JARDEN

Investment Outlook

August 2020

Negotiating the new normal

NZ Equities

BUY Chorus, Infratil, Kathmandu, Stride Property, Z Energy

Australian Equities

BUY Amcor, ANZ Bank, Coles, Worley, Telstra

Global Equities

BUY CK Infrastructure, Johnson & Johnson, TSMC, United Pacific

Jarden Overview

August 2020

In the year to date society has probably experienced as much change as would typically be expected over a decade due to the flow on effects of Covid-19. Furthermore, that ignores the dramatic shorter-term impact of efforts to manage the impact of Covid-19 (such as lockdowns, quarantining and social distancing) and longer term changes yet to be implemented (such as significant changes to the work force as automation makes many jobs redundant and supply chains change to make them more resilient).

The adverse economic impact of Covid-19 has been cushioned by central bank and government stimulus many times bigger than was employed during the global financial crisis. This has resulted in government debt skyrocketing. As a result, we expect interest rates to remain at very low levels for a long time and central banks being much more tolerant of higher inflation. We believe that until a vaccine is developed and deployed to a large portion of the world's population, significant uncertainty will likely remain even though the world's population is getting accustomed to living with Covid-19.

As we race toward the end of the year, elections will be held in New Zealand and the US. While the outcome of the New Zealand election looks almost certain, we expect major policy announcements after the election. Due to the impact the US has on the world the outcome of the US election is important. Should Joe Biden clinch the Presidency and the Democrat party gain full control of the Senate and House of Representatives then some of Donald Trump's equity market friendly policies are likely to be under threat.

On the home front, Jarden started working with Toitū Envirocare a year ago to manage our carbon footprint (greenhouse gas emissions). This involves measuring, reducing and finally offsetting unavoidable carbon emissions. Our decision to offset double the required carbon emissions effectively makes Jarden carbon negative. It is important to note that our sustainability commitment extends further than a focus on our carbon footprint, with sustainability placed at the heart of everything we do.

To ensure that we achieve the high level of personal service to our clients that we expect from our wealth advisers we are adding to the adviser team as and when high quality personnel present themselves. We are pleased to announce the commencement of Selwyn Smith and James Hunter in our new Dunedin office and expect to announce the opening of new offices in Timaru, Masterton, and Gisborne in the coming months.

In May we began our multi decade investment into the Australian capital markets with the appointment of several industry leaders, with further high calibre appointments sealed in subsequent months. Finally, In Auckland we recently shifted our main office from the ANZ Tower to Commercial Bay.

John Norling,
Director, Head of Wealth Research

Contents

A New "Normal"

Key Takeaways

- COVID-19 has massively accelerated change
- Closed borders are the biggest hinderance to recovery
- The response to Covid-19 is 4-10 times that of the response to the global financial crisis
- Tools to reduce debt include low interest rates, high inflation and reduce government deficits
- Significant changes are likely post the New Zealand and US elections

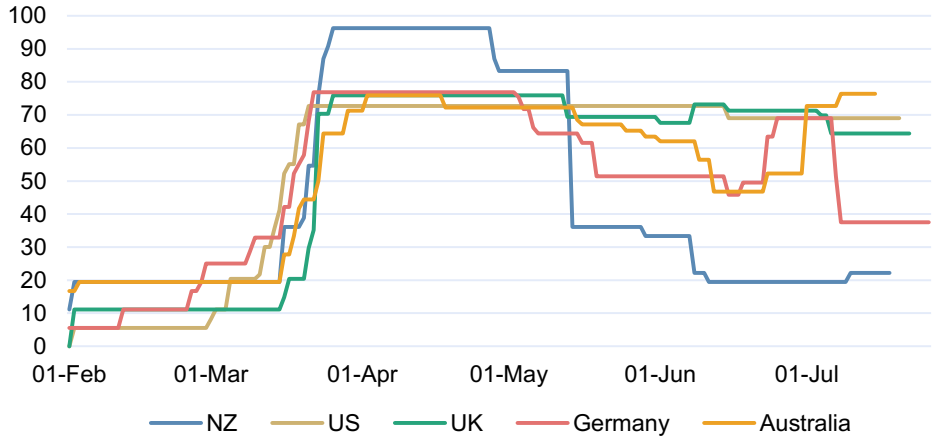
The Change Agent - Covid-19

Since the dark months of March and April the world appears to be doing much better than the gloomy predictions painted by many. Across the world mobility restrictions have been eased. With minimal public appetite for a strict national lockdown, authorities are focused on containing isolated outbreaks, affecting thousands of people rather than millions. The combination of lifting restrictions, learning to live with Covid-19 and significant central bank and government stimulus have significantly softened the economic blow of Covid-19. That said, we will not escape a recession with the level of economic activity not expected to regain 2019 levels until 2022 at the earliest. We note that recessions are like winters; uncomfortable but a necessary part of the economic cycle, effectively cleaning out those companies that fail to adapt and pivot their businesses to lasting changes. However, it is extremely important the resulting increase in unemployment does not become entrenched resulting in higher costs for businesses and weak consumption long term. Covid-19 has accelerated trends that were already underway, both between industries and amongst companies within industries. Many companies saw the organisational inertia, which usually stands in the way of major changes, swept aside. For example, on-line delivery grew as much in eight weeks as it did in the prior decade, telemedicine grew ten times in fifteen days, and Microsoft saw two years of digitisation in two months. Looking forward, we expect to see accelerated digitisation, automation, on-line living (working from home, online shopping and entertainment), less air travel, greater use of cars at the expense of public transport, increased emphasis on hygiene, a gradual roll back of globalisation, and greater use of local supply and a focus on infrastructure (mainly ecologically friendly infrastructure).

The biggest hinderance to an economic recovery is closed borders, although this is a very effective way of keeping Covid-19 out of a population. While it does not seem such a big issue in New Zealand, the other hinderance in many countries is a fear of being in an enclosed space such as shopping malls, theatres, restaurants, museums, and gyms. This can be seen in household spending figures where spending by low income households has fully recovered while high income household spending is lagging due to reduced spending on travel, restaurants, and entertainment.

Covid-19 Stringency Index

Source: University of Oxford



While much has been learnt about Covid-19 there is still significant uncertainty. Herd immunity probably needs around two-thirds of the population to be infected. Currently the data indicates that less than 0.3% of the population has been infected. Despite over 220 potential vaccines being in development, it is unlikely that a suitable vaccine will be developed until 2021. Then the issue of vaccine production and distribution needs to be

overcome. Other issues to focus on are the development of effective treatments for those that become infected, the long-term health impacts on those who recover from the virus, and the effectiveness of public health measures.

Policy Responses

Minimising economic damage and supporting a quicker recovery

Globally the policy response to Covid-19 totals over US$11 trillion and counting. To date, most of it has focused on the short-term goals of financial stability, household economic welfare, and helping companies survive. The idea being to minimise the economic damage and support a much quicker economic recovery. Central banks stand ready to provide further support through additional quantitative easing, yield curve control, and providing cheap loans to banks. However, Government measures remain by far the most important form of economic support. Government measures include guarantees, loans, deferring payments to government, equity investment and direct payments to individuals and companies (mainly small-to-medium sized enterprises and companies in the tourism, travel, and transport industries). Most governments are looking to extend support packages that are about to expire but in a reduced and more targeted manner. The New Zealand government is an anomaly in this regard, at this stage preferring to sit on the $16 billion of relief yet to be allocated. To be effective the stimulus must result in spending, both consumption and investment. If it merely results in increased savings the benefit is lost or at least significantly diminished.

A CovidCard would detect and record close contacts using Bluetooth technology

In New Zealand, Sir Peter Gluckman, Helen Clarke, and Rob Fyfe of the Think Tank Koi Tu believe that a combination of universal quarantining of arrivals, aggressive testing regimes, and robust contact tracing are our best protection. To achieve this appropriate quarantine capacity needs to be increased. With respect to contact tracing, they support the use of a CovidCard, which would detect and record close contacts using Bluetooth technology and store the data securely on each person's card for 21 days. They acknowledge that for border openings to occur cooperation of the New Zealand people must be maintained and that any border opening requires agreement not only from New Zealand but also other countries. Clearly the renewed outbreak of Covid-19 in Victoria is likely to defer the opening of the border with the important Australian market.

Looking a little further out, the disruption caused by Covid-19 gives New Zealand the opportunity to reset/accelerate its medium to long-term future, with the goal of improving New Zealanders lives and, by implication, the economy. Areas likely to get attention are:

1. Infrastructure – key focus being water and wastewater, and transport including road, rail, and the Cook Strait ferries.

Closure of the Tiwai Point aluminium smelter...

2. Green technology – the focus being on renewable energy sources and greater energy efficiency. For New Zealand, the closure of the Tiwai Point aluminium smelter releases 5,000 Gwh of electricity annually. As well as reducing the need for electricity generated from gas and coal, it also opens the opportunity for coal and gas fired boilers to be replaced by electric boilers. Converting Fonterra's South Island boilers to electricity would consume1,500-2,000 Gwh and significantly reduce carbon dioxide emissions.
3. Shaping the work force – in the shorter-term looming skill shortages and a significant increase in unemployment suggests collaboration between industry and government is critical. Meanwhile, over the next decade greater automation is likely to require a material proportion of the workforce to switch occupations.
4. Digitisation and artificial intelligence – both are expected to see a massive increase in adoption over the next decade having a profound impact on payment systems, retail, food, accommodation, and education.
5. Supply chain resilience and security of supply – globally Covid-19 exposed weaknesses in food and medical supplies.

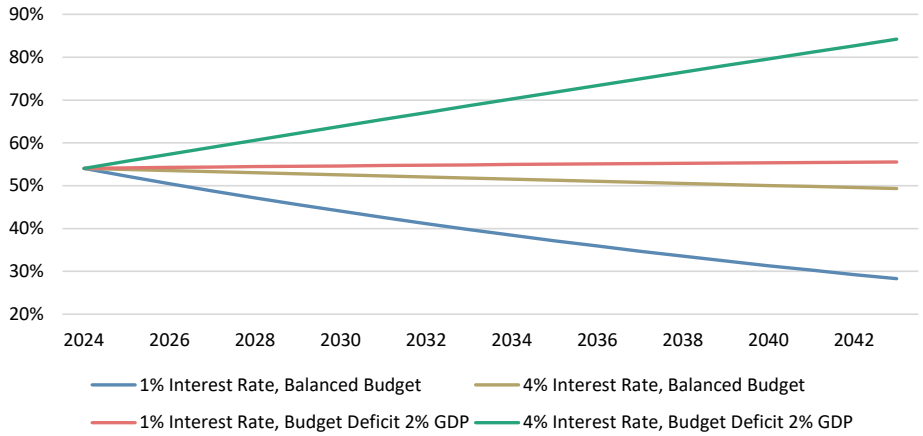
The Bermuda Triangle – Debt Disappears

Government debt is expected to rise from $58 billion in 2019 to $201 billion

Debt, interest rates, and inflation form the points of a triangle where the aim is to make the debt disappear or at least shrink. In terms of assessing the level of debt it is not the absolute level of debt that is important, it is the level of debt relative to size of the economy, measured as gross domestic product (GDP). Governments globally, including New Zealand's, have seen debt skyrocket with even greater heights to be reached as spending announced is spent. New Zealand's government debt is expected to rise from $58 billion in 2019 to $201 billion in 2024 (reaching 54% of GDP). The higher level of debt comes with additional interest costs. Consequently, there is a strong desire to keep interest rates low. If interest rates exceed the level of nominal GDP growth, then the debt burden will grow. Globally there is an incentive to keep interest rates low to avoid high debt burdens inflating further.

