Bay Brokers Limited

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

Investment Strategies

Volume 13

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A growing discontent

Discontent is a global phenomenon, and New Zealand is not immune. The Trump movement is just a sign of the times – globally we have lost trust in our politicians ability to both keep us safe, and to tell us the truth.

As a nation, New Zealanders are becoming increasingly frustrated by race-based agendas within Central Government, and its inability to address tax manipulation by multinationals, allowing them to "legally" (but not morally) defraud New Zealanders out of their fair share of the tax burden.

Our John Key lead Government needs to recognise this rise in discontent, if it is to win a fourth term in 2017. We might worry about the Zeka virus, but we are breeding a fertile ground for popularists like Winston Peters, who the "haters" love to proclaim as New Zealand's Messiah.

We are now very much a multicultural society, and you only have to walk down Queen Street in Auckland to see this. We have to be inclusive, but that doesn't mean that we have to pander to the left to retain power. Maoridom must learn that we are all New Zealanders, and we all care about our environment. We all love this land, and at the end of the day we are all immigrants. Let's embrace our future together.

Markets – the year so far

- 2016 started negatively for most markets, with commodities leading risky assets down, while government bonds benefited from the flight to safety. Since then markets have begun to recover, but volatility seems to be the new norm for 2016.
- Worries about China's economy, poor numbers from leading manufacturing surveys in the USA and growing geopolitical tensions were the main factors explaining the risk-off environment.
- We continue to prefer equities over bonds, and given recent weakness are becoming more inclined to 'buy the dip' on equities in the current volatile environment.

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New Zealand Superannuation Fund

CEO - Adrian Orr

This $30 billion is the best performing sovereign wealth fund over the past five years, generating returns of more than 17 per cent a year. Those returns easily beat all other sovereign wealth funds that publish their figures, according to a global study by JP Morgan.

In the last three years alone, the fund returned an average of 21 per cent a year. Super Fund Chief Investment Officer Matt Whineray said "*Our board has chosen to take a reasonable amount of risk in the portfolio, but the period we have gone through has seen us return ahead of expectations because markets have been very strong*," he said, since the depths of the global financial crisis.

But the fund had also made better returns than they would have seen with a benchmark portfolio. A "chunk" of the strong performance reflected a generally rising tide for shares, with a benchmark portfolio which had risen about 15 per cent a year in the past three years, while the Super Fund had achieved 18.8 per cent.

Fixed income markets were "very expensive" and some share markets were also "fair value or above fair value" and few were "obviously cheap" he said. The portfolio is spread around the world, mainly in the United States and Europe, but with 14% or so in New Zealand, including both shares, forests and farms.

One of the fund's standout performers in the past year has been listed petrol company Z Energy, with its shares up 56 per cent. The Super Fund holds 20 per cent of Z. Farms and forests had done well, but they were lower risk and hard to compare with global shares. But with both dairy and log prices down heavily in the past year, lower returns were expected in the future. "*We have not been actively acquiring dairy farms in the past couple of years, because we have struggled to see value. But in the longer term we think both (farms and forests) are good diversifiers for us*," Whineray said.

The so called "Cullen Fund" was set up in 2003 to help pay for the retirement of a legion of baby boomers, but government contributions stopped in 2009 and are not expected to resume till about 2020 once government debt levels have fallen further.

If government contributions to the NZ Super Fund had not been suspended, the fund would be worth an estimated $47 billion, 58 per cent more than it is now. There was political agreement about the need to re-start contributions to the fund, but different views on the timing of that.

The second-best wealth fund around the world was GIC, the Government of Singapore Investment Corp, which had annualised returns of 12.4 per cent and has a similarly long-term investment horizon.

NZ Superannuation Fund - Where is the money?

The fund's investment strategy is tilted toward riskier growth assets, meaning its monthly performance can jump up and down. About 14 per cent of the fund's investments are in New Zealand.

Top New Zealand listed stocks held include Z Energy (shares worth $418m), Metlifecare ($205m), Fletcher Building ($143m), F&P Healthcare ($116.7m), Meridian Energy ($105.6m). Top holdings in international companies include Apple, ($190m) Zurich Airport, ($125m) Microsoft ($91m) and ExxonMobil ($90.8m).

NZ Super Fund has a 20 per cent holding in Z Energy which has been a stellar performer, with its shares up 56 per cent in a year. New Zealand investments in the super fund are worth almost $4 billion or more than 14 per cent of the overall portfolio.

The fund had received contributions worth $14.88b from the taxpayer since it was set up. It made total returns of more than $19 billion since starting, and paid out $4.6 billion in tax.

New Zealand versus Australia

New Zealand is surpassing Australia on virtually all measures. One of the most significant Australasian developments in the past 12 months has been New Zealand's population growth of 2.1% compared with 1.4% in Australia. This is a reversal of previous trends. In the early 2000s New Zealand's population struggled to grow by more than 1 per cent per annum while Australia's population regularly grew by more than 1.5%. One of the main reasons for this was the large number of New Zealanders who crossed the Tasman looking for higher-paid work. In the past year to 29th February New Zealand had a record net migration, with a net gain of 67,400. Net migration from Australia was a gain of 1,600, the highest since 1991, and the fifth straight month of annual gains.

The latest economic statistics, including the Gross Domestic Product (GDP) figures released in March continue to show the New Zealand economy is outperforming Australia.

The simple reason for this is that since the end of 2012 the New Zealand economy has created 10.1% more jobs whereas the Australian economy has created only 4.2% more employment. In addition, New Zealand has an unemployment rate of only 5.3% at present compared with 5.8% in Australia. The RBNZ is projecting that the country's unemployment rate will fall to 4.9% by 2018.

This largely explains why New Zealand is experiencing a strong net migration inflow and a buoyant residential property market. Our dairy industry is in a deep slump but it has not yet had an impact on the rest of the economy and there are few dark clouds, either overhead or on the horizon. The domestic economy has grown for 11 consecutive quarters. This is the longest sustained period of economic growth in New Zealand since the period between the June 1998 and September 2005 quarters when the economy recorded 30 consecutive quarters of economic growth.

The other important economic statistic is New Zealand's balance of payments or current account, which measures all of New Zealand's international receipts and payments. New Zealand has traditionally had a current account deficit but the good news is that the annual deficit has fallen from nearly $15 billion in 2008 to under $7 billion in the latest calendar year. Any current account deficit in excess of 5% of GDP is considered to be a problem and the country's current account to GDP ratio was nearly 8% in 2008.

Comparatives - New Zealand v Australia

	PERIOD	AUSTRALIA	NEW ZEALAND
GDP Growth	Dec 2015 Qtr	0.6%	0.9%
Current Acc as % of GDP	2015 year	-4.6%	-3.1%
Population Growth	Last 12 months	1.4%	2.1%
Unemployment	Latest	5.8%	5.3%
Inflation	2015 year	1.5%	0.1%
Reserve Bank cash rate	Latest	2.00%	2.25%
Sharemarket	Since 31/12/14	14%	18.1%

SOURCE: NZ Herald

Australia is lagging behind New Zealand at present but it still has massive natural resources and has the potential to pick up quickly again, particularly when it has better political leadership and stability.

Statistics NZ Data

Next Census due: 2018

Population

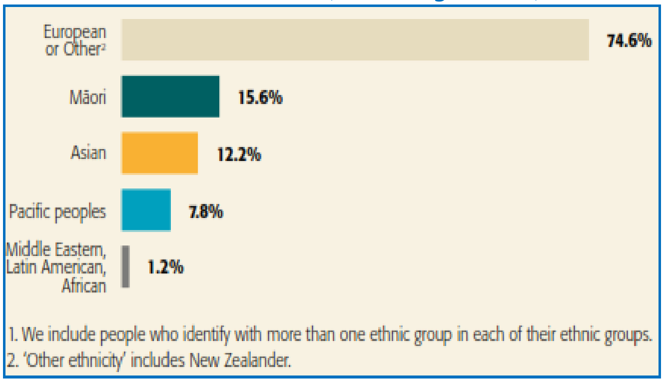
Estimated population at 31 Dec 2015: 4,649,700
Births Dec 2015 year (Dec 14): (57,242) 61,038
Deaths Dec 2015 year (Dec 14): (31,063) 31,608
Net migration Feb 2016 year (Feb 15): (55,121) 67,391

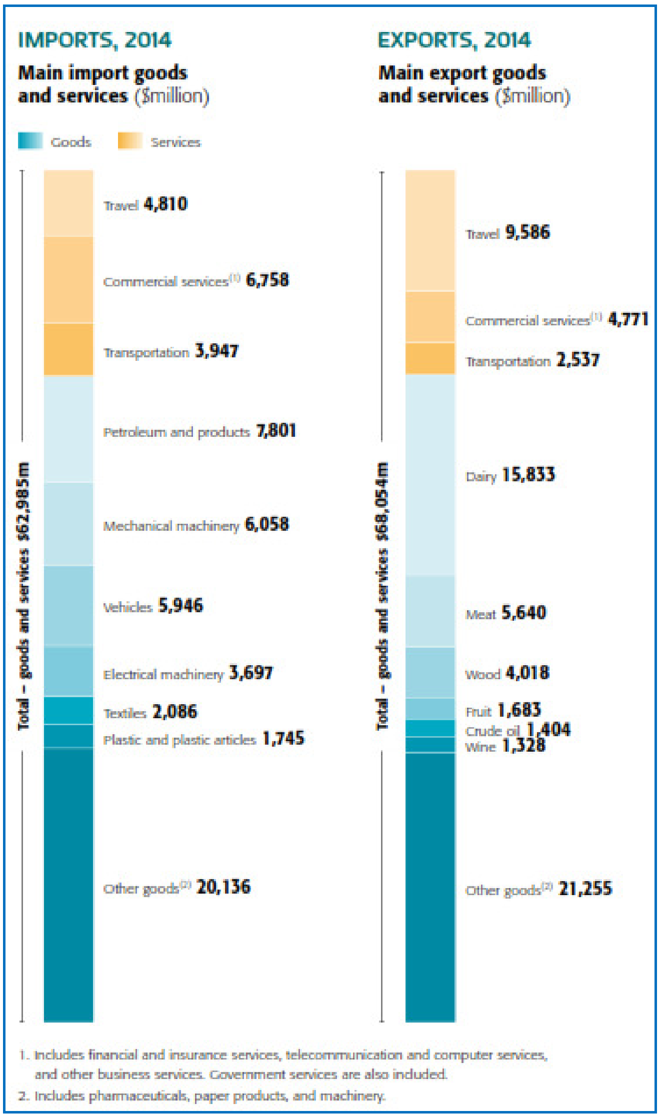
Employment

Total employed Dec 2015 quarter: 2,369,000
Unemployment rate Dec 2015 quarter: 5.3%
Ave weekly earnings Dec 2015 quarter: $1,135.68
Wage inflation Dec 2015 year (Dec 14): (1.8%) 1.5%
Cost Price Index for 2015 (-0.5% for Dec qtr) 0.1%

International Position Dec Quarter: **-$151.16 Billion**
GDP per capita year ended Dec 2015 **$53,496**
GDP Growth for 2015 (+0.9% for Dec Qtr) **2.5%**
Visitor arrivals in February 2016 **373,376**

ETHNIC GROUPS (as at 2013 Census)





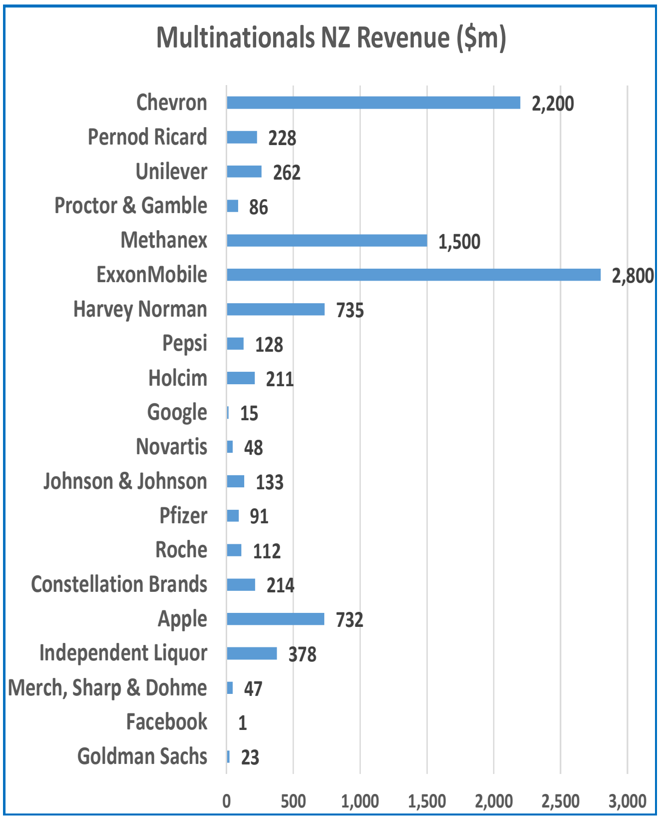
Top Multinationals pay almost no tax in New Zealand

A recent NZ *Herald* investigation has found the 20 multinational companies most aggressive in shifting profits out of New Zealand overall paid virtually no income tax, despite recording nearly $10 billion in annual sales to Kiwi consumers.

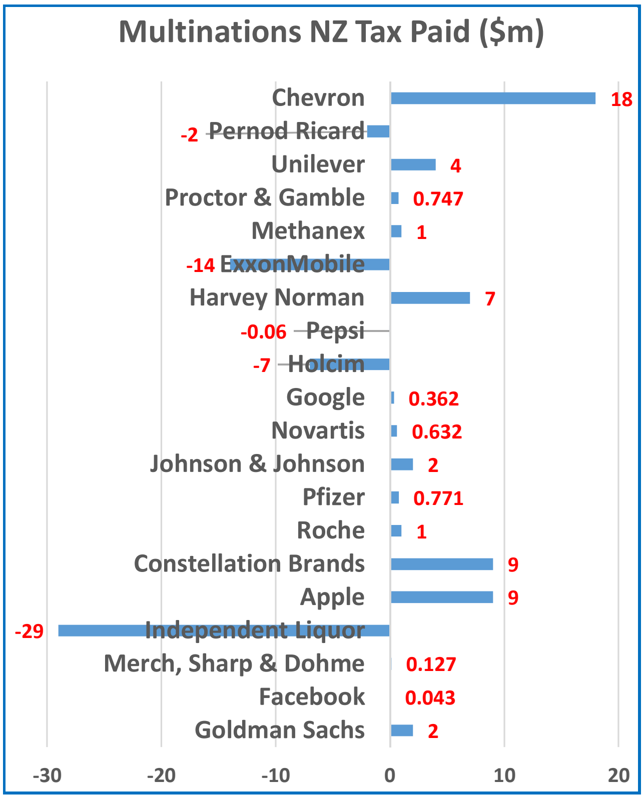
New Zealand's problem is that its Corporate Tax rate (28%) is not competitive with Singapore (at 17.5%) and even lower Ireland (at 12.5%). These rates encourage offshore corporates to use these as their tax base, and charge minimal margins to countries like New Zealand. If we are to genuinely compete for substantive (and NZ Inc beneficial) offshore investment, then we must address our current corporate tax rate.

