JARDEN

Investment Outlook

February 2020

A New Year, A New Decade -2020

NZ Equities

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Australian Equities

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Global Equities

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Jarden Overview

February 2020

Despite it being late in the economic cycle the outlook for 2020 appears promising. This follows last year's central bank stimulus, which was accompanied by remarks that implied policy interest rates would likely remain at low levels until inflation had firmly re-established itself. In this vein we observe that both the European Central Bank and the US Federal Reserve have announced reviews of their operations. Furthermore, under electoral pressure many governments have taken a less austere to the management of government finances. On the trade front, financial markets have taken significant comfort from the phase 1 US-China trade agreement. This represents a significant step forward even though many issues remain a long way away from being put completely to bed.

While there has been a solid start to 2020 and the announcement of positive economic data, a new challenge has surfaced – the Wuhan coronavirus. There are parallels to the SARS (severe acute respiratory syndrome) outbreak in late 2002/2003. At the time of writing the number of infections has reached nearly 3,000 and 81 people have died. A key difference this time round is a swifter, more aggressive stance by China's authorities to contain the disease. Immediately the Chinese stock market has fallen, and the share prices of travel and tourism related companies have declined. Once there are signs of the virus plateauing, investment opportunities in these stocks are likely to present themselves. Until then, there appears little need to rush in. We are reminded that the impact of entirely unforeseen events like this underpins the benefit of a diversified investment portfolio.

The events on most investors minds this year are the elections later in the year in the US and New Zealand. In each case, our base case scenario is a continuation of the status quo. However, the outcome of neither election is a slam dunk and we will focus on signs of deviations from this path. The other aspects of the election we will focus on are the specific policies that could potentially impact companies operating in particular sectors.

As 1 January 2020 also marks the start of a new decade, we briefly touch on some of the key themes likely to evolve. In particular, we focus on millennials, a cohort of the population that is becoming increasingly important as the baby boomer's importance gradually fades.

Towards the end of the publication we draw client's attention to the new Trusts Act 2019 which comes into force in January 2021. It heralds some important changes following a review of the prior legislation which was over sixty years old. We also highlight an important tax change which may affect some clients, and which can be readily resolved.

Finally, we welcome a new adviser to the Jarden Wealth Management team, Richard McCadden in Wellington.

John Norling,
Director, Head of Wealth Research

Contents

A New Year, A New Decade - 2020

Key Takeaways

- The world in 2030 is likely to look somewhat different than today
- Except for the excellent equity market returns, our expectations for 2019 delivered
- Elections at home and in the US are likely to generate significant noise, but have a limited impact
- We see little joy for investors in term deposits, but brighter prospects for property owners

Not only is it the start of a new year, 2020 is also the start of a new decade. Consequently, despite the long-term future being extremely difficult to predict and often peppered by the most surprising developments, we explore some ideas which may develop over the decade.

The 2020's

One aspect of the future which is relatively easy to predict is demographics. A trend which will emerge is the increasing influence of millennials (those born between 1981 and 1998) and the declining influence of the baby boomers (those born between 1946 and 1965). We explore this theme in more detail on page 24 and reflect on related investment opportunities.

While warming of the atmosphere due to carbon emissions caused by human activity was first written about by Svante Arrhenius in the 1890's, it is an issue that is likely to be far more topical in the next decade than it has ever been before. The severe drought and ongoing bush fires in Australia has emphasised the issue for people in this part of the world. We explored climate change in an article by Dr Kevin Trenberth in our May 2019 Investment Outlook and plan to explore it further in future publications. As this issue escalates, we expect the price paid for emitting carbon to increase which should cause the Salt Carbon Fund (CO2.NZ) unit price to appreciate.

Over the next decade many digital technologies are likely to come into their own – artificial intelligence, augmented reality, software-as-a-service and autonomous driving. For this to occur cybersecurity (refer page 33) will be an imperative. Investment opportunities in the software space include Microsoft (MSFT.US), Oracle (ORCL.US), Intuit (INTU.US) and closer to home Xero (XRO.AU). For a broad exposure to software companies consider iShares Expanded Tech-Software Sector Fund (IGV.US).

Commercially operated drones in the US are projected to number 6.5 million by 2030

Unmanned aerial vehicles (UAV's or drones) are set to be the most visible change. Commercially operated drones are projected to number 700,000 in the US by 2022, and 6.5 million by 2030. There will be issues to overcome – noise, safety when flying in populated areas, and drone traffic management. This will require aviation authorities to develop suitable regulations and integrate drone traffic into their aviation systems. While the payloads are likely to be small (circa 3kg) the benefits are very appealing due to the expected very low delivery cost, speed and no need for human pilots. Potential benefits include – making critical deliveries in severe weather conditions or to remote hard to access locations, traffic monitoring, replacing couriers and delivery people (which in turn contributes to less traffic and carbon emissions), delivering parts to trades people so that jobs can be completed without the need for a special trip to the parts supplier (thus enhancing productivity, decreasing traffic and carbon emissions). The current leaders in this technology include Amazon Prime Air (AMZN.US), Google Wing (GOOGL.US), Uber Elevate (UBER.US) and UPS (UPS.US).

2019 Score Card

Before providing our picks for 2020, we review what we got right and wrong in 2020. The oil price was choppy over the year finishing up on the US$54/barrel at the start of the year but below the US$70/barrel anticipated. While economic growth was weaker in 2019, as expected there was no recession. The NZ dollar weakened in line with

The NZ dollar weakened but remained comfortably above US$0.60

expectations but remained comfortably above US$0.60. The US/China trade dispute progressed largely as expected getting worse before a phase 1 agreement late in the year, no doubt with the 2020 US presidential election firmly in President Trump's sights. Equity market volatility certainly didn't hit the heights of 2018, but as expected it was certainly a volatile year, particularly in the June and September quarters. President Trump's impeachment trial is currently underway. We continue to expect that he won't be removed from office as the Senate vote will be along party lines which means the required two thirds super majority to remove him won't be achieved. We had expected inflation to rise over 2019 and approach 2%, which it did recording 1.9% for the year. NZ house prices didn't decline. In fact, they rose by 5.3% as the market rebounded in the second half of the year. We expected a modest rise in equities in 2019. As it turned out despite earnings growth being a little softer than expected, valuation multiple expansion was much greater, assisted by lower interest rates and improved sentiment at the end of the year as economic indicators improved and the phase 1 US/China trade deal emerged.

Inflation approached 2% recording 1.9% for the year

Equity Markets

Equities are expected to outperform debt securities

As we roll into 2020 equity markets continue the rally which started in early October 2019. Despite being in the mature part of the economic cycle equities markets are expected to again outperform debt securities. For global equities we expect mid-to-high single digit returns, while for NZ equities we expect a low single digit return. We discuss the outlook for equities in more detail in the Asset Allocation section on page 9.

Will Gold Shine?

Gold experienced a revival in 2019, rising nearly 20% to finish the year at US$1,520/ounce. While gold fulfilled its role as a safe haven asset during periods of heightened geopolitical risk, we believe that it was the fall in real interest rates that underwrote the rise.

Low Real Yields Support Gold

Source: *Bloomberg, Credit Suisse*

Gold tends to be the best safe haven during times of economic and geopolitical stress

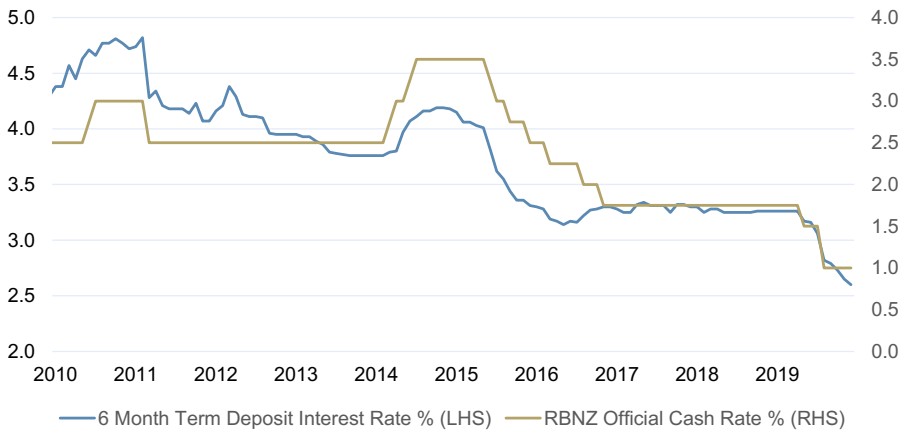
In 2020, real interest rates are likely to rise, placing downward pressure on the gold price. We expect this will continue until inflation rises, probably not until 2021 at the earliest. A weaker US dollar should offset this pressure leaving the gold price largely unchanged. We observe that gold tends to be the best safe haven asset during times of economic or geopolitical stress. We believe there is a good chance of geopolitical issues flaring up in 2020. Given this view, we would look to take profits from any gold holdings during these periods as without them we expect the gold price to be essentially flat this year.

Bank Term Deposit Interest Rates

We expect the Reserve Bank of New Zealand (RBNZ) to leave the Official Cash Rate at 1% for at least the next year. Consequently, the current low short term (circa six months) term deposit interest rates of around 2.6%pa are unlikely to rise any time soon. It is likely that term deposit interest rates may fall further due to the implementation of deposit insurance this year and the RBNZ's new capital requirement that the banks increase their regulatory capital over the next seven years (refer page 29 for in depth comment).

Term Deposit Interest Rates Fade as the Official Cash Rate Falls

Source: Reserve Bank of New Zealand



House Prices – Off to the Races?

The fall in interest rates has reignited house prices, which rose 6% over the second half of 2019. This was primarily triggered by the fall in mortgage interest rates resulting from the RBNZ's 0.75% cut in the Official Cash Rate, which improved housing affordability as measured by the percentage of income used to service a mortgage for homeowners. Furthermore, for investors the relative attractiveness of residential property as an investment improved. Investors have made a dramatic return to the residential property market with new lending to investors up 25%, thereby reversing the prior sharp decline.

Investors have made a dramatic return to the residential property market

The renewed confidence in the housing market is highlighted by the drop in the average days to sell a property to 35 days, comfortably below the long-term average of 39 days. The net result of all this being expectations of house price growth have risen.

Other factors underpinning the housing market are population growth (while migration has eased it remains high by historical standards at around 41,500), tight supply due to land and labour constraints (while building consents have risen to a multi-decade high of over 37,000, there is estimated to have been a significant under build that has accumulated over the past decade) and the removal of concerns relating to capital gains tax.

We expect shorter term interest rates will be steady over the next year. Consequently, most mortgage interest rates are also likely to be stable. With no rise in mortgage interest rates in sight and momentum in the sector rising, we expect house prices to rise by 6% this year.

Most mortgage interest rates are likely to be stable

Factors which could dampen this view are the general election and policy changes by the RBNZ. The RBNZ will be keen to avoid a speculative dynamic which results in imprudent buyer behaviour and imprudent bank lending which could generate financial stability risks. Macro-prudential policy (restrictions on high loan-to-value lending which were last eased in January 2019) have been used in the past to help dampen the housing market.

Election 2020 – Kiwi Style

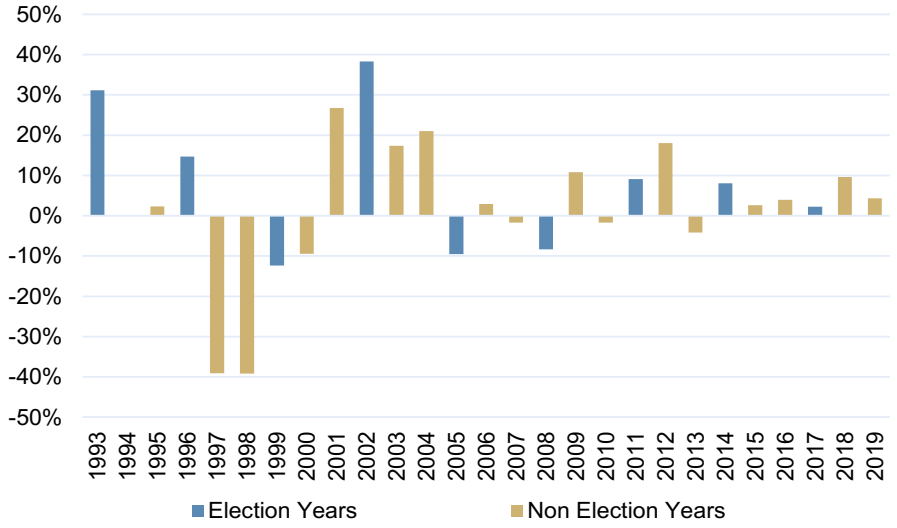
The New Zealand general election is expected to be held toward the end of the year, with the last possible date being 21 November 2020. Accompanying the election will be two referendums, one on personal cannabis consumption and the other on euthanasia.

Current polling suggests that Act could achieve two seats

The current Labour, NZ First coalition with support of the Greens governs with a six-seat majority. Current polling suggests that Act could achieve two seats. NZ First is currently polling around the 5% threshold for representation in parliament. Hence, there is a risk they may end up with no seats unless they can secure an electorate seat. Assuming NZ First gets in, they could again hold the balance of power. If not, Labour could govern with the support of the Greens. Based on recent polling and first term governments typically being returned to office, we expect the status quo to remain. With Labour's capital gains tax put to bed, the major concern for investors has gone. As the election date nears, we expect all parties to release new policy. Our final observation is that New Zealand elections have no discernible impact on the performance of the New Zealand equity market relative to global equities (in NZ dollars). However, there may be company specific impacts based on specific policies.