Shrinking the Debt – Keeping Interest Rates Low

Source: Jarden

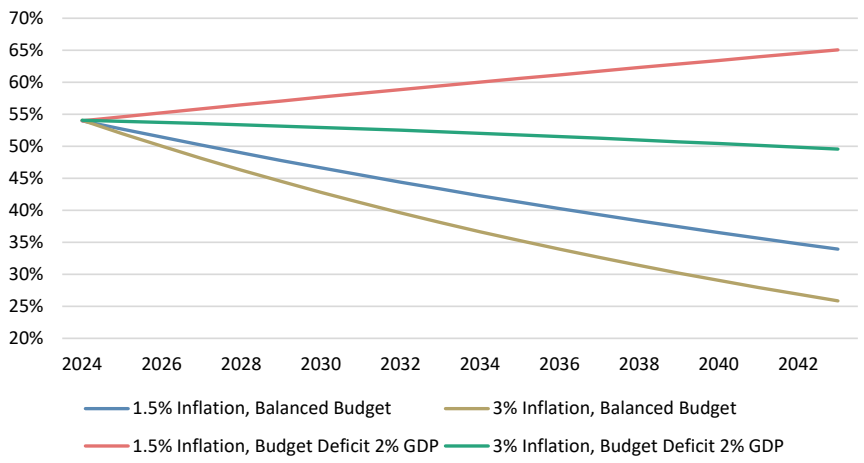


In time today's economic stimulus will spark inflation globally … and central banks will tolerate higher inflation

The next consideration is how to reduce the debt, or more particularly the debt as a proportion of GDP. Not repaying the debt is not a viable option as governments do not want to turn off lenders. Therefore, the answer is either to increase revenue (in other words taxation), reduce government spending, or grow the size of the economy through a combination of real economic growth and inflation. We consider taxation later. Reduced government spending is not a near term option as it is needed to cushion the adverse economic impact of Covid-19. We expect the government is firmly focused on developing policy to bolster real economic growth by taking on board ideas like those noted above. That leaves inflation. We are a firm believer that in time the economic stimulus currently being delivered in New Zealand and globally will spark inflation, in line with the historical relationship between economic recovery and money supply growth. However, unlike prior periods we expect that central banks will tolerate higher inflation (3% plus) for a number of years, although not as high as occurred in the 1970's. Hence, we would expect to see measures to contain inflation if it looked like it was heading above 4%. Typically, higher inflation means higher interest rates. However, with central banks keeping policy interest rates low through a mix of ongoing quantitative easing, yield curve control and interest rate guidance interest rates for terms to maturity out to ten years should remain low, resulting in negative real interest rates (nominal interest rate less inflation). Negative real interest rates are clearly negative for fixed interest investors but are positive for precious metals like gold and silver. On pages 20-21 we provide examples of companies that are expected to benefit from higher inflation. The following chart illustrates how a mix of higher inflation and a balanced primary government budget can bring the debt burden down over time.

Shrinking the Debt – Letting Inflation Rise

Source: Jarden



Our higher inflation scenario is a medium-term view. In the short-term inflation is expected to be low due to economic weakness, higher unemployment, and lower commodity prices. Evidence of this was seen in the June quarter, which recorded 0.5% deflation. The next few quarters are also likely to record very subdued inflation, although not as low as June, in large part due to the expected gradual recovery in the cost of oil and the drop in travel related and accommodation costs being largely one off.

It would not be surprising to see a new Labour government implement policies which are too risky to mention before an election

Going to the Polls

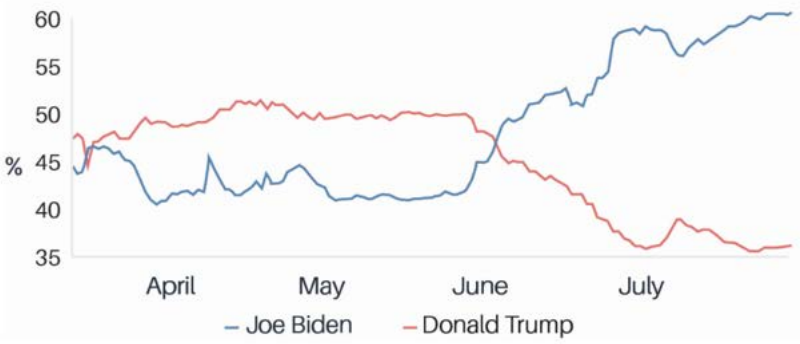
New Zealanders go to the polls on 19 September. At this stage it appears that, notwithstanding either Judith Collins pulling a rabbit out of the hat or Jacinda Ardern taking a large misstep (including a significant Covid-19 outbreak), we will be looking at a second term Labour government, potentially being able to govern alone. With three years up their sleeve it would not be surprising to see them implement some policies that would be too risky prior to an election. Included on this list are:

1. A greater opening of the border for longer stay people such as workers to fill skill gaps, long term migrants, and foreign students.
2. Taxation – introducing a new marginal tax rate at a new top income band or other new taxes to move the fiscal balance in the right direction.
3. A restructuring of water and wastewater infrastructure ownership accompanied by overdue upgrades.
4. Policies to promote green technology.

The US election also needs close monitoring given the global importance of the US economy, the even greater importance of the US equity market, and the extent to which the tentacles of US government policy influences countries around the globe. With the election on 3 November 2020 there is still scope for change. However, at this time Joe Biden (the likely Democrat presidential nominee) has a commanding lead in the opinion polls and, importantly, is ahead in some of the swing states which Trump won in 2016.

Odds Favour Biden for US President

Source: RealClearPolitics



Biden's current policies would be negative for the US equity market

Given Joe Biden's age (78) there is much interest as to who will be his deputy, given the possibility they end up being the next President during the next term should Joe Biden win. Just winning the Presidency will not be enough to effect material change. To do that the Democrats need to win back the Senate and hold onto Congress. The resulting "sweep" has a lower probability than just winning the Presidency. In aggregate, Biden's current policies would be negative for the US equity market, reversing a portion of the positive benefit of Trump's policies. The policies include:

1. Increasing the Federal minimum wage from US$7.25/hour to US$15/hour. Many states already have a minimum wage above US$7.25/hour
2. Creating a government run health insurance option, barring companies with Medicare contracts from increasing prices above inflation and allowing consumers to buy prescription drugs from other countries. Traditionally healthcare companies have a good track record pushing back on polices that may adversely impact their profitability.
3. An increase in the top marginal tax rate to 39.5%, an increase in capital gains tax and an increase in company tax, including an increase in the corporate tax rate to 28%. Credit Suisse estimate the increase in company tax would see company earnings down 4-5%.
4. Introduction of a tax on carbon emissions, recommitting to the Paris Climate Accord, targets for electric vehicles, and reducing carbon emissions from power companies.
5. Infrastructure and clean energy investment of US$1.3 trillion and US$1.7 trillion respectively.
6. Biden is expected to take a tough line on China but be far more conciliatory to the US's traditional trading friends, including the Trans-Pacific Partnership countries.

Asset Allocation

Key Takeaways

- Although recent economic outcomes have surprised on the upside, tougher times are ahead
- Equities appear vulnerable to pullback or pause in the near-term
- On a longer horizon, equities are likely to be supported by low interest rates and their role as a hedge against moderate inflation

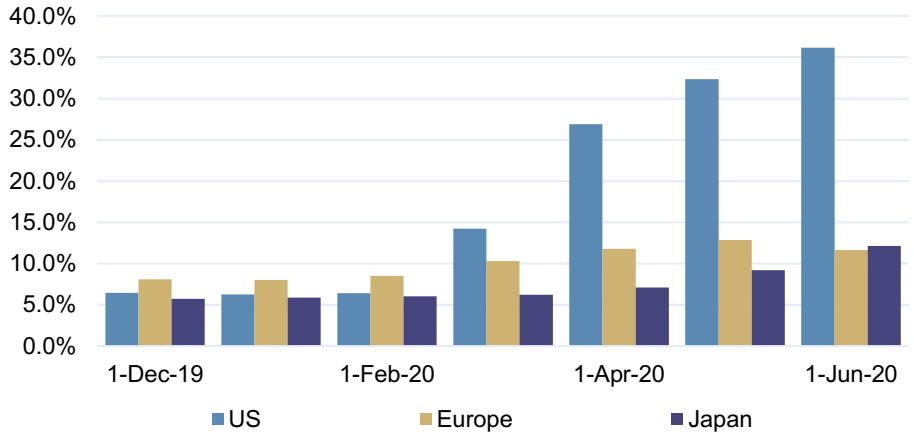
Global Equities – Positives Fading

Globally equities have benefited from a less gloomy and less uncertain outlook than existed a few months ago. As noted above, this reflects massive stimulus, which is ongoing, and an easing of the adverse impacts of COVID-19. This is cushioning the severity of the recession but will not avoid an economic dent. We expect the flow of good news to fade and are monitoring the resurgence of COVID-19 in the US and parts of Europe.

Global equities are likely to continue to be supported by ultra-low central bank interest rates and large-scale asset buying, which is flooding the global financial system with cash. This is indicated by the rapid growth in base money supply (M1), which consists of bank deposits and notes and coins, as shown in the following chart. The combination of low interest rates and excess cash is stimulating a move into riskier investments like equities as investors seek returns above the rock-bottom returns on cash and debt securities.

Annual Money Supply (M1) Growth

Source: Bloomberg



Positive economic surprises unlikely to continue and some countries are seeing second waves of COVID-19

However, the move into equities will not continue unconditionally. Investors appear to be expecting a relatively sharp recovery in the global economy and company earnings, encouraged by a recent strong run of positive economic surprises. This is unlikely to continue. Invariably, positive surprises turn to negative surprises as market expectations catch up and pass actual economic outcomes.

In addition, equities have undoubtedly been positively influenced by the reopening of economies as new COVID-19 cases have declined. To the extent that the US and other major developed countries experience second waves of COVID-19 infections requiring social distancing measures, equity markets may retract to some degree on the positivity that has been priced in recently.

Equities may be vulnerable to pullback in the near-term

Therefore, given how fast equity prices have rebounded from their bottom equities could be vulnerable to pullbacks on near-term negative economic surprises or COVID-19 resurgences. In addition, escalating China-US tensions, and the November US Presidential Election both have the potential to upset the apple cart for global equities.

Several factors are likely to provide support for equities on a longer horizon

Although the short-term outlook looks potentially a little rocky for global equities, we see several factors boosting this asset class in the medium-term:

1. Central banks will be keen to well and truly bury the deflation bogey that has haunted the global economy. This will mean shooting for and tolerating higher than 2% inflation, which has generally been targeted in the past.

2. Central banks will see it as important to get as many of the workers that lost their jobs during lockdowns as possible back into the workforce. This will likely require an extended period of stimulatory monetary policies.
3. By keeping interest rates low central banks will dampen the cost of borrowing for governments, thereby making it easier for governments to service sizeable debts built up because of recent spending splurges.

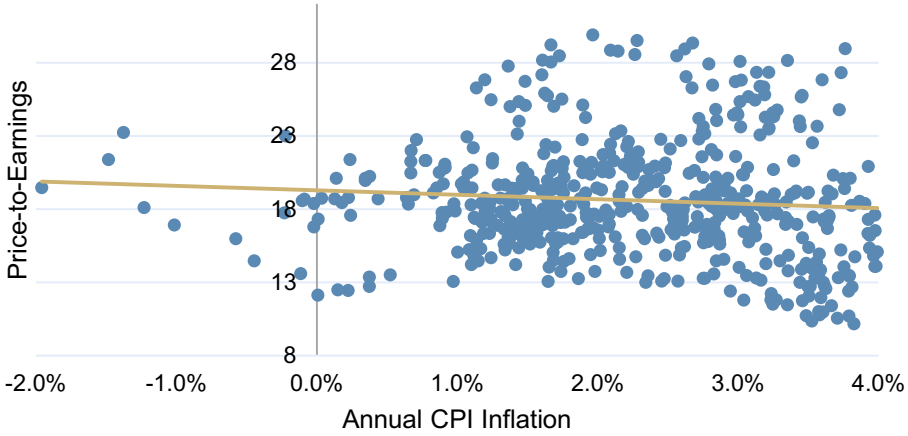
Low cost of equity and moderate inflation will likely help equity valuations

There are two consequences for equity valuations of central banks targeting moderately higher inflation than they have in the past. First, central banks will maintain lower interest rates for longer to stimulate extra inflation, which will likely lower companies' cost of equity. This will likely help to support equity valuations, particularly valuations for high earnings growth equities, which benefit the most when the cost of capital falls.

Second, returns on equities have tended to be a hedge against moderately rising inflation. This is reflected by there being little relationship between inflation under 4% and equity valuation ratios as the following chart shows.

US Price-to-Earnings Multiple vs Annual Consumer Price Inflation

Source: Bloomberg



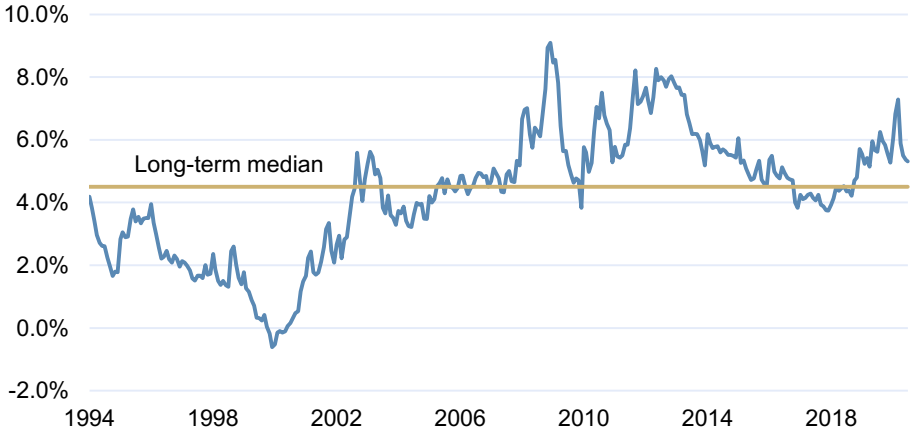
It is only when inflation is over 4% that higher inflation has generally led to a lower price-to-earnings ratio. This suggests equity valuations should be well supported in the scenario of moderate inflation in the 3% to 4% range.