The analysis of financial information of more than 100 multinational corporations and their New Zealand subsidiaries showed that, had the New Zealand branches of these 20 firms reported profits at the same healthy rate as their parents, their combined income tax bill would have been nearly $490 million.

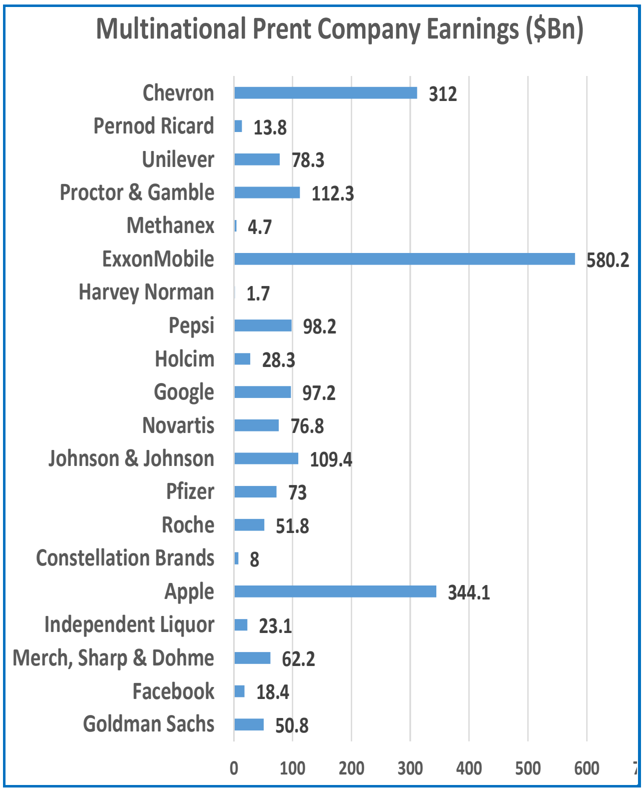
The 103 companies recorded $67b in annual revenues, accounting for 30 per cent of New Zealand's gross domestic product, and the dataset appears to be one of the most comprehensive of its kind. Using Deloitte's top-200 list of New Zealand biggest firms as a starting point, augmented with the addition of subsidiaries of the worlds' largest listed companies and high-profile players from offshore debates about the subject, the Herald identified 103 local companies whose performance could be directly compared with the audited accounts of their listed parent.



But according to their most-recent accounts filed with the Companies Office, most covering the 2014 calendar year, these 20 companies overall paid just $1.8m in income taxes after several claimed tens of millions of dollars in tax deferments and losses.



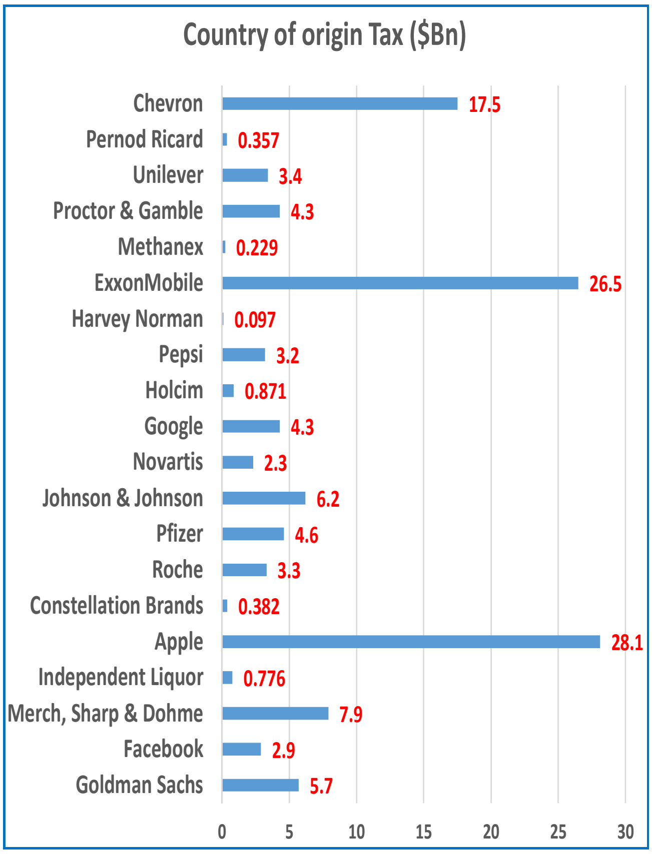
NOTE: Negative income taxes represent a benefit, usually gained from making losses, which can be used to reduce tax payments in future years.



Pfizer and Pernod Ricard, said they followed New Zealand laws and differences in profitability between its

New Zealand operations and elsewhere were the results of different business models.

The tax gap between companies reporting meagre profits in New Zealand while claiming huge profits offshore has sparked calls from Opposition MPs for the government to follow the lead of Australia and the United Kingdom and crackdown on illegitimate profit-shifting.



Last year the Australian Tax Office generated A$1 billion in additional tax revenue after targeting 30 companies from the pharmaceutical, energy and technology sectors - collectively known as the "Dirty Thirty" - suspected of large-scale profit-shifting.

The twenty companies identified by the *Herald* with the largest difference in profitability rates are dominated by firms in similar industries, ranging from the well-known, such as Apple, to under-the-radar methanol producer Methanex.

Of those companies who responded to questions, all insisted they were meeting their legal obligations. Several pointed to their New Zealand operations being almost solely as distributors, with the vast majority of their employment, research and manufacturing taking place offshore.

Apple, Google and Methanex

iPhone maker and music retailer Apple Inc is one of the most profitable companies in the world, but an *Herald* analysis of its accounts shows its New Zealand operation appears to barely break even.

Apple Inc's New Zealand subsidiary Apple Sales New Zealand recorded $732 million in sales for the year, up nearly a third from 2014. But despite this stellar growth in sales the company reported relatively meagre profit margins here of only 3.6 percent, after its parent billed $702m for costs of goods sold.

That transaction led to the subsidiary reported profits of only $17.8m, leading to a mere $8.8m being paid in income taxes to Inland Revenue.

Meanwhile, according to filings with the United States' Securities and Exchange Commission, Apple Inc during the same period reported the world's second-largest corporate profit ever with margins of 31 per cent.

Had its New Zealand operation reported profits at a similar level to that of its New York Stock Exchange-listed parent, its tax bill would have been $64m.

Internet services and search provider Google had a similar story to tell in its accounts, reporting $14.9m in revenues but a cost of goods charge of $14.4m - 97 per cent of revenue. This left it with profits before tax of just $521,795 and an income tax bill of $361,542.

A Google spokesman said the company complied with tax laws in New Zealand and stressed an aversion to unilateral action by governments seeking to combat a problem it believe required a global solution.

"We believe international forums like the OECD are the right places to decide tax rules for multinational businesses because everyone would benefit from a simpler and more transparent system," the spokesman said.

Methanex, the Taranaki-centred methanol producer, reported revenues of $1.5b and pre-tax profits of $105.2m, but income taxes of just over $1m.

Their financial reports filed with the Companies Office show their tax bill was heavily reduced by prior tax losses. A year earlier, with similar revenues and pre-tax profits, their tax bill was only $740,000.

The bottom line is that the current Government needs to give priority to this issue. This is not an issue that will go away, and New Zealanders deserve a fair and equitable tax system.

New Zealand Legislation

Trans Pacific Partnership – the facts

TPP includes 12 countries with 800 million consumers that generate around 36 per cent of the world's GDP. TPP is New Zealand's first FTA relationship with the United States, Japan, Canada, Mexico and Peru. Over $12 billion of goods and services are currently exported to these five countries. The United States is the biggest economy in the world and Japan is the third-biggest. Under TPP, we have huge wins in horticulture, forestry, wine, meat, and dairy. Less well-known are the opportunities TPP presents for Kiwi companies to win government contracts overseas, while keeping the jobs in New Zealand.

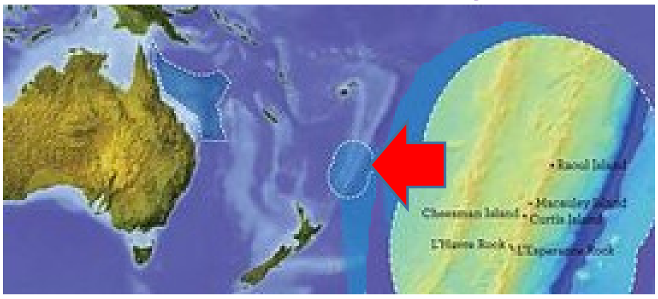
Tariffs on New Zealand exports to TPP countries will be eliminated, apart from beef exports into Japan (where tariffs will reduce significantly) and a number of dairy exports into the United States, Japan, Mexico and Canada. On current trade volumes, this amounts to tariff savings of $259 million a year once TPP is fully implemented. New Zealand will, in turn, have to remove $20 million a year of tariffs on imports from TPP countries. The full benefit of TPP is estimated to be at least $2.7 billion a year extra in New Zealand's GDP by 2030.

	NZ exports to TPP markets in 2014	Estimated annual tariff savings when fully implemented
Meat	$2.3 billion	$72 million
Dairy	$4.6 billion	$102 million
Fruit and vegetables	$1.2 billion	$26 million
Other agricultural goods	$1.6 billion	$18 million
Forestry	$1.5 billion	$9 million
Wine	$839 million	$10 million
Fish and fish products	$564 million	$8 million
Wool, leather and textiles	$621 million	$4 million
Manufactured goods	$7 billion	$10 million
Total	**$20.1 billion**	**$259 million**

TPP sets high standards in many areas. New Zealand is already an open, transparent and trade-friendly country, which means only a fraction of TPP's obligations will require changes to New Zealand's current practices. The only significant cost comes from extending New Zealand's copyright period from 50 to 70 years. This cost – in terms of foregone savings on books, films, music and other works – increases gradually over 20 years and averages around $55 million a year over the very long term. Other potentially far-reaching proposals raised earlier in the negotiations were not included in the final deal. Consumers will not pay more for subsidised medicines as a result of TPP and few additional costs are expected for the Government in the area of pharmaceuticals. There will also be no change to the PHARMAC model and a range of concerns around changes to copyright law have been allayed. As a result, TPP is overall a very positive agreement for New Zealand.

It doesn't come into force until it is ratified, not only by us but by enough of the eleven other countries to add up to 85% of our combined national income (GNP). If the US or Japan don't sign, it is unlikely to go ahead. Even if they all do ratify it won't come into force until early 2018.

Kermadec Ocean Sanctuary Bill



Legislation to establish one of the world's largest and most significant fully-protected ocean areas in New Zealand's Exclusive Economic Zone (EEZ) has been introduced. The Kermadec Ocean Sanctuary will extend out to the 200 nautical mile limit covering 620,000 square kilometres, or 15 per cent of New Zealand's EEZ. This is twice the size of our landmass, and 50 times the size of our largest national park. It is 35 times larger than the combined area of New Zealand's existing marine reserves.

There is nowhere else in New Zealand's EEZ where you find such a range of tropical, sub-tropical, and temperate species of fish, birds, and marine mammals co-existing together. The area is home to over six million seabirds of 39 different species, ranging from tiny storm petrels to large wandering albatrosses. The aim is for the sanctuary to come into effect on 1 November this year.

Unfortunately Maori fisheries trust Te Ohu Kaimoana has filed proceedings against the Government in the Wellington High Court because the proposed

620,000km² no-take zone northeast of New Zealand would "extinguish" customary and commercial fishing rights. This is on the basis that Iwi wasn't consulted on its establishment. Iwi interests have not fished this area in the last decade, and their objection is extremely questionable. Government is proposing compensating Iwi for just $187,000 worth of lost quota. This indicates the interest that Iwi have in the Kermadec Ocean. What a shame that such a worthwhile proposition, that has all Parliamentary Party support, should be forced to court.

Proceeds of Crime

Criminal cash and assets worth around $382 million have been seized since we passed a law in 2009 to enable Police to confiscate the proceeds of crime. Criminals and gangs are making millions every year peddling drugs and committing crimes.

National is determined to put these criminals out of business. Taking away the profits of their crime is a great place to start. Since National's Criminal Proceeds (Recovery) Act came into effect, $382 million worth of assets has been restrained with $85 million forfeited to the Government. Recovered funds are used to fund law enforcement initiatives.

The new Gang Intelligence Centre is now supporting these efforts by gathering and compiling intelligence and feeding it to Police, Customs, and other agencies to support the fight against organised crime.

Domestic Violence

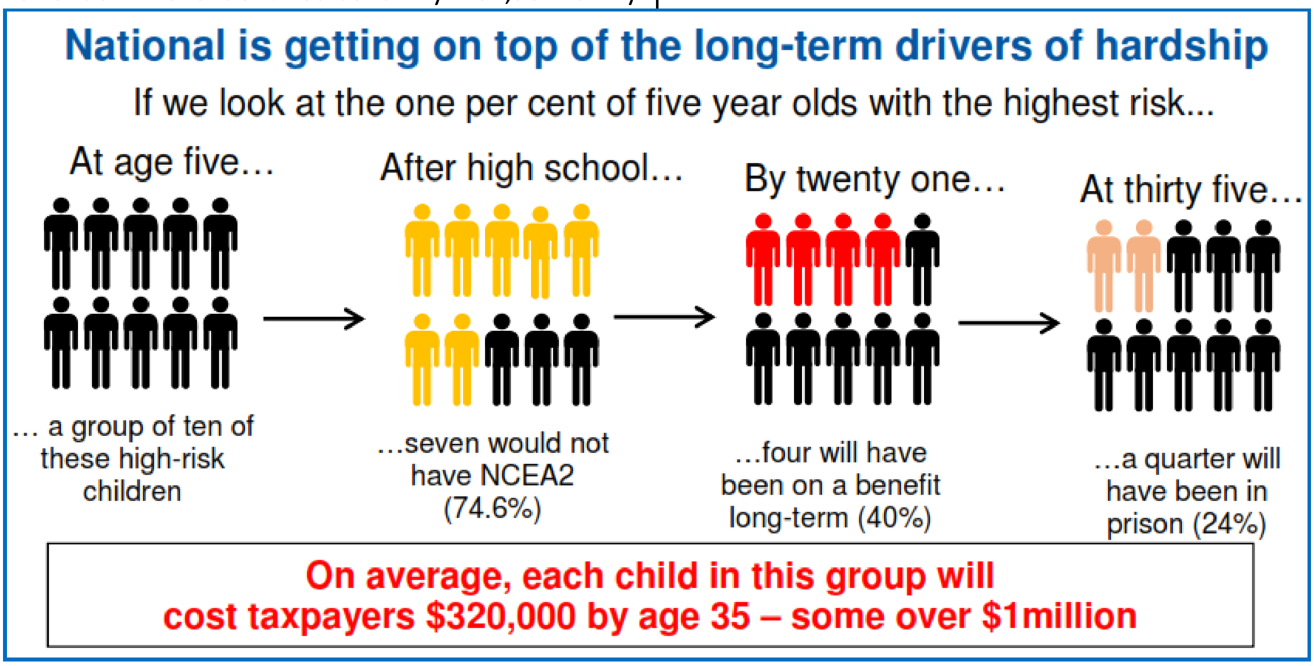
Family violence is estimated to cost this country between $4.1bn and $7bn each year, and NZ Police recorded a family violence investigation on average every five and a half minutes in 2014. 76% of family violence incidents are NOT reported to Police. About half of all homicides in New Zealand are committed by an offender who is identified as family. 101,981 family violence investigations were recorded by NZ Police in 2014, up 7% from 95,101 in 2013. This is a huge issue, with no easy quick fix.