Election Years Have No Discernible Impact on the Relative Performance of NZ Equities

Source: Bloomberg, Jarden



Election 2020 – American Style

Our central scenario is that President Trump is returned to office

Our central scenario is that President Trump is returned to office, but with a reduced number of electoral votes. This is because incumbent presidents rarely lose when the economy is growing and employment is solid. The exception is if there is a big scandal involving the president (we expect the impeachment trial to be finished well before the election). It will be important to monitor Trump's approval rating as it is relatively low. The flipside is that it has been rock solid varying little over time. This is because the electorate is very polarised with 90% of Republicans believing he is doing a good job while a similar proportion of Democrats think he is doing a bad job.

Bernie Sander's and Elizabeth Warren's proposed policies are less investor friendly

While US investors are likely to be much happier with a Trump win, when looking at potential Democrat opponents, there is probably a clear preference for Jo Biden, over Bernie Sanders or Elizabeth Warren whose proposed policies are less investor friendly. With 68% of the primary delegate votes known by 24 March 2020 there should be a clear picture of who the Democrat candidate is. Investor concerns relate to a roll back of Trump's tax cuts to one degree or another (a full repeal is estimated to reduce company earnings by 10%) and increased regulation which is expected to be particularly negative for the healthcare sector, while also potentially affecting the banks, technology and oil companies. It is worth noting that unless the Democrats can secure the Senate as well as the presidency the ability to implement many of these policies will be severely constrained.

In common with elections in NZ, US elections do not typically have an impact on equity market returns in election years, although companies in specific sectors may be impacted by new policies.

NZ Dollar

Commencing from early October 2019, the New Zealand dollar appreciated materially as confidence regarding a US-China trade deal grew and the economic outlook improved implying less need for lower interest rates. We explore the rationale for a modest appreciation of the New Zealand dollar on page 31.

Economic Health Check Up

While the easing has ended central banks are not expected to tighten policy any time soon

For the past couple of years, we have noted that the global economy is in the advanced stages of the economic cycle, but not to expect a US recession in the coming year. We are of that opinion again. In 2019, central banks eased monetary policy to support growth. While the easing has ended central banks are not expected to tighten policy any time soon, due to a clear preference to let inflation firmly re-establish itself before taking any action to dampen it. In addition, governments are showing more preference for spending than fiscal austerity. Other factors include a larger than expected Chinese stimulus package and reduced global uncertainty following phase 1 of the China-US trade deal. None of the US recession indicators that we follow indicate a US recession is in the offing – the Fed Funds Rate is well below the current neutral rate estimate of 2.4%, the Conference Board US leading economic indicator is just positive at 0.1% and 3-month interest rates are 0.2% below the 10-year interest rate. Furthermore, US job growth remains strong and the unemployment rate is low at 3.5%. In conclusion, while the global economy is not shooting the lights out, it is okay.

Forecasts

Economics

As at 27 January 2020

	Fiscal Balance % GDP			*GDP Growth %*			*Inflation %*			*3 month Libor %*			*10 Year Government%*		
	2018A	**2019F**	**2020F**	**2018A**	**2019F**	**2020F**	**2018A**	**2019F**	**2020F**	**Spot**	**3mth**	**12mth**	**Spot**	**3mth**	**12mth**
New Zealand	1.1	0.8	0.5	2.8	2,2	2.3	1.6	1.9	2.0	1.3	1.2	1.2	1.4	1.6	1.9
Australia	-0.5	0.0	0.3	3.0	1.8	2.1	1.9	1.6	2.0	0.9	0.8	0.6	1.1	1.2	1.5
US	-4.1	-4.6	-4.8	2.9	2.3	2.0	2.4	1.8	2.1	1.8	1.9	1.9	1.6	1.9	2.2
Japan	-3.8	-3.0	-2.9	0.7	1.0	0.5	1.0	0.5	0.7	0.0	-0.1	-0.1	0.0	0.0	0.0
Europe	-0.7	-0.9	-1.0	1.8	1.2	1.0	1.7	1.2	1.3	-0.4	-0.5	-0.5	-0.4	-0.2	-0.1
United Kingdom	-1.5	-2.2	-2.4	1.4	1.3	1.1	2.5	1.8	1.7	0.7	0.7	0.8	0.5	0.8	1.0
China	-4.1	-4.5	-4.8	6.6	6.1	6.0	2.1	2.9	3.1	2.9	2.7	2,7	3.0	3.0	3.0

Source: Jarden, Bloomberg

NZ and Australia fiscal balance is 30 June

NZ is the 90-day bank bill yield

Equities and Commodities

	Spot	12 mth forecast	Past Month	Past Year
Australia – ASX 200	7,091	6,760 - 7,470	3.9%	20.1%
Emerging Markets	1,119	1,240 - 1,370	0.1%	8.4%
Europe – Stoxx 600	414	430 - 480	-1.4%	15.7%
Japan - Topix	1,703	1,760 - 1,940	-1.8%	8.7%
New Zealand – NZX 50	11,807	11,700 - 12,930	1.8%	29.6%
UK – FTSE 100	7,412	7,460 - 8,240	-3.0%	8.9%
US – S&P 500	3,247	3,340 - 3,690	0.2%	21.8%
Oil Brent USD/bbl	59	63 - 68	-11.6%	-3.8%
Gold USD/Oz	1,582	1,486 - 1,642	4.7%	21.2%

Source: Jarden, Bloomberg

Foreign Exchange

	USD		NZD	
	Spot	**12mth**	**Spot**	**12mth**
NZD	0.65	0.69	-	-
AUD	0.68	0.71	0.97	0.97
EUR	1.10	1.15	0.59	0.60
JPY	108.9	107.0	71.3	73.8
GBP	1.30	1.40	0.50	0.49
CNY	6.94	6.80	4.54	4.69

Source: Jarden, Credit Suisse, Bloomberg

Asset Allocation

Key Takeaways

- Equities should continue to be supported near-term...
- ...although they may not perform as well over the next decade as they have recently
- Shorter term interest rates are likely to stay flat, while longer-term interest rates may rise moderately

Global Equities

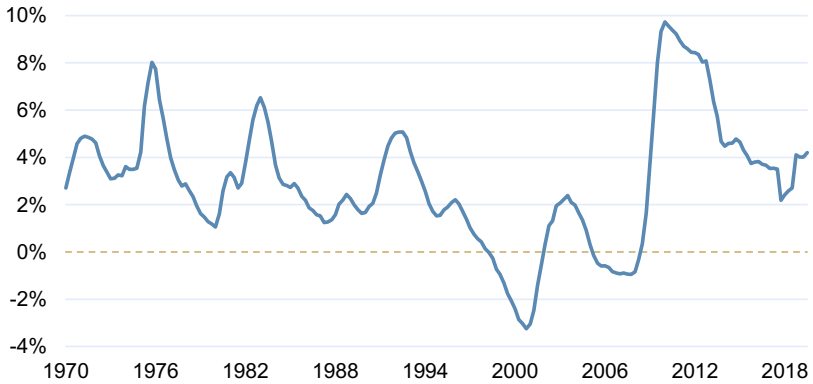
Given bumper equity returns in 2019, it's understandable that some investors are uneasy about what 2020 equity markets may bring. It's worth considering, however, that one year of superior returns doesn't necessarily signal substandard returns in the subsequent year. For the US equity market since 1970, calendar year returns of at least 20% are followed in the subsequent year by returns of around 12% on average. A market downturn can happen at any time for numerous reasons, but there's little need to fret for the future based solely on a year of great equity returns.

Other investors may be more concerned about the prospect of a market downturn caused by an economic recession. We consider this to be an unlikely prospect in the foreseeable future. Unemployment is low and consumers remain in good heart. Easing US-China trade tensions, promises by central banks to continue their accommodative policies, and the prospect of extra government fiscal stimulus should keep the global economy ambling along for a while yet.

Nevertheless, there are economic vulnerabilities to keep an eye on. Company debt is climbing, and equity valuations are higher than historical averages. A key factor offsetting these sensitivities, however, is the sizeable US private sector surplus after accounting for all its income sources and outgoings. This means the private sector has a buffer against bad times, thus keeping the chances of widespread financial stress in the world's largest economy relatively low in the near-term.

US Private Sector Financial Surplus (% of GDP)

Source: US Bureau of Economic Analysis



Geopolitical tensions and higher than expected inflation are risks to be wary of

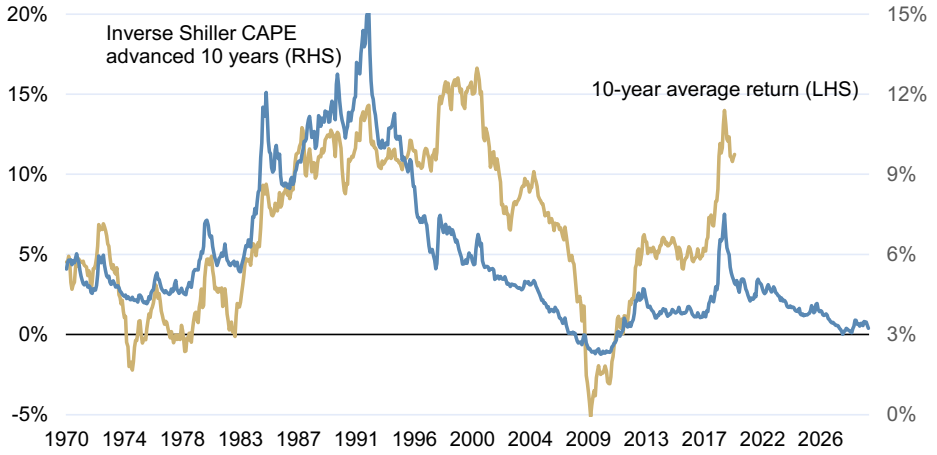
Another risk to the performance of equities is intensification of geopolitical tensions. Heightening tension between the US and Iran would be particularly worrisome given the likely upward pressure on oil prices this would cause. The possibility that inflation might accelerate significantly more than currently expected is also something that could result in rocky times for equity markets. Both these risks are not in our central view at this stage.

Equity returns over the next decade may be mediocre compared to the previous decade

As we enter a new decade, investors may instead be reflecting whether the next ten years of equity returns can be as good as the last ten years. On this score, the news may not be as encouraging. Higher-than-average equity returns in a decade, like the last one, have pushed equity market valuation ratios to high levels. As there is a tendency for valuation ratios to return to average over time, future returns are often lower after a sustained period of strong returns. This is the basis for the following chart, which shows the relationship between the cyclically adjusted price-to-earnings (PE) ratio and future 10-year average returns from the US equity market.

S&P 500 10-year Equity Returns vs the Cyclically Adjusted Price-to-Earnings Ratio

Source: Robert Shiller



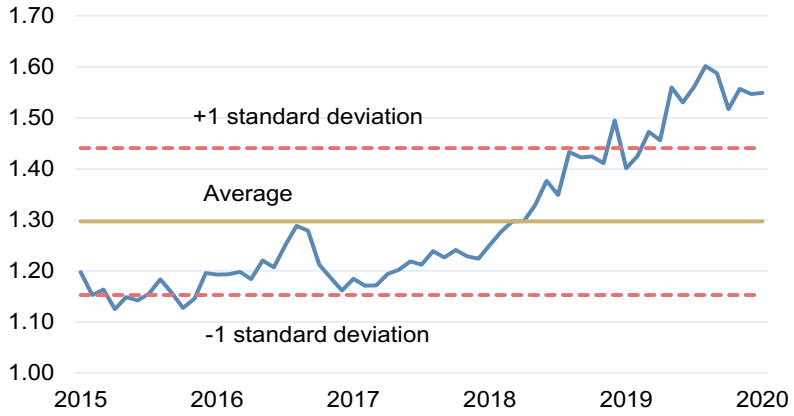
New Zealand Equities

New Zealand equities appear to be valued less attractively compared to the rest of the world

Valuations for New Zealand equities have increased significantly relative to those in the rest of the world, as the chart below shows. Although New Zealand equities will find a degree of support from an improving global economy, relative performance will likely suffer from a gradual rise in interest rates, which will likely make New Zealand's dividend stocks less attractive than they have been in recent years. Should Rio Tinto decide to close the Tiwai Point aluminium smelter the electricity generators, which represent 12% of the NZ equity market, may fall significantly causing the market to fall by 2.5-3.5%.

New Zealand Equity Price-to-Earnings Ratio Relative to the World

Source: Bloomberg



Cash and Fixed Interest

Most central banks likely to keep policy interest rates on hold this year

Given tentative signs of a bottoming in the global economy and an easing of geopolitical risks, we think major central banks and our own Reserve Bank have finished cutting their main policy interest rates for now. Australia may be an exception to this trend, however, with the more parlous state of the Australian economy (which has been exacerbated by the bush fires) likely to cause the Reserve Bank of Australia to cut its cash rate one more time.