Equities compare favourably against bonds

In addition, despite elevated equity price-to-earnings multiples, equities look attractive compared to bonds, which are their main investment alternative. This is indicated by the US equity risk premium (the extra return expected on US equities relative to US long term government interest rates) which is above its longer-term median.

US Equity Risk Premium

Source: Bloomberg, Jarden



We remain relatively neutral on equities and income assets on a 12 to 18-month horizon

Based on the assessment above, we are broadly neutral in our preference between lower risk income assets and higher risk equity assets for the next 12-18 months.

When considering global equities, New Zealand investors need to consider movements in the New Zealand dollar. Expected US dollar weakness will result in a higher New Zealand currency, which if it comes to pass will detract from the New Zealand dollar return generated by global equities.

New Zealand Equities – Closing the Gap

New Zealand equities are supported by low interest rates

Kiwi investors continue to be attracted to New Zealand equities as a source of investment income through the dividends and imputation credits paid. We expect this support will continue as New Zealand interest rates follow the global trend of low interest rates for longer. However, in the difficult economic environment ahead it is important to pay attention to the ability of companies to maintain attractive dividends as in some cases current dividend pay-outs may not be sustainable.

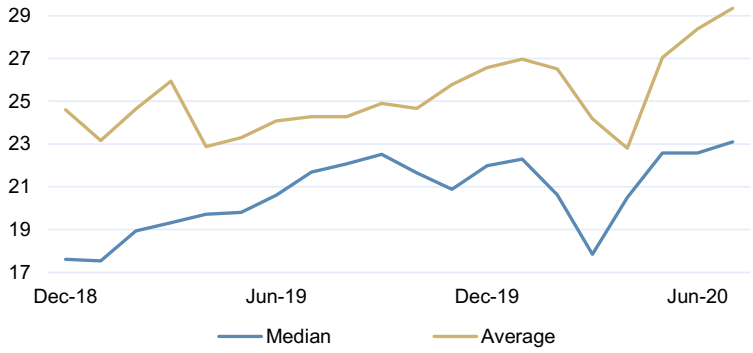
But, New Zealand equity valuations are relatively high compared to other markets

The flipside to the attractiveness of New Zealand dividend equities is that valuations have risen relative to other markets and are now above past medians. This means that over the longer-term, returns on local equities are less likely to match those on other markets. This has been a key reason for our underweight to New Zealand equities.

However, in May we acknowledged that in more recent times the strong performance of the New Zealand equity market has been substantially driven by high-fliers, A2 Milk (ATM) and Fisher and Paykel Healthcare (FPH). Taking the median price-to-earnings multiple, which down-weights the influence of ATM and FPH relative to the capitalisation-weighted price-to-earnings multiple, the New Zealand equity market valuation does not appear as elevated, as the chart below shows.

New Zealand Equity Price-to-Earnings Multiple

Source: Bloomberg, Jarden



With the balance of opportunities and risks being broadly the same between global and New Zealand equities we again take the opportunity to bring the weighting to New Zealand equities and global equities closer together.

Forecasts

Economics

As at 29 July 2020

	Fiscal Balance % GDP			*GDP Growth %*			*Inflation %*			*3 month Libor %*			*10 Year Government%*		
	2019A	**2020F**	**2021F**	**2019A**	**2020F**	**2021F**	**2019A**	**2020F**	**2021F**	**Spot**	**3mth**	**12mth**	**Spot**	**3mth**	**12mth**
New Zealand	0.5	-8.2	-7.2	2.3	-5.1	5.1	1.5	0.3	0.3	0.3	0.3	0.3	0.8	1.0	1.2
Australia	0.0	-5.9	-5.3	1.8	-3.6	3.3	0.7	0.1	0.2	0.1	0.2	0.2	0.9	0.9	1.1
US	-4.8	-17.4	-10.6	2.3	-5.5	3.9	0.9	0.3	0.4	0.3	0.3	0.4	0.6	0.8	1.1
Japan	-3.0	-11.0	-6.8	1.0	-4.9	2.5	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Europe	-0.8	-9.6	-4.5	1.2	-8.1	5.5	0.4	-0.5	-0.4	-0.5	-0.4	-0.4	-0.5	-0.4	-0.3
United Kingdom	-2.2	-13.0	-7.0	1.3	-8.9	6.0	0.8	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.4
China	-6.0	-6.7	-5.8	6.1	2.0	8.0	2.7	2.6	2.0	2.6	1.9	2.0	3.0	2.8	2.8

Source: Jarden, Bloomberg (* actuals)

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	6,006	5,800	- 6,410	3.3%	-12.0%
Emerging Markets	1,087	1,050	- 1,160	9.3%	3.9%
Europe – Stoxx 600	367	370	- 410	2.1%	-6.0%
Japan - Topix	1,549	1,560	- 1,720	0.0%	-1.2%
New Zealand – NZX 50	11,599	11,450	- 12,650	3.1%	6.9%
UK – FTSE 100	6,131	6,150	- 6,800	-1.5%	-20.2%
US – S&P 500	3,258	3,220	- 3,560	6.7%	7.9%
Oil Brent USD/bbl	41	48	- 53	3.7%	-24.9%
Gold USD/Oz	1,971	1,995	- 2,205	11.2%	38.1%

Source: Jarden, Bloomberg

Foreign Exchange

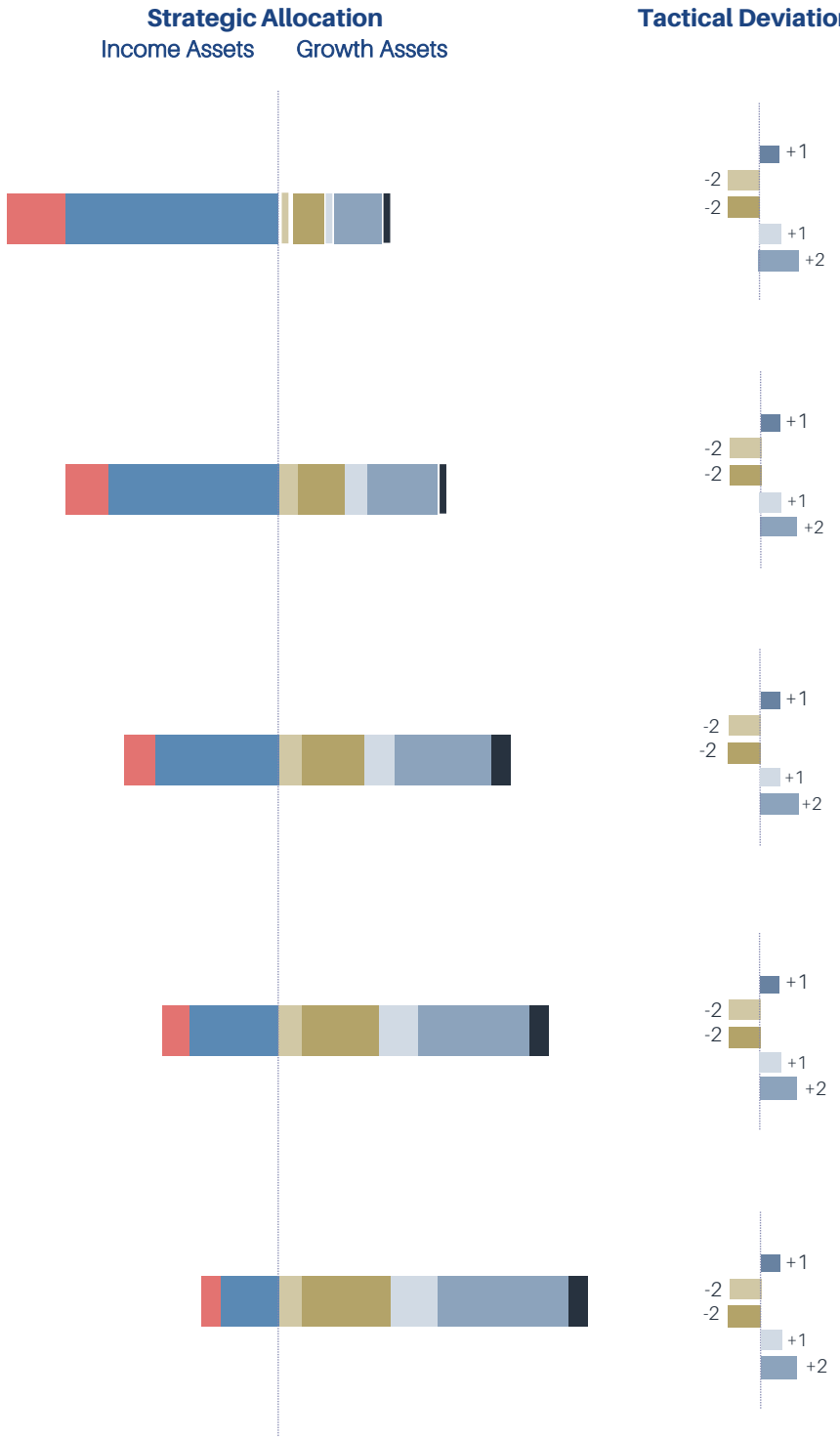
	USD		NZD	
	Spot	**12mth**	**Spot**	**12mth**
NZD	0.67	0.70	-	-
AUD	0.72	0.73	0.93	0.95
EUR	1.18	1.20	0.57	0.58
JPY	104.9	102.0	70.0	71.4
GBP	1.30	1.30	0.51	0.54
CNY	7.00	6.90	4.67	4.83

Source: Jarden, Credit Suisse, Bloomberg

Asset Allocation August 2020

Based on the Asset Allocation discussion on pages 9-11, we have made a slight change to our Tactical Asset Allocation, again reducing exposure to Global Equities by 1% and increasing exposure to New Zealand Equities by 1%. 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).

	%
Conservative	
Cash	15
NZ Debt Securities	55
Property	4
NZ Equities	8
Australian Equities	3
Global Equities	12
Alternative Strategies	3
Balanced/Conservative	
Cash	11
NZ Debt Securities	44
Property	5
NZ Equities	12
Australian Equities	6
Global Equities	18
Alternative Strategies	4
Balanced	
Cash	8
NZ Debt Securities	32
Property	6
NZ Equities	16
Australian Equities	8
Global Equities	25
Alternative Strategies	5
Balanced/Aggressive	
Cash	7
NZ Debt Securities	23
Property	6
NZ Equities	20
Australian Equities	10
Global Equities	29
Alternative Strategies	5
Aggressive	
Cash	5
NZ Debt Securities	15
Property	6
NZ Equities	23
Australian Equities	12
Global Equities	34
Alternative Strategies	5



Neal Barclay – Meridian Energy CEO

Neal Barclay

Key Takeaways

- Neal's career has been built on the relentless hunt for new opportunities and challenges
- Neal fully embraces Meridian's purpose to strive for clean energy for a fairer and healthier world
- Meridian has numerous growth options following the closure of the Tiwai Point aluminium smelter

Neal is the archetypal small-town boy who grows up to lead New Zealand's third largest company listed on the New Zealand stock exchange, Meridian Energy. He grew up in Clive before shifting to neighbouring Hastings in the sunny Hawkes Bay. While Neal was an able student his passion at school was rugby, playing in Hastings Boys High School's first fifteen and representing Hawkes Bay in the under 18 division. In fact, it was only rugby which kept him at school, leaving at the end of the rugby season in his final year to take up a job at The National Bank in Hastings. Outside of his working life Neal is a family man with three daughters and a son. He is a keen fisherman and diver and can often be found off Wellington's west coast. As time permits, he enjoys hunting, and would do more if there were more hours in the day.

Coopers and Lybrand – A Great Place to Learn

His future wife enticed him to come with her to Wellington where Neal completed a Bachelor of Commerce and Administration in accounting at Victoria University. With a degree under his belt Neal chose to work at Coopers and Lybrand where he joined the audit team. Neal believes that this gave him an excellent grounding. While the initial work was not very stimulating Coopers and Lybrand provided excellent training and exposure to a wide range of businesses. As a result, Neal quickly learnt what makes businesses tick and developed an intuitive sense for the risks in a business.