Maori violence

Maori make up 15.6% of our New Zealand population, and yet make up 53% of our prison population. This includes 50% of the male prison population being Maori, and 63% of the Female prison population. Five years after being released from prison, 77% of Maori are convicted again, and 58% are back in prison. These statistics are appalling, and yet we seem (as a society) to refuse to face up to the primary driver of this criminal activity.

The reality is that violence is endemic in too many Maori households. Maori pride themselves in their warrior heritage, and while there is lots to be proud of within their heritage, the "once were warriors" mentality is nothing to be proud of. Pakeha New Zealanders can't change this – Maoridom has to do it themselves; and the first thing that they need to do is acknowledge the problem, and take ownership of the solutions. Maori women are noted for their power and influence on the Marae, and it is time that they spoke up. Unless Maori take ownership of this problem, then nothing will change. It is time to step up and change the culture – marae by marae, home by home, family by family. This is the only way to get a step-change.

New Zealanders are too PC to start the discussion - because to do so, you are immediately called a racist. Violence within the home makes up over half of all violent crime. This affects all New Zealanders, across all ethnicities. New Zealand rates exceptionally poorly within the OECD for family violence; and yet we haven't been prepared to bring this issue out with a mature public discussion.



THE WORLD AT A GLANCE

United States
The country is obsessed with their Presidential election

UK
Migration remains a key issue in EU Exit vote

Europe
How would a UK exit affect the EU?

Russia
Putin continues to mock Obama

China
Chinese steel exports have risen 400% in 6 years

Australia
Economy recovering but Turnbull continues to struggle.

Canada
Can Trudeau kick-start a stalled economy?

Greece
First refugees finally going back to Turkey

India
Can NZ capitalise on this huge export potential

Japan
Interest rates have turned negative

New Zealand
Water is the 21st Century gold but it is also very political

EUROPE'S CONUNDRUM

There's a particular photo that went around the world. That of the little boy lying dead on the beach. It is true that the photo is very sad and makes you reflect on the distress of these people fleeing their country at the risk of their lives.

Above, a photo showing some people walking to reach the final objective, to live in a European country. Even if this photo is making it around the world, only 1% of the people will notice the truth. In this photo, there are 7 men and 1 woman - up to this point – nothing special. But in observing a bit closer, you will notice that the woman has bare feet, accompanied by 3 children, and of the 3, she is carrying 2.

There is the problem, none of the men are helping her, and all the men are wearing shoes, because in their culture the woman represents nothing. She is only good to be a servant to the men.

Do you really believe that these particular individuals could integrate into European society and respect their customs and traditions?

New Zealand's competitive advantage is its position at the bottom of the world. As long as we continue to tightly vet our incoming refugees then Europe's problem should remain just that – their problem!

The Global Economy

NZ Economic Outlook

The major risks to NZ's economic outlook are assessed to arise from international developments, particularly a more pronounced than expected slowing in the Chinese economy below the 6% level and/or a potentially weaker-than-anticipated Australian economy. With regards to the domestic economy, we assess the two key risks of a disorderly unwind of housing market pressures, together with a weaker-than-expected agricultural commodity price profile. Nevertheless, despite these downside risks it needs to be recognised that reflecting still positive interest rate settings, together with the government's current broad budget balance position, the NZ economy retains a greater degree of both monetary and fiscal policy flexibility than a number of other developed market economies.

GDP Growth – New Zealand v Global

In New Zealand GDP increased 0.9% in the December 2015 quarter, boosted by the service industries. The compared with 0.6% in Australia; 0.5% for the United Kingdom; 0.3% for the USA. The OECD average was 0.3%, making New Zealand a top performer. Both Treasury and the Reserve Bank remain optimistic, expecting GDP Growth of 3% for the 2016-2017 year.

Statistics New Zealand said "The service industries grew 0.8 percent overall, and Business services in particular, posted a strong increase, as well as retail trade and accommodation." The strong performance of the service industries this quarter was offset by falls in the agriculture and manufacturing sectors.

The growth in the service sector was reflected in increased household spending on services, which was up 1.0%. There was higher spending on restaurant and ready-to-eat meals, accommodation, and international air passenger services. The increase in household spending contributed to the 1.1% increase in the expenditure measure of GDP.

Business investment decreased 2.6%, after a strong increase in the September 2015 quarter. Although construction-related investment increased, this was offset by lower investment in plant, machinery, and equipment; and transport equipment. While we've seen 0.9% growth in both the December and September quarters, growth for the year ended December 2015 edged down to 2.5%. This reflects the slower first half of 2015. The size of the economy in current prices was $246 billion for the year ended December 2015

NZ's Balance of Payments

December 2015 quarter - New Zealand's seasonally adjusted current account balance widened by $221 million in the December 2015 quarter, to a deficit of $1.9 billion, according to Statistics New Zealand. The larger deficit was driven by a fall in earnings from both goods and services exports. Over the past two years the current account deficit has ranged between $882 million and $2.4 billion.

The value of exported goods fell $554 million in the December 2015 quarter, led by dairy. This was almost all price driven, with a 13% fall. The value of imported goods also declined, down $276 million this quarter, following a record value of imported goods in the September 2015 quarter.

While lower petrol prices caused the value of imports to decrease, the fall in dairy prices in the latest quarter had a bigger impact on our exports, resulting in a larger deficit.

New Zealand Tourism

Tourist numbers reached 3.2 million in 2015, and what is more, tourists are staying longer and spending more than ever before – a total of $9.7 billion. The value of tourist spending is now growing three times faster than in previous years, and Tourism is now New Zealand's second biggest export earner. One in eight people employed are now directly or indirectly related to tourism.

We have a 42% increase in Chinese tourists (who spent $1.6 billion in 2015). More than 70,000 Chinese came to New Zealand during the Chinese New Year festive season.

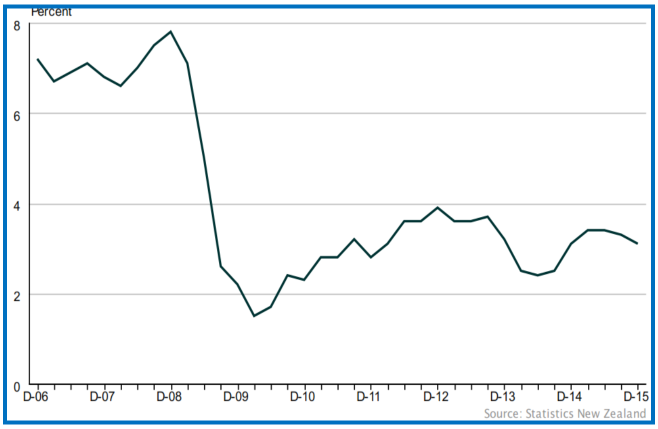
NZ Current Account

The annual current account balance was a deficit of $7.7 billion (3.1% of GDP) for the year ended December 2015. This compares with a deficit of $8.1 billion (3.3% of GDP) for the year ended September 2015. The decrease in the annual deficit for 2015 was mainly due to a smaller investment income deficit. The higher level of expenditure by international visitors to New Zealand also contributed.

"Over the 2015 year, spending by international visitors increased by $2.6 billion, to reach our highest recorded annual visitor spend despite the fall in the latest quarter," Statistics New Zealand said.

The current account deficit in the December 2015 quarter was funded by a net inflow of investment, which was mainly due to a reduction in New Zealand's assets held overseas. The reduction in our assets meant New Zealand's net international liability position widened $493 million, to $151.2 billion (61.4% of GDP) at 31 December 2015. The net international investment position measures the value of our overseas assets less our overseas liabilities.

PERCENTAGE RATIO OF CURRENT ACCOUNT DEFICIT TO GDP



Net external debt has now fallen to 55% of GDP, compared with 83% when National took office in 2008.

Global Growth

Global growth, currently estimated at 3.1% in 2015, is projected at 3.4% in 2016 and 3.6% in 2017. The pickup in global activity is projected to be more gradual than in the October 2015, according to the World Economic Outlook (WEO), especially in emerging market and developing economies.

In advanced economies, a modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps. The picture for emerging market and developing economies is diverse but in many cases challenging. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016–17. The projected pickup in growth in the next two years—despite the ongoing slowdown in China—primarily reflects forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East, though even this projected partial recovery could be frustrated by new economic or political shocks.

Risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy: a generalized slowdown in emerging market economies, China's rebalancing, lower commodity prices, and the gradual exit from extraordinarily accommodative monetary conditions in United States. If these key challenges are not successfully managed, global growth could be derailed.

Commodities - *Where to for Oil*

2012 to 2014 promised an era of American energy independence thanks to revolutionary new technologies (including fracking), and a crude oil price averaging around US$100 per barrel. From 2009 the price of oil continued to rise, encouraging more and more entrepreneurial plays in oil.

WEST TEXAS CRUDE OIL – 10 YEAR CHART

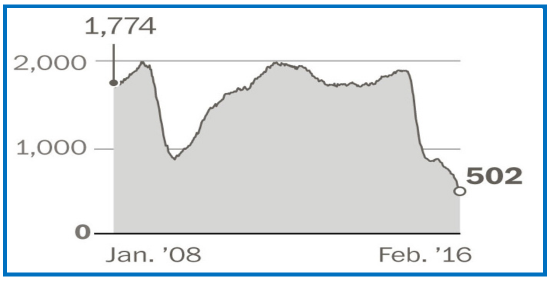
It was drill, drill, drill – with every Tom, Dick and Harry trying to become an oil baron. America's great energy boom resulted not simply from gains made by the established giants - ExxonMobil and Chevron - but rather from the rise of hundreds of smaller companies. And those smaller companies grew with debt, using it to drill 8,000 feet into Earth's crust and 10,000 feet across, renting equipment, pumping in millions of pounds of sand and creating fractures that released oil and natural gas. This was hydraulic fracturing, or fracking, the technology that, in the middle of the last decade, allowed companies to reach oil and gas that was previously inaccessible. Companies had a choice - borrow to enter the fracking race, or stay on the sidelines and risk losing out. Most chose to frack. That decision, multiplied across hundreds of producers, has nearly doubled U.S. oil production since 2007. And while politicians and executives celebrated that new capacity - dramatically reducing U.S. dependence on foreign oil - few discussed the dangerous financial risks.

With this huge increase in drilling also came increased leverage, and the late 2014 downturn in prices then saw massive over-leverage, with many players now highly exposed to potentially defaulting their loans.

This new wave of bad loans isn't of the same magnitude as the housing bust, but it reflects similar behaviours. Borrowers feasted on what Bloomberg estimates was US$237 billion of easy money without scrutinising whether the loans could endure a drastic downturn.

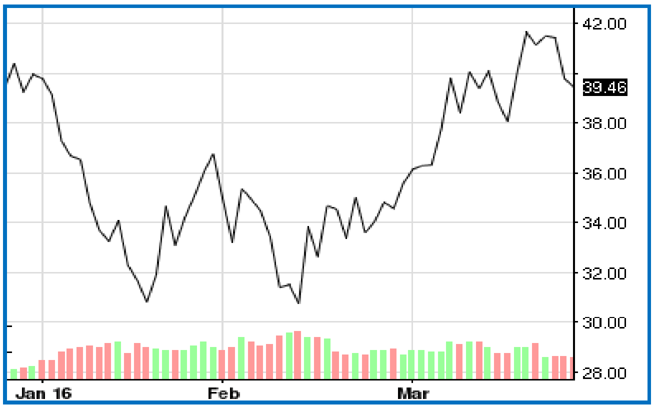
The consequences are far-reaching. The U.S. oil industry, having grown into a giant on par with Saudi Arabia's, is shrinking, with the biggest collapse in investment in energy in 25 years. More than 140,000 have lost energy jobs. Banks are bracing for tens of billions of dollars of defaults, and economists and lawyers predict the financial wreckage will accelerate this year.

Active US Oil & Gas Rigs



USA's oil strategy was to gather up drilling sites at turbo speed and later slow down and reap the benefits. But then oil prices plunged and stayed down. They have fallen 60 percent from two years ago. That said, the last 6 weeks has seen a substantive bounce in the price of crude.

West Texas Crude Oil – 3 Month Chart

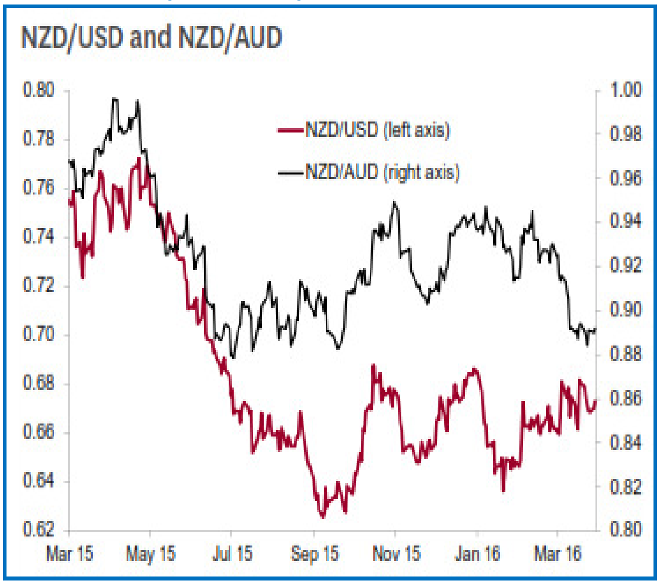


The question now will be whether this is a sustained lift, or just a bounce. All equity risk trades are correlated to oil. There is still a large number of investors who see oil above $50pb on a 2-year view.

New Zealand Dollar

The NZ Dollar has been remarkably stable in the last few months against the US Dollar. It has traded within a 4 cent range (64c to 68c), but it remains volatile against the Australian Dollar. Since early February it has slipped against the Australian Dollar from 95c to 89c.

