NZK	299	2.16	2.37	20.3	20.9	3.2%	3.1%
PGG Wrightson	PGW	460	0.61	0.61	13.2	12.5	6.2%	6.2%
Sanford	SAN	696	7.43	8.50	14.9	13.9	3.1%	3.1%
Scales Corporation	SCL	630	4.51	5.00	16.1	15.0	4.2%	4.7%
Tegel	TGH	295	0.83	1.24	8.7	8.5	8.6%	9.4%
ENERGY								
NZ Refining	NZR	719	2.30	3.02	9.5	11.9	6.6%	8.7%
Z Energy	ZEL	2,788	6.97	7.70	13.0	12.1	4.6%	8.0%
FINANCIALS								
Heartland Bank	HBL	975	1.75	1.83	14.3	13.4	5.4%	5.7%
NZX	NZX	290	1.08	1.16	16.8	15.8	5.7%	5.8%
HEALTH CARE								
AFT Pharmaceuticals	AFT	243	2.50	3.09	-21.2	40.4	0.0%	0.0%
Ebos Group	EBO	2,738	17.95	18.45	18.6	17.6	3.8%	4.0%
Fisher & Paykel Healthcare	FPH	7,540	13.20	12.00	39.4	35.3	1.7%	1.9%
Orion Health	OHE	135	0.69	1.01	-4.3	-18.6	0.0%	0.0%
Pacific Edge	PEB	175	0.38	0.50	-12.1	-77.3	0.0%	0.0%
AGED CARE								
Arvida	ARV	488	1.18	1.22	14.3	11.9	4.0%	5.1%
Metlifecare	MET	1,270	5.96	7.64	20.0	17.8	1.7%	2.1%
Oceania Healthcare	OCA	604	0.99	1.06	11.8	11.7	4.7%	5.0%
Ryman Healthcare	RYM	5,240	10.48	8.69	39.1	38.0	1.9%	2.1%
Summerset Group Holdings	SUM	1,555	6.92	7.37	36.5	30.2	2.0%	2.3%
TRANSPOTATION & LOGISTICS								
Air New Zealand	AIR	3,660	3.26	3.00	9.4	10.1	6.7%	6.7%
Auckland Airport	AIA	7,415	6.19	5.30	28.1	27.3	3.6%	3.6%
Freightways	FRE	1,174	7.57	7.25	19.6	17.8	4.0%	4.7%
Mainfreight	MFT	2,485	24.68	21.60	22.1	19.0	1.8%	2.2%
Port of Tauranga	POT	3,333	4.90	3.80	35.0	32.6	2.6%	2.8%
INDUSTRIALS								
Fletcher Building	FBU	4,273	6.13	8.40	-73.7	10.0	0.0%	1.6%
Methven	MVN	78	1.06	1.25	11.4	9.7	7.1%	7.5%
Metro Performance Glass	MPG	137	0.74	1.20	6.3	5.9	8.7%	9.3%
Steel & Tube	STU	182	2.01	2.00	10.0	9.8	7.0%	7.0%
Skellerup Holdings	SKL	347	1.80	1.90	13.6	12.6	6.1%	6.7%
INFORMATION TECHNOLOGY								
Gentrack Group	GTK	567	6.78	6.10	30.7	25.7	2.8%	3.3%
Vista Group International	VGL	471	2.86	2.95	26.3	20.2	1.8%	2.5%
Xero	XRO	4,479	32.35	29.78	-151.5	759.4	0.0%	0.0%
REAL ESTATE								
Argosy Property	ARG	835	1.01	1.08	15.3	15.0	6.1%	6.1%
Augusta Capital	AUG	93	1.06	1.11	14.5	14.5	5.2%	5.2%
Goodman Property Trust	GMT	1,713	1.33	1.30	17.0	16.7	5.0%	5.0%
Investore Property	IPL	366	1.40	1.48	17.8	16.8	5.3%	5.6%
Kiwi Property Group	KPG	1,932	1.36	1.43	18.7	18.2	5.0%	5.1%
NPT Limited	NPT	95	0.59	0.69	15.7	16.1	6.2%	6.2%
Precinct Properties	PCT	1,544	1.28	1.32	20.2	19.4	4.5%	4.7%
Property for Industry	PFI	823	1.65	1.64	19.6	19.0	4.6%	4.7%
Stride Property Group	SPG	624	1.71	1.90	16.3	16.7	5.8%	5.8%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,682	3.96	4.12	19.7	35.8	5.6%	5.6%
Spark NZ	SPK	6,230	3.40	3.17	16.2	15.1	7.4%	7.4%
UTILITIES								
Contact Energy	CEN	3,760	5.25	6.50	24.8	19.4	6.1%	7.7%
Genesis Energy	GNE	2,370	2.37	2.16	22.8	20.3	7.2%	7.6%
Infratil	IFT	1,740	3.11	3.20	32.1	22.7	5.4%	5.7%
Mercury	MCY	4,450	3.23	3.07	25.3	28.1	5.2%	5.2%
Meridian Energy	MEL	7,356	2.87	2.83	37.8	32.0	6.7%	6.8%
TILT Renewables	TLT	533	1.81	2.03	n/a	26.0	3.0%	6.7%
TrustPower	TPW	1,800	5.75	5.35	12.8	16.0	6.6%	6.5%
Vector	VCT	3,210	3.21	3.60	24.4	25.1	5.1%	5.3%
Market Average*					**17.5**	**17.6**	**4.4%**	**4.8%**
PE ratios exclude: AFT, ERD, FBU, OHE, PEB, TLT								