In 1991 Coopers and Lybrand transferred Neal to London to work with an audit team whose key account was Robert Maxwell's media empire. On the day he was due to start his new job Maxwell fell overboard from his yacht, which triggered the collapse of his media empire. Out of adversity came opportunity with Neal being assigned to a team consulting to ING Bank. His first assignment resulted in him developing a deep understanding of financial derivatives, knowledge that proved invaluable in future roles. The second assignment involved upgrading the operational processes at some of ING's bank branches in eastern Europe. With the Berlin Wall having been toppled only a few years before this was a fascinating time to work in eastern Europe. Operating with one other person Neal was doing work he had never done before and taking on more responsibility, boosting his confidence in his own ability.

Telecom – Working With Some of New Zealand's Best

The decision to start a family saw Neal and his wife return to Wellington and because of his prior association with Telecom joined their Treasury team. One of the hallmarks of Neal's career has been the relentless hunt for new opportunities and challenges which has enhanced his skill set. Tenure with Telecom's group budget team was Neal's first exposure to working with a senior executive team, which included Dr Roderick Deane, Geoff White, Theresa Gattung, Marko Bogoievski, Simon Moutter and others. After two budget cycles Neal moved on to be CFO of Telecom's design build maintenance division of 1,500 field staff which involved careful negotiations with trade unions. When that division was sold to Downer Neal moved to Telecom's mobile business. The mobile business was experiencing fierce competition brought on by deregulation and challenges caused by the use of CDMA mobile technology which was being overtaken by GSM technology (GSM technology was superior as it supported data transmission and voice contemporaneously). Around this time Telecom bought AAPT in Australia which was also going down the CDMA path, and it fell on Neal's shoulders to shut down the CDMA project in Australia. With that project finished Neal thought his time withTelecom was at an end. However, an inspirational presentation by Theresa Gattung (Telecom CEO) where she espoused Telecom's virtues as a values-based organisation focused on customers changed his mind on the spot. Neal sums up Telecom's management team during his fourteen-year tenure in one word, "tremendous".

Tenure with the group budget team was Neal's first exposure to working with a senior management team

Meridian Energy – Putting it all into Practice

Putting in place mechanisms to generate a more stable and predictable profit

Neal took his combined experience from his time at Coopers and Lybrand and Telecom to Meridian Energy where he commenced as the Chief Financial Officer in 2008. Like Telecom Meridian had a significant infrastructure base, but unlike Telecom had hugely volatile earnings and a culture which was focused on engineering rather than commercial outcomes. Putting in place mechanisms to generate a more stable and predictable profit were a key part of the role. Two years on Neal was put in charge of Meridian's electricity generation assets which had a weak health and safety record. By instilling a culture of empowering people to make their own decisions and a framework as to how to make the right decisions the long-term injury rate fell around 90% over the next two years. Three years after listing Neal was asked to turn his attention to the retail division, which was regarded as the poor cousin of the business. In a company where electricity generation was king, he had to flip the model on its head to make Meridian a company focused on supplying an essential product, electricity, for the benefit of its customers. A key plank in the success of this transition was instilling confidence in the retail team that they could succeed.

Being gutsy …

Based on his experience across the business there is probably no one better qualified to run it currently. Being in the driver's seat Neal is focused on ensuring that Meridian achieves its purpose – "To strive for clean energy for a fairer and healthier world". This is accomplished through a focus on three core behaviours: 1. Being gutsy – new ideas/initiatives are viewed through a lens of "how will it work?" rather than "prove it to me". This gets over the inertia confronting many new ideas/initiatives.

2. Being in the waka – to work collaboratively where everyone has a say.

3. Being a good human.

Manapōuri Hydro Station

Source: Otago Daily Times

The 5,000 Gwh Question

When the Tiwai Point aluminium smelter shuts down in August 2021 Meridian will have around 5,000-gigawatt hours (Gwh) of electricity to sell at a time when New Zealand has many attractive new renewable electricity options. Potential options for growing electricity demand include growing New Zealand's electric vehicle fleet, locating new data centres in Southland, manufacturing hydrogen for export and converting stationary energy production from other fuel sources, such as coal, to renewable electricity. A good example of the last option being converting Fonterra's South Island boilers from coal to electricity. It is in Meridian's interest to work with new customers to help smooth the costs of transitioning via mutually beneficial contractual arrangements. Appropriate government policy is another important ingredient, with Meridian being highly supportive of the Emission Trading Scheme. On a 5-10-year view Meridian expects to grow its retail market share from around 12% currently to nearer its 30% electricity generation market share. Meridian also expects to invest in 4-5 new North Island wind farms to help diversify its generation base which is currently heavily weighted towards South Island electricity generation.

On a 5-10-year view Meridian plans to grow its retail market share and North Island electricity generation

Looking further afield Meridian is incrementally building its Australian renewable electricity generation and retail customer base, with the aim of having 20-25% of its capital base invested in Australia within the next decade.

Introducing Adrian Allbon – Growth Analyst

Adrian Allbon

Key Takeaways

- Adrian's engineering studies have had a key influence on how he makes decisions
- As an analyst he enjoys learning how companies evolve, scrutinizing capital allocation and helping people grow their wealth
- Sport represented a key part of Adrian's school life

Over the last nineteen years Adrian has built a strong personal franchise as a highly respected equity analyst

Adrian was introduced to golf very early on in life and still plays off a handy handicap

Adrian joined Jarden in early 2020 to cover a range of companies, in particular those which have growth opportunities, such as A2 Milk and Fisher and Paykel Healthcare. The opportunity to focus on the "growth" style and the increasing breadth of Jarden's business, including the recent high-profile push into the Australian capital markets were key reasons for Adrian's decision to join the Jarden research team.

Winding back the clock on his career exposes a wealth of experience, built on a sound academic foundation. In the late nineties Adrian completed an Honours degree in mechanical engineering and a Bachelor of Commerce at Auckland University. A desire to understand how things worked and a bent towards mathematics and science made engineering a logical choice. The need to clock up practical hours resulted in university holiday jobs at a couple of Fonterra's manufacturing plants, ECNZ Northern Generation (subsequently split into Mercury Energy and Genesis Energy) dams and an engineering fabrication workshop which gave Adrian particular insights into a range of businesses early on. However, on graduation the more limited opportunities in mechanical engineering in New Zealand saw Adrian join Ernst & Young. Despite never working as an engineer Adrian believes that the time spent training as an engineer has provided him with two key skills needed to be an equity analyst:

1. The ability to make decisions with imperfect information; and
2. The ability to form logic-based investment arguments.

Initially cutting his teeth in process audit Adrian made the switch to the Mergers and Acquisitions team where he spent the next five years working on a range of transactions and valuations. Concurrently he studied to become a Chartered Financial Analyst which completed the perfect skill set to become an equity research analyst. During his tenure at Goldman Sachs and then Craigs Investment Partners Adrian has built a strong personal franchise as a highly respected equity analyst. Adrian gets significant satisfaction from his job through developing an understanding how companies/industries evolve, being part of the scrutiny over how companies allocate their capital and finally helping people grow their wealth.

Looking back over his life to date Adrian notes four key events which have helped shape him as a person and analyst. They include working at both high quality global and local firms, the experience of the global financial crisis and Covid-19, the growth path of A2 Milk which he has researched for many years, travelling and his children. The combination of a demanding job and three children aged between four- and ten-years old means that Adrian currently has little spare time for other pursuits, sport being the obvious casualty. Sport was a key part of Adrian's early life in Hamilton playing hockey (representing the Waikato) and cricket all through school from the age of seven. These days Adrian makes do with the occasional game of golf. With both sides of his family being keen golfers Adrian was introduced to the game very early on and despite playing only occasionally currently, still plays off a handy handicap.

Cyclical Recovery Stories

With the global economy appearing to have troughed in April and showing signs of recovery throughout June-July, it now appears we are in the early stages of a new cycle. As such, the more cyclical pockets of the equity market are worth some attention. Cyclical companies are those that ebb and flow with the business cycle of an economy and generally outperform as the economic backdrop improves. They are typically manufacturers, commodity producers, consumer discretionary companies and banks. Below, we outline cyclical companies that stand to benefit should the economic recovery continue.

Industrial Companies

Freightways (FRE.NZ)

Price $6.98 Rating: Neutral

Freightways revenues are largely generated by its express package division, where it controls around 40% of the NZ market. Express package volumes are correlated with economic activity. Consequently, with economic growth to be heavily impacted by Covid-19 control measures, express package volumes are forecast to decline over FY20/FY21. A combination of economic growth resuming in 2021 and wider use of online shopping creating greater demand for home deliveries, express package growth remains well above economic growth. Complementary to this, express package pricing is expected to outpace inflation as Freightways continues to recoup margin through its 'pricing for effort' initiative, effectively charging customers for the additional cost associated with Business to Consumer (B2C) deliveries.

Z Energy (ZEL.NZ)

Price $2.86 Rating: Outperform

ZEL is New Zealand's largest transport fuel supplier with around 45% market share by volume. Historically fuel volumes, and specifically commercial volumes, have been linked to economic growth. We expect this to remain the case. The risk from electric vehicle (EV) penetration remains in its infancy with just over 21,000 nationwide (0.5% of vehicles) and a slowing growth rate which has plateaued at 500-600 additional vehicles per month. Until we see more EV alternatives come to market at a better price point, we believe slow growth is likely to continue. Fuel consumption has improved post lockdown to around 90% of pre-Covid-19 levels. Importantly for ZEL they are no longer losing market share, being comfortable operating at lower retail fuel margins. The drop in volume is being offset by cost reductions.

Bingo Industries (BIN.AU)

Price A$1.99 Rating: Outperform

Bingo is a waste management and recycling company operating in NSW and Victoria. Bingo is vertically integrated with capabilities across collection, processing, separation, recycling and landfill disposal of waste. The key earnings drivers for Bingo are residential and commercial construction activity. While waste volumes across Australia are expected to be negatively impacted in the near term, there remains multiple potential tailwinds. This includes infrastructure (35% of Bingo's volume) which may benefit from increased Government spending, new post-collections capacity coming online which should allow Bingo to discount collection pricing and potentially recoup earnings in post collections, and increased landfill levies in Victoria which should support recycling volumes and pricing.

Union Pacific (UNP.US)

Price US$177.98 Rating: Outperform

Union Pacific is the largest listed railway company in the US. The company owns and runs the second most extensive railway network connecting 23 states in the western part of the US. As various states in the US gradually remove lockdown measures in the coming quarters, we believe Union Pacific will become one of the key beneficiaries as the volume of cargo increases along with the recovery of business activity. Being one of two players in the US railway industry, the company has been consistently delivering a high level of profitability.

United Parcel Service (UPS.US)

Price US$123.68 Rating: Neutral

UPS is one of the largest parcel delivery companies in the world. The company has benefited from the rising popularity of internet shopping in recent years. Although some of UPS' businesses, especially those in the business-to-business (B2B) segment, may be negatively affected by the ongoing pandemic. The impact of Covid-19 has increased the general acceptance of online shopping as more people are forced to shop online. The resultant change in consumer behaviour should have a positive impact on UPS and potentially accelerate the company's revenue growth.

Building Material Companies

Fletcher Building (FBU.NZ)

Price $3.43 Rating: Neutral

FBU has a very strong market position in New Zealand's construction industry, operating across four divisions - Building Products; Distribution; Concrete and Steel. Management has a conservative outlook for the industry in New Zealand guiding to a 21% decline in activity in FY21, followed by a smaller decline in FY22. That said, coming out of lockdown construction activity quickly ramped up to 80% of forecast sales with homebuilders finishing committed projects. Going forward residential construction activity, a key driver for the business, is expected to be driven by the strong bounce in house sales post lockdown, and should continue to be supported by low inventory levels and low mortgage interest rates.

Boral (BLD.AU)

Price A$3.79 Rating: Neutral

Boral is Australia's largest manufacturer of building products and construction materials. While the industry outlook is challenged, residential lot developers and homebuilders in Australia suggest enquiries and sales have picked up nicely over the past month (the outlook for apartment sales is weak due to a collapse in migration). Additionally, construction activity which makes up almost half of Boral's revenue in the region is likely to be supported by further Government stimulus. Outside of Australia, the company has significant operations in North America where it generates circa 40% of its revenues primarily through homebuilding activities. In the US, the performance of the housing market has been better than previously expected with housing starts up 17% in June. With historically low mortgage interest rates encouraging buyers to enter the housing market coupled with constrained supply of existing homes, home builders in the US should continue to be supported by a steady stream of interested buyers.