NZD/USD & NZ/AUD – 1 Year Graph



Financial Forecasts	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.10	2.10	2.10	2.10	2.10	2.10
5 Year Swap	2.60	2.80	2.90	3.00	3.10	3.10
NZD/USD	0.64	0.62	0.61	0.62	0.62	0.62
NZD/AUD	0.89	0.89	0.88	0.88	0.86	0.85

SOURCE: Westpac Banking Corporation

New Zealand Agricultural Data

Horticulture Production (Hectares)

Year to 30 June	1,994	2,002	2,003	2,005	2,007	2,009	2,011	2,012	2,014
Apples	15,257	11,717	12,150	10,982	9,247	9,284	8,995	8,845	8,417
Kiwifruit	12,174	11,841	12,271	12,071	13,080	13,287	13,066	12,757	12,081
Avocados	1,375	3,106	3,235	3,400	4,004	4,117	3,976	4,149	3,893
Wine grapes	7,160	17,300	19,646	24,793	29,616	33,422	34,060	34,562	33,761
Olives		2,612	2,732	2,433	2,173	2,016	1,792	1,657	1,325
Onions	4,929	5,621	5,748	4,931	4,594	4,511	5,142	5,718	5,067
Potatoes	9,524	11,082	10,931	10,850	10,050	11,398	10,724	11,578	9,163
Squash	7,509	6,560	6,804	6,981	7,774	6,825	6,467	6,837	6,501

Livestock Totals for New Zealand

Year to 30 June	1994	2002	2004	2006	2008	2010	2012	2013	2014
Total dairy cattle	3,839,184	5,161,589	5,152,492	5,169,557	5,578,440	5,915,452	6,445,681	6,483,600	6,698,326
Calves born alive to dairy cows	2,455,975	3,225,238	3,157,510	3,313,093	3,500,226	3,640,914	3,879,543	3,688,639	3,852,118
Total beef cattle	5,047,848	4,491,281	4,447,400	4,439,136	4,136,872	3,948,520	3,734,412	3,698,522	3,669,862
Calves born alive to beef cows	1,262,522	1,083,485	1,013,893	1,004,513	978,079	901,258	827,749	811,884	781,131
Total sheep	49,466,054	39,571,837	39,271,137	40,081,594	34,087,864	32,562,612	31,262,715	30,786,761	29,803,402
Total lambs marked and/or tailed	36,243,948	32,647,387	31,853,940	33,809,880	31,020,153	28,152,100	25,954,154	25,966,837	24,976,628
Total deer	1,231,109	1,647,938	1,756,888	1,586,918	1,223,324	1,122,695	1,060,694	1,028,382	958,219
Fawns weaned	370,496	654,710	699,719	595,782	494,163	428,470	413,283	398,938	375,146
Total pigs	422,766	342,015	388,640	355,501	324,594	335,114	313,703	297,724	286,971
Piglets weaned			803,691	757,448	763,059	722,666	733,425	662,466	636,922
Total horses	67,843	75,856	76,918		62,511	64,105	56,878	57,427	51,611

Forestry statistics for New Zealand

Year to 31 December		2001	2003	2005	2008	2010	2011	2012	2013	2014
New area planted	Ha	33,674	15,920	9,719	2,658	2,948	7,228	11,327	9,746	3,942
Total area replanted	Ha	42,476	44,637	41,333	33,130	33,089	35,102	40,247	42,888	40,964
Exotic timber harvested	M^3	20,420,136	21,555,385	18,362,059	19,204,115	21,153,570	24,028,319	25,201,223	26,744,054	26,400,610
Exotic timber harvested	Ha	46,658	49,247	40,937	42,680	43,760	47,459	48,222	50,467	50,219

Agribusiness – Looking from the outside in

Fonterra Half Yearly Report

Fonterra is definitely New Zealand's most complicated business, and while their first half (2016) was solid, transparency remains an issue. The half year included strong results from Ingredients and Greater China food service & consumer but weighed down by Australia, Oceania, Latin America and International Farming with some question marks justified about the return potential from the significant capital invested in farming. We believe the approach Fonterra Shareholders Fund (FSF) has taken to date to support farmers is reasonably measured and (rightly or wrongly) consistent with what a co-op would do. What this could mean for strategy and investment if tough conditions prevail could be an issue going forward. The co-op 'obligation' to farmers through hard times is certainly impacting the ability to fund growth so it is difficult to get a good handle on just how successful FSF will be in their global brand/business endeavours.

This makes it hard to know what to do with the stock – on one hand investors get the benefit of a higher dividend (when things are tough) but this is at the expense of global aspirations/growth. It feels like an increasing number of cylinders (Biz units) are starting to fire but with so many moving parts it is easy just to put into the too hard basket…. however looking at the dividend profile (FNZC forecasts) the current year dividend of 40c delivers a 6.8% gross yield from a 82% payout ratio . The earnings profile looks positive with multiples looking reasonably attractive but this needs to be discounted given the volatile nature of the drivers of revenues/margins

Under $6 it seems sensible to hold FSF, but only by a wafer thin margin – perhaps the tipping point was the better performance/body language of Board and management at the press conference.

Has Fonterra got the right leadership?

Management has re-engineered operations, including slashing staff and sell property that is considered surplus to requirements, but there remains a strong disquiet at Theo Spierings (CEO) and John Wilson's (Chair) senior management style and salaries/director fees. The fiasco over making creditors wait 90 days for payment could well be the "straw that breaks the camel's back"- this is plain bad business and not a culture that New Zealander's approve of.

Senior Management Salaries & Director Fees

Fonterra shareholders rightly continue question to Senior Management & Director salaries/fees. CEO Theo Spierings gets paid a massive $4.9m annually, and 19 of his Senior Managers each receive between $1m and $2.16m annually. Looking at the Board, John Wilson (Chair) receives $405,000, and his 12 other Directors each receive $165,000 (with 4 Committee Chairs getting a $31,000 top up. Then of course there is the Shareholder's Council, whose Chair receives $90,900; Deputy $55,500 and the other 33 Councillors each receive $30,000 per annum. It is no wonder that shareholders are disgruntled! What a top-heavy structure.

Is Fonterra's structure fit for purpose?

Having a 13-strong board is both unusual, and inappropriate for a large corporate. Under pressure, the Board has agreed to look at this, but like so much that Fonterra management does these days, it seems too little too late.

Can Fonterra keep its shareholders loyal?

With depressed prices there will be increased pressure on Fonterra's management, but the "loyalty factor" for this co-operative does remain high. However management (and directors) are testing the patience of their farmer suppliers, and any prolonged downturn will turn up the heat.

China

Fonterra continues to burn "political capital" in China, which has resulted in a loss of some of its "privileged position". This has seen both European and US dairy farmers muscling in to the Chinese market.

The Dairy Industry - Debt

The combined farmer debt in the dairy industry is $38bn. 10% of Dairy Farmers hold 30% of this debt, and the average debt for this 10% of farmers is a massive $10m.

Dairy Cattle Numbers across New Zealand

Year to 30 June	1994	2002	2004	2006	2008	2010	2012	2013	2014
Total Dairy Cattle	3,839,184	5,161,589	5,152,492	5,169,557	5,578,440	5,915,452	6,445,681	6,483,600	6,698,326
Per annum growth		4.3%	-0.1%	0.2%	4.0%	3.0%	4.5%	0.6%	3.3%
Calves born alive to Dairy Cows	2,455,975	3,225,238	3,157,510	3,313,093	3,500,226	3,640,914	3,879,543	3,688,639	3,852,118

Z Energy (ZEL.NZ)

NEUTRAL $6.72 Target: $6.90

As FY16 draws to a close (31st March), FNZC has updated their forecast for three extra pieces of information from recent weeks. Their FY16 forecast Operating EBITDAF lifts by $18m to $246m due to: (1) $9.5m uplift after final settlement of Customs back-dated excise duty claim, (2) $5.5m reduction of refining margin contribution after NZR reported weaker-than expected GRM, and (3) absent a Commerce Commission decision in March, we now expect the Chevron acquisition decision just prior to 29 April deadline (so they defer $14m of their transition/acquisition cost estimate into the 1st Half of the 2017 Financial Year.

These are non-recurring changes, and FNZC leave their FY17 margin outlook unchanged. Their standalone ZEL forecasts continue to expect gross fuel margins level off at 20cpl in FY17; marketing volumes to remain flat and refining margins to trend down to US$7.5/bbl.

The Commerce Commission Chevron NZ acquisition decision remains the key value driver. FNZC still think approval likely. If acquisition isn't approved, their standalone ZEL spot-DCF value estimate would be ~$5.50/share, whereas Commerce Commission approval and 100% synergies could lift their ZEL valuation to ~$7.54/share.

FNZC's spot-DCF valuation falls 2cps to $6.65/share, primarily reflecting lower market valuation for ZEL's 15% NZR stake. Their $6.90/share probability weighted one-year target price is unchanged, and they retain their NEUTRAL rating on the stock.

For me there seems little downside, and a potential upside to owning this stock, so if you don't currently own ZEL it looks to me like a buy.

ZEL Year to 31 March		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	121	160	148	147
Earnings /share (Adjust)	NZc	30.3	40.0	37.1	36.8
EPS Growth	%	15.2	32.1	-7.1	-0.8
Price / Earnings Ratio	x	22.2	16.8	18.1	18.3
Cash Per Share	NZc	41.0	50.9	48.6	49.0
Net Div / Share	NZc	24.2	25.0	27.7	29.4
Gross Div Yield	%	5.0	5.2	5.7	6.1

If you are looking for a sharebroker I can recommend Graham Nelson, who works out of the Wellington office of First NZ Capital. With modern communications I am sure that you won't be disappointed....

Graham Nelson
Director,
Wealth Management Adviser AFA

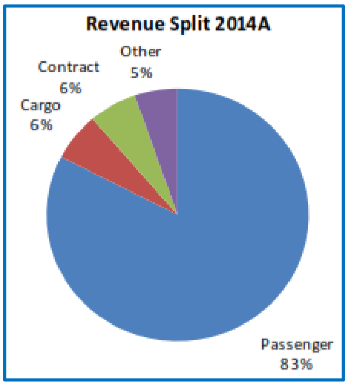
First NZ Capital
D +64 4 496 5318 | **M** +64 21 447 242
Email: graham.nelson@fnzc.co.nz

AIR NEW ZEALAND (AIR.NZ)

NEUTRAL $2.87 Target: $2.85

FNZC are currently "Restricted" on AIR

AIR has announced that it will undertake a review of its financial investment in Virgin Australia (VAH), including a possible sale of all or part of its shareholding. Applying A$0.36 per VAH share, AIR's 25.9% stake in VAH would be valued at around $366m.



This review will include possible alternate uses of capital presently deployed in VAH. AIR Chairman, Tony Carter, stated that AIR does not want a large minority equity position in VAH as it focuses on its own growth opportunities. AIR CEO, Christopher Luxon, will resign from the board of VAH, effective immediately. AIR stated in the release that it looks forward to continuing its Tasman alliance with VAH and working constructively together.

Other key shareholders in VAH include Etihad Airways with 24.2% of issued capital and Singapore Airlines with 22.8% of issued capital.

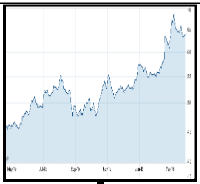
FNZC currently have a research restriction on AIR rating and target price. AIR has retained First NZ Capital and Credit Suisse to advise it on options with respect to its shareholding in VAH.

I have tended not to recommend airline stocks because their share price is too often very volatile. However with the uplift in tourism for New Zealand, AIR has been well placed to capitalise on this, and its dividend does look a bit compelling in this low interest environment.

AIR Year to 30 June		2015A	2016F	2017F	2018F
Adjusted Earnings	NZ$m	343	644	591	480
Earnings /share (Adjust)	NZc	30.6	57.4	52.7	42.8
EPS Growth	%	39.7	87.9	-8.3	-18.8
Price / Earnings Ratio	x	9.4	5.0	5.4	6.7
Cash Per Share	NZc	66.4	99.6	99.0	93.6
Net Div / Share	NZc	16.0	19.0	20.6	17.2
Gross Div Yield	%	7.7	9.2	10.0	8.3

AIR NEW ZEALAND 2-YEAR GRAPH

NOTE: THESE ARE ALL ONE YR GRAPHS



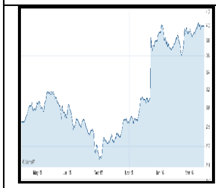
Auckland International Airport

AIA's 1H16 result showed that Retail delivered a strong uplift, with normalised NPAT increasing 18.6% to $104.1m. Operating revenue and earnings exceeded expectations primarily due to very strong growth in Retail income. Group EBITDA of $212.7m was up 13.4% on pcp and 4.7% ahead of our analyst's forecast. They have positively revised international and domestic passengers by a cumulative 9.7% and 7.1% respectively by FY18, upgrading operating earnings of between 5% and 11% across the medium-term forecast window. However, AIA continues to trade at a material premium to their revised target price.

20016 P/E: 36.6 2017 P/E: 31.8

NZX Code:	**AIA**
Share Price:	**$6.43**
12mth Target:	**$4.60**
Projected return (%)	
Capital gain	-25.0%
Dividend yield (Net)	2.7%
Total return	**-28.9%**
Rating:	**UNDERPERFORM**

52-week price range:4.46-6.90



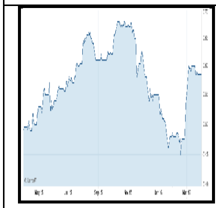
Chorus

CNU's 1H16 result shows it is heading back to "normal". Like 2H15, 1H16 was impacted by a combination of UCLL and UBA initial pricing. With final pricing implemented, CNU's earnings will get a boost in 2H16 with the main headwind to earnings in the next few years likely to come from the rate of market share loss in fibre and pressure on operating costs which CNU needs to work hard to manage. Offsetting this is a positive track in the price path for both copper and fibre.

20016 P/E: 13.9 2017 P/E: 11.2

NZX Code:	**CNU**
Share Price:	**$4.01**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	2.2%
Dividend yield (Net)	5.1%
Total return	**7.3%**
Rating:	**NEUTRAL**

52-week price range: 2.45-4.05



With delisting from the NZX on 24/6/16 sell into this market bounce.

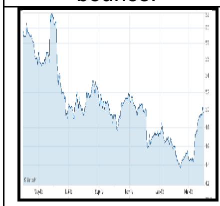
Coats Group Plc

Hopefully COA is nearing the end of a long saga... COA's FY15 result was slightly ahead of expectations; operationally as a strong 2H performance from Crafts and Industrial weathering the global volatility better than expected with underlying growth in both Apparel and Footwear and Specialty. Operating EBITDA rose 7.6% to US$183.0m and COA guided to expect modest growth in its operating profit in FY16. Not knowing the amount for COA to resolve its pension obligations makes assessing value difficult. If COA can settle with the scheme Trustees then this would at least provide clarity and a basis for COA to potentially start paying dividends.

20016 P/E: 10.6 2017 P/E: 9.9

NZX Code:	**COA**
Share Price:	**$0.58**
12mth Target:	**$0.60**
Projected return (%)	
Capital gain	3.4%
Dividend yield (Net)	0.0%
Total return	**3.4%**
Rating:	**NEUTRAL**

52-week price range: 0.45-0.69



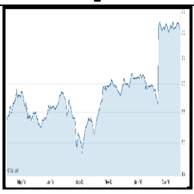
Contact Energy

Despite recent earnings downgrade, cashflow production remains robust. With its five-year multi-billion dollar investment programme completed with Te Mihi, CEN is now generating at least $150m pa additional free cash flow (bringing free cash flow per share to sustainably sit around 40 cents per share per annum) which is expected to be returned to shareholders as buybacks and dividends.

20016 P/E: 19.6 2017 P/E: 17.0

NZX Code:	**CEN**
Share Price:	**$5.00**
12mth Target:	**$6.25**
Projected return (%)	
Capital gain	25.0%
Dividend yield (Net)	5.8%
Total return	**30.8%**
Rating:	**OUTPERFORM**

52-week price range: 4.35-6.38



Diligent

DIL's FY15 results were always going to be of little significance given its impending acquisition by Insight Venture Partners. This is even more so given that a) the announcement was largely consistent with guidance/expectations; and b) there was no evidence of any surprisingly positive developments as regards the most significant valuation optionality for DIL (namely from their new product, Diligent Teams). Nevertheless, DIL reported a slightly positive, but not overly surprising result.