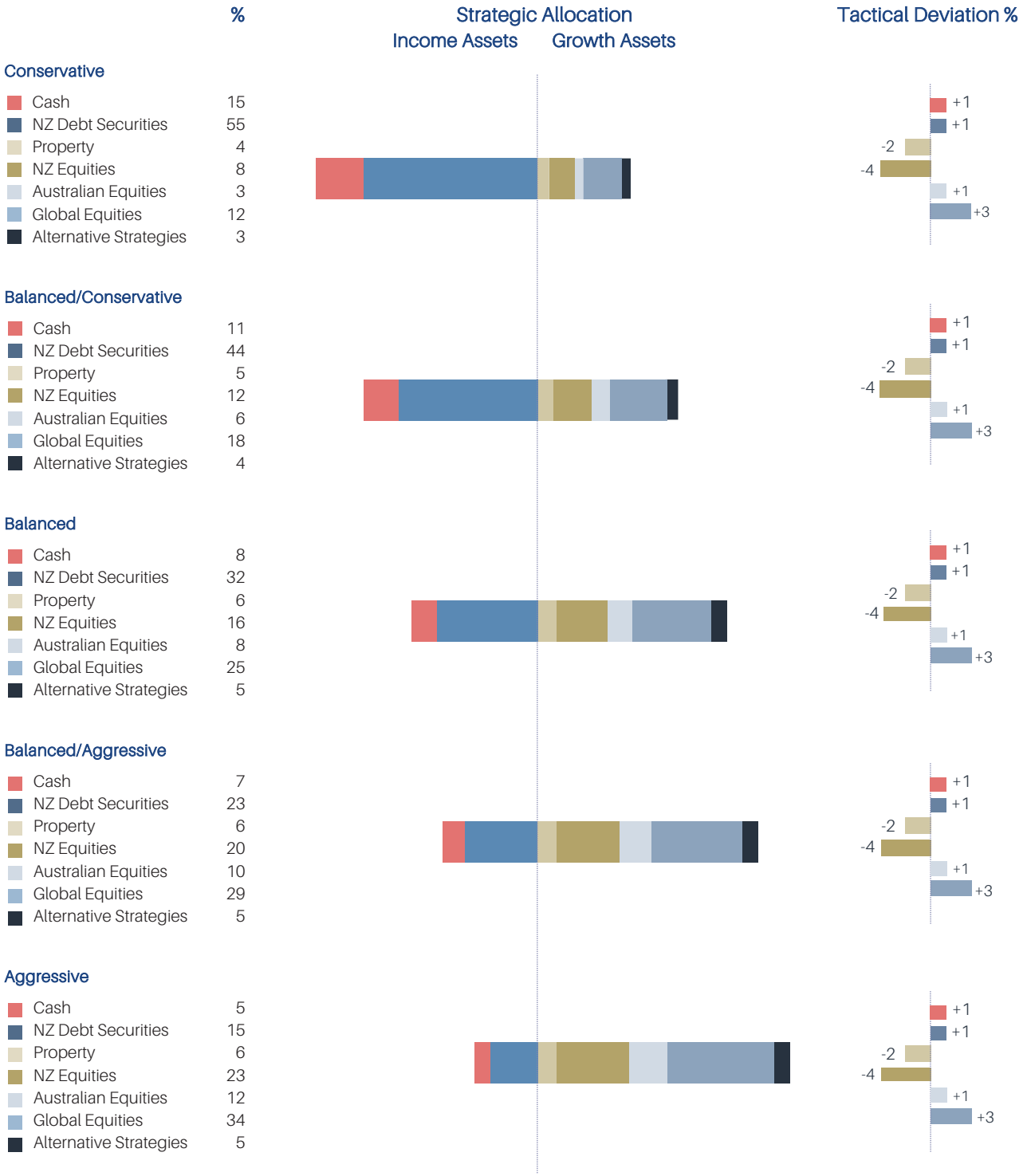
Although further central bank interest rate cuts are probably off the table, hikes are still some way off. Still low inflation and a desire by central banks to raise it, probably above their inflation targets for a time, will likely see highly accommodative monetary policies maintained through 2020 and into 2021. As a result, interest rates on cash and shorter-maturity fixed interest securities should stay relatively constant over the rest of this year.

Longer-term interest rates should gradually rise as the economy improves and inflation lifts

In contrast, interest rates on longer-maturity fixed interest securities may lift moderately reflecting gradually improving economic growth and accelerating inflation. Last year, trade policy caused considerable uncertainty for investors, which dampened the interest rates on safe government bonds. We see this uncertainty being more muted in 2020, which should be less of a handbrake on interest rates than last year.

Asset Allocation February 2020

While the Asset Allocation discussion on pages 9-10 suggests increasing exposure to equities relative to New Zealand debt securities, we have held back doing so as concerns surrounding the Wuhan Coronavirus grow. The Strategic Asset Allocation represents the average weighting over the long term (circa ten years or an entire economic cycle). The Tactical Asset Allocation represents a deviation from the Strategic Asset Allocation to take advantage of expected changes in asset class returns over the short term (say 6 months plus).



Spark New Zealand CEO – Jolie Hodson

Jolie Hodson

Key Takeaways

- Dreaming big, grasping opportunities and taking risks are key to building a great career
- Jolie is keen to give back through mentoring and involvement in organisations such as On Being Bold
- Embracing Agile allows Spark to focus on customers, be innovative and respond rapidly to change
- 5G is expected to be an important enabling technology for New Zealand and Spark

Deloitte Chief Financial Officer of the Year

Bold Ambitions

One of the key attributes of Jolie's management style is to have bold ambitions. Therefore, it comes as no surprise that while at primary school she told her parents that she wanted to be an accountant, having just read an article on the accounting profession. Her other ambition was to own a dog. Both these ambitions have been achieved.

While her father's job saw her live in various locations in the upper half of the North Island, the family eventually settled on Auckland's Northshore, a place that she now calls home. At school, she participated in various extracurricular activities. However, it was as a member of the rowing fours and eights at Westlake Girls' High School she achieved most success, winning events at the Maadi Cup rowing regatta and representing her school at a regatta in Brisbane.

At the end of her sixth form year (year 12) her father was transferred to Wellington. Not wanting to move to Wellington at that stage in her school life, she applied to enrol at Auckland University. After a nervous wait she was accepted. Three years later at the age of twenty, with a Bachelor of Commerce in accounting and economics, Jolie joined the audit team of Deloitte New Zealand.

A New Opportunity Beckoned

One would have thought that having achieved her dream job that she would have been content. However, an approach from Lion (one of her audit clients) saw her transfer to Sydney. There she undertook several challenging roles, which significantly widened her commercial expertise. At the same time, she had her two children, while her husband chose to be the primary care giver at home. A promotion to Lion Beer Spirits and Wine proved to be a transformational experience in preparing Jolie for her future role at Spark. This role pushed her to overcome any fear of failure that she might have had and enabled her to be comfortable stepping into the unknown. Jolie found that the Life Styles Inventory (LSI) completed as part of the leadership development at Lion, was very useful in developing her career. LSI is a tool that uses self-assessment and feedback from colleagues to identify thinking and behavioural styles by providing insight into strengths and areas for development. This enables people to grow their strengths and create a clear plan to improve development needs. The culture at Lion encouraged achievement, respect, taking opportunities and constructive behaviours.

Returning Home

The shift back to New Zealand commenced with a call from Spark's Human Resources Director, Joe McCollum, while on holiday with family in Auckland. An explanation of the transformation program about to be embarked on by Spark proved to be too tempting for someone with a natural curiosity and strong desire to succeed. Starting as Chief Financial Officer (CFO), the first year at Spark was full on – divesting several hundred million dollars of assets (including AAPT in Australia), while developing new business areas, including 4G mobile and cloud-based business applications. In recognition of her capabilities Jolie was named Deloitte CFO of the Year in 2016. Subsequent positions as CEO Spark Digital and Customer Director helped broaden Jolie's understanding of Spark's business and operational

experience, through leading large teams to deliver significant telecommunication and IT services for Spark's customers in preparation for her current role.

Helping Others

Passionate about Jump, an initiative which assists children from an estimated 35,000 families to access the internet

In getting where she is today Jolie has been supported by key colleagues at Lion and Spark along the way. Therefore, she is very keen to help others succeed and grow in their careers and lives. At a corporate level, Spark is involved with several community-based initiatives. Of these, Jolie is passionate about Spark Jump. Working through community partners, Jump assists children from an estimated 35,000 families with affordability issues to access the internet to aid with learning and build broader life skills whether applying for jobs or a driver's license. This helps to narrow the digital divide. On a personal level, she mentors people of all ages both from within Spark and outside to help them advance their careers. Other organisations Jolie commits time and energy to are:

1. SheEO – which is a global organisation that supports women-led business ventures with a branch in New Zealand. Jolie is a SheEO activator.
2. Global Women – which is a New Zealand based organisation whose aim is to increase diversity in New Zealand through promoting, encouraging and facilitating the development of women.
3. On Being Bold – which is an online collective dedicated to assist women at all stages of their lives and careers. Recent key events include a conference attended by 800 women and another event attended by year 13 girls, aimed at opening their eyes to what is possible and dreaming big. Jolie is one of the nine founders pictured in the photograph below, who are joined by Prime Minister Jacinda Ardern at their recent conference.

On Being Bold is a collective which assists woman at all stages of their lives and careers

The On Being Bold Team

Source: On being Bold

Agile

Spark has embraced Agile through all parts of its business. The Agile methodology has been used in software development for many years. However, Spark has taken it much further from areas that have traditionally used Agile through to customer facing units, such as stores and contact centres, and corporate support units like Finance and Legal. This has seen many global companies come to visit Spark to see how it is done and how an Agile approach may benefit their companies. Spark's Agile transformation occurred in July 2018. It required a reset of company culture (purpose, values, diversity and inclusion), changes to systems and training of thousands of staff.

What is Agile?

So, what is Agile? Agile is a process under which requirements and solutions evolve through the collaborative effort of self-organising teams of people with different backgrounds and skills and their customer/end user. Through an Agile approach, decisions can be made quicker by smaller teams who are empowered to make the best calls on products and services and simply get on with it. This allows Spark to

focus on its customers' needs and expectations, be innovative and respond rapidly to change.

Spark's Purpose

Sparks' purpose is "to help all of New Zealand to win big in a digital world"

By looking at Spark's purpose, "to help all of New Zealand win big in a digital world", we can get an insight into Spark's future. Central to this is creating a wireless future with first class telecommunications infrastructure. This will require ongoing investment. The result being much greater mobility, allowing people to work, be entertained and interact anywhere. It will also underpin innovation, allowing New Zealand businesses and people to realise untapped potential. The advent of 5G mobile will clearly be a part of this with Spark moving at pace towards 5G to keep ahead of growing customer demand for data at faster speeds. Spark's 5G lab has been set up in advance of 5G's New Zealand launch in 2020, so that businesses can see and test how it works. Looking further ahead, Spark thinks about the role it can play in the future of work (including upskilling and retraining) and how to enhance the ability of New Zealand's businesses to compete locally and globally.

Ohmio's driverless car. Ohmio was the first NZ business to test 5G's technical capabilities

Source: Spark

Favourable outlook for free cash flow driven by expectation of earnings growth, sustained reduction in capital expenditure and improved working capital

Through fulfilling this purpose Spark expects to see continued growth in key markets such as mobile and cloud security and service management; sufficient to offset declines in high margin legacy voice and data products. We expect that Spark's management team, led by Jolie, will continue to deftly manage the business, and that Spark should continue to generate an attractive dividend yield (we currently forecast a gross dividend yield of 7.4% in FY20 increasing to 7.8% in FY22). To that end, Spark has given guidance to the market that it anticipates paying a total FY20 ordinary dividend of 25 cents per share. This is supported by Spark's confidence in their ability to generate free cash flow through both profit growth, a sustained reduction in capital expenditure and improvements in working capital.

Jarden CEO – James Lee

James Lee

Key Takeaways

- Financial services are in James' DNA
- While mixing friends, work and family is natural, family is number one
- Jarden's core values: client focus, thought leadership, excellence, and respect
- To be the most trusted provider of financial advice in New Zealand

Since joining the firm in 2000 James has carved out a reputation in the New Zealand capital markets as a straight talking, passionate, trusted provider of advice who solves complex problems.

A Kapiti Coast Boy

His background though is far from your typical CEO and heralds back to a town just outside of Wellington where he grew up. James' parents moved the family from Karori in Wellington to Paraparaumu where his father opened a financial advisory firm servicing the Kapiti Coast. There he attended Kapiti College, finding an aptitude for numbers (which he credits to his fourth form accounting teacher) and a love for sport. It was a move to Lindisfarne College in Hastings that created his work ethic that has served our clients so well today. The culture of Lindisfarne in both academic and sporting endeavours was "'push yourself until you find out what is possible", whether that was the number of laps run or how close a grade was to 100 percent. Lindisfarne instilled a question that still drives James today, "Why can't it be done?"

James' tertiary education continued in the same unusual vein. His first year of university was spent at Otago University studying accounting and economics. However, instead of returning to Otago, James commenced an internship at Direct Broking in Wellington (subsequently acquired by Jarden in 2018). Starting in the back-office, booking client transactions he quickly became an operator executing client transactions. He completed his university degree in Finance and Economics at Victoria University where fortunately all lectures were online. This meant there was no need to attend lectures, which allowed him to continue working.

James' love for capital markets comes from, his father's mantra of 'doing the right thing will always pay off over the long term' and, working at Direct Broking during the internet bubble, where everyone was looking for a short-term win.

> *"My lecturer would state that no one can beat the market. Yet I saw clients constantly trying to do just that and I had my father's voice in my head the whole time saying just do the right thing and it will work out. When I applied all that to capital markets, it began to make sense."*

With his degree in hand and valuable work experience behind him, James commenced at Credit Suisse First Boston, which via numerous iterations became today's Jarden. In those early years the late Lloyd Morrison significantly influenced his approach to business. Lloyd's key mantras; "do the right thing" and "think long term" remain key today.