D.R. Horton (DHI.US)

Price US$66.60 Rating: Outperform

DR Horton is the largest homebuilding company in the US selling around 57,000 homes in 2019 at an average price of US$297,000. The company offers a diverse range of homes in terms of size and price, though most of them are single-family detached homes. DR Horton should benefit from a low-interest-rate environment in the US that makes residential rental property investment more attractive relative to low interest expenses. Additionally, the company should benefit as the job market recovers after the pandemic when customers are better able to borrow for their home construction projects.

LafargeHolcim (LHN.SW)

Price SFr44.41 Rating: Outperform

LHN is the largest cement, aggregate and ready-mix concrete company in the world. Each year the company sells around 480 million tons of cement and aggregates as well as nearly 50 million cubic metres of ready-mix concrete in more than 90 countries. Specifically, the company has been generating more than 40% of its operating profit from Asia-pacific. The company is a well-known name in the cyclical sector and is expected to benefit from a gradual resumption of economic activity as the coronavirus pandemic subsides. LHN should also benefit from government stimulus packages that support infrastructure construction activities.

Commodity Producers

Anglo American (AAL.LN)

Price £19.74 Rating: Outperform

Anglo American is the world's fourth-largest diversified mining company after BHP, Rio Tinto and Vale. The company generates around half and a third of its earnings from iron ore and platinum group metals respectively. Additionally, the company also produces copper ore and coal in its mining process. Despite near term business headwinds, mining companies like Anglo American are expected to benefit from a cyclical recovery after the pandemic where demand for industrial metals and other minerals increases.

Stora Enso (STERV.HE)

Price €11.12 Rating: Outperform

Stora Enso is a global materials company based in Finland that specialises in providing paper, pulp, and wood-based alternatives to both retail and commercial clients for packaging, printing, construction, textile and hygiene needs. Stora Enso's business is highly sensitive to the economic cycle and should benefit as business activity gradually returns to normal resulting in higher demand for its products.

Worley (WOR.AU)

Price A$8.52 Rating: Neutral

Worley is a global leader in engineering projects across the energy sector and is therefore indirectly exposed to oil. Worley's business mix has materially changed following the Jacobs acquisition, which has reduced its exposure to upstream oil and gas capital expenditure to 20% versus 65% in the prior cycle. This reflects Worley's strategy to transition the business away from earnings generated from oil and gas towards energy transition (being cleaner energy sources). We believe this is a significant opportunity and gives exposure to recurring contracted revenue. Worley has responded to the lower level of oil and gas activity expected in its key end markets by significantly reducing costs, specifically headcount. Not only does this right size the business, it demonstrates the company's nimble business. Consequently as the outlook improves Worley could leverage up again.

Financials

ANZ Banking Group (ANZ.AU)

Price A$18.45 Rating: Outperform

Leverage in banking is far higher than in other industry sectors reflecting the very low level of equity used to fund a bank's asset base. To control the leverage risk, Governments regulate banks to ensure leverage is prudently managed. We believe ANZ is the most leveraged Australian bank to an economic recovery. While the short term will likely see pressure on the bank's earnings and capital generation, we believe much of this is now in the price with ANZ trading on a price/book ratio of 0.8x. Relative to its competitors ANZ retains a balanced credit risk profile due to its business, industry and geographic mix. Furthermore, ANZ has maintained adequate capital levels putting it in a good position to weather the current economic storm. With the Australian economy recovering at a faster rate than most anticipated, it should mean a lower amount of provisioning is required. Furthermore, improving business and consumer confidence should support credit growth.

Consumer Discretionary

Kathmandu (KMD.NZ)

Price $1.15 Rating: Outperform

Kathmandu has significant operating leverage to a more buoyant Australasian consumer. This is largely dependent on confidence around employment which is a key driver of discretionary spending. The level of operating leverage is reflected in a wide range of market valuations for Kathmandu ranging from $0.91-1.60. Kathmandu performed better than expected during lockdown with robust growth in online sales which were 2.5-3x April 2019 levels. This saw KMD achieve 25-30% of regular sales with no stores open, which is positive. The positive outcome has brought forward our expected recovery trajectory by one year resulting in a shallower trough in earnings. Government support packages and pent-up demand should support sales momentum through its critical winter trading period. However, it is difficult to extrapolate into FY21 which will depend on where unemployment settles.

Heineken (HEIN.AS)

Price €85.50 Rating: Outperform

Heineken is one of the largest breweries in the world. The company generates around one-third of its operating profit from Europe and another one third from America. Heineken's business has been hit hard by the coronavirus pandemic. Heineken's 2Q20 beer volume was down 19%, which was significantly better than expected (-23%) mainly driven by accelerating pace of share gains in key markets Brazil and Vietnam, and across Europe. Assuming no second wave of lockdowns, Heineken's business performance should improve meaningfully. Moreover, Heineken can benefit from the release of pent-up demand and there remains sufficient opportunities for incremental investment to drive margin expansion.

Inflation Beneficiaries

Equities tend to provide a natural hedge against inflation through their ability to grow revenue and earnings which in turn supports valuations. This dynamic also makes equities more appealing relative to income assets (cash and debt securities) where inflation erodes an investors real return. Historically, inflation up to 3-4% supports has no impact on equity valuation ratios. However, inflation above 4% tends to trigger an aggressive central bank response causing equity valuation ratios to fall. Below we outline several industries and companies where revenues are linked to inflation, which ensures real revenue growth and at least maintains margins.

Regulated Revenues

Some utility businesses are natural monopolies because the scale and nature of their infrastructure precludes competitors from replicating it. Therefore, the returns these utilities are allowed to earn can be subject to regulation. The allowable regulatory return is dependent on several inputs including inflation.

Ausnet Services (AST.AU)

Price A$1.79 Rating: Neutral

AusNet Services owns three utility networks in the Australian state of Victoria including an electricity transmission network, an electricity distribution network and a gas distribution network. Around 81% of Ausnet revenues are regulated. The regulatory return it receives is dependent on quarterly inflation.

Spark Infrastructure (SKI.AU)

Price A$2.32 Rating: Outperform

Spark owns 49% of three electricity distribution networks in Victoria and South Australia. It also owns a 15% interest in TransGrid, the operator and manager of electricity transmission in NSW and ACT. Spark has 86% of its revenue regulated and linked to inflation with the remaining 14% either semi-regulated or unregulated.

CK Infrastructure (1038.HK)

Price HK$39.20 Rating: Outperform

CK Infrastructure is a large infrastructure conglomerate with a diversified portfolio of power, gas, water, and waste utility businesses. CK Infrastructure generates most of its revenue from utility businesses in the UK, Australia, and Hong Kong. It is estimated that 70% of its businesses allows the pass through of cost inflation.

National Grid (NG.LN)

Price £$9.19 Rating: Outperform

National Grid is an international electricity and gas utility company operating in the UK and US. The portfolio also includes three operational subsea power lines connecting the UK and Europe and three more that are under construction. It is estimated that around 50% of National Grid's business is formally linked to UK inflation.

Severn Trent (SVT.LN)

Price £$25.05 Rating: Neutral

Severn Trent is a UK wastewater and water management company. The company operates several reservoirs in the UK and manages the wastewater and water supply in the Midlands region in England. Since the company operates in a tightly regulated environment, nearly all its revenue is linked to some form of inflation.

Take or Pay Contracts

Some infrastructure companies who provide large-scale services often derive their revenue from take-or-pay contracts. These contracts not only provide an assured revenue stream that ensures an adequate return on infrastructure assets, they are also typically linked to inflation.

APA Group (APA.AU)

Price A$11.14 Rating: Neutral

APA is a diversified Australian energy utility, with a portfolio of gas pipelines, generation assets and gas processing facilities. More than half of domestic gas used in Australia is transported through APA's pipeline network, with most of its take-or-pay contracts linked to inflation.

Aurizon (AZJ.AU)

Price A$4.54 Rating: Outperform

Aurizon is the largest rail company in Australia, hauling bulk commodities from mines in Central Queensland and the Hunter Valley to export terminals. Almost half of Aurizon's earnings are regulated with an adjustment for inflation. Of its non-regulated earnings, 85% is generated from coal haulage where the rates are linked to inflation.

Toll Road Operators

To ensure that the toll roads operators remain on course to repay the debt incurred in building the road, toll prices typically increase by the rate of inflation.

Atlas Arteria (ALX.AU)

Price A$6.80 Rating: Neutral

Atlas Arteria has two main international toll road assets, including a 31% interest in the Autoroutes Paris-Rhin-Rhone (APRR) in France and 100% ownership of the Dulles Greenway in Washington DC, USA. For many of its toll roads, prices are related to economic growth or inflation, sometimes in combination with a fixed benchmark.

Transurban (TCL.AU)

Price A$14.23 Rating: Underperform

Transurban is Australia's largest toll road company which builds, owns, and operates toll road networks across Melbourne, Sydney, Brisbane, Virginia (US) and Montreal (Canada) with a weighted average expiry in 2052. Most of Transurban's concession agreements contain a quarterly or annual inflation adjustment.

Long-dated Service Contracts

Some service businesses that provide long term and continuous maintenance have service contracts with clients that contain cost escalation clauses that are often linked to broad inflation indices.

Kone (KNEBV.HE)

Price €67.64 Rating: Outperform

Schindler (SCHP.SW)

Price SFr$234.00 Rating: Outperform

Both Kone (Finland-based) and Schindler (Switzerland-based) are engineering companies that design, build, and maintain access systems, including elevators and escalators. We estimate both companies generate around half of their revenue from selling and installing new equipment and the other half from services and maintenance, which is largely recurring and linked to inflation.

Income Generation

The Covid-19 period has seen several companies cut, suspend or review dividend payments as they elect to hold on to cash to strengthen balance sheets. Unfortunately for income seeking investors this has narrowed the universe of companies that are perceived as capable of paying a sustainable dividend. Adding to the dilemma for investors trying to generate sufficient levels of income is the pressure lower interest rates have had on dividend yields. The combination of these two factors has seen the gross yield of New Zealand equity market fall from 4.3% to 3.3% year to date. We highlight below companies which have relatively attractive dividend yields that we believe can be broadly maintained at current levels.

New Zealand Companies

Chorus (CNU.NZ)

Price $7.45 Rating: Neutral

As Chorus builds out more of its fibre network, its cashflow generation and dividend profile is becoming much more utility-like. As a result, Chorus's gross dividend yield is forecast to increase from 4.6% to 7.1%. At this level, it provides some margin for error should regulation or fixed wireless access (FWA) go against Chorus.

Ebos Group (EBO.NZ)

Price $21.90 Rating: Neutral

Ebos' diversified business model and superior execution has resulted in very consistent earnings and dividend growth over an extended period. In addition, Ebos appears well positioned to develop growth opportunities within its core competencies (e.g. medical device distribution and contract logistics). As such, we expect Ebos to grow its gross dividend from 3.9% to 4.6% over the next 2 years.

Infratil (IFT.NZ)

Price $4.76 Rating: Outperform

Infratil's primary cashflow generators are Trustpower, Wellington Airport and Tilt Renewables. This together with $268 million of undrawn bank facilities provides management with the ability to modestly grow dividends from 17 to 19 cents per share over the next three years. Due to more offshore earnings that do not attract imputation credits, Infratil's forecast gross dividend yield remains flat at 3.9%.

Stride Property (SPG.NZ)

Price $1.98 Rating: Neutral

Stride has the strongest gross dividend yield in the listed property sector at 7.1%pa. The earnings outlook for the company remains robust as it transitions from a capital-intensive property ownership model to a capital light funds management business that includes a number of property funds in specific sectors.

Spark (SPK.NZ)

Price $4.85 Rating: Neutral

Through growth in mobile and cloud services, together with cost out, Spark is confident that it can produce modest earnings growth to sustain a 25 cents per share dividend which equates to a FY21 gross dividend yield of around 7.0%pa. However, with debt gradually grinding up, Spark will need to maintain control on working capital and capital expenditure. Hence, there is a risk the dividend could be trimmed modestly.

Vector (VCT.NZ)

Price $3.86 Rating: Underperform

Vector announced a new dividend policy to maintain a 16.5 cents per share dividend, with the expectation of increases based on projected future growth. Growth for Vector is driven by its metering business which is growing at 12% pa and earns a profit margin of ~70%, helping to offset the decline in regulatory earnings from its very stable electricity network. Currently, Vector's forecast gross dividend is 6.1%.