2016 P/E: 38.0 2017P/E: 26.4

NZX Code:	**DIL**
Share Price:	**$7.03**
12mth Target:	**$7.53**
Projected return (%)	
Capital gain	7.1 %
Dividend yield (Net)	0.0%
Total return	**7.1%**
Rating:	**NEUTRAL**

52-week price range: 4.82-7.27

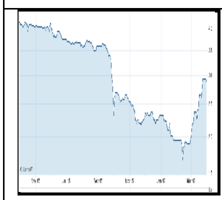
Ebos Group

On 24 February 2016 EBO released its 1H16 result. Despite a slight foreign exchange headwind EBO reported a revenue increase of 9.0% and a rise in net profit gain of 19.6% (all in constant currency). The growth was seen across consumer products, institutional healthcare, contract logistics and animal care. This is a great stock, albeit that its share price has got a bit ahead of itself. If you own it I would hold on to it.

2016 P/E: 20.5 2017 P/E: 18.5

NZX Code:	**EBO**
Share Price:	**$17.20**
12mth Target:	**$14.45**
Projected return (%)	
Capital gain	-16.0%
Dividend yield (Net)	3.6%
Total return	**-12.4%**
Rating:	**NEUTRAL**

52-week price range:9.26-17.40



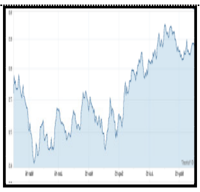
EROAD

We continue to like ERD's investment case. At the current share price, ERD is finally being valued for its NZ operation, and starting to recognise its opportunity in North America. While still early, ERD does have a unique solution in Oregon and surrounding states covering Oregon's weight mile tax, as well as IFTA, ELD and HOS. In addition, there is a large opportunity to execute in other US states via indirect sales channels.

2016 P/E: N/A 2017 P/E: 30.0

NZX Code:	**ERD**
Share Price:	**$2.85**
12mth Target:	**$2.70**
Projected return (%)	
Capital gain	-5.3%
Dividend yield (Net)	0%
Total return	**-5.3%**
Rating:	**NEUTRAL**

52-week price range: 1.75-4.15



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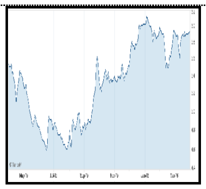
Fletcher Building

FBU reported a strong rise in net profit, driven by good performances in its building products and distribution divisions. The company said its net profit in the six months to Dec. 31 was $172m, up 51% on the year. Revenue was up 2% to $4.4bn as an increase in New Zealand revenue offset lower revenue in Australia. FBU announced an interim dividend of 19 cents a share. Looking ahead, the company reaffirmed earlier guidance and said it expects full year earnings before interest, tax and significant items to be in the range of $650m to $690m.

2016 P/E: 11.9 2017 P/E: 9.5

NZX Code:	**FBU**
Share Price:	**$7.89**
12mth Target:	**$9.36**
Projected return (%)	
Capital gain	18.6%
Dividend yield (Net)	5.7%
Total return	**24.3%**
Rating:	**OUTPERFORM**
52-week price range: 6.56-8.76	



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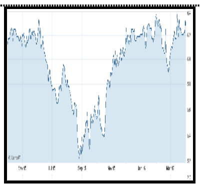
Fonterra Shareholder Fund

A review of FSF's performance continues to demand assessment across many moving parts and on that basis 1H16 was solid with strong results from Ingredients and Greater China food service & consumer but weighed down by Oceania, Latin America and International Farming with some question marks justified about the return potential from the significant capital invested in farming.

2016 P/E: 12.1 2017 P/E: 10.6

NZX Code:	**FSF**
Share Price:	**$5.93**
12mth Target:	**$6.12**
Projected return (%)	
Capital gain	3.2%
Dividend yield (Net)	6.6%
Total return	**9.8%**
Rating:	**NEUTRAL**
52-week price range: 4.58-6.12	



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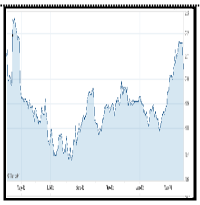
Freightways

In FNZC's opinion, 2Q16 provided a reminder of the negative cost leverage risk that exists within FRE's Express Package division and the fact that share shift from higher margin B2B to lower margin B2C can deliver that outcome even when price and volume growth remain positive. Their 12-month target price has fallen from $6.30 to $6.05 following negative revisions to EBITDA forecasts of around 5%.

2016 P/E: 17.8 2017 P/E: 16.7

NZX Code:	**FRE**
Share Price:	**$6.35**
12mth Target:	**$6.05**
Projected return (%)	
Capital gain	-4.7%
Dividend yield (Net)	5.7%
Total return	**1.0%**
Rating:	**NEUTRAL**
52-week price range: 5.20-6.40	



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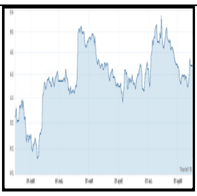
Genesis Energy

FNZC see the potential to revisit the Huntly Rankine closure decision (assume closure reversal in our forecasts and valuation) or a large change in Tiwai smelter closure risk as key near-term catalysts. They believe GNE is trading near underlying value, and retain their Neutral rating.

2016 P/E: 21.7 2017 P/E: 23.8

NZX Code:	**GNE**
Share Price:	**$2.05**
12mth Target:	**$1.86**
Projected return (%)	
Capital gain	-9.3%
Dividend yield (Net)	9.0%
Total return	**-0.3%**
Rating:	**NEUTRAL**
52-week price range: 1.64-2.28	



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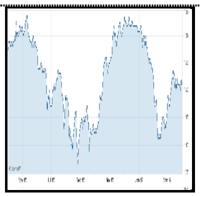
Hallenstein Glasson

HLG declared an interim dividend of 13.5 cents per share, with Group net profit after tax for 6 month period ended 1 Feb projected to be in range $6.6m to 6.9m, a decrease of 20%. HLG advised that total group sales for the 6 month period ended 1 February 2016 were $112.4m, an increase of 1.3%. This remains a yield story for investors requiring income.

2016 P/E: 11.0 2017 P/E: 10.8

NZX Code:	**HLG**
Share Price:	**$3.05**
12mth Target:	**$4.10**
Projected return (%)	
Capital gain	34.4%
Dividend yield (Net)	9.0%
Total return	**43.4%**
Rating:	**OUTPERFORM**
52-week price range: 2.70-3.95	



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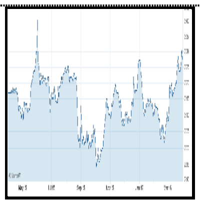
Heartland Bank

FNZC like HBL's investment case from both an organic growth basis and the potential for accretive bolt on acquisitions over time. Assuming momentum continues in the home equity release business and continues in its core operation; this implies continued earnings growth for FY16 and FY17, which is supportive for dividend per share growth.

2016 P/E: 11.1 2017 P/E: 10.8

NZX Code:	**HBL**
Share Price:	**$1.21**
12mth Target:	**$1.25**
Projected return (%)	
Capital gain	3.3%
Dividend yield (Net)	6.9%
Total return	**10.2%**
Rating:	**OUTPERFORM**
52-week price range: 1.06-1.35	



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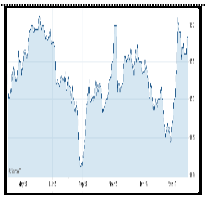
Infratil NZ

IFT is a holding company specialising in long-lived, growth infrastructure assets in the energy, airport & public transport sectors in NZ. IFT also has exposure to the retirement sector through investments in Metlifecare & RetireAustralia. IFT probably regards its 66% stake in unlisted Wellington International Airport as a core investment, with a sanctioned major capital programme underway. FNZC don't yet foresee a catalyst to eliminate the observed trading discount against NAV (currently 10%, historically around 15%).

2015 P/E: 30.2 2017 P/E: 26.2

NZX Code:	**IFT**
Share Price:	**$3.28**
12mth Target:	**$3.37**
Projected return (%)	
Capital gain	2.7%
Dividend yield (Net)	4.4%
Total return	**7.1%**
Rating:	**NEUTRAL**
52-week price range: 2.93-3.41	



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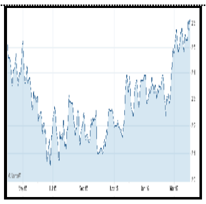
Mainfreight

MFT is a global supply chain logistics provider, with businesses operating in 186 branches throughout NZ, Australia, Europe, Asia and the US. If MFT is disciplined in its pursuit of breadth and depth of its operational network while also continually looking to differentiate and increase the quality of its service offer, then the global growth option value could over time prove to be very significant.

2016 P/E: 18.3 2017P/E: 15.7

NZX Code:	**MFT**
Share Price:	**$15.86**
12mth Target:	**$17.50**
Projected return (%)	
Capital gain	10.3%
Dividend yield (Net)	2.3%
Total return	**12.6%**
Rating:	**OUTPERFORM**
52-week price range:14.04-16.25	



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Meridian Energy

MEL remains exposed to potential contract renegotiation pressure from NZAS (Tiwai Smelter), and also that NZAS attaches some significance to the transmission pricing methodology (TPM) review outcome. MEL was under no compulsion to agree to the extension. But in practice the previous 30 April 2016 date didn't confer much protection because NZAS always had (and still has) the right to issue 400-MW notice any day from 30 April 2017, or closure issue closure notice any day from 1 January 2017.

2016 P/E: 25.6 2017 P/E: 29.6

NZX Code:	**MEL**
Share Price:	**$2.62**
12mth Target:	**$2.26**
Projected return (%)	
Capital gain	-13.7%
Dividend yield (Net)	6.4%
Total return	**-7.3%**
Rating: NEUTRAL	
52-week price range: 2.04-2.64	

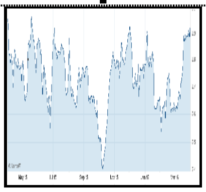
↑

Metlifecare

MET is set to benefit from strong demographic drivers over the coming decade. MET has an advantaged portfolio from a geographic perspective, given the majority of its units are in Auckland. Similarly, its portfolio mix towards retirement village, as opposed to aged care gives results in more leverage to the property cycle.

2016 P/E: 16.2 2017 P/E15.1

NZX Code:	**MET**
Share Price:	**$5.25**
12mth Target:	**$5.45**
Projected return (%)	
Capital gain	3.8%
Dividend yield (Net)	0.9%
Total return	**4.7%**
Rating: OUTPERFORM	
52-week price range: 4.10-5.25	



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Mighty River Power

MRP has now completed its transition to a 100% renewable generator. We regard MRP as the generator-retailer with the largest natural competitive advantages and fewest negative exposures within the sector. MRP appears to us the "cleanest" genco exposure for investors. A sort of pure-play in the NZ vertically integrated generator space, albeit with few avenues of growth (the latter a common feature in this sector currently).

2016 P/E: 23.1 2017 P/E: 22.6

NZX Code:	**MRP**
Share Price:	**$2.92**
12mth Target:	**$2.80**
Projected return (%)	
Capital gain	-4.1%
Dividend yield (Net)	5.7%
Total return	**1.6%**
Rating: NEUTRAL	
52-week price range: 2.38-2.97	

↑

NZ Refining

FNZC think NZR will continue to be cash-flow-generative on their lower (but still robust) Gross Refining Margin (GRM) and currency outlook, but that outlook leaves little room for further dividend growth, given the large increase in capital outlay expected over the next three years and debt levels at the top of the target gearing range.

2016 P/E: 8.9 2017 P/E: 8.7

NZX Code:	**NZR**
Share Price:	**$3.10**
12mth Target:	**$3.25**
Projected return (%)	
Capital gain	4.8%
Dividend yield (Net)	8.4%
Total return	**13.2%**
Rating: OUTPERFORM	
52-week price range: 2.38-3.89	

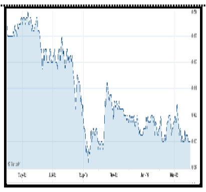
↑

Opus International Consultants

While trading conditions for OIC could remain challenging in the short term, the current trading multiples based on our forecasts suggest that these are largely priced in. The outlook seems better than it was six months ago for the infrastructure markets in New Zealand and Australia. Expect the losses in Australia and for the company's Athabaskan JV to further narrow in FY16F. Based on the company's current strong balance sheet position and trading outlook for New Zealand, FNZC maintains their positive view on OIC.

2016 P/E: 7.7 2017 P/E: 7.1

NZX Code:	**OIC**
Share Price:	**$1.23**
12mth Target:	**$1.80**
Projected return (%)	
Capital gain	46.3%
Dividend yield (Net)	7.4%
Total return	**53.7%**
Rating: OUTPERFORM	
52-week price range: 1.16-1.45	



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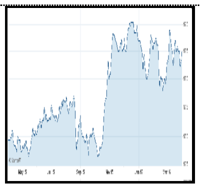
PGG Wrightson

PGW operates in the agricultural sector through two segments: Rural Services (which includes retail, livestock, insurance, real estate, wool and irrigation services) and Seed & Grain in South America, New Zealand and Australia. Based on our analysis of PGW cashflow and balance sheet, we think PGW can sustain 3.5 cps dividend in the short term. However, a protracted and deeper downturn in the NZ rural sector may require a more conservative payout level beyond FY16F.

2016 P/E: 9.2 2017 P/E: 8.6

NZX Code:	**PGW**
Share Price:	**$0.40**
12mth Target:	**$0.50**
Projected return (%)	
Capital gain	25.0%
Dividend yield (Net)	8.6%
Total return	**33.6%**
Rating: NEUTRAL	
52-week price range: 0.38-0.50	



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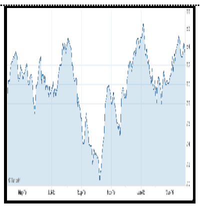
Buy on weakness. This is a core portfolio stock.

Port of Tauranga

FNZC retain their central thesis that the current returns earned by international shipping lines on New Zealand trade routes are unsustainably low and as a consequence we believe that there will be consolidation in the number of shipping lines that service New Zealand. They expect volume consolidation to occur in the form of ports visited and size of ships that visit those ports. Strategic strengths for POT include its close proximity to one of New Zealand's major export production regions, its Metroport facility in Auckland, its investment in Timaru and its ability to invest for bigger ships while still earning a satisfactory ROIC on that incremental investment. These strengths are well understood by key industry stakeholders and their expectation is that POT will be a key beneficiary of any hub and spoke container trade strategy that gradually unfolds in New Zealand.

2016 P/E: 30.8 2017 P/E: 28.1

NZX Code:	**POT**
Share Price:	**$18.35**
12mth Target:	**$17.70**
Projected return (%)	
Capital gain	-3.5%
Dividend yield (Net)	3.0%
Total return	**-0.5%**
Rating: NEUTRAL	
52-week price range: 16.60-19.10	



Ryman Healthcare

RYM is the least geared within its sector to the NZ House Price Inflation (HPI). Its investment into Australia, which makes up a reasonable portion of RYM's value, gives it a natural diversification away from NZ HPI. As can be seen, RYM is least affected, partly due to its higher mix of Aged care beds and its AU operations. It also has greater diversification and optionality to grow in AU (both Melbourne and elsewhere) should the NZ housing market come under pressure.