FNZC New Zealand Equities Recommendations 3-April-2018

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

FNZC AUSTRALIAN EQUITIES RECOMMENDATIONS 3-APRIL-2018

AUSTRALIA	UNDERPERFORM	NEUTRAL	OUTPERFORM
Hotels, Restaurants	Flight Centre (FLT)	Domino's Pizza (DMP) Aristocrat Leisure (ALL) Crown (CWN) Star Entertainment (SGR)	Tabcorp (TAH)
IT Services		Computershare (CPU) Link Administration Holdings (LNK)	
Media		Fairfax Media (FXJ)	
Retail	JB Hi-Fi (JBH)	Harvey Norman (HVN) Woolworths (WOW)	Wesfarmers (WES)
Beverages	Treasury Wine (TWE)		Coca-Cola Aml (CCL)
Food			The a2 Milk Company (A2M) Graincorp (GNC) Perpetual (PPT)
Oil & Gas	Woodside Petroleum (WPL)	Oil Search (OSH)	Caltex Aust (CTX) Origin Energy (ORG) Santos Ltd (STO)
Financials	ASX (ASX)	BT Investment Management (BTT) Janus Henderson Group (JHG) Bank of Queensland (BOQ) ANZ Banking Group (ANZ) Commonwealth Bank Aust (CBA) Bendigo and Adelaide Bank (BEN) Westpac (WBC) Challenger (CGF)	AMP Limited (AMP) Clydesdale Bank (CYB) IOOF Holdings (IFL) Macquarie Group (MQG) Magellan Financial (MFG) National Australia Bank (NAB)
Insurance		Insurance Australia (IAG) Medibank Private Limited (MPL) QBE Insurance Group (QBE)	Suncorp Group Limited (SUN)
Healthcare	Ansell Limited (ANN)	Cochlear (COH) Ramsay Health Care (RHC) ResMed Inc. (RMD) Sonic Healthcare (SHL)	CSL (CSL)
Industrials	Seek (SEK)	Downer EDI (DOW)	Brambles (BXB)
Chemicals & Materials	Incitec Pivot (IPL)	Orora (ORA) Amcor (AMC) Adelaide Brighton (ABC) Dulux Group (DLX) Orica (ORI) CSR (CSR)	James Hardie Industries (JHX) Boral (BLD)
Metals & Mining	Newcrest Mining (NCM) Northern Star Res (NST) OZ Minerals (OZL)	Alumina Limited (AWC) BHP Billiton (BHP) Evolution Mining Limited (EVN) South 32 (S32)	BlueScope Steel (BSL) Fortescue Metals Group (FMG) Iluka Resources (ILU) Ro Tinto (RIO)
Transportation	Qube Holdings (QUB) Sydney Airport (SYD)		Transurban (TCL.AX) Macquarie Atlas (MQA) Qantas (QAN)
Building Products	CIMIC Group (CIM)		
Software	carsales.com.au (CAR)	REA Group (REA)	
Property	Dexus Property Group (DXS) Charter Hall Group (CHC)	Investa Office Fund (IOF) Goodman Group (GMG) Vicinity Centres (VCX)	GPT Group (GPT) Lend Lease (LLC) Mirvac Group (MGR) Scentre Group (SCG) Stockland (SGP) Westfield Corporation (WFD)
Telecom	TPG Telecom (TPM)		Telstra Corporation (TLS)
Energy	APA Group (APA)	AusNet Services (AST) Spark Infrastructure (SKI)	AGL Energy (AGL)

IS THE TECH BUBBLE READY TO BURST AGAIN?