Australian Companies

Amcor (AMC.AU)

Price A$14.83 Rating: Neutral

Amcor is relatively defensive due to the goods it produces packaging for - food, personal care, beverage, medical/pharmaceutical and tobacco. The resilient earnings base underpins a strong dividend yield of 4.3%, growing to 5.0% over the next few years as it integrates the Bemis acquisition which is expected to deliver US$180 million in total synergies by FY22.

ASX (ASX.AU)

Price A$83.24 Rating: Underperform

ASX's earnings have benefited from recent financial market volatility driving elevated levels of activity (cash equity turnover and strong capital raisings) in FY20, which is supporting the above-trend revenue growth. However, looking to FY21, revenue growth is likely to slow. While ASX's dividend yield of 2.7% is relatively defensive, it is trading on 37x price earnings ratio which affords little valuation support.

Coles (COL.AU)

Price A$18.18 Rating: Neutral

Coles currently has a 1.0% lower EBIT margin than Woolworths. We believe Coles can close this gap through improving store productivity via refurbishments, cost out and increased supply chain automation. We see these initiatives supporting 7-10%pa earnings growth over FY21/22 and a dividend of around 3.6%pa.

Telstra (TLS.AU)

Price A$3.36 Rating: Outperform

Telstra's dividend has rebased over the past three years as underlying earnings have failed to offset the decline in one-off compensation payments received as part of the national broadband network (NBN) rollout. We are of the view that Telstra's dividend of 16cps (4.7% yield) can just be sustained with one-off NBN receipts filling the gap in underlying earnings from FY20 to FY22. Beyond FY22 underlying earnings are likely to be sufficient. This assumes that competitors Optus and TPG-Vodafone remain rational, particularly in relation to implementing price increases.

Global Companies

Roche Holding AG (ROG.SW)

Price SFr$328.55 Rating: Neutral

Roche is one of the largest global pharmaceutical companies in the world. The company has a well-diversified drug portfolio with the top 13 drugs accounting for less than a quarter of its total revenue. Roche also has a niche position treating diverse types of cancer, sclerosis, and haemophilia. With rising demand for its products, the company has been able to generate a steady and growing stream of free cash flow and dividends. We expect Roche to deliver a dividend yield of 2.9%.

Johnson & Johnson (JNJ.US)

Price US$146.54 Rating: Outperform

JNJ is the largest pharmaceutical company in the world with a diversified business portfolio in pharmaceutical, medical devices and consumer products. JNJ's pharmaceutical segment contributes around half of the company's revenue and profit. JNJ also has a sizeable and lucrative medical devices division that contributes a third of its total revenue, but more than 40% of its profit. Finally, JNJ's consumer division owns many well-known brands that encompass baby care, oral care, skincare, women's health, and wound care markets. While JNJ is still involved in lawsuits related to its talc products, recent development suggest that the impact might not be as negative as previously thought. The company is expected to deliver a 2.7% dividend yield.

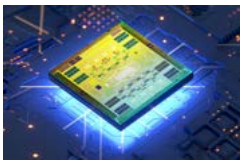
Novartis (NOVN.SW)

Price SFr$77.11 Rating: Neutral

Novartis is a Swiss pharmaceutical company that specialises in cancer drugs. Novartis' oncology unit alone accounts for nearly a third of its total revenue and continues to grow at a steady pace of nearly 10% each year. Given its niche position in cancer drugs, the company has been able to increase its free cash flow over the years. The company also has a track record of providing a stable stream of dividends which is expected to continue.

Taiwan Semiconductor (2330.TW)

Price NT$422.00 Rating: Outperform



Taiwan Semiconductor Manufacturing Company (TSMC) is one of the largest computer chip makers in the world with a strong tie to the Apple supply chain. It generates nearly 50% of its revenue from selling computer chips for smartphones. We believe TSMC stands to benefit from the ever-rising demand for more mobile computing as well as the introduction of 5G smartphones in the coming quarters which should stimulate replacement demand. Although the company has a less stable free cash flow generation history, it has been increasing dividends per share in recent years and has a 20% net cash to equity ratio. TSMC is expected to provide a dividend yield of 3.2%.

The Coca Cola Company (KO.US)

Price US$48.02 Rating: Outperform

Coca Cola is one of the largest and oldest non-alcoholic beverage companies in the world. In addition to its traditional beverage business which consists of more than 500 brands, the company also has a portfolio of water, enhanced water, sports drinks, juice, dairy, plant-based beverage as well as tea and coffee. Coca Cola's products are sold in more than 200 countries. Coca Cola's business is not very sensitive to changes in the economic cycle and the company is expected to continue to distribute a steadily growing stream of dividends into the foreseeable future. Coca Cola is expected to provide a dividend yield of 3.5%.

New Zealand Equities

Valuation Metrics and Ratings

As at 29 July 2020

Security Issuer Name

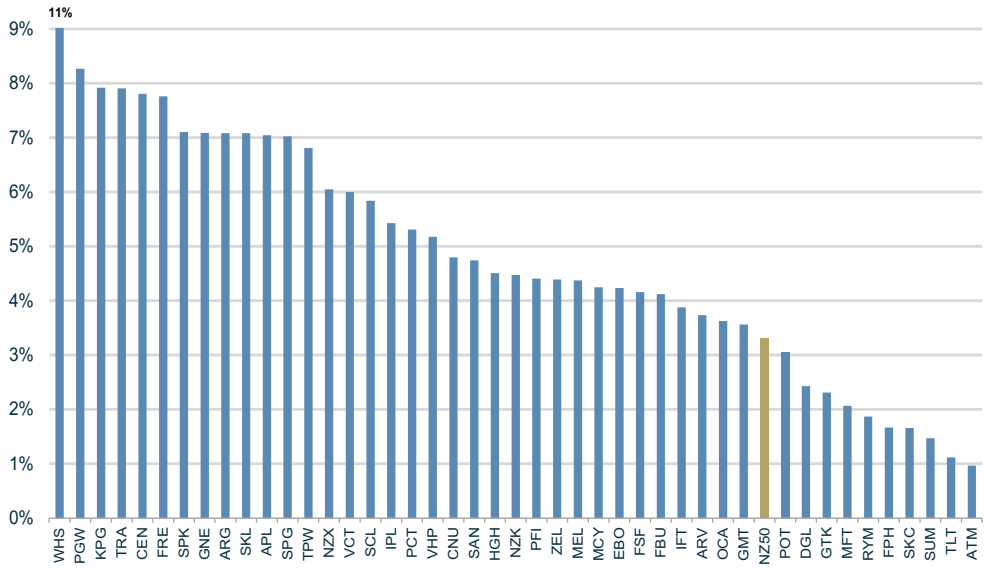
AFT	AFT Pharmaceuticals
AIA	Auckland Airport
AIR	Air NZ
APL	Asset Plus
ARG	Argosy Property
ARV	Arvida
ATM	A2 Milk
CEN	Contact Energy
CNU	Chorus
CVT	Comvita
DGL	Delegat Group
EBO	EBOS Group
ERD	EROAD
FBU	Fletcher Building
FPH	Fisher & Paykel
FRE	Freightways
FSF	Fonterra
GMT	Goodman Property
GNE	Genesis Energy
GTK	Gentrack
HGH	Heartland Bank
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
PPH	Pushpay Holdings
RBD	Restaurant Brands
RYM	Ryman Healthcare
SAN	Sanford
SCL	Scales Corporation
SEK	Seeka
SKC	SkyCity
SKL	Skellerup
SKO	Serko
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
VCT	Vector
VGL	Vista Group International
VHP	Vital Healthcare Property
WHS	Warehouse Group
ZEL	Z Energy

NZ50 NZ Equity Market

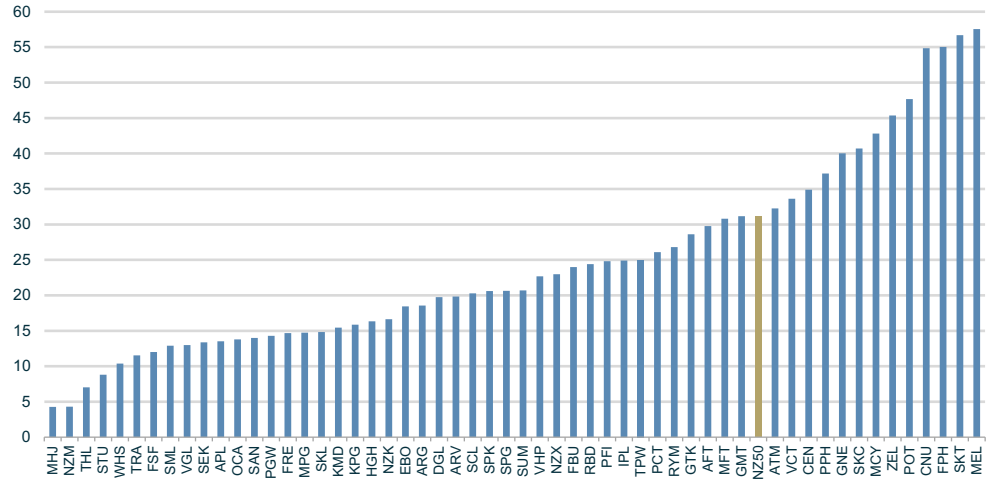
Source: Jarden

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

Gross Dividend Yield %



P/E Ratio x



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

Australian Equities

Valuation Metrics and Ratings

As at 29 July 2020

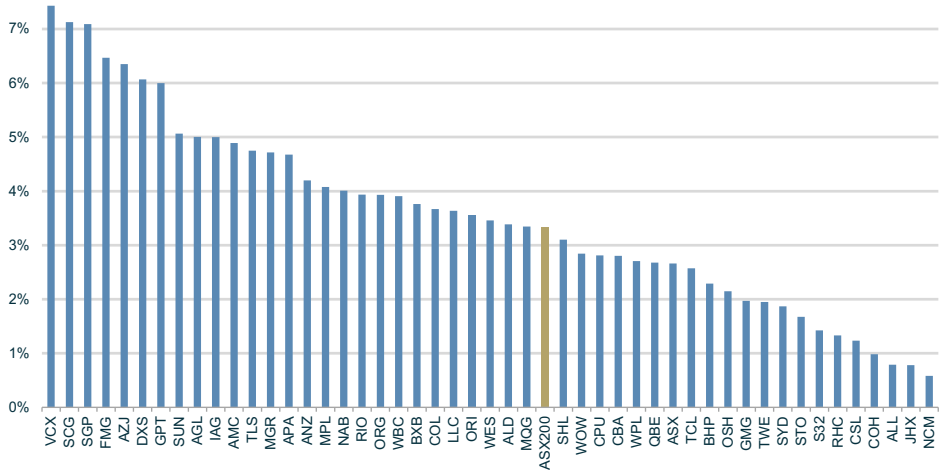
Security Issuer Name

AGL	AGL Energy
ALL	Aristocrat Leisure
AMC	Amcor
ANZ	ANZ Banking Group
APA	APA Group
ASX	ASX
AZJ	Aurizon
BHP	BHP Group
BXB	Brambles
CBA	Commonwealth Bank
COH	Cochlear
COL	Coles
CPU	Computershare
CSL	CSL Ltd
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
RHC	Ramsay Health Care
RIO	Rio Tinto
S32	South 32
SCG	Scentre Group
SGP	Stockland Group
SHL	Sonic Healthcare
STO	Santos Limited
SUN	Suncorp Group
SYD	Sydney Airport
TCL	Transurban
TLS	Telstra Corporation
TWE	Treasury Wine
VCX	Vicinity Centres
WBC	Westpac
WES	Wesfarmers
WOW	Woolworths
WPL	Woodside Petroleum