"do the right thing" and "think long term"

> *"Between my father and Lloyd, I had two very strong voices pushing to consider the long-term implications of each of our decisions"*

Out of Office

While James readily mixes family, friends and work, family is number one. Living on a rural property north of Auckland there is ample room for the family's menagerie of animals and a growing number of early 2000s motor vehicles. The notion of family comes into its own when the extended family of close to eighty people descends on family properties in Hatepe on the shores of Lake Taupo during their annual January pilgrimage.

The notion of family comes into its own when the extended family descends on Hatepe

Family also sees James serve on Cystic Fibrosis New Zealand's investment committee which has highlighted the many challenges facing the healthcare system. James is passionate about finding ways to materially improve the health outcomes it delivers for New Zealanders. This lofty ambition will likely consume James once he feels it is time to hand over the reins at Jarden.

James and Jarden

While all companies are a product of their entire work force there is little doubt that the Chief Executive Officer (CEO), in Jarden's case James, has a material impact and sets the tone for the business. As a steward of the business James' believes (like his predecessors) that it is incumbent on the CEO to leave Jarden in a better state than they find it. No mean feat given that it was in good shape when he took over. To lead effectively James' approach is to be personable, transparent and have a single consistent vision.

James' approach is to be personable, transparent and have a single consistent vision

Underpinning James and Jarden's staff actions are Jarden's core values:

1. Client focus – to behave in line with our clients' interests.
2. Thought leadership – to think independently and deliver innovative solutions.
3. Excellence – consistently go beyond our clients' expectations.
4. Respect – because everyone is free to choose, we show respect to all both outside and inside Jarden.

There is little doubt that James lives and breathes these values. When asked about what motivates him, he answered that his inspiration comes from answering the following questions – Why can't it be done better? Why can't it be done differently? And, to never say no, just figure out how it can be done.

Bringing together the best people or best partners to deliver the best outcomes for clients

This is achieved by bringing together the best people or partners to deliver the best outcomes for clients, ensuring that Jarden's incentives are aligned with its clients, and staying ahead of what others in the industry are doing. The outcome is that Jarden is the most trusted provider of financial advice in New Zealand.

In the nearly twenty years James has been at Jarden he has achieved much. He views his biggest achievements as:

1. Putting the Jarden team together, James has personally been involved in most of the senior hires the firm has made, often shoulder tapping key talent.
2. In association with other Jarden people, assisting numerous New Zealand corporates through some tough times or complicated transactions and then seeing them grow and prosper.

James has real desire to make a difference in New Zealand

James has a real desire to make a difference in New Zealand via Jarden's advice to clients - which helps New Zealand reach its potential.

New Zealand Equities

Share prices as at 27 January 2020

Eroad (ERD)

Price	$3.19
Rating	Outperform

The publication of Eroad's 3Q20 operating result gave an encouraging outlook. It showed an improvement in average revenue per user (ARPU). In the first nine months of FY20 Eroad added 16,800 new units (a 15% increase on the prior year) and management indicated a solid new customer run rate. The company should comfortably achieve our FY20 forecast for 18,800 net units added. Having just entered the Australian market, growth there remains modest with only 170 units added in the quarter. However, the company expects to win a large enterprise contract in Q420 which would be a welcome sign of traction in Australia. Pleasingly, the North American market's underlying monthly win rate improved over 3Q20 to 391 compared to 328 in 1H20. Consequently, there is moderate upside to our earnings estimates if the company can win and execute some larger enterprise contacts in 4Q20. Eroad's 1H20 result delivered earnings growth of 92% on revenue growth of 35%, highlighting the operating leverage in the business and supporting our view that it will achieve free cash flow breakeven next year (FY21).

Heartland Group (HGH)

Price	$1.84
Rating	Neutral

Heartland is potentially in for a very interesting year, due to ANZ Bank putting UDC up for sale again. The media have speculated that Heartland is one of four parties in the bidding process. The challenge for Heartland will be competing against the other offshore bidders who are all private equity funds with cheaper funding options. With a potential price tag of around $800 million, the acquisition of UDC would require a significant capital raising by Heartland. The other issue for Heartland is whether it can generate an adequate return on investment through synergy gains that would outshine its existing organic growth options. These include Heartland's reverse mortgage business (which is performing very strongly), rolling out Open4Business in Australia, and the new Kia Finance relationship that could contribute, "millions in loan book growth per month". Heartland will likely face some pressure from the RBNZ's new capital requirements. We estimate Heartland will need additional capital of $18 million per year over the 7-year transition period. Management do not expect to change Heartland's dividend policy or to raise equity, instead potentially issuing new hybrid capital instruments, retained earnings and /or a dividend reinvestment programme to raise the additional capital required.

Infratil (IFT)

Price	$5.44
Rating	Outperform

Infratil's key growth assets, Canberra Data Centres (CDC), Tilt Renewables (TLT) and Longroad are all performing very well. In particular, CDC has exceeded our expectations having been revalued at $1.33-1.67 billion, up from $841-$942 million. Furthermore, CDC's annual earnings run-rate has reached A$135-145 million, up from A$90 million a year ago. TLT recently sold its Snowtown 2 wind farm generating net equity proceeds of A$455 million. This positive outcome will help fund its attractive development pipeline. The weak spots within Infratil's portfolio have been Trustpower (which is facing lower hydro inflows, cost pressure and a plant outage) and Wellington Airport (which has seen passenger growth stall while operational expenditure has increased). Vodafone NZ appears to be tracking towards the bottom end of guidance which is incrementally negative. RetireAustralia progress is again looking soft, although expectations are low for this business. Applying the latest TLT and Trustpower target valuations and an estimated sale price multiple of 18.5x EV/EBITDAF to Wellington Airport, we estimate Infratil's net equity value at $5.66 per share.

Kathmandu (KMD)

Price	$3.15
Rating	Outperform

The acquisition of Rip Curl is transformational for Kathmandu, evolving it into a genuine multi-brand multi-sales channel company. It adds greater diversity thus moderating Kathmandu's earnings seasonality and volatility. While it appears Kathmandu paid a relatively full price for the business (giving a FY19 EV/EBITDA of7.1x), we estimate Rip Curl's EBITDA margin will increase from 11% to 15% over the next four years driven by a combination of cost reduction, a restructure of loss making stores and better retail efficiency. Consequently, we expect the acquisition to be 4% value accretive on a per share basis in FY21 (first full year of ownership) and the company to quickly de-lever from peak debt of 1.5x net debt to EBITDA to 1.0x by FY22. We still expect attractive growth from Oboz which is growing earnings at 30%, despite a 1% decline in gross margin. As expected, this reflects good revenue growth and operating leverage. With regards to Kathmandu's core Australasian business, consumer spending remains sluggish However, the Christmas trading period appeared to hold up well when aggregated with Black Friday and Cyber Monday. We expect Kathmandu to continue growing its dividend. We believe its strategic outlook is underappreciated with a robust earnings growth profile and trading on an appealing valuation multiple of 10x FY21 earnings.

Michael Hill International (MHJ)

Price	$0.68
Rating	Outperform

MHJ has largely completed a restructure of its business, that included a new CEO with a retail background. The company has dealt with its two problematic businesses, closing its loss-making US operations and exiting its Australian Emma & Roe stores. MHJ is now implementing strategies to turn the core business around. Initial evidence of positive progress includes achieving 2Q20 same store sales growth of +4%. This was despite difficult consumer and trading conditions in the key Australian market which was impacted by intense competition. It was pleasing to see MHJ hold its Australian gross margin under these conditions. The company has flagged growth opportunities within the Canadian operation through investment in training, personnel and logistics. Other areas of focus include working capital improvement and operating efficiencies which could provide meaningful upside from 2H20. More broadly, MHJ has a solid balance sheet, appears to offer good value based on relative valuation multiples and a forecast cash dividend yield of 7%. We believe this more than offsets past problems and the challenging environment retailers face. MHJ 's employee remediation issue remains outstanding with an expected cost of $A10-25 million (or 3-7 cents per share).

Z Energy (ZEL)

Price	$4.54
Rating	Neutral

Photos source: company presentations

In December 2019, ZEL clocked up its fifth earnings downgrade in two years. It came with a significant reduction in dividend guidance to 40 cents per share (down from 48-50 cents). Since ZEL's first FY19 guidance was issued, earnings have fallen by $100 million to $350-385 million. This reflects declining market share and lower fuel margins across both petrol and diesel due to increased competition, especially from low-cost independent operators. In 2019 there was a net increase of 16 new petrol stations added, of which over half were unmanned stations. While we don't believe retail margins will deteriorate much further, they will likely remain under pressure with operators like Gull still able to roll out fuel stops and achieve their 15% return hurdle with a petrol margin 2 cents per litre lower than where it is today. We believe ZEL still holds a strong position in the market given its vertical integration and convenience store offering which grew same-store-sales by 7% over the past year. Consequently, we expect profit and dividends to recover (FY22 dividend forecast of 46 cents per share). Furthermore, corporate activity in Australia (Caltex Australia receiving a takeover offer and Chevron re-entering the retail fuel market after exiting 4-years ago) suggests that ZEL's business model still has some appeal.

New Zealand Equities

Valuation Metrics and Ratings

As at 27 January 2020

Security Issuer Name

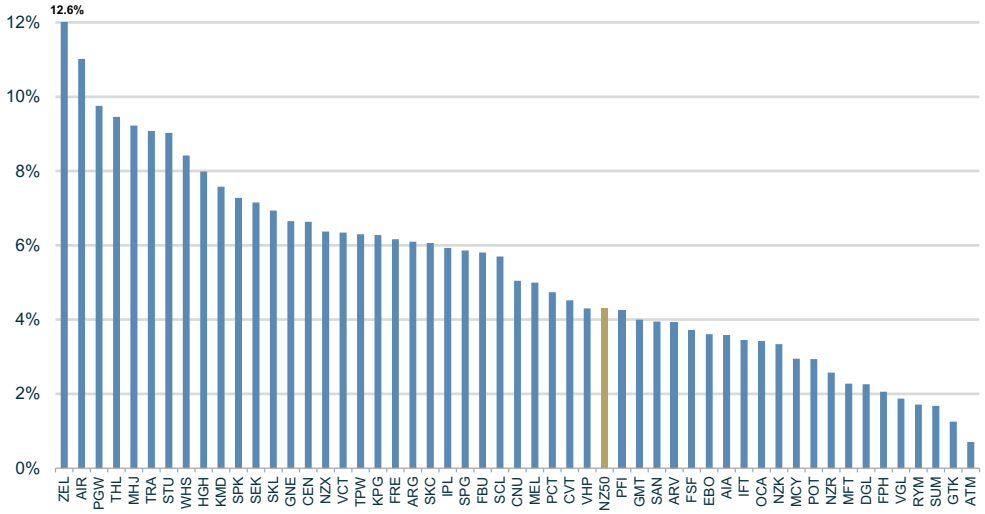
AFT	AFT Pharmaceuticals
AIA	Auckland Airport
AIR	Air NZ
ARG	Argosy Property
ARV	Arvida
ATM	A2 Milk Company
CEN	Contact Energy
CNU	Chorus
CVT	Comvita
DGL	Delegat Group
EBO	EBOS Group
ERD	EROAD
FBU	Fletcher Building
FPH	Fisher & Paykel
FRE	Freightways
FSF	Fonterra
GMT	Goodman Property Trust
GNE	Genesis Energy
GTK	Gentrack
HGH	Heartland Group
IFT	Infratil
IPL	Investore Property
KMD	Kathmandu
KPG	Kiwi Property Group
MCY	Mercury NZ
MEL	Meridian Energy
MFT	Mainfreight
MHJ	Michael Hill International
MPG	Metro Performance Glass
NZK	NZ King Salmon
NZM	NZME
NZR	NZ Refining
NZX	NZX
OCA	Oceania Healthcare
PCT	Precinct Properties
PFI	Property for Industry
PGW	PGG Wrightson
POT	Port of Tauranga
RBD	Restaurant Brands
RYM	Ryman Healthcare
SAN	Sanford
SCL	Scales
SEK	Seeka
SKC	SkyCity Entertainment
SKL	Skellerup
SKT	Sky Network TV
SML	Synlait Milk
SPG	Stride Property
SPK	Spark NZ
STU	Steel & Tube
SUM	Summerset
THL	Tourism Holdings
TLT	Tilt Renewables
TPW	TrustPower
TRA	Turners Automotive
VCT	Vector
VGL	Vista Group International
VHP	Vital Healthcare Property
WHS	The Warehouse Group
ZEL	Z Energy

NZ50 NZ Equity Market

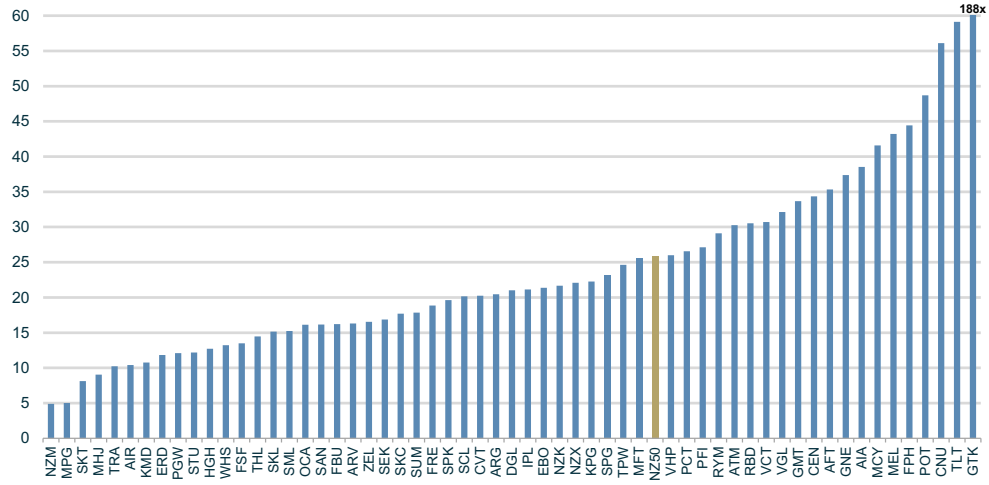
Source: Jarden

The P/E ratios and Gross Dividend Yield use earnings and dividend forecasts for the next 12 months