2016 P/E: 22.7 2017 P/E: 20.1

NZX Code:	**RYM**
Share Price:	**$8.35**
12mth Target:	**$8.25**
Projected return (%)	
Capital gain	-1.2%
Dividend yield (Net)	1.9%
Total return	**0.7%**

Rating: NEUTRAL

52-week price range: 7.05-8.66

Sky City Entertainment

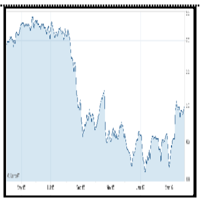
SKC's medium-term earnings and valuation risk profile is elevated due to significant uncertainty around the earnings leverage that will be generated from both the New Zealand International Convention Centre and Adelaide redevelopment projects. However, FNZC believes that favourable regulatory allowances from the South Australian government could present a positive catalyst for SKC.

2016P/E: 17.8 2017 P/E: 16.4

NZX Code:	**SKC**
Share Price:	**$5.01**
12mth Target:	**$4.00**
Projected return (%)	
Capital gain	-20.2%
Dividend yield (Net)	4.4%
Total return	**-15.8%**

Rating: UNDERPERFORM

52-week price range: 3.72-5.09



Sky Network Television

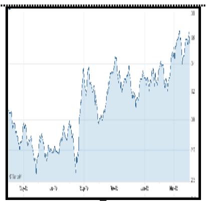
Technology changes have bought new entrants into the content landscape at the same time as SKT's core pay-tv business is maturing. A more subdued revenue environment (SKT's core pay-tv subscriber numbers are facing some downwards pressure currently) together with pressure on programming costs and an increase in capex will put pressure on earnings over the next two to three years. However SKT maintains a very strong content position and the degree of overlap between competition and SKT's business remains relatively small.

2016P/E: 11.7 2017 P/E: 11.9

NZX Code:	**SKT**
Share Price:	**$4.98**
12mth Target:	**$4.63**
Projected return (%)	
Capital gain	-7.0%
Dividend yield (Net)	6.4%
Total return	**-0.6%**

Rating: NEUTRAL

52-week price range: 4.11-6.46



Spark NZ

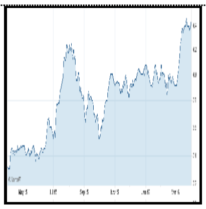
In the nearer term, a stabilising of earnings and a strong balance sheet mean that SPK is likely to find support above FNZC's discounted cash flow valuation on yield. However, with ongoing medium-term erosion in high margin legacy fixed revenues to factor in, and concerns regarding industry structure and visibility on where earnings settle and the sustainability of growth initiatives beyond the nearer term they retain a cautious approach to forecasts and discounted cash flow valuation.

2016 P/E: 19.0 2017 P/E: 18.0

NZX Code:	**SPK**
Share Price:	**$3.65**
12mth Target:	**$2.88**
Projected return (%)	
Capital gain	-21.1%
Dividend yield (Net)	6.8%
Total return	**-14.3%**

Rating: UNDERPERFORM

52-week price range: 2.64-3.70



Summerset Group Holdings

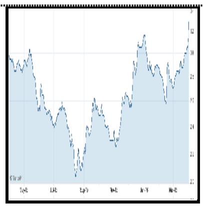
Sum has a robust platform to ensure sustainable growth well into the future. However, risks around the NZ housing market have increased over the last year, following a period of rapid house price inflation. SUM has been one of the top performers in the NZ market since listing. Now, cycling a period with 50%+ earnings growth; macro risks increasing; and less valuation upside, we expect a less sanguine year ahead for the share price.

2016 P/E: 19.9 2017 P/E: 16.1

NZX Code:	**SUM**
Share Price:	**$4.43**
12mth Target:	**$4.40**
Projected return (%)	
Capital gain	-0.7%
Dividend yield (Net)	1.5%
Total return	**0.8%**

Rating: NEUTRAL

52-week price range: 3.32-4.49



Synlait Milk

SML reported first-half net profit of $12.3m for the six months to January compared to $400,000 a year ago, with a greater push to value add through increased infant formula sales, particularly to specialty milk marketer A2 Milk. The half-year results show value-add milk premiums were $2.22m compared to $723,000 a year ago. The company is the exclusive manufacturer of A2 Platinum formula, sourced from herds that only produce A2 type beta-casein protein.

2016 P/E: 16.4 2017 P/E: 13.7

NZX Code:	**SML**
Share Price:	**$3.15**
12mth Target:	**$3.44**
Projected return (%)	
Capital gain	9.2%
Dividend yield (Net)	0%
Total return	**9.2%**

Rating: NEUTRAL

52-week price range: 2.04-3.16

Trustpower

There are signs that the Australian PPA and "green" credit markets may be returning to levels that could justify new wind investment. We'd expect TPW to have a good chance of building a further two windfarms. Combined with possible sell-down of the windfarms to low-cost capital investors, we see up to $2.00 per share upside possible if new Australian wind investments are made under favourable conditions.

2016 P/E: 21.1 2017 P/E: 19.9

NZX Code:	**SML**
Share Price:	**$7.66**
12mth Target:	**$7.77**
Projected return (%)	
Capital gain	1.4%
Dividend yield (Net)	5.4%
Total return	**6.8%**

Rating: NEUTRAL

52-week price range: 7.19-8.12

Z Energy

Commerce Commission clearance remains the key value driver. On a stand-alone basis FNZC's spot-DCF value estimate for ZEL is $5.50/share (which assumes refundable $79m Chevron deposit would be repaid). In contrast, they estimate a combined ZEL & CNZ spot DCF upside of $7.54/share, based on Chevron earnings and full ZEL synergy estimates. We believe approval is still likely.

2016P/E: 16.8 2017 P/E: 18.1

NZX Code:	**ZEL**
Share Price:	**$6.75**
12mth Target:	**$6.90**
Projected return (%)	
Capital gain	2.2%
Dividend yield (Net)	4.1%
Total return	**6.3%**

Rating: NEUTRAL

52-week price range: 4.73-7.00

NZ LISTED COMPANIES 29th March 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (NZ$)	Price 29/03/2016 (NZ$)	Target Price (NZ$)	Price Earnings (x)		Gross Yield (%)	
					FY15	FY16	FY15	FY16
OIL & GAS & CONSUMABLE FUELS								
The New Zealand Refining Company	NZR	966	$3.09	$3.25	9.1	8.9	11.5%	11.7%
Z Energy	ZEL	2,604	$6.51	$6.90	15.5	17.6	5.3%	6.3%
INDUSTRIALS								
Capital Goods								
Fletcher Building	FBU	4,910	$7.03	R	15.2	13.5	5.1%	6.2%
Opus International Consultants	OIC	187	$1.24	$1.80	7.9	7.3	10.1%	10.6%
Methven	MVN	89	$1.22	$1.35	11.0	9.6	10.2%	11.4%
Metro Performance Glass	MPG	309	$1.67	$2.20	14.2	11.5	7.3%	9.1%
Steel & Tube Holdings	STU	199	$2.20	$2.60	9.7	8.6	12.0%	12.3%
Agriculture								
Fonterra Shareholders' Fund	FSF	615	$5.90	$6.12	12.1	10.6	6.8%	6.6%
PGG Wrightson	PGW	302	$0.40	$0.50	9.2	8.6	12.2%	12.2%
Scales Corporation	SCL	408	$2.92	$2.90	13.1	11.7	6.2%	7.1%
Airlines								
Air New Zealand	AIR	3,200	$2.85	$2.85	5.0	5.4	9.3%	10.0%
Transportation								
Freightways	FRE	960	$6.20	$6.05	18.1	17.1	5.9%	6.8%
Mainfreight	MFT	1,558	$15.65	$17.50	18.0	15.4	3.2%	3.7%
Airwork Holdings	AWK	226	$4.50	$4.30	9.9	9.2	5.6%	6.8%
Transport Infrastructure								
Auckland International Airport	AIA	7,585	$6.37	$4.60	36.7	31.9	3.7%	3.9%
Port of Tauranga	POT	2,511	$18.45	$17.70	31.6	28.8	4.1%	4.3%
Infratil	IFT	1,839	$3.27	$3.37	31.0	27.4	5.8%	6.5%
CONSUMER DISCRETIONARY								
Hotels, Restaurants & Leisure								
Sky City Entertainment Group	SKC	3,015	$5.05	$4.00	18.8	17.2	4.3%	5.1%
Restaurant Brands New Zealand	RBD	464	$4.74	$3.83	18.4	16.6	6.3%	7.0%
Media								
Sky Network Television	SKT	1,907	$4.90	$4.63	12.2	12.6	8.5%	8.5%
Retailing								
The Warehouse Group	WHS	978	$2.82	$2.40	17.2	16.3	7.4%	7.9%
Briscoe Group	BGR	654	$3.00	$3.05	15.8	15.1	6.8%	7.1%
Hallenstein Glasson Holdings	HLG	178	$3.01	$4.10	10.1	9.9	13.8%	14.1%
Kathmandu Holdings	KMD	332	$1.65	$1.90	12.6	10.9	6.3%	7.3%
Michael Hill International	MHI	375	$0.98	$1.40	10.5	9.6	6.7%	7.3%
CONSUMER STAPLES								
The a2 Milk Company	ATM	1,461	$2.02	$1.67	46.0	23.6	0.0%	0.0%
Delegat's Group	DGL	576	$5.70	$5.80	15.9	13.5	2.9%	3.2%
Sanford	SAN	580	$6.20	$5.45	15.5	14.1	5.4%	5.8%
Synlait Milk	SML	439	$3.00	$3.19	15.9	13.7	0.0%	0.0%
HEALTH & AGED CARE								
Ebos Group	EBO	2,521	$16.66	$12.00	21.4	19.2	3.5%	3.9%
Fisher & Paykel Healthcare Corporati	FPH	5,430	$9.63	$8.60	38.6	31.7	2.7%	3.1%
Pacific Edge	PEB	233	$0.62	$0.60	-20.2	-21.5	0.0%	0.0%
Ryman Healthcare	RYM	4,175	$8.35	$8.25	27.5	23.5	1.8%	2.1%
Summerset Group Holdings	SUM	967	$4.38	$4.40	19.9	16.1	1.5%	2.3%
Metlifecare	MET	1,060	$4.98	$5.45	16.8	15.6	1.0%	1.0%
Arvida Group	ARV	262	$0.96	$1.12	16.1	15.1	5.9%	6.3%
Orion Health Group	OHE	512	$3.20	$4.75	-15.5	-20.2	0.0%	0.0%
AFT Pharmaceuticals	AFT	276	$2.85	$3.25	-31.8	-51.5	0.0%	0.0%
FINANCIAL								
Diversified Financials								
NZX	NZX	273	$1.02	$1.05	22.3	16.2	8.2%	8.2%
Coats Group Plc	COA	823	$0.59	$0.60	13.1	12.2	0.0%	0.0%
Hellaby Holdings	HBY	251	$2.62	$3.72	10.7	9.8	9.8%	10.7%
Heartland Bank	HBL	573	$1.21	$1.25	11.0	10.7	9.8%	10.3%
Property								
Argosy Property	ARG	948	$1.17	$1.14	18.8	18.9	7.6%	7.8%
Augusta Capital	AUG	90	$1.03	$1.04	14.2	17.4	7.3%	7.4%
Goodman Property Trust	GMT	1,649	$1.30	$1.18	17.2	17.0	7.7%	7.7%
Kiwi Property Group	KPG	1,806	$1.42	$1.35	21.6	19.5	7.0%	7.2%
NPT	NPT	107	$0.66	$0.66	17.6	16.9	7.9%	8.1%
Precinct Properties New Zealand	PCT	1,508	$1.25	$1.15	20.9	20.5	6.4%	6.5%
Property For Industry	PFI	728	$1.62	$1.46	21.5	21.7	6.8%	6.9%
Stride Property	STR	802	$2.20	$2.05	19.7	18.7	7.3%	7.7%
Vital Healthcare Property Trust	VHP	702	$2.03	$1.53	19.1	19.2	6.0%	6.1%
INFORMATION TECHNOLOGY								
Diligent Corporation	DIL	632	$7.18	$7.53	38.2	26.5	0.0%	0.0%
EROAD	ERD	177	$2.94	$2.70	438.8	45.0	0.0%	0.0%
Trade Me Group	TME	1,752	$4.41	$3.93	21.2	19.1	5.2%	5.8%
Vista Group International	VGL	428	$5.35	$5.43	34.7	25.1	1.5%	2.4%
Xero	XRO	2,062	$15.08	$20.50	-26.1	-35.3	0.0%	0.0%
TELECOMMUNICATION SERVICES								
Chorus	CNU	1,578	$3.98	$4.10	14.0	11.3	7.0%	7.3%
Spark New Zealand	SPK	6,532	$3.57	$2.88	18.9	17.9	9.7%	9.0%
UTILITIES								
Contact Energy	CEN	3,576	$4.99	$6.18	21.8	19.1	6.4%	7.0%
Genesis Energy	GNE	2,160	$2.16	$1.86	24.7	27.1	10.4%	11.3%
Meridian Energy	MEL	6,459	$2.52	$2.26	25.2	29.1	8.0%	10.7%
Mighty River Power	MRP	3,966	$2.88	$2.74	25.5	24.9	6.9%	7.3%
Trustpower	TPW	2,400	$7.60	$7.77	21.1	19.9	7.2%	6.8%
Vector	VCT	3,286	$3.30	$2.81	20.1	24.4	6.6%	6.7%
MARKET AVERAGE (excluding ATM, ERD, OHE, PEB & XRO)					**18.6**	**16.7**	**6.2%**	**6.6%**