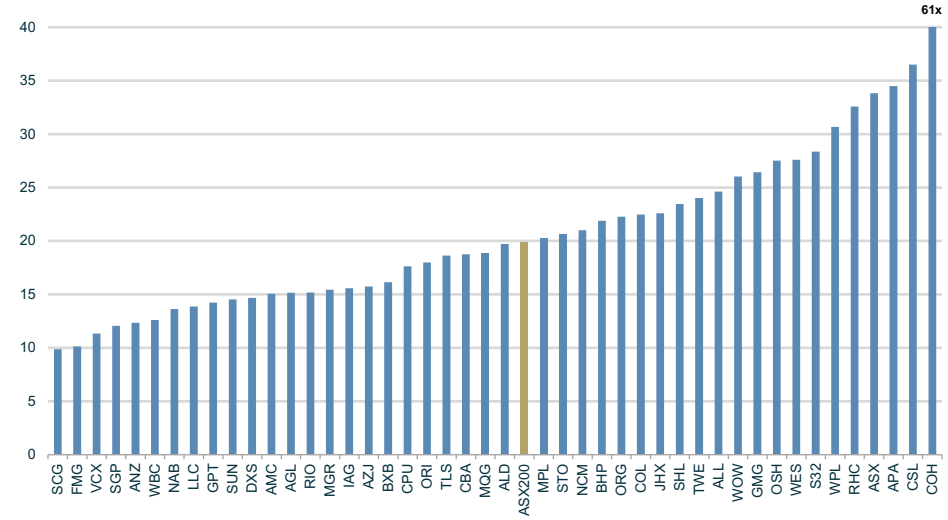
ASX200 Australian Equity Market

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

Cash Dividend Yield %



P/E Ratio x



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

Global Equities

Valuation Metrics and Ratings

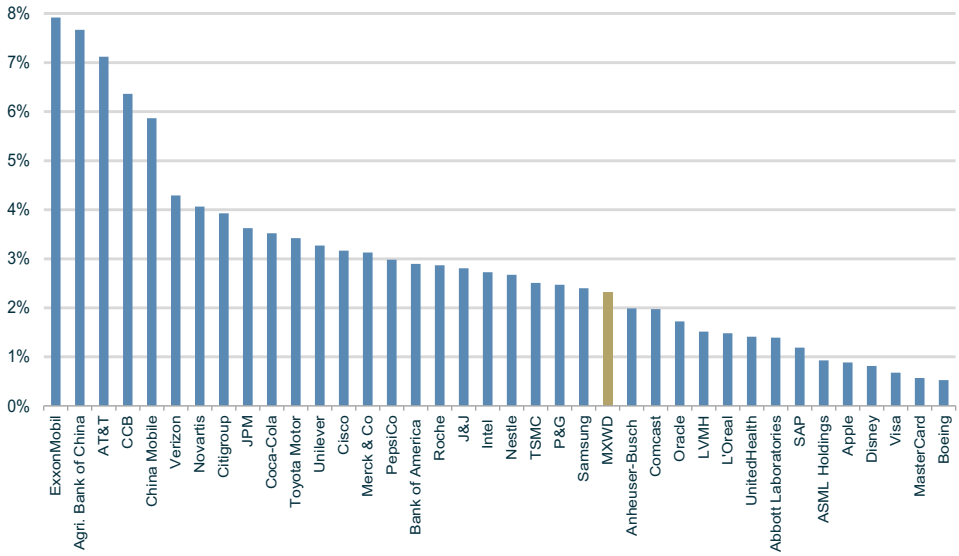
Security	Issuer Name
0939.HK	CCB
1288.HK	Agri. Bank of China
2330.TW	TSMC
5930.KS	Samsung
700.HK	Tencent
7203.JP	Toyota Motor
941.HK	China Mobile
AAPL.US	Apple
ABI.BB	Anheuser-Busch
ABT.US	Abbott Laboratories
ADBE.US	Adobe
AMZN.US	Amazon
ASML.NA	ASML Holdings
BA.US	Boeing
BABA.US	Alibaba Group
BAC.US	Bank of America
C.US	Citigroup
CMCSA.US	Comcast
CSCO.US	Cisco
DIS.US	Disney
FB.US	Facebook
GOOGL.US	Alphabet
HD.US	Home Depot
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
NFLX.US	Netflix
NOVN.SW	Novartis
NVDA.US	NVIDIA
OR.FR	L'Oreal
ORCL.US	Oracle
PEP.US	PepsiCo
PG.US	P&G
ROG.SW	Roche
SAP.GE	SAP
T.US	AT&T
TSLA.US	Tesla
ULVR.LN	Unilever
UNH.US	UnitedHealth
V.US	Visa
VZ.US	Verizon
WMT.US	Walmart
XOM.US	ExxonMobil
MXWD	**MSCI ACWI Index**

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

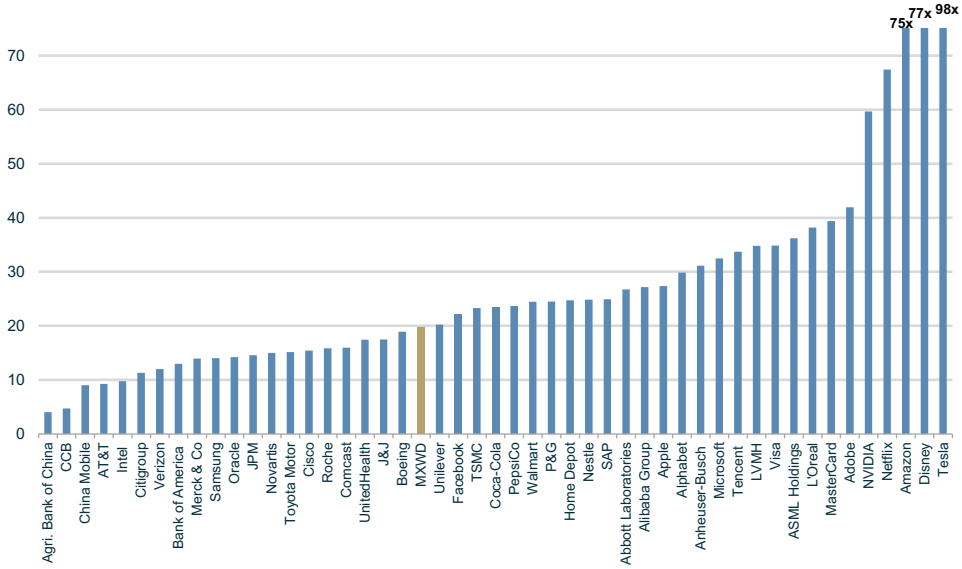
Source: Credit Suisse, Bloomberg. The P/E ratios and Dividend Yield use earnings and dividends forecasts for the next 12 months

As at 29 July 2020

Cash Dividend Yield %



P/E Ratio x



Underperform			Neutral			Outperform		
		L'Oreal	Boeing	P&G	Apple	Abbott	Alphabet	Alibaba
			Cisco	Anheuser	AT&T	Adobe	B. of America	Amazon
			Disney	Netflix	ExxonMobil	Agri. BOC	China Mobile	ASML
			Nestle	Toyota	Novartis	CCB	Coca-Cola	Citigroup
				Verizon	Roche	Home Depot	Comcast	
					Tesla	Intel	Facebook	
						LVMH	J&J	
						MasterCard	JPM	
						NVIDIA	Microsoft	
						PepsiCo	Oracle	
						Tencent	Samsung	
						Unilever	SAP	
						Walmart	TSMC	
							UnitedHealth	
							Visa	

NZ Debt Securities – Term Deposit Rates, Much Lower?

Key Takeaways

- Lacklustre inflation has dampened short-term interest rates
- Despite monetary policy reaching its limit, it appears banks can lower interest rates further
- The funding position of the banks is likely to be the key driver of short-term interest rates over the medium term

As the ex-Chair of the US Federal Reserve Ben Bernanke once said, "low interest rates are not a short-term aberration, but part of a long-term trend". This continues to be the case with short term interest rates on a downward trend since the 2008 global financial crisis with any green shoots quickly withering. This reflects the lack of inflation despite easy Reserve Bank of New Zealand (RBNZ) monetary policy. At the end of the day, where inflation goes, interest rates should typically follow.

So Where Are We?

Short term interest rates (both mortgage and deposit interest rates) broadly track the Official Cash Rate (OCR). Over the past 12 months, the OCR has fallen by 1.25% to a record low of 0.25%. This has seen a corresponding fall in wholesale borrowing interest rates, which lowers the cost of funding for the banks. For retail deposits to remain competitive as a funding source, deposit interest rates have followed suit with the six-month term deposit interest rate falling from 3.2% to 1.6% over the same period. A lower OCR also makes it less attractive for banks to hold deposits at the RBNZ. So, banks have been increasingly incentivised to aggressively lend to earn a higher return. This has seen mortgage interest rates also decline with one and two-year standard fixed mortgage interest rates declining by 1.0% over the past year. The smaller decline in mortgage interest rates relative to term deposit rates reflects banks expanding lending margins. Over longer periods, however, competition between banks tends to reduce lending margins and there has been a very high correlation between short term interest rates and mortgage interest rates.

Could Interest Rates Go Lower?

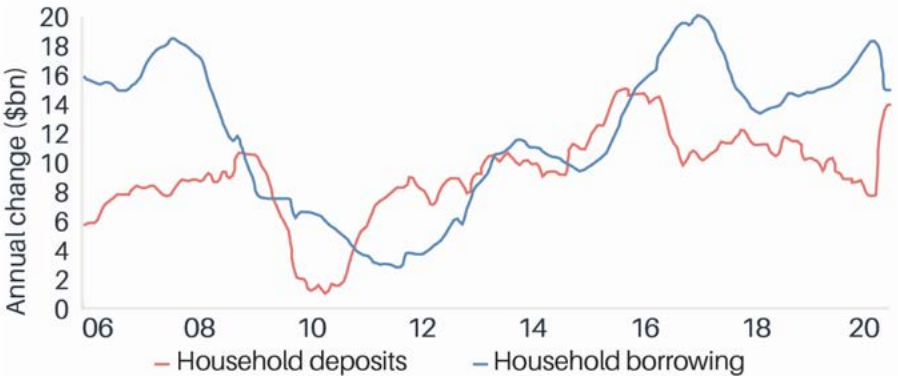
Short term Interest rates are less likely to be driven by the OCR over the medium term

In the medium term, short term interest rates are less likely to be driven by movements in the OCR given that the RBNZ has indicated it will keep the OCR at its current level for an extended period. In addition, a reduction in the OCR to 0% achieves very little marginal benefit when interest rates are already so low. While a negative OCR is a possibility, we believe it is a low probability event given the significant cost to banks and psychological resistance from depositors.

We believe the key driver of further interest rate declines from here will be the banks funding positions. The RBNZ has provided the opportunity for the banks to reduce reliance on retail deposits after reducing the Core Funding Ratio (CFR) from 75% to 50% in late March. This enables banks to hold a lower proportion of funding from stable sources such as retail deposits, long-term wholesale funding and/or capital. Currently the banks CFR is 88%.

Banks' Funding Gaps

Source: RBNZ, Jarden



Prior to Covid-19 the widening funding gap (or deficit) caused by slowing deposit growth and accelerating credit growth looked like an emerging headwind for the banks. However, quantitative easing has created a flood of cheap money, resulting in significant deposit growth that has ended up sitting on the banks' balance sheets. While at the same time, the Covid-19 induced economic downturn is slowing credit growth. The combination of these two forces has seen the funding gap narrow considerably in recent months.

We expect these trends to continue and the funding gap to disappear later this year

We expect these trends to continue and the funding gap to disappear later this year with the potential to turn into a surplus position. This would see less pressure on banks to pay higher interest rates for deposits to fund new lending. Furthermore, it will likely see competition intensify as the banks compete more aggressively for the diminished credit growth through lower mortgage interest rates. Competition saw mortgage interest rates fall dramatically pre-Covid-19 despite a relatively stable OCR and credit growth. We believe this was largely driven by the large Australian banks competing amongst themselves. Competition may become even more intense going forward as medium sized banks, Kiwibank and TSB, seek bigger scale and with the recent entry of several Chinese banks into the New Zealand market.

We think term deposit rates are likely to fall further, but very gradually

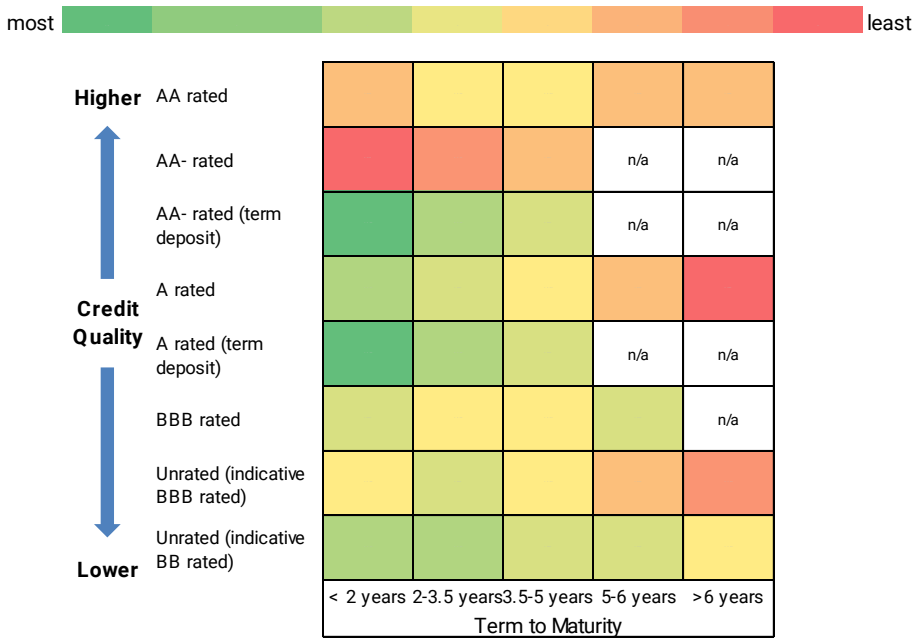
In conclusion, we think term deposit rates are likely to fall further. However, we acknowledge the banks preference for this sticky funding source and hence expect any decline would be very gradual. As a result, subject to liquidity requirements, we believe investors should continue to take advantage of the opportunity term deposits provide relative to tradeable debt securities.