Gross Dividend Yield %



P/E Ratio x



Underperform			Neutral			Outperform		
	AIA	CEN	ARG	AIR	ATM	AFT	ERD	
	GNE	DGL	ARV	FBU	FRE	CVT	IFT	
	IPL	EBO	CNU	FSF	HGH	MPG	KMD	
	MEL	FPH	GTK	NZK	OCA	SAN	MHJ	
	PGW	GMT	NZR	NZM	SCL	SEK		
	POT	KPG	STU	NZX	SKT	THL		
	PFI	MFT	SPG	PCT	SKC	TRA		
	RBD	MCY	VGL	SUM	TLT			
	RYM	SKL	VHP	ZEL				
	TPW	SPK	WHS					
	VCT	SML						

Australian Equities

Share prices as at 27 January 2020

Aristocrat (ALL)

Price	$36.64
Rating	Neutral

Aristocrats revenues are split 28% land-based gaming (leasing of slot machines for a revenue share), 32% land-based outright sales of gaming machines and 40% digital which includes social casino and social gaming. The land-based business remains the key earnings driver, where Aristocrat is the smallest of the three main operators and is underrepresented in several key US states. The company has demonstrated a consistent ability to gain market share and we estimate that a 1% lift increases revenue by US$60 million. The incremental margin Aristocrat generates on its leasing revenue is very high at around 80%. Aristocrat has also developed a meaningful position in the mobile social casino and casual gaming markets through considerable investment and acquisitions. We expect continued success in the social gaming segment driven by its very popular RAID game and the launch of new games. We believe there is upside potential to our 15% revenue growth forecast depending on how successfully the company executes its 12-game pipeline. In FY19, Aristocrat generated A$769 million of free cash flow (+16% on FY18). As a result, the company was able to increase dividends by 22%, while reducing debt by A$229 million. With nearly A$1 billion free-cash flow generation expected in FY20, gearing is likely to reduce further, increasing the likelihood of capital management or further earnings accretive acquisitions.

Bramble (BXB)

Price	$12.40
Rating	Neutral

Brambles is the global leader in reusable pallet solutions, operating in more than 60 countries. The company primarily serves defensive growth sectors such as fast-moving consumer goods, fresh produce and beverages. The opportunity for Brambles is to turnaround its US business (50% of revenue) where margins are expected to improve by circa 1% in each of the next three years, from a low of 13% in FY19. This reflects a combination of price increases, cost growth (transport and lumber) abating and increased automation. In Europe, Brexit progress improves the outlook for the 10% of European pallet movements involving UK/EU cross-border trade. More broadly, a lack of new competition and many years of investment in network density should result in a continuation of strong returns in Europe. If market conditions permit and Brambles can execute its strategy successfully, Brambles share price should be positively rerated over the next 2-3 years. Brambles currently trades on circa 22x forward earnings with low-teen earnings growth expected over the next 3 years. The company's February result looms as the next catalyst to confirm the speed of margin recovery in the US.

Goodman Group (GMG)

Price	$15.02
Rating	Neutral

Goodman's property portfolio is performing strongly with occupancy of 98% and like for like net property income (NPI) growth of +3.3%. We expect NPI growth to accelerate going forward due to portfolio under-renting and market rental growth providing upside. Goodman's development book stands at $4.2 billion, but management maintain their expectation of increasing it to $5 billion in FY20. This pipeline should underpin Goodman's management income (performance fees) and investment income (developments within funds) which is expected to drive most of the earnings growth going forward. Goodman have guided to FY20 earnings per share growth of +9%, which we believe the company will likely exceed. Longer term, Goodman is well positioned to keep delivering attractive earnings growth given its strong balance sheet, development driven funds under management growth strategy and the support of capital partners who are looking to increase their exposure to the industrial/logistics asset class globally. Goodman is an attractive

option for these partners given the company's deliberate portfolio concentration in key infill, high value, supply constrained industrial property markets.

South32 (S32)

Price	$2.73
Rating	Outperform

The recent improvement in the global economic outlook has stabilised base metal prices, specifically manganese and metallurgical coal. This is helping to alleviate some market concerns around South32's short-term earnings outlook. Growth opportunities for the company include its Hermosa project (potentially a $2 billion US mining project, with the Preliminary Feasibility Study to be completed before June) and Eagle Downs (a fully permitted, partially developed metallurgical coal project in the US with a Financial Investment Decision due before year end). In addition, the conditional sale of its poor performing South African coal business is expected to close in late 2020, and it is reviewing its Australian smelters. South32 is going through a period of reduced investment allowing for capital returns (which should provide some share price support), whilst maintaining a strong balance sheet (remains in a net cash position) for potential opportunistic acquisitions and to fund any projects arising from its extensive exploration portfolio.

Worley (WOR)

Price	$15.92
Rating	Outperform

Worley provides engineering and other professional services to the oil, gas, mining, power, and infrastructure sectors. In 2019, Worley completed a A$4.6 billion acquisition of Jacobs Engineering Group's Energy, Chemicals and Resources (ECR) division that effectively doubled the size of Worley and diversified its earnings away from energy (from 75% to 52%) and into chemicals (from 6% to 23%). A key activity driver for Worley is the global oil/gas capital expenditure cycle. Most macro and company-specific indicators are turning more positive, suggesting that the capital expenditure cycle is improving. Oil/gas and resource companies have good capacity to increase exploration and development, as they have solid free cash flow and healthy balance sheets. Worley continues to flag improving business conditions which is reflected in being awarded new contract being awarded and work backlogs, staff numbers, and staff utilisation all higher. Worley trades on 16.5x forward earnings and a 9x forward EV/EBITDA multiple, which represents a 20% discount to the ASX200 Industrials ex-financials companies versus its historic 3% discount. The deep discount appears to factor in the expected sale of Jacobs 9% stake in Worley and the dysfunctional 20% stake Dar Group owns in Worley.

Xero (XRO)

Price	$84.58
Rating	Neutral

Xero has grown quickly to become the largest provider of accounting software to the small and medium enterprise market in Australia and New Zealand with over a million subscribers. Xero is currently trying to replicate this success in the UK where Xero has 536,000 subscribers (25% of the group) and momentum is growing. Xero's entry into the US market remains underwhelming, reflecting the strong position of the incumbent Intuit (market cap of US$66 billion) and the complex US tax system which has challenged Xero's offering. Globally, Xero has exceptionally strong operating metrics which are trending higher - churn is very low (1%), gross margin very high (86% in 1H20) and average revenue per user (ARPU) has been flat-to-slightly up. The key opportunity for Xero is growing its market share off a relatively low base in a total addressable market estimated to be worth $7 billion annually (Xero's FY20 forecast revenue is $725 million). In addition, Xero's software now has 200 connections with banks and financial services partners and over 800 integration partners. This part of the business is expected to provide the next leg of growth. The associated platform revenue doubled in 1H20 to 6% of group revenue. Xero is trading on a FY21 EV/revenue multiple of circa 12x, which is an all-time high. This elevated ratio implies a fair degree of future success is already priced in. That said, Xero is a quality business with a capital light model which should enable it to scale up its platform and solidify its position as a top company.

Photos source: company presentations

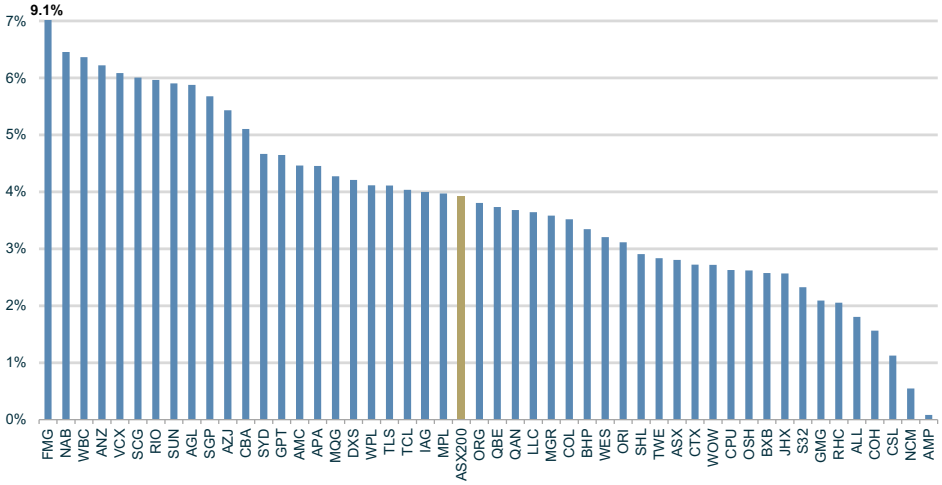
Australian Equities
Valuation Metrics and Ratings

As at 27 January 2020

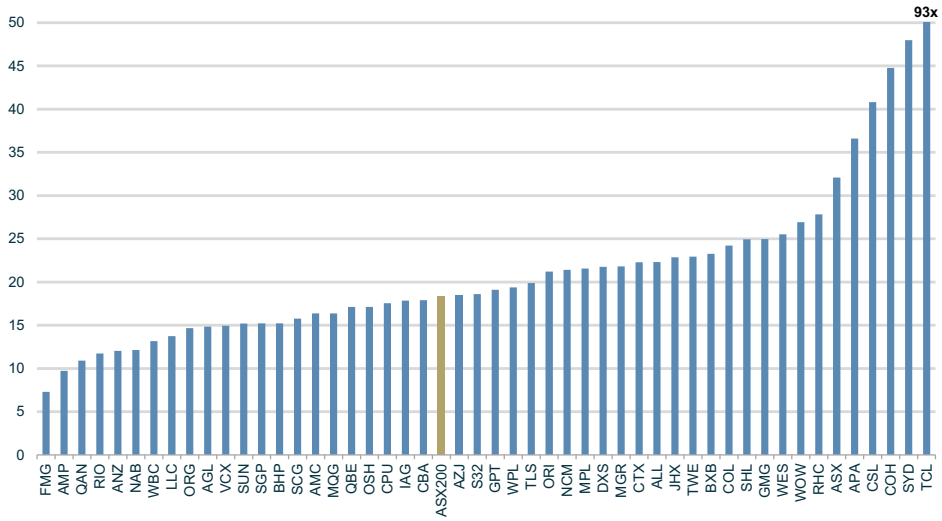
Security Issuer Name

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

Cash Dividend Yield %



P/E Ratio x



ASX200 Australian Equity Market

Source: Credit Suisse, Bloomberg. The P/E ratios and Dividend Yield use earnings and dividend forecasts for the next 12 months

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

Millennials– A Unique and Influential Group

Key Takeaways

- Millennials are now the world's dominant cohort
- They are tech savvy and well-informed
- That have a different set of values and habits from previous generations
- Companies in the tourism, e-commerce, and wearable device industries stand to benefit from higher demand

The Millennials, loosely defined as those born between 1981 and 1998, now make up more than a quarter of the world population and 35% of the workforce. Millennials have outnumbered baby boomers in developing countries for some time. However, this is also now the case in the US and increasingly in other developed countries. Growing up in the information age, most of them are not only tech-savvy, they are also better informed than previous generations.

The ability to access and analyse greater volumes of information gives them an unparalleled edge in the job market. Their insights about a less sustainable and rapidly changing world marked by disruptions often results in them having a different value set than older generations. Many in this cohort lack trust in traditional institutions like the news media and politicians. However, many of them are concerned about environmental challenges, income inequality, unemployment and terrorism. Despite these uncertainties, many have ambitions to travel the world, make a positive impact on society, be financially secure, own their own home and to eventually start a family. These characteristics and experiences are leading them to make life choices and engage in spending patterns that could be seen as less traditional in the eyes of older generations.

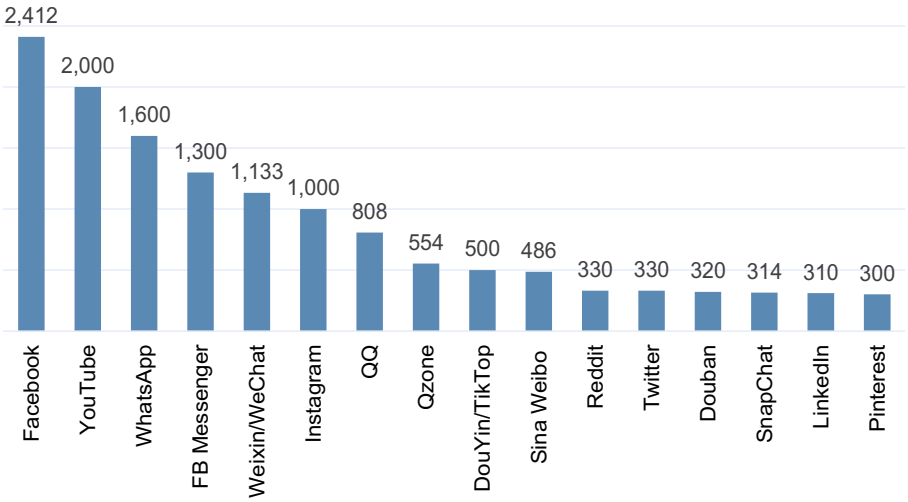
Tech Savvy and Well Connected

Numerous studies have shown that Millennials are more tech-savvy because they were brought up when ownership of personal computers, smartphones and other internet-connected devices increased dramatically. Some surveys suggest that 60%of global Millennials play video games, use internet messenger services, download media from the internet, use social media and watch online television.