SOURCE: NZ Herald 19 March 2018

We are deep into the tech bubble now. I remember the feeling from last time. It is like missing a train — a sense that everyone else is going somewhere extremely important and you're missing out.

You can see this bubble in crypto-currencies and the stock market most clearly. The companies they call FANG — Facebook, Amazon, Netflix and Google — have swollen like rivers in flood.

Google (now officially called Alphabet) is the grandpa of the group. Its stock has gone up from $400 to $1200 in the past five years. A very rapid tripling, but not so impressive compared to the rest.

Amazon has gone from $260 a share to $1600 — a sixfold increase in five years. Facebook has gone from $26 to $181 — a near sevenfold jump.

Netflix though takes the prize for growth, shooting up from $26 to $320 in five years — a more than twelve-fold increase.

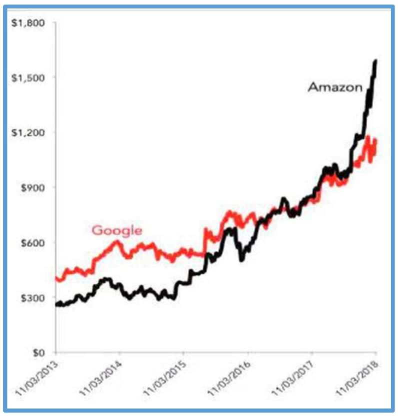
As you can see on the charts, Amazon and Netflix shot up especially fast especially recently. What's interesting is they are not the ones making lots of money. While Google and Facebook made $28.5 billion in profit last year between them, Amazon and Netflix made $3.5 billion.

People are buying these stocks not because of where they're at, but where they think the companies are going. They expect a future where Netflix and Amazon are dominant.

This is the basis of the bubble. Expectations. It is driven by hope for the future and fear of missing out. Investors are all trying to get in early for companies they think will rule the world in a few years. While that might be possible for a company like Amazon, the bubble is much broader than just it. It includes hundreds of listed companies, cryptocurrencies like Bitcoin, and more besides.

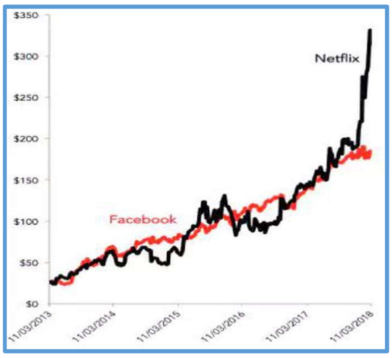
Any signs of trouble in paradise?

In theory, everybody knows tech companies and cryptocurrencies can go rotten. Savvy investors have watched dozens of heavily hyped Next Big Things fail or fall short.



Groupon is probably the best example. Turns out group buying websites were something of a fad.

People were excited by Twitter and Zynga too. Twitter had lost two-thirds of its value until the US President took to the service with gusto, giving its stock price a bump. Mobile games maker Zynga, meanwhile, has gone nowhere fast.



The situation at the moment is that interest rates are so low, and loans so freely available, that companies have little pressure to stop borrowing money and start making it. Companies with scant chance of dominance can still float onward, losing money each year. The absence of crushing insolvency creates the impression that the future is still bright.

Bigger

This tech bubble, though, is even bigger than it seems. It is not just about stock price speculation or expectations of future earnings at a few companies. It is about a major shift in belief in technology.

We are at a point in history where many people hold extreme views about the future, both good and bad. Just about everybody seems willing to believe the world will be changed completely, quickly and easily, thanks to technology.

Suddenly people are taking seriously all the following ideas:

- Plans to colonise Mars;
- Driverless cars taking over our cities within just a few years;
- Flying cars;
- Robots putting practically everybody out of work;
- Artificial intelligence becoming so powerful it destroys us;
- Cryogenics letting us come back from the dead;
- Crypto-currencies taking over from money.

This is not just about people speculating on the future of a few companies. This is about believing the life of humans is about to change faster than ever before in human history. It is like a belief that we're living through the agricultural revolution, the Renaissance and the Industrial revolution all at once — and all in fast forward.