New Zealand Listed Companies – Gross Dividend Yields 31st March 2016

COMPANY	Rating	PRICE	GROSS DIVIDEND YIELD				DIVIDEND COVER				NET DEBT/ EQUITY
Source: FNZC, CS Group Estimates		31-Mar-16	FY-1	FY0	FY1	FY2	FY-1	FY0	FY1	FY2	
Hallenstein Glasson	O	3.12	10.9%	13.1%	13.4%	13.7%	1.0	1.0	1.0	1.0	-23.1%
PGG Wrightson	N	0.4	13.9%	12.2%	12.2%	13.9%	1.2	1.2	1.3	1.3	17.9%
Steel & Tube	N	2.22	11.9%	11.9%	12.3%	13.5%	1.3	1.2	1.3	1.3	29.4%
New Zealand Refining Company	O	3.09	11.3%	11.5%	11.8%	11.7%	1.9	1.3	1.3	1.2	12.6%
Genesis Energy	N	2.16	10.7%	10.8%	11.7%	12.5%	0.6	0.5	0.5	0.5	24.4%
Methven	N	1.22	9.1%	10.2%	11.4%	12.5%	1.1	1.2	1.1	1.2	24.1%
Opus	O	$1.23	12.4%	10.2%	10.7%	11.3%	1.3	1.7	1.8	1.8	7.3%
Kathmandu	N	1.66	10.0%	10.0%	6.3%	7.3%	1.7	0.9	1.7	1.7	16.0%
Heartland Bank	O	1.22	8.5%	9.7%	10.2%	10.5%	1.4	1.3	1.3	1.2	83.2%
Hellaby	O	$2.65	11.2%	9.0%	10.5%	11.4%	1.3	1.3	1.3	1.3	14.1%
Spark	U	3.61	7.7%	9.0%	8.9%	8.9%	1.0	0.8	0.8	0.9	22.3%
Tower	N	1.8	8.2%	9.0%	9.1%	9.4%	0.9	0.2	1.0	1.1	-44.5%
Sky Network Television	N	4.91	8.5%	8.5%	8.5%	8.5%	1.5	1.3	1.3	1.0	15.6%
NZX	N	1.02	8.2%	8.2%	8.2%	8.0%	0.8	0.8	1.0	1.2	-11.7%
Meridian Energy	N	2.57	9.7%	7.8%	10.5%	7.5%	0.4	0.6	0.4	0.6	13.9%
NPT	U	0.66	7.0%	7.6%	7.8%	8.2%	1.0	1.1	1.1	1.0	24.6%
The Warehouse	U	$2.88	9.2%	7.7%	7.2%	7.7%	0.9	1.0	1.1	1.1	21.0%
Argosy Property	O	$1.18	7.6%	7.6%	7.8%	7.9%	1.0	1.0	1.0	1.0	38.5%
Goodman Property Trust	N	$1.31	7.3%	7.6%	7.6%	7.7%	1.1	1.1	1.1	1.1	32.4%
Metro Performance Glass	O	$1.69	3.0%	7.3%	9.0%	11.1%	3.0	1.3	1.3	1.3	18.6%
Stride	N	$2.22	7.0%	7.2%	7.6%	7.6%	1.0	1.0	1.0	1.0	40.6%
Trustpower	N	$7.57	6.5%	7.2%	6.8%	6.5%	1.0	0.9	0.9	0.9	36.9%
Augusta Capital	N	$1.03	6.8%	7.2%	7.3%	7.5%	1.2	1.4	1.2	1.1	20.3%
Mighty River Power	N	$2.89	10.5%	7.0%	7.4%	8.1%	0.5	0.8	0.7	0.7	17.9%
Chorus	N	$3.99	0.0%	7.0%	7.3%	7.7%	0.0	1.4	1.7	1.5	40.6%
Kiwi Property Group	N	$1.43	6.8%	6.9%	7.1%	7.2%	1.1	1.0	1.1	1.0	28.6%
Briscoe Group	N	$2.99	6.5%	6.8%	7.1%	7.3%	1.3	1.3	1.3	1.3	-38.6%
Fonterra Shareholders Fund	N	$5.92	4.2%	6.7%	6.6%	7.3%	1.2	1.2	1.2	1.4	31.2%
Michael Hill	O	$0.98	5.4%	6.7%	7.3%	10.2%	1.5	1.4	1.4	1.4	10.9%
Property For Industry	U	$1.64	6.0%	6.7%	6.7%	6.8%	1.0	1.0	1.0	1.0	35.4%
Vector	U	$3.29	6.5%	6.6%	6.8%	6.9%	0.9	1.0	0.8	1.0	38.7%
Precinct Properties	N	$1.25	6.4%	6.4%	6.5%	6.5%	1.1	1.1	1.1	1.1	15.4%
Contact Energy	O	$4.97	19.9%	6.4%	6.9%	7.0%	0.3	0.9	1.0	1.0	29.5%
Restaurant Brands	U	$4.81	5.5%	6.2%	6.9%	7.4%	1.2	1.2	1.2	1.2	15.8%
Fletcher Building	O	$7.76	5.7%	6.0%	6.6%	7.1%	1.6	1.4	1.6	1.7	23.7%
Vital Healthcare Property Trust	U	$2.03	5.8%	5.9%	6.0%	6.7%	1.2	1.3	1.3	1.2	35.7%
Freightways	N	$6.23	5.5%	5.9%	6.0%	7.9%	1.3	1.3	1.2	1.1	30.6%
Avidra	O	$0.96	0.0%	5.8%	6.2%	6.5%	0.0	1.4	1.4	1.4	2.6%
Scales Corporation	O	$3.05	7.4%	5.8%	6.7%	7.6%	1.5	1.7	1.7	1.6	3.3%
Infratil	N	$3.31	14.2%	5.8%	6.4%	6.4%	0.1	0.8	0.8	1.0	29.5%
Airwork Holdings	N	$4.50	4.9%	5.6%	6.8%	9.3%	1.9	2.5	2.2	1.8	50.5%
Nuplex	N	$5.17	5.2%	5.4%	5.8%	6.2%	1.4	1.3	1.4	1.4	12.7%
Sanford	N	$6.15	5.2%	5.4%	5.8%	6.5%	1.4	1.7	1.7	1.7	20.9%
Trademe	N	$4.39	5.1%	5.2%	5.8%	7.2%	1.2	1.3	1.3	1.1	11.3%
Z Energy	N	$6.72	5.0%	5.2%	5.7%	6.1%	1.3	1.6	1.3	1.3	17.5%
Sky City	U	$5.04	4.2%	4.3%	5.0%	5.0%	1.1	1.3	1.4	1.5	28.0%
Port of Tauranga	N	$18.30	3.9%	4.1%	4.3%	4.9%	1.1	1.1	1.1	1.1	25.1%
Auckland Airport	U	$6.40	3.1%	3.7%	3.9%	4.6%	1.0	1.0	1.1	1.0	34.7%
EBOS	O	$17.36	3.0%	3.3%	3.7%	3.9%	1.5	1.5	1.5	1.5	10.6%
Mainfreight	O	$15.80	3.0%	3.1%	3.6%	4.6%	2.5	2.4	2.4	2.3	19.8%
Delegat's Group	N	$5.78	2.6%	2.9%	3.3%	3.6%	3.1	3.0	3.2	3.5	42.5%
Fisher & Paykel Healthcare	N	$9.72	2.0%	2.7%	3.1%	3.8%	1.5	1.3	1.4	1.3	7.7%
Ryman Healthcare	N	$8.45	1.6%	1.8%	2.1%	2.4%	2.0	2.0	2.0	2.0	11.3%
Vista Group	N	$5.33	0.0%	1.5%	2.4%	3.6%	0.0	2.3	2.0	1.9	-21.8%
Summerset	N	$4.30	1.3%	1.5%	2.3%	2.2%	3.0	3.4	2.7	3.1	18.7%
Metlifecare	O	$5.17	0.9%	0.9%	1.0%	1.0%	5.6	6.2	6.4	6.4	1.7%
AFT Pharmaceuticals	O	$2.80	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-10.2%
A2 Milk	U	$1.89	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-28.9%
Diligent	N	$7.10	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-67.2%
EROAD	O	$2.90	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-33.8%
Coats Group	N	$0.59	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-16.2%
Intueri Education Group	O	$0.41	22.0%	0.0%	0.0%	0.0%	2.4	0.0	0.0	0.0	62.8%
Orion	O	$3.25	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-24.6%
Pacific Edge	O	$0.65	0.0%	0.0%	0.0%	0.0%	0.0	0.0	0.0	0.0	-81.1%
Synlait Milk	N	$3.05	0.0%	0.0%	0.0%	6.4%	0.0	0.0	0.0	2.0	38.9%
Xero	N	$15.05	0.0%	0.0%	0.0%	6.4%	0.0	0.0	0.0	2.0	-53.3%

1. The Net Debt/Equity ratio is calculated as Gross Debt less cash holdings divided by total shareholder funds. Negative ratios indicate a net cash position.
2. FY0 represents the current financial year
3. Property stock gross yields reflect returns under the PIE regime assuming a 33% unitholder
4. Ratings: "O" - Outperform, "N" - Neutral, "U" - Underperform, "R" – Restricted

Australian Equities

The Banking Sector

Full Year 2016 forecast earnings have been reduced by 2% for ANZ, NAB and WBC and 1% for CBA. This reflects a 3-4 basis point increase in bad debt charges. The increase in bad debts reflects specific issues which have arisen in FY16 rather than a general deterioration in loan quality. Hence outer year profit forecasts are largely unchanged. Bank profits are vulnerable to further increases, following the running down of collective bad debt provisions in recent years.

FNZC were already forecasting a gradual increase in bad debt costs over the coming years with bad debt charges increasing from 0.16% in FY15 to an expected 0.28% in FY18.

Their preference remains WBC and CBA over NAB and ANZ. **NOTE:** WBC was reported on in my last newsletter.

Target prices	
WBC	A$37.00
CBA	A$85.00
NAB	A$26.20
ANZ	A$24.50

Commonwealth Bank (CBA.AX)

OUTPERFORM A$74.20 Target price A$85.00

Following the 1st Half 2016 result, FNZC downgraded their estimates by 1% and reduced their price target from A$89.00 to A$85.00. The result was positive, with strong top-line revenue growth, a modest bottom-line earnings beat, and feared negatives not realised (i.e. No DPS cut or aggressive bad debt / asset quality inflection point reached). What FNZC liked about the result was good revenue / business lending growth, and improving asset quality metrics. What they didn't like was that the margins were stable (not rising); cost growth relatively high; equity Tier-1 ratio increase softer than expected; further declines in collective provision coverage; and softer Return on Equity.

Overall this result sets a calming tone for the sector. Positively, institutional lending growth is strong, asset quality metrics are still holding firm and NZ earnings growth remains positive. Negatively, institutional lending growth is consuming capital and margin trends are merely stable.

Valuation. CBA is currently trading on 12.8x 12M prospective earnings (22% premium to the major banks vs a 14% four-year average premium) and a corresponding book multiple of 2.3x.

CBA.AX Year to 30 June		2015A	2016F	2017F	2018F
Reported Profit	A$m	9,093	9,505	10,167	10,807
Earnings /share (Adj)	Ac	5.63	5.69	5.87	6.19
EPS Growth	%	5.0	1.1	3.3	5.3
Price / Earnings Ratio	x	13.2	13.0	12.6	12.0
Net Div / Share	Ac	4.20	4.21	4.23	4.35
Net Yield	%	5.7	5.7	5.7	5.9

AUSTRALIAN FORECASTS 29th March 2016 Source: First NZ Capital, CSFB	Ticker	Mrkt Cap (A$m)	Price 29/03/2016 (A$)	Target Price (A$)	Price Earnings (x) FY15	Price Earnings (x) FY16	Gross Yield (%) FY15	Gross Yield (%) FY16
FINANCIAL								
Banks								
ANZ Banking Group	ANZ	70,080	A$24.02	A$24.50	10.5	9.5	6.8%	7.4%
Commonwealth Bank Australia	CBA	127,758	A$74.82	A$85.00	16.0	14.3	4.9%	5.4%
National Australia Bank	NAB	69,438	A$26.26	A$26.20	10.5	11.7	7.2%	7.5%
Westpac	WBC	102,909	A$30.85	A$37.00	13.9	12.9	5.6%	5.9%
Insurance								
AMP	AMP	17,066	A$5.77	A$6.05	22.4	17.9	4.0%	4.5%
QBE Insurance Group	QBE	11,118	A$10.75	A$8.52	-38.6	14.9	3.5%	3.7%
Suncorp Group Limited	SUN	15,169	A$11.79	A$12.50	29.4	12.5	6.4%	8.9%
Diversified Financials								
ASX	ASX	7,976	A$41.20	A$40.50	21.1	20.8	4.1%	4.3%
MATERIALS - CHEMICALS								
Incitec Pivot	IPL	5,585	A$3.31	A$3.50	18.1	15.3	2.8%	3.3%
Orica	ORI	5,904	A$15.81	A$15.30	9.7	10.3	5.9%	6.1%
Nufarm	NUF	2,025	A$7.62	A$7.90	28.9	27.1	1.0%	1.0%
MATERIALS & MINING								
BHP Biliton	BHP	64629	A$17.00	A$15.15	5.6	4.9	900.0%	940.0%
Newcrest Mining	NCM	9,417	A$16.29	A$8.13	20.5	23.9	1.0%	0.0%
Rio Tinto	RIO	51,514	A$42.30	A$31.94	5.8	6.3	6.0%	6.7%
ENERGY								
Origin Energy	ORG	8,855	A$5.06	A$4.50	7.3	7.9	9.9%	9.9%
Santos Ltd	STO	7,116	A$4.03	A$4.10	7.8	7.4	7.4%	7.4%
Woodside Petroleum	WPL	16,740	A$26.94	A$20.40	9.8	6.9	12.3%	12.6%
HEALTH CARE								
CSL Ltd	CSL	35,684	A$102.20	A$76.77	31.8	27.8	1.3%	1.5%
Ramsay Health Care	RHC	12,614	A$62.42	A$72.00	45.9	38.1	1.1%	1.4%
CONSUMER STAPLES								
	WOW	28,533	A$22.45	A$26.13	11.8	11.5	5.9%	6.1%
INDUSTRIALS								
Transurban	TCL	22,920	A$11.26	A$11.50	94.9	71.0	2.8%	3.1%
INFORMATION TECHNOLOGY								
Computershare	CPU	4,054	A$9.80	R	13.5	12.3	3.5%	3.7%
TELECOMMUNICATION SERVICES								
Telstra Corporation	TLS	64,185	A$5.25	A$5.25	17.6	16.3	5.3%	5.6%
UTILITIES								
AGL Energy	AGK	12,435	A$18.43	A$19.40	16.6	17.5	3.4%	3.4%
Market Average					**18.1**	**17.7**	**5.0%**	**5.3%**

Australian Investment Strategy

Our Australian analysts continue to believe we are in the midst of a rally that has traditionally followed benign bear markets in Australia. With the help of hindsight, it seems that the turning point for the Aussie market (if it was one) occurred around the time when major central banks further pushed out the frontiers of monetary policy, incrementally better news in China and Australian analysts upgraded their EPS outlook. They recently added Macquarie Group to the Long portfolio as a beneficiary of easier central bank policy. They recently raised their exposure to improving news from China.

Tabcorp out: They added Tabcorp to their long portfolio just seven weeks ago. They liked the company's ability to generate cash, and the recent selloff provided an opportune entry point. The company faces new concerns that are likely to weigh on the stock price in the near term. Since adding TAH to their Long Portfolio, the stock has returned 2%, while the ASX 200 Accumulation Index has returned 6%.

South 32 in: In place of Tabcorp, they add South 32 to our Long Portfolio. The stock provides obvious exposure to commodity prices and helps diversify their current overweight position in iron ore. They are particularly impressed with the company's cost-out targets, which are expected to total $1.3bn in the two years to FY17. This compares to current revenues of $6bn. Falling capex also helps drive an increase in free cash-flow and the stock trades on a FY17 FCF yield of 14%. The company is currently sitting on net cash.

Long/Short Portfolio: Their complete long ideas are detailed below. Their 12 Long positions trade on a PE, DY and FCF yield of 17.2x, 4.5% and 7.2%, respectively.