The unique characteristics of being tech-savvy and well connected through social media has resulted in several phenomenal business successes. Specifically, the ability of several social media and internet messaging platforms to gather a vast number of active users is staggering.

Monthly Active Users in Millions for the Most Popular Social Media and Messaging Platforms

Source: Hootsuite, updated to 20 October 2019



The business opportunities are huge especially in lower income but populous countries

The business opportunities these platforms enjoy are huge. They should continue to grow in the coming decade as the internet and smart devices become more widely available, especially in lower-income but populous countries, such as India (1.4 billion people and a median age of 27 years old) and, to a lesser extent, Indonesia (271 million people and a median age of 29 years old). Companies that can penetrate these markets earlier than others should enjoy a considerable first-mover advantage in the coming decades.

A New Way of Living

Millennials typically have the ambition to travel the world. Many are also keen to make a positive impact on society. With a strong affinity for technology, many of them are fulfilling their needs differently from older generations.

Millennials are at a stage in life where they aspire to set up their own households

Increasingly Millennials are at a stage in life where they aspire to set up their own households, buy their own home and start a family. This should see growing demand for homes which is positive for homebuilders and home maintenance which is positive for home improvement retailers such as Home depot (HD.US).

With the help of low-cost airlines, shared accommodation, trip planning websites and even smartphone apps like digital translator and navigator, world travelling is a breeze for Millennials. Some of the better-known standalone, low-cost airlines include Southwest (LUV.US), Easyjet (EZJ.LN), JetBlue (JBLU.US) and Ryanair (RYA.IR). In the hospitality sector, the upcoming Airbnb initial public offering will likely attract solid attention. Other listed companies in the on-line travel space include Trivago (TRVG.US), Expedia (EXPE.US), Trip.com (TCOM.US) and TripAdvisor (TRIP.US).

Millennials have a much greater propensity to shop online

One of the common trends that we have observed is that Millennials have a much greater propensity to shop online. This has not only helped e-commerce marketplace companies like Amazon (AMZN.US) and Alibaba (BABA.US or 9988.HK) to flourish, it has also prompted traditional retailers such as Walmart (WMT.US) to quickly improve on their online offering in order to compete. Despite strong annual growth, e-commerce typically accounts for no more than low-teen percentage of total retail sales in many countries including the US, UK and Germany. We believe there is more room for online shopping to grow in the coming decade. Naturally, the payments made via these e-commerce platforms are digital. As such, electronic payment companies including MasterCard (MA.US) and Visa (V.US) stand to benefit as the number of electronic transactions grows. We expect transaction growth of more than 10% per year in the years ahead.

Apple Watch

This cohort has a focus on wellness which forms part of their daily activities. Wearable smart devices that help to track the progress of physical exercise are gaining popularity amongst Millennials. Improvements in functionality, the ability to connect to other devices and longer battery lives is helping to drive the uptake of these devices. There are some estimates that the wearables market could be worth as much as US$25 billion per year. Apple (AAPL.US) and Garmin (GRMN.US) are clear winners in this area because their products are years ahead of their competitors in terms of features, connectivity, after-sales support and the breadth of their ecosystems. On the other hand, Fitbit (FIT.US) and Casio (6952.JP) have been losing market share because of their weaker product offering.

Global Equities

Share prices as at 27 January 2020

Alphabet (GOOGL.US)

Price	US $1,432
Rating	Outperform

Alphabet owns Google, which is the largest search engine company in the world with a 93% global market share. Besides search, the company provides online advertising, cloud-based computing, as well as media, games and software distribution services globally. Alphabet also owns YouTube, the largest video streaming company in the world with more than 2 billion users. Google and YouTube are the top two most visited websites in the world.

Due to an improvement in algorithms over the years and search engines becoming embedded into internet browsers (e.g. Internet Explorer, Chrome), Google has become the gateway for all internet users, allowing them to seamlessly obtain their required information. The world's internet penetration is still only 56% because most people living in developing countries do not have internet access. We believe the search engine market for Alphabet will expand further as internet penetration rises. Also, the demand for cloud-based computing, especially in the developed world will rapidly grow in the coming years as internet connection speed and latency improve due to the introduction of 5G technology. Alphabet has settled several key lawsuits that have been a drag on the company for some years. It is likely that the company is at the early stage of a turnaround in profitability.

Electronic Arts (EA.US)

Price	US $110.56
Rating	Outperform

Electronic Arts (EA) is one of the largest and best-known video game developers and distributors in the world. The company has numerous successful game franchises across different distribution platforms (i.e. game consoles, smartphones, tablets and personal computers). Some of the more well-known franchises EA has developed include FIFA, Command & Conquer, Battlefield and the Star Wars series. The company has a strong working relationship with various game console and platform companies including Microsoft Xbox, Sony PlayStation, Nintendo Switch, Google Play and Apple App Store. This gives EA maximum exposure to numerous gamer categories.

Although EA is a US-based company, it generates around 60% of its revenue outside of the US due to its global presence. Together with a diversified product portfolio that offers a wide range of game genres, EA is best positioned in the industry to tap into the rising video game demand from all gamers across age groups, genders and geographies. Investors wishing to ride the upward trend associated with the video game industry should consider EA as a core holding.

Facebook (FB.US)

Price	US $214.87
Rating	Outperform

Although Facebook still faces several regulatory hurdles with its social platforms, the company remains the largest and potentially most promising social media company in the world. After years of tremendous growth, Facebook currently commands 1.6 billion daily active users, which is equivalent to around 20% of the world's 7.7 billion population.

While the company may need to operate in a more regulated environment in the future, there are many areas within Facebook's social media platforms that it has yet to monetise. For example, Facebook's marketplace (an e-commerce platform similar to TradeMe) was launched two years ago (but has only recently been promoted), is yet to charge any commissions. Other social media platforms under the company including Instagram, Facebook Messenger, WhatsApp and Facebook are still free for

end-users. With a growing number of tech-savvy and internet-wired people, Facebook should continue to grow if it can discover new ways to monetise its client base.

Home Depot (HD)

Price	US $231.19
Rating	Outperform

Home Depot is the world's largest home improvement retailer. It operates more than 2,200 stores in the US, Canada and Mexico. The company was founded in 1978 and is synonymous with Do-It-Yourself (DIY) in North America.

With low homeownership rates amongst Millennials, the company should also stand to benefit when the younger generations start to buy or inherit a home and kick off various home improvement projects. Home Depot has been investing heavily in various e-commerce initiatives in recent years to provide tailor-made product recommendations to clients who are becoming more tech-savvy and internet-connected. While such investment will negatively impact Home Depot's cash flow profile in the short term, it should help the company to attract and retain younger customers. As demand increases, Home Depot's cash flow generation should improve thereby increasing the attractiveness of the company.

Tencent (0700.HK)

Price	HKD $385.80
Rating	Outperform

Tencent is the largest social media and video game company in China. The company started out more than two decades ago offering internet instant messaging services. Since then, it has branched out to other online services including social networking, streaming media, music, web-portal, multiplayer online games, ridesharing, cloud computing, online advertising, fintech and even food delivery.

Since Tencent is a pioneer in the Chinese internet industry, which is highly regulated, the company enjoys near monopoly/oligopoly status in certain activities, like video game distribution and instant messaging. While Tencent can offer investors a concentrated exposure to China's growing need for online services, regulatory risk and a relative lack of accountability to shareholders are risk factors that need to be recognised when investing in Tencent. Historically, there have been cases when opaque regulatory changes hit Tencent negatively. A track record of overly generous share-based compensation remains a concern for shareholders who focus on corporate governance. Having said that, the company should remain one of the largest online video game and social media companies in China.

Trip.com (TCOM.US)

Price	US $31.90
Rating	Neutral*

Trip.com is a leading online travel agency. The company owns Ctrip and Qunar, which are the largest online travel agencies in China. At the same time, the company also serves non-Chinese customers through Trip.com and Skyscanner. Globally, the company provides reservation services to more than 2.6 million properties, flights to more than 200 countries as well as vacation packages, tours and other travelling services to over 3,000 destinations.

Trip.com's business stands to benefit from higher travelling demand from Millennials who desire to see the world. The company's business volume is expected to grow in the coming years as airfares become even more affordable and incomes continue to rise in China. Although the company is currently negatively affected by the coronavirus epidemic in China, the negative headwind should at some stage provide investors with a rare opportunity to benefit from the trends mentioned above.

*Rating by UBS

Photos source: company presentations

Global Equities

Valuation Metrics and Ratings

Security	Issuer Name
0857.HK	PetroChina
0939.HK	CCB
1288.HK	Agri. Bank of China
1398.HK	ICBC
5930.KS	Samsung
700.HK	Tencent
7203.JP	Toyota Motor
941.HK	China Mobile
AAPL.US	Apple
ABI.BB	Anheuser-Busch
AMZN.US	Amazon
BA.US	Boeing
BABA.US	Alibaba Group
BAC.US	Bank of America
C.US	Citigroup
CMCSA.US	Comcast
CSCO.US	Cisco
CVX.US	Chevron
DIS.US	Disney
FB.US	Facebook
GOOGL.US	Alphabet
HD.US	Home Depot
HSBA.LN	HSBC
INTC.US	Intel
JNJ.US	J&J
JPM.US	JPM
KO.US	Coca-Cola
MA.US	MasterCard
MC.FR	LVMH
MRK.US	Merck & Co
MSFT.US	Microsoft
NESN.SW	Nestle
NOVN.SW	Novartis
OR.FR	L'Oreal
ORCL.US	Oracle
PEP.US	PepsiCo
PG.US	P&G
RDSA.LN	Royal Dutch
ROG.SW	Roche
SAP.GE	SAP
T.US	AT&T
ULVR.LN	Unilever
UNH.US	UnitedHealth
V.US	Visa
VZ.US	Verizon
WFC.US	Wells Fargo
WMT.US	Walmart
XOM.US	ExxonMobil

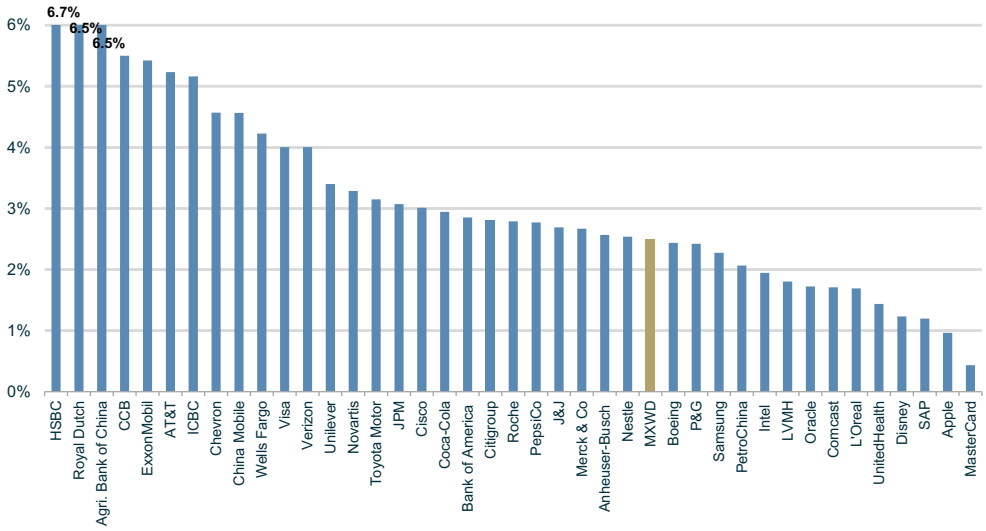
MXWD MSCI ACWI Index

**MRK.US is not covered by Credit Suisse therefore consensus estimates used.*

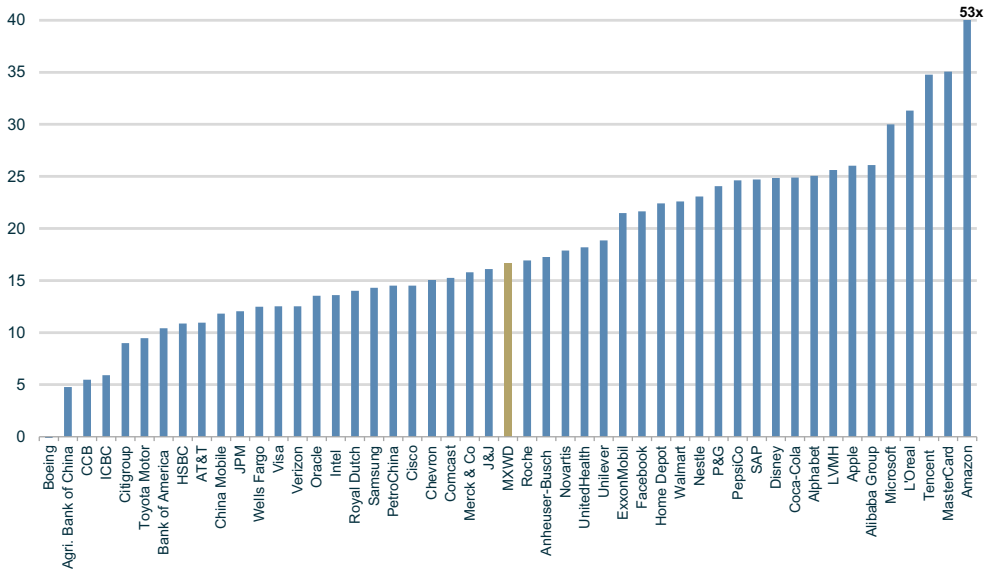
Source: Credit Suisse, Bloomberg. The P/E ratios and Dividend Yield use earnings and dividend forecasts for the next 12 months

As at 27 January 2020

Cash Dividend Yield %



P/E Ratio x



Underperform			Neutral			Outperform		
	Nestle	PepsiCo	Walmart	Boeing	HSBC	Visa	SAP	Royal Dutch
			AT&T	Roche	Wells Fargo	Verizon	Citigroup	Anheuser
			Cisco	Toyota Motor	Novartis	Amazon	Oracle	Alibaba
			L'Oreal	P&G	ExxonMobil	UnitedHealth	Alphabet	Chevron
			Apple	PetroChina		JPM	Disney	Facebook
						Microsoft	ABC	CCB
						Tencent	Coca-Cola	Comcast
						Intel	China Mobile	Unilever
						MasterCard	J&J	B. of America
						LVMH	ICBC	
						Home Depot		
						Samsung		

NZ Debt Securities – A New Era Dawns

Key Takeaways

- Debt securities are likely to produce underwhelming returns in 2020
- Bank hybrid issuance should increase in late 2020 on relatively attractive pricing
- The deposit insurance scheme is likely to result in lower term deposit interest rates
- While interest rates are very low, we see some attractive opportunities

New Zealand debt securities recorded another solid year in 2019 achieving investment returns of around 5%. This was largely driven by capital gains as interest rates trended down throughout the year due to the global economy cooling amid ongoing US-China trade tensions. Looking forward, it appears the forces that weighed on interest rates and drove these strong returns are weakening, and in some cases reversing. This is likely to result in relatively underwhelming returns from debt securities in 2020. We note that capital returns on debt securities are only important for investors looking to sell them. If the debt security is held to maturity the interest rate at which the debt security was bough is the investment return that the investor will earn, except in the unlikely event of the borrower defaulting.