Why so credulous?

Why do we suddenly believe technology will remake the future so utterly and swiftly? Partly because of a cognitive bias called the recency bias. We remember the recent past much better than the time before it. And in the recent past, technology has wreaked havoc on modern life. You're reading this on a website that didn't exist before 20 years ago.

In the past 20 years, the world has changed a lot. And technology has been a big part of it. But that doesn't mean technology can change everything. The personal computing technology we all interact with daily has made it very obvious to us that technology can change very fast.

But this is a classic case of selection bias. If we try to measure the pace of technology by looking at the things that are changing very fast, we will get the wrong picture. We need to look elsewhere too.

If you tried to measure the pace of technology by looking at commercial aviation, say, what you'd discover is a lack of obvious progress. We used to have supersonic commercial aviation, but nowadays most of us fly around in Airbus A320s (a plane launched in the 1980s) and Boeing 737s (a plane first launched in the 1960s).

You can get a similarly glum feeling if you look at progress in fighting Alzheimers disease or Multiple Sclerosis. There hasn't been any, despite a huge amount of effort. Likewise, with the common cold — and we seem to be losing the battle against bacteria as they develop antibiotic resistance.

I don't mean to say that technology won't change. It can and surely will. Just to say that there is a certain wildness to the predictions of the future at the moment. People seem willing to believe just about anything, so long as it has a technology angle.

When the bubble finally pops, it will take with it not only the valuations of some of the biggest technology companies, but also a lot of utopian visions of the future.

NEW ZEALAND FIXED INTEREST - BONDS

Issuer	Code	Rating	Type	Maturity	Coupon	Yield	Margin to	Minimum	Price/$100	Frequency
Z Energy Ltd	ZEL020	NR	Snr	15/08/2018	7.25%	**3.45%**	150	$5,000	$102.14	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	**5.05%**	299	$2,000	$100.35	2
Fletcher Building	FBI130	NR	Cap	15/03/2019	6.45%	**5.05%**	299	$5,000	$101.36	2
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	**3.90%**	178	$10,000	$104.57	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	**4.02%**	184	$5,000	$106.60	4
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	**4.00%**	180	$5,000	$104.40	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	**3.95%**	172	$5,000	$109.04	4
Fletcher Building	FBI140	NR	Cap	15/03/2020	5.80%	**5.00%**	276	$5,000	$101.51	2
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	**3.28%**	90	$5,000	$109.15	2
Bank of New Zealand	BNZ090	BBB+	Tier 2	17/12/2020	5.31%	**3.97%**	159	$5,000	$104.81	4
Fletcher Building	FBI150	NR	Cap	15/03/2021	4.75%	**5.00%**	258	$5,000	$99.32	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	**4.82%**	239	$5,000	$106.89	4
Fonterra Co-operative Group	FCG030	A-	Snr	20/10/2021	4.33%	**3.15%**	63	$5,000	$105.73	2
Z Energy Ltd	ZEL040	NR	Snr	1/11/2021	4.01%	**3.90%**	138	$5,000	$0.00	4
Precinct Properties Limited	PCT010	NR	Snr	17/12/2021	5.54%	**3.73%**	119	$5,000	$107.62	2
Fletcher Building	FBI160	NR	Cap	15/03/2022	5.00%	**5.00%**	242	$5,000	$100.00	2
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	**4.40%**	178	$5,000	$111.18	4
Genesis Power Limited	GNE040	BB+	Capital	9/06/2022	5.70%	**4.20%**	158	$5,000	$107.33	4
Goodman Property Trust	GMB030	BBB+	Snr	23/06/2022	5.00%	**3.66%**	104	$5,000	$106.38	2
Heartland Bank	HBL010	BBB	Snr	21/09/2022	4.50%	**3.84%**	118	$5,000	$104.91	2
Sky City Bond	SKC040	BBB-	Snr	28/09/2022	4.65%	**4.00%**	134	$5,000	$104.85	4
Air New Zealand Limited	AIR020	NR	Snr	28/10/2022	4.25%	**3.85%**	118	$5,000	$103.28	2
Contact Energy Limited	CEN040	BBB	Snr	15/11/2022	4.63%	**3.66%**	98	$5,000	$105.67	4
Trustpower	TPW150	NR	Snr	15/12/2022	4.01%	**3.98%**	129	$5,000	$101.13	4

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