Credit Suisee Long Strategy Ideas

Strategy Long Ideas	MCap (bn)	Year End	PE (x)	DY (Net, %)*	FCF Yield (%)	Comment
Westpac	101.1	Sep	11.8	6.5	n.a	Strong capital position Fastest DPS growth of 4-big banks Profits supported by productivity program
BHP Billiton	86.6	Jun	34.8	1.4	8.2	Solid balance sheet Continues to restructure Bottom of the cycle commodity prices
Rio Tinto	69.2	Dec	28.3	2.1	3.5	Solid balance sheet Continues to restructure Bottom of the cycle commodity prices
Macquarie Grp	22.3	Mar	10.6	6.6	n.a	Exposed to many de-equitisation drivers Double digit DPS growth outlook Efficient mgt team
Amcor	16.6	Jun	18.4	4.0	5.5	Excess cash-flow Solid FCF Margins Growing despite headwinds
Suncorp	15.2	Jun	11.4	6.5	n.a	c10% gross DY Larger than normal PE discount Considerable benefit from cost cutting
ResMed.	10.4	Jun	19.9	2.3	5.2	Net-cash on balance sheet 20% FCF Margin Buying back stock
Caltex	9.1	Dec	15.2	3.3	6.3	Growing distributions Inexpensive ""infra-like"" assets Attractive valuation
Aurizon	8.3	Jun	14.4	6.9	7.9	Double digit FCF margins Valuations imply excessive volume decline Attractive infrastructure assets
South 32	7.8	Jun	12.5	3.2	13.8	Attractive valuation Impressive cost-out program Net cash on balance sheet
Aristocrat	6.6	Sep	20.3	1.8	4.7	Under-valued Infra-like asset Impressive free cash margins Double digit EPS growth
Nine Ent.	1.4	Jun	9.2	9.8	9.5	Beneficiary of media rule changes +10% dividend yield Strong balance sheet

UK Investment Trusts

Share Price 31-Mar-16 GBP pence	Net Asset Value	(Disc) Premium	*View	Investment Trust Company	Net Yield %	12 Month % Discount Average	High	Low	1 Year % Return pa Price	NAV	3 Year % Return pa Price	NAV	5 Year % Return pa Price	NAV
				Global Equity Funds										
581	618	-6.0%	↑	Bankers	2.5	-2.2	-6.6	1.7	-0.2	3.3	11.2	19.6	9.9	15.6
468	536	-12.8%	↓	British Empire & Securities	2.2	-10.7	-12.2	-7.9	-8.4	-7.9	4.6	2.3	0.7	-0.8
2258	2819	-19.9%	→	Caledonia Investments	2.1	-15.6	-22.2	-11.2	8.6	8.0	15.3	12.7	8.2	5.4
200	224	-10.8%	↑	JP Morgan Overseas	1.6	-6.8	-10.6	-4.0	-3.5	-0.8	11.2	11.3	4.6	4.9
414	471	-12.1%	↑	Monks Investment	1.0	-11.2	-14.9	-7.3	2.1	0.8	11.3	9.4	3.9	2.7
1,641	1570	4.6%	↑	Caledonia Investments	1.8	-0.7	-5.6	5.5	12.3	5.4	18.2	11.3	6.2	4.1
				European Funds										
370	376.3	-1.7%	↑	City of London	4.0	1.5	-0.4	3.4	1.2	-1.1	11.3	7.6	9.3	5.4
655	739.2	-11.4%	NR	The European Trust	1.9	-5.4	-9.8	-0.1	-11.4	-11.8	11.1	7.6	4.8	0.9
275.2	304.4	-9.6%	↑	JP Morgan European Smaller	1.2	-10.0	-15.0	-4.7	23.2	18.8	23.7	21.7	9.1	6.5
247	258.8	-4.6%	NR	BlackRock Greater European	2.0	-4.0	-6.3	-0.6	1.4	2.9	11.0	9.7	5.7	3.7
				Asia/Pacific Funds (including Japan)										
275.6	327.6	-15.9%	↑	JP Morgan Fleming Japan	1.0	-10.0	-15.4	-5.6	1.6	6.6	18.2	18.1	11.3	10.1
282.3	292.3	-3.4%	↑	Henderson Far East Income	6.6	2.3	-3.6	6.2	-6.5	-8.8	2.8	-1.7	3.3	-1.6
140	152.8	-8.4%	↑	Schroder Japan Growth Fund	1.3	-6.6	-12.5	-1.0	-5.6	-4.5	13.7	11.5	10.3	8.4
				Global Emerging Markets Funds										
574	648	-11.4%	↑	JPM Fleming Emerging Markets	1.1	-10.4	-12.2	-7.7	-3.2	-3.6	2.9	2.3	0.0	-0.4
453.9	518.7	-12.5%	↑	Templeton Emerging Markets	1.9	-10.4	-13.8	-7.2	-12.9	-13.4	-5.6	-5.1	-6.5	-6.4
				Far East Exc Japan										
246	280.7	-12.3%	↑	Edinburgh Dragon	1.2	-10.7	-15.3	-6.1	-10.3	-9.6	-0.4	0.8	1.3	0.8
505	576.2	-12.4%	NR	JP Morgan India	0.0	-10.5	-14.6	-6.7	-6.5	-5.2	14.4	14.9	2.1	3.1
272	306.7	-11.3%	↑	Schroder AsiaPacific	1.0	-9.6	-12.3	-6.0	-3.9	-3.5	6.3	5.7	5.1	4.3
				Other Funds										
888.5	984.8	-9.8%	↑	North American Income Trust	3.7	-7.6	-11.3	-3.5	10.0	7.7	11.1	10.7	8.9	7.1
291.3	298.7	-2.5%	↑	JPMorgan American	1.3	-2.6	-7.2	3.7	8.3	4.7	17.4	17.0	11.4	10.4
218	244	-8.0%	→	BlackRock World Mining	9.0	-7.5	-13.5	2.0	-14.9	-23.4	-16.7	-22.8	-19.0	-23.7
572	621.5	-8.0%	→	Polar Capital Technology	0.0	-1.8	-6.7	5.0	3.7	5.9	16.7	19.2	9.3	10.4
501.5	663.9	-24.5%	↑	SVG Capital	0.0	-18.7	-28.2	-11.7	5.0	14.4	12.7	21.4	14.7	16.0
296.7	327	-9.3%	→	TR Property Trust	2.5	-0.3	-6.0	3.5	3.4	9.0	25.9	21.0	14.3	9.6
1,715	1,820	-5.8%	↑	Worldwide Healthcare Trust	0.7	-3.8	-8.5	0.8	-6.8	-7.3	26.0	24.5	21.6	18.7

1yr 3yr & 5yr Performance figures to 31st March 2016 - All in NZ Dollars - Exchange Rate: UK£/NZ$ 0.4808 US$/NZ$ 0.6895

NOTE: *VIEW – First NZ Capital Limited

FNZC's 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 View we seek to identify buying opportunities for investors in each asset class, on a 12-18 months timeframe. 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.

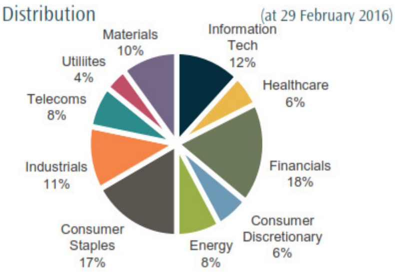
North American Income (NAIT.LN)

The Company, formerly known as Edinburgh US Tracker, adopted an active US equity income mandate in June 2012. The investment objective is now to provide investors with above average dividend income and long term capital growth, through active management of a portfolio of predominantly S&P 500 US equities. The Company has a market cap of £257m and an initial net dividend yield target of 3.5%, payable through semi-annual dividends, and then quarterly dividends after the first twelve months. Up to 20% of the Company can be invested in fixed income, while investment can also be made in Canadian stocks and US mid and small cap stocks.

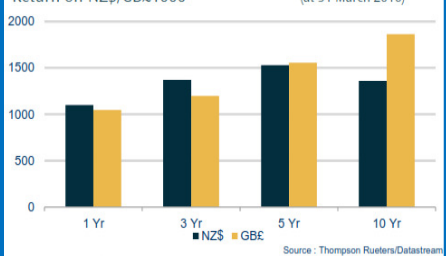
Key Data Launch Date - 1902

Year to March 2016	1Yr	3Yrs	5Yrs	10Yrs
Share Return on NZ$100	110.0	137.0	153.0	135.9
NAV Return on NZ$100	107.7	135.8	140.7	116.1
Current Discount/(Prem.)				9.8%
Gross Yield				3.7%
5 Yr Dividend Growth PA				27.4%
Gearing				11.0%
Total Assets Managed				£336m
NAV Volatility	16.4%	12.9%	N/A	N/A
Benchmark Volatility	17.0%	13.6%	N/A	N/A
12 Month High/Low				905/729p

Sector Distribution (at 29 February 2016)



Return on NZ$/GB£1000 (at 31 March 2016)



Top 10 Holdings (at 29 February 2016)

Company	Industry classification	% Portfolio
Molson Coors Brewing	*Beverages*	4.3
Philip Morris	*Tobacco*	4.2
Dow Chemical	*Chemicals*	3.7
CME Group	*Investment Services*	3.6
Microsoft	*Information Technology*	3.5
Verizon Communications	*Diversified Telecommunication Services*	3.5
Lockheed Martin	*Aerospace & Defence*	3.5
Rockwell Automation	*Information Technology*	3.5
PepsiCo	*Beverages*	3.1
Pfizer	*Pharmaceuticals*	2.7
Total		35.6

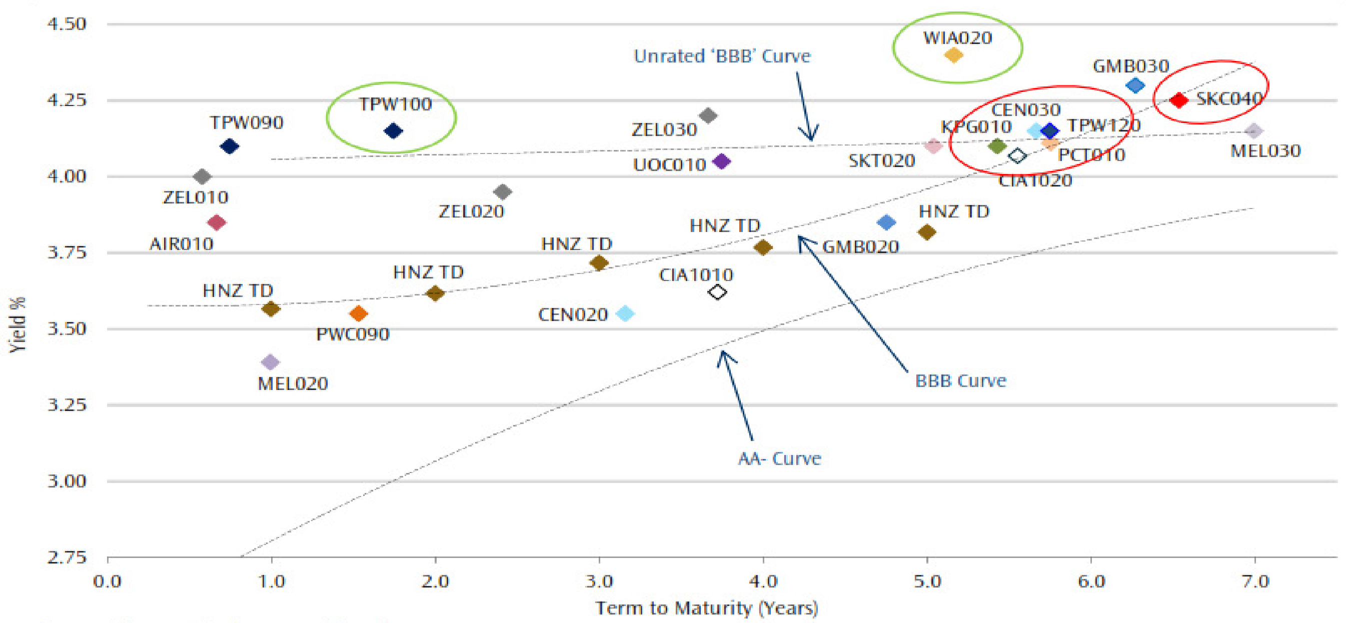
NZ Daily Fixed Interest Rate Sheet

PRICES AS AT 31ST MARCH 2016 **NOTE: Indicative pricing only**

Secondary market	Code	Rating	Type	Maturity/ Reset Date	Coupon	Yield	Margin to SWAP	Price /$100	Coupon Freq
Fletcher Building	FBI110	NR	Cap	15/03/2018	7.15%	4.15%	195	$105.93	2
Z Energy	ZEL020	NR	Snr	15/08/2018	7.25%	3.90%	167	$108.51	4
Fletcher Building	FBI120	NR	Cap	15/03/2019	5.40%	4.30%	203	$106.23	2
Contact Energy Limited	CEN020	BBB	Snr	15/05/2019	5.80%	3.60%	131	$108.69	4
Kiwibank	KCF010	BB+	Tier 2	15/07/2019	6.61%	4.90%	260	$106.54	2
Infratil	IFT200	NR	Bnd	15/11/2019	6.75%	4.40%	206	$110.40	4
University of Canterbury	UOC010	NR	Snr	15/12/2019	5.77%	4.00%	165	$107.76	2
Infratil	IFT090	NR	Convert	15/02/2020	8.50%	4.75%	238	$114.31	4
Goodman Property Trust	GMB020	BBB+	Snr	16/12/2020	6.20%	3.82%	135	$112.00	2
Sky TV	SKT020	NR	Snr	31/03/2021	6.25%	3.75%	124	$111.41	4
Trustpower	TPW120	NR	Snr	15/12/2021	5.63%	4.15%	157	$109.16	4
Infratil	IFT190	NR	Bnd	15/06/2022	6.85%	4.70%	206	$113.58	4
Goodman Property Bond	GMB030	BBB+	Bnd	23/06/2022	5.00%	4.00%	136	$106.85	2

Floating Rate / Perpetual Bonds	Code	Rating	Type	Reset Date	Coupon	Price /$100	Margin to SWAP	Maturity	Coupon Freq
Credit Agricole S.A.	CASHA	BB+	Tier 1	19/12/2017	5.04%	85.00	310	Perpetual	4
Genesis Power Limited	GPLFA	BB+	Cap Bond	15/07/2018	6.19%	103.50	220	Perpetual	4
Infratil	IFTHA	NR	Perp	15/11/2014	4.26%	67.00	300	Perpetual	4
Quayside Holdings Ltd	QHLHA	NR	Perp Pref	12/03/2017	5.88%	99.10	170	Perpetual	4
Rabobank Nederland	RBOHA	BBB-	Tier 1	8/10/2014	3.49%	93.65	460	Perpetual	4
Rabobank Nederland	RCSHA	BBB-	Tier 1	18/06/2019	8.34%	105.00	360	Perpetual	4
Works Infrastructure Finance	WKSHA	NR	RPS	15/06/2015	7.21%	100.40	340	Perpetual	4

BBB-, BBB, BBB+ Bonds



Source: Thomson Reuters, www.interest.co.nz

Notes: 1. The credit ratings above are provided by Standard & Poor's or Fitch or are the First NZ Capital expected credit rating if the security was rated by a credit rating agency. Detailed credit analysis has not been undertaken by First NZ Capital on the subject companies.
2. The Heartland NZ term deposit rates are for a minimum $20,000 deposit as shown on www.interest.co.nz on 17/03/2016.
3. The following securities are unrated: ZEL010, ZEL020, ZEL030, TPW090, TPW100, TPW120, PCT010, SKT020 UOC010 and KPG010.

Limitations and Disclaimer