A Less Prosperous Year for NZ Debt Securities

The global economy is expected to modestly improve in the coming year. This should cause longer term interest rates to rise, resulting in capital losses on the 'reported' value of these securities. With interest rates at such low levels, this is likely to have an impact on the overall return achieved. By way of example, in the month of December interest rates rose by circa 0.3%, which resulted in the value of the corporate bond market falling 0.6% over the month. The impact of an interest rate rise is more severe for longer term securities. Consequently, if longer term interest rates rise by 0.4% over the next 12 months as we expect, investors should expect to see lower 'reported' returns in 2020, potentially in the 2-3% range depending on portfolio composition.

As noted above for investors who hold their debt securities to maturity, these reported returns are little more than an accounting exercise with their investment return locked in at the interest rates the securities were purchased at.

A Wave of New Hybrid Issuance Expected

Reduce the probability of a banking crisis in New Zealand to a one in 200-year event

The Reserve Bank of New Zealand has largely finalised the new regulatory framework for banks as it moves to reduce the probability of a banking crisis in New Zealand to a one in 200-year event, from a one in 100-year event now. The new framework will require bank's tier 1 capital (primarily shareholder equity), to be no less than 16% (up from 8.5%). The jump in not as significant as it reads with the big banks already holding around 12% capital. Furthermore, the increase appears very manageable with seven years to make the transition. Importantly, additional tier 1 capital (AT1) can contribute up to 2.5% of a bank's tier 1 capital, and the definition of AT1 has been widened to include redeemable, rather than non-redeemable, preference shares. This subtle change significantly increases the attractiveness of AT1 as debt security investments. The reforms also confirm a continued role for tier 2 capital, which mainly consists of long-dated subordinated debt. These securities can comprise up to 2% of the minimum total capital ratio of 18%.

We wouldn't be surprised to see tier 2 subordinated debt fetch between 3%-4%pa

As a result of these changes, we expect the big banks to begin issuing new AT1 preference shares and tier 2 subordinated debt securities in the second half of 2020. Due to the large amount of these securities to be issued we expect the interest rates offered to be relatively attractive. We wouldn't be surprised to see tier 2 subordinated debt fetch between 3%-4%pa. This makes the existing tier 2 bank securities which trade at 2.75% appear relatively poor value.

The Missing Part of the Safety Net

The Government plans to introduce a deposit insurance scheme into the New Zealand banking system in 2020. It will cover deposits of up to $50,000 per individual per financial institution, thereby covering 90% of all deposits in New Zealand. The scheme, which is consistent with other developed nations (Australia: A$250,000, UK: £85,000, Canada: C$100,000) aims to lower the likelihood that financial stress is magnified by depositors withdrawing their money at the first sign of trouble.

The funding for the scheme will likely be a user-pay model with levies collected from licensed deposit takers, such as the banks. Treasury estimate for the scheme to achieve its target size in 20 years, the levy rate would need to be 0.23%pa. This is broadly consistent with what other financial instruments would suggest is a fair 'insurance' cost. The extent to which this cost is shared between these institutions and depositors will depend on competition in the sector. Given the pressure on bank interest margins, due the challenging operating environment and increased regulatory costs, we believe most of the cost will be passed on to customers through higher mortgage interest rates and/or lower deposit interest rates. The latter would be a fair reaction to the lower risk associated with bank deposit investments.

The cost will likely be passed on to the customer through higher mortgage rates and/or lower deposit rates

NZ Debt Security Opportunities

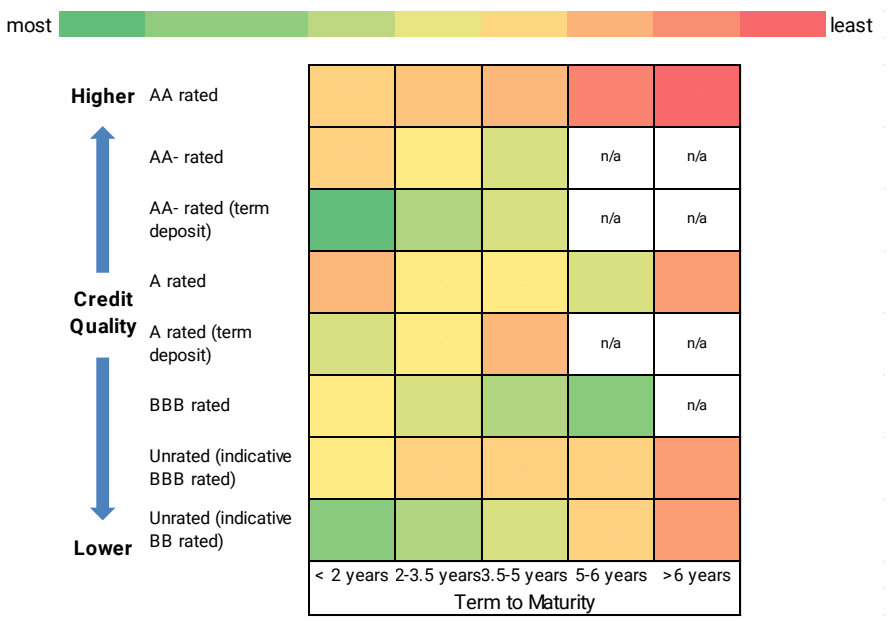
Although interest rates are very low, we see some attractive investment opportunities. As mentioned above, the imposition of higher bank capital requirements and a deposit insurance levy is likely to result in downward pressure on term deposit interest rates. Consequently, the 1% premium at which AA- rated term deposits trade over tradeable debt securities with the same credit rating represents compelling value that is unlikely to be sustained. Other opportunities include A rated securities that are trading meaningfully above the 'A curve'. Such securities include those issued by the Chinese bank subsidiaries in New Zealand that continue to trade at an attractive premium, and Fonterra where the market continues to perceive a credit quality issue despite the co-operative undertaking an asset divestment programme to strengthen its balance sheet. The unrated 'BB' yield curve is incredibly flat. Consequently, we remain cautious on longer dated securities and see better value in shorter dated securities trading on broadly similar interest rates. This view also reflects our expectation that longer-term interest rates will gradually rise from the current low levels, which currently makes longer dated securities less attractive.

Opportunities include A rated securities that are trading meaningfully above the 'A curve'

In the heat map below, we highlight what we believe to represent the best (green) and worst (red) value fixed interest securities in New Zealand. For more specific security recommendations, contact your Jarden adviser.

Debt Securities Preferences

Source: Jarden



Kiwi Lifting Off

Key Takeaways

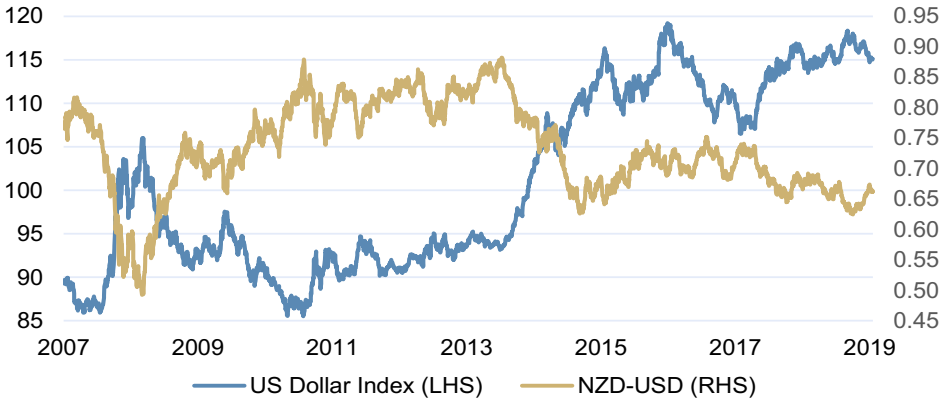
- The NZ dollar is expected to lift on an improving global economy
- Trade and geopolitical tensions are the main risks to a stronger NZ dollar

The US Dollar is in the Driving Seat

The New Zealand dollar (Kiwi) has risen nearly 6% against the US dollar since its recent low in September 2019. This has been largely driven by general weakness in the US dollar, as the chart below shows. However, by our estimation the Kiwi dollar should have risen by even more given the movement in the Kiwi dollar's usual drivers, particularly the robust rise in New Zealand's terms of trade (terms of trade refers to the ratio of export prices to import prices and can be interpreted as the amount of import goods an economy can purchase per unit of export goods).

The Strength of the US Dollar Drives the NZ Dollar

Source: Refinitiv



The Kiwi's Flight Path

Subdued US-China trade relations and an improving global economy is expected to lift the NZ dollar

Looking forward, we expect two key factors will support the New Zealand dollar over the coming year. First, trade tensions between the US and China are expected to remain subdued and the global economy should gradually improve. This ought to see reasonable investor appetite for previously unloved investments toward the riskier end of the spectrum, such as those in cyclical equity sectors (companies in cyclical sectors tend to perform well when the economy is strong and poorly when it is not), emerging markets, and commodity-based currencies, like the New Zealand dollar.

Rising commodity prices should support the NZ dollar

The second factor likely to support the New Zealand dollar is continuing improvement in commodity prices. This, again, is based on our view that the global economy will gradually improve. In the case of New Zealand's main commodities, recent economic stimulus measures implemented by China's authorities have had a heavy focus on boosting the spirits of consumers. In addition, the effects of swine flu will likely result in boosted Chinese meat imports from other countries, including New Zealand. These factors should continue to result in good Chinese consumer support for our dairy, meat and horticultural products.

We don't see New Zealand's interest rates relative to the rest of the world playing much of a role in driving the New Zealand dollar one way or the other in the near-term. We expect both the central banks of US and New Zealand will keep their policy interest rates on hold this year, with differences in short-term interest rates between the countries staying more or less where they are now.

Key risks to a stronger NZ dollar are trade and geopolitical tensions

The key risks to this positive outlook for the New Zealand dollar relate to trade tensions between the US and China and geopolitical developments, particularly in the Middle East. Should the US implement further tariffs it would likely result in the US dollar strengthening once more against most other currencies, including the New Zealand dollar. Heightened geopolitical tensions would also see the US dollar strengthen along with the Japanese yen, while the New Zealand dollar would weaken.

Jarden in the Community - Tania Dalton Foundation

The Tania Dalton Foundation exists to inspire young people to be the best they can be through sport

We are proud to be associated with the Tania Dalton Foundation as a scholarship partner.

The foundation, created in honour of the sporting legend whose presence would fill the room, has been established to make a meaningful difference to young people.

Sport has always played a huge part in New Zealand society. However, for many families, the cost, practical considerations and access to support, coaches and role models can represent a significant barrier. For some families, the ongoing financial and practical support of their talented child's sporting aspirations can be challenging or in some cases just not possible.

Twenty-four scholarships have been awarded to talented and deserving young women

To date twenty-four scholarships have been awarded to talented and deserving young women from throughout NZ. The three-year scholarship provides financial support, one-on-one mentoring and personal development through workshops in the areas of communication, leadership and contribution.

Each recipient will deliver a project to 'pay it forward' and continue the legacy for future generations.

Jarden supports netballer Quantelle Hira-Kapua from Taupo.

Aspirations to be a Silver Fern and also play in the Australian netball league

Quantelle has aspirations to be a Silver Fern and also play in the Australian netball league. She loves being part of a team and says the scholarship has taken the financial weight off her and her family, so she is free to pursue her dream.

www.taniadaltonfoundation.org.nz

Quantelle Hira-Kapua

Cyber Security – A Matter of Trust

David Higgins - Head of IT Risk

Key Takeaways

- Digital service providers must provide service security, whilst consumers are responsible for their account security
- Balancing ease-of-use with appropriate security controls is a fundamental challenge
- Understanding cybercrime risk is essential to managing the risk
- Use two-factor authentication whenever possible

Successful Relationships are Founded on Trust

That is a significant opening statement, but none-the-less a statement we believe is true. Trust underpins all successful relationships in our lives. Whether it's personal or business-oriented, a solid foundation of mutual trust in the other party allows mankind to progress confidently in any endeavour.

People's digital lives are no different. Every time you log into your e-mails, sign into your social media accounts, you trust that the service provider is providing you with a good, well secured and maintained service to use. In turn the provider trusts that you have chosen an appropriate password and that your sign-in is authentic. Both parties have a role in the exchange, and both must trust that the other is upholding their end of the process.

Corporate technology, and the security choices which are made as part of operating it, follow that shared trust model, but in an expanded form. Unlike most internet services, when operating an enterprise, there is the opportunity to enforce several assurance mechanisms used by staff when they attempt to access digital services, such as e-mail. This enables the enterprise to verify the authenticity of data access. It is entirely appropriate that the enterprise should do this. In Jarden's case this assurance reinforces the foundation of trust that our clients place in us. For example, when supplying us with personal identifiable information such as a driver's license or bank account details as part of operating an account with us.

Cybersecurity is a Shared Responsibility of Trust

Jarden has a responsibility to ensure that the services we offer are appropriately protected against malicious attacks being successful. This means that we operate large, complex technology services which are regularly updated, reviewed and independently audited as part of our license to operate in the market. Whenever we engage with third party companies (e.g. as part of an asset divestment or initial public offering), we audit, and are audited, to ensure that our approach to cybersecurity meets appropriate standards. Balancing cybersecurity requirements with the adoption of innovative technologies allows us to grow the services that we offer whilst ensuring that we have taken appropriate steps to safeguard the data that has been entrusted to us by our clients.

On the other side of this shared responsibility relationship sits the client. Clients are responsible for managing the security access to their account. Passwords are the most prominent example of this. If you are using the same password for multiple accounts, it is significantly riskier than using individual passwords for each account. However, this can be a common challenge, as highlighted in a 2019 Ponemon Institute report which showed that on average, individuals use one password across five separate accounts (e.g. e-mail, e-commerce, online banking, social media). For a lot of people this is especially risky as these accounts are associated with a single e-mail address. If any one of these services are compromised and account details published online, it becomes incredibly easy for attackers to log on to these services as the individual. This is referred to as credential stuffing, which has gained prominence and success in recent years. Utilising secondary authentication, or two-factor authentication, is a great way to combat this risk. There are three basic factors to authenticating digital identity. They are something you know (e.g. a username and

On average individuals use one password across five separate accounts

password), something you have (e.g. a mobile device which receives SMS codes, an app, or a specific device), or something you are (e.g. your fingerprint or other biometric identifier). Most commonly, we combine something we know with something we have in order to make this strong assertion of digital identity. This has been widely adopted in the financial services sector, including at Jarden. Multiple independent reports have highlighted that use of two-factor authentication wherever possible significantly reduces the risk of digital accounts being compromised by an unauthorised third party. It's a great security control, and we recommend its use wherever possible.

The Continuing Rise of Cybercrime

Annual cybercrime revenue is nearly US$1.5 trillion

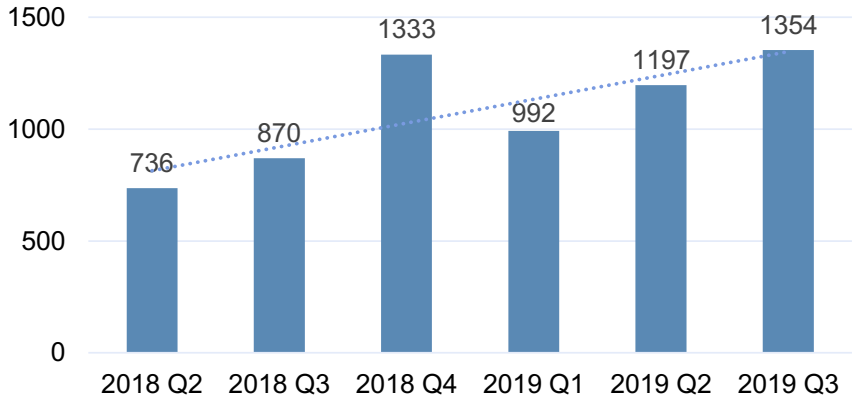
Globally cybercrime growth has been rampant over the last decade. In 2018, Bromium conducted a study to assess the size of the cybercrime economy. It calculated that underground markets trading in illegal goods, intellectual property theft, and trading in illegally obtained data such as credit card and personal information which could be used to commit identity fraud generated annual criminal revenues of nearly US$1.5 trillion. To put this into perspective, if cybercrime were a country, it would be the 13th largest, and would be larger than Australia's economy of US$1.38 trillion.

There are also a dizzying number of ways to commit cybercrime. Phrases like ransomware, cryptolocker, credential stuffing and denial-of-service all speak to large collections of attack types on target organisations and potentially individuals. Combined with the anonymity of cryptocurrencies, such as bitcoin, and the global reach afforded by the internet, we can see that this is a challenge which will continue to grow for New Zealand businesses and citizens.

Understanding the scale of cybercrime in our business is critical to understanding our approach to providing the appropriate level of security for the services used by our clients. New Zealand's government Computer Emergency Response Team (CERT NZ) tracks incidents, which it reports on quarterly. The number of incidents has been nearly doubled since CERT was established only three years ago.

NZ Cybersecurity Incidents reported by Quarter

Source: CERT NZ quarter three report 2019



Most of these incidents are categorised as Scams & Fraud, or Phishing & Credential Harvesting. Attackers have most success when targeting individuals. This must be remembered in order to successfully protect the enterprise. We must bring together technology choices, with a focus on our people and processes in order to be able to protect against such attacks. After all, it's a matter of trust.

If you would like some guidance on improving your own online security, read CERT NZ's guides for individuals – https://www.cert.govt.nz/individuals/guides/

Reducing the Burden of Tax Returns & Administration

Tax Reporting

It is an ideal time to get things set up for the next and all following tax years

While it is too late to arrange tax reporting for the 2019-2020 tax year, it is an ideal time to get things set up for the next and all following tax years. Our tax reporting comes into its own when it covers all a client's investment assets and the entire tax year. In this situation, the tax report will provide all the information needed to complete your tax return with respect to your financial investments, thereby significantly reducing the time and complexity of completing your annual tax return. A comprehensive tax report and an explanatory tax guide is provided to every client who signs up for our Compass and Custodial services. The tax reports are mailed to clients each year in May. The report is prepared so that NZ domiciled investors can understand their NZ tax obligations and shows:

- New Zealand income – interest and dividends.
- Overseas income – interest and dividends which take account of Foreign Investment Fund (FIF) rules.
- Rebates, fees and charges.
- Foreign Investment Fund income for overseas equities and funds.
- Portfolio Investment Entities (PIEs) – listed and unlisted.

Please contact your Jarden adviser if you wish to find out more about our client tax reports.

Easing the Administration Burden

Clients who manage their assets themselves should consider using Jarden's Custody Service

Clients who want to manage their assets themselves, rather than using Compass, should consider using Jarden's Custody service. Under the custody service, client assets are held by FNZ Custodians Limited as bare trustee. Therefore, neither Jarden nor FNZ Custodians have any claim over client's assets. Client assets can only be transferred or sold at the client's request.

myJarden

As well as getting the annual tax report discussed above, the Custody Service takes care of much of the administration resulting from holding a portfolio of securities. This includes receiving and recording all income streams, buying and selling securities (equities, fixed interest securities, foreign currency cash, listed and unlisted investment funds and non-financial assets) without the need to supply a CSN (common shareholder number) or SRN (shareholder reference number) and dealing with events such as takeovers, spin offs, stock splits and share purchase plans (capital raisings). The prices of most securities are updated daily, which allows clients to view their portfolios based on up to date prices having incorporated all transactions. Viewing is done online through the myJarden Portal.

Please contact your Jarden adviser if you wish to find out more about Jarden's Custody Service, including the associated terms and fees.

Regulatory Changes

Trustee Act 1956 Out, Trusts Act 2019 In

The review clarifies and modernises trust law

A comprehensive review of trust law has resulted in the Trustee Act 1956 being replaced by the Trusts Act 2019. After over sixty years the review clarifies and modernises trust law. The new Act comes into effect on 30 January 2021, and existing trusts have an 18-month period to comply with the new Act.

Key features of the new Act are:

1. Trustees have several mandatory duties which they must perform and cannot be modified or excluded by the trust's terms.
2. There are also a few default duties which can be modified or excluded by the trust's terms. Many defaults duties for trustees to perform are routinely excluded by existing trust deeds. This will continue to be acceptable.
3. There is a requirement for trustees to retain an increased level of documentation.
4. There are new requirements relating to information that must be made available to beneficiaries. There is also information that beneficiaries are permitted to request, but that the Trustees do not have to disclose.
5. Trust deeds must not limit a trustee's liability or provide an indemnity for dishonesty, wilful misconduct or gross negligence.
6. Trusts that fail to specify a termination date are now deemed to terminate after 125 years. This compares to 80 years currently.

Greater time and cost to run a trust

While trusts are important for estate planning and managing assets the greater time and cost to run a trust under the new Act means a review of existing trusts usefulness is worth considering. With the new Act due to come into force trustees need to be aware of the new requirements. Trustees should contact their legal adviser for advice on how to proceed.

Clients wishing to read more about the changes resulting from the new Act should view the NZ Law Society's website - https://www.lawsociety.org.nz/practice-resources/practice-areas/trusts/the-new-trusts-act-2019-key-changes-to-consider

Non-Declaration Tax Rate Increases from 33% to 45%

The consequence of not having a valid IRD number

From the 1st April 2020, there is a legislative change to the way that the Inland Revenue collects income tax on investment income (dividend and interest) paid to NZ resident taxpayers (including individuals, joint accounts, trusts, companies and estates) that have not provided a valid IRD number. The consequence of not having a valid IRD number recorded by the payer of investment income will be the imposition of a 45% non-declaration tax rate on such income from 1 April 2020 (as opposed to the current 33%). Clients who do not have a valid IRD number recorded with Jarden will be contacted by their adviser to ensure compliance with the legislative change.

Calendar

Major Events: February – April 2020

	Economic Events		Central Bank Decisions	Political Events
China PMI	3 Feb		3 Feb	US - Iowa Democratic Caucuses
US Manufacturing PMI	4 Feb		4 Feb	Australia RBA Interest Rate Decision
NZ Unemployment Rate	5 Feb			
US Non-Manufacturing PMI	6 Feb			
China Trade Balance	7 Feb			
US Unemployment Rate	8 Feb			
Australia Business Confidence	11 Feb	UK GDP	11 Feb	US - New Hampshire Democratic Primary
UK Trade Balance				
EU Industrial Production	12 Feb		12 Feb	NZ RBNZ Interest Rate Decision
EU GDP	14 Feb			
US Retail Sales	15 Feb			
NZ Net Migration	17 Feb	Japan GDP		
Japan Trade Balance	19 Feb	UK CPI	19 Feb	FOMC Meeting
EU Consumer Confidence	21 Feb	Australia PMI	21 Feb	Iran Parliamentary Elections
Japan PMI		EU PMI		
			22 Feb	US - Nevada Democratic Caucuses
NZ Trade Balance	27 Feb	NZ Business Confidence		
EU Business Confidence		EU Consumer Confidence		
US GDP	28 Feb	NZ Consumer Confidence	28 Feb	US - South Carolina Democratic primary
China PMI	2 Mar			
US Manufacturing PMI	3 Mar	EU Unemployment Rate	3 Mar	Australia RBA Interest Rate Decision
				US Super Tuesday Primary Elections
			4 Mar	Bank of Canada Central Bank Meeting
US Non-Manufacturing PMI	5 Mar		5 Mar	China National People's Congress
US Unemployment Rate	7 Mar	China Trade Balance		
Japan GDP	9 Mar			
Australia Business Confidence	10 Mar	EU GDP	10 Mar	US - Democratic Primaries in 6 States
UK Trade Balance	11 Mar			
EU Industrial Production	12 Mar		12 Mar	ECB Meeting
NZ Net Migration	16 Mar	China Industrial Production		
US Retail Sales	18 Mar	Japan Trade Balance		
NZ GDP	19 Mar		19 Mar	US Fed Interest Rate Decision
				Japan BoJ Interest Rate Decision
EU Consumer Confidence	24 Mar	Australia PMI		
Japan PMI		EU PMI		
NZ Trade Balance	25 Mar	UK CPI	25 Mar	NZ RBNZ Interest Rate Decision
US GDP	27 Mar	NZ Consumer Confidence	27 Mar	UK BoE Interest Rate Decision
EU Business Confidence	30 Mar	EU Consumer Confidence		
NZ Business Confidence	31 Mar	UK GDP		
China PMI	1 Apr	EU Unemployment Rate		
US Manufacturing PMI	2 Apr			
US Unemployment Rate	4 Apr	US Non-Manufacturing PMI		
			7 Apr	Australia RBA Interest Rate Decision
			8 Apr	FOMC Meeting
UK Trade Balance	9 Apr			
NZ Net Migration	14 Apr	Australia Business Confidence		
China Trade Balance				
			15 Apr	South Korea Parliamentary Elections
US Retail Sales	16 Apr	EU Industrial Production		
China GDP	17 Apr	China Industrial Production		

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Investment Outlook

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