New Zealand Debt Security Opportunities

With very limited new debt issuance since March, there is a shortage of supply in the secondary market and liquidity has tightened up considerably. As a result, it remains difficult for investors to purchase sufficient volumes at satisfactory yields. 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



US Dollar– Under Pressure

Key Takeaways

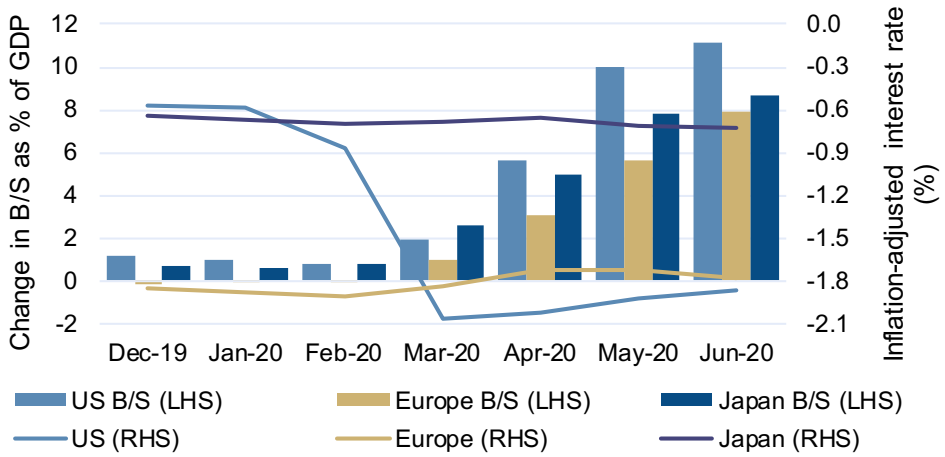
- Easy US monetary policy and economic factors are likely to lead to downward pressure on the US dollar
- The New Zealand dollar will likely be uplifted by US dollar weakness and New Zealand's large fiscal expansion

There are several factors likely to lead to continued medium-term US dollar weakness. First, the US Federal Reserve (Fed) has been far more aggressive in cutting interest rates than other major central banks. This has resulted in short-term interest rates adjusted for inflation falling below those in other large countries, as shown in the chart below. The Fed has also been buying relatively more securities compared to other large central banks, as reflected by the larger change in the Fed's balance sheet (B/S) as a share of the US economy since March, also shown in the chart below. The massive Fed stimulus makes it less attractive to hold funds in the US relative to in other countries, thereby putting downward pressure on the US dollar.

The US dollar appears overvalued compared to currencies like the euro and yen on a purchasing power parity basis, which is where exchange rates should be due to overall price differences with other countries. In addition, the US is running large deficits on its government and external trade accounts, which are both forecast to widen. To entice offshore investors to fund the twin deficits will likely require a cheaper/lower US dollar.

Quarterly Change in Central Bank Balance Sheet and Short-Term Inflation-Adjusted Interest Rate

Source: Bloomberg



Assuming no major scares, the US dollar will likely continue to trend down

The outlook for a weaker US dollar is dependent on a gradually improving global economy and the absence of major scares to investors, such as reacceleration of COVID-19 infections in developed countries or significant geopolitical tensions. In these circumstances the US dollar will again be seen as a safe haven, causing it to rise.

The New Zealand Dollar Holds its Own

The New Zealand dollar will likely be supported by US dollar weakness and domestic government spending

The New Zealand dollar has been uplifted by improving investor risk sentiment and weakness in the US dollar in recent months. These factors will likely continue to support the New Zealand dollar in the foreseeable future. Although the Reserve Bank of New Zealand (RBNZ) is engaged in its own large-scale asset purchases, and may even consider purchasing overseas government bonds, it is against the backdrop of huge monetary stimulus overseas, the net effect of which is a positive for the New Zealand dollar. At the margin, the New Zealand Government's spending in response to COVID-19, which is large relative to the size of the overall economy, will also support the New Zealand dollar. Therefore, in the immediate future we see the New Zealand dollar strengthening against the US dollar, and broadly flat against other major currencies. This will result in a currency bias against offshore investments relative to domestic investments.

The Motels - Total Return

Key Takeaways

- Investors should focus on total return not the income return
- Unrealised capital appreciation should not be viewed as intangible
- Long term investment returns are not what they used to be
- Adjusting to a low investment return future

Historically investors who have relied on investment income to live off or fund an organisation's activities have found this has become increasingly difficult. Twenty years ago, when bank term deposits interest rates were 6.7%pa and high-quality corporate debt securities returned around 7.7%pa this was not a problem. However, with both now at 1.7%pa it is a different matter. As time has passed many investors have turned their focus to the dividend income generated by the equity portion of their investment portfolios.

Capital Appreciation - Intangible but Very Real

Choosing equities for income under appreciates the investment return potential from equity investments. When thinking about equities, or in fact any investment it is important to focus on total return. In the case of equities that is the dividend income, plus any capital return, plus capital appreciation. Capital returns only occur occasionally when a company assesses that it has capital surplus to its requirements, and that the cash is better returned to shareholders for them to decide how it should be used. Capital appreciation reflects the growth in the value of the company (or at times a drop in a company's value).

For many companies, the level of capital appreciation is by far the biggest component of the return. For the most part capital appreciation reflects the expected future earnings growth of the company less the investment that the company needs to make to generate the earnings. Typically, companies that have significant future earnings growth need to invest significant sums of money and hence they retain their profits to reinvest in the business rather than pay dividends. At the other end of the spectrum companies with limited growth opportunities have limited need for capital investment and therefore usually chose to pay most, if not all, earnings as dividends.

Some companies can generate very attractive returns on the capital they invest either because they have a product or service for which they are able to achieve high prices, or they have a cost advantage over their competitors. These companies trade at higher valuation multiples than other companies.

Ignoring capital appreciation ignores a potentially large part of the return

Ignoring capital appreciation ignores a potentially large part of the investment return. By way of example A2 Milk has paid no dividends while appreciating 2,455% over the past five years, while Vector has paid out 24% in dividends and only appreciated 19%.

Why do investors perceive capital appreciation differently from dividends and capital returns?

Realising a capital gain to provide income is equally as valid as using dividend or interest income

We believe that the main reason is because dividends and capital returns are paid in cash and once paid are fixed. On the other hand, capital appreciation is unrealised and is therefore constantly changing until such time as the equity is sold and the cash proceeds received. While unrealised capital appreciation is not tangible like a cash dividend it should not be forgotten that the ability to realise a listed equity investment and receive its cash value is only a phone call away. Consequently, realising capital appreciation by selling a portion of an equity investment to provide income to live on or fund an organisations operation is equally as valid as using dividend or interest income.

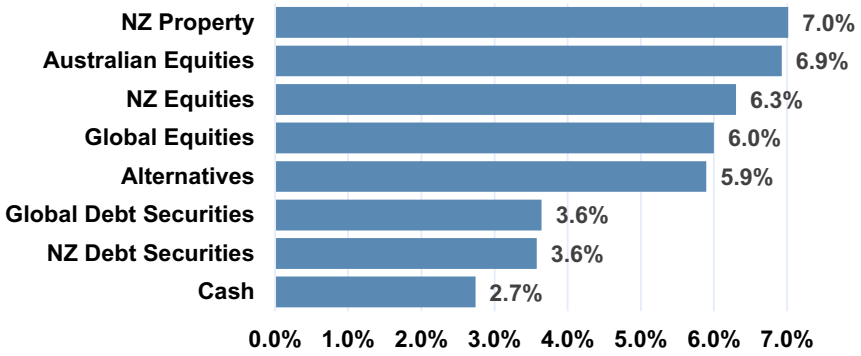
In fact, Jarden's advisers can arrange regular payments to clients from their portfolios. To date these payments have typically been payments of investment portfolio income. However, there is no reason why they should not include realised capital appreciation.

Long-Term Return Assumptions

We recently updated our long-term investment return assumptions to reflect the current state of investment markets and our expectations of how they are likely to perform over the next ten years or more. While such an exercise faces considerable uncertainty, it is a useful planning tool to assess the likelihood of achieving a client's investment goals. The following table sets our current long-term return assumptions.

Long Term Return Assumptions

Source: Jarden



While the new investment return assumptions have all fallen, we do not believe that there has been any material change in the risk (uncertainty of future investment returns) associated with investing in each asset class. Consequently, for the same level of investment risk the investment return assumption has fallen.

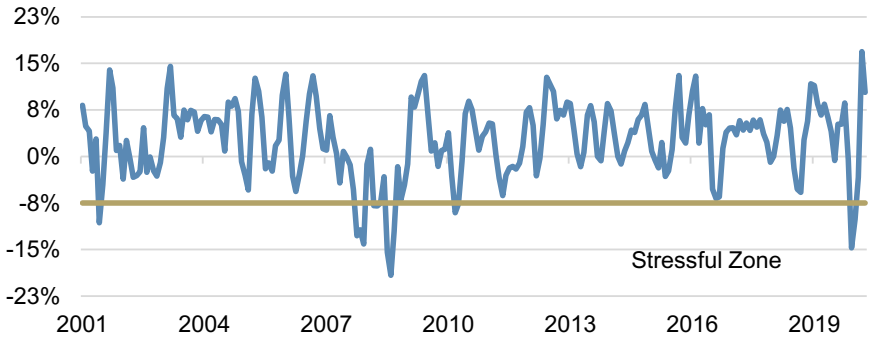
What Should Investors do?

Investors chasing higher investment returns by taking on greater risk should do so with their eyes open

Some investors will chase higher investment returns by investing more in riskier assets such as equities. Investors following this course of action should do so with their eyes open. While over the long term the investment return should be higher the variability in investment return will be much greater, both in terms of investment income generated and the value of the investments over time. For many investors, this variability will be unacceptable in the cold hard light of day. Psychologically many investors feel extreme stress when financial markets fall materially such as they did in late February and March. Consequently, we advise caution when considering this option.

Quarterly New Zealand Equity Returns Can be a Source of Stress

Source: Jarden, Bloomberg



For other investors it will be a case of resetting their investments goals to something that is less ambitious but more realistic. For investors looking for income to live off or fund an organisation's operations this will mean less income to spend. If reduced spending is not an option, then consuming investment capital may be the answer. This is particularly relevant option for individuals to consider as ultimately their investment horizon is limited. It is less desirable for an organisation that is expected to continue into perpetuity.

Rather than resetting the investment goal the answer may be to save more

For investors, whose investment goal is saving for the future then rather than resetting the investment goal the answer may be to save more. This is clearly an option which many investors follow as illustrated in the US where there has been a clear increase in the savings rate as interest rates fell below 3%.

To assist with the decision as to which course of action to take, your Jarden adviser can provide a projection of how your investment portfolio is expected to perform relative to your investment goals, based on our long-term return assumptions and your specific financial circumstances.

Jarden in the Community – Kiwis for kiwi

Kiwis are our national icon and entwined with our identity as New Zealanders - here and around the world we are proud to be known as kiwis. However, kiwi are in trouble.

Jarden is proud to partner with Kiwis for kiwi to assist with their vision to take kiwis from endangered to everywhere.

Kiwis for kiwi is a charity that supports community-led and Maori-led kiwi conservation projects. Their role is to provide funding and support for the many groups dedicated to increasing kiwi numbers, protecting precious kiwi populations from predators, and restoring the health of their natural environment.

The work Kiwis for kiwi are doing includes:

- Protecting kiwi in situ (where they live). Many New Zealanders are fortunate to still have kiwi in their backyards, and have taken it upon themselves to ensure they have a safe habitat to live in. Kiwis for kiwi provides funding, support and training for the people and organisations doing this work.
- Growing kiwi for release elsewhere. This involves using Operation Nest Egg to retrieve eggs from the wild, incubate them in captivity and release the chicks to kōhanga kiwi sites. These are predator-free sites, usually islands or fenced sanctuaries. As the site fills, some young kiwi are removed and released to safe places in the wild.
- Developing meaningful partnerships with Māori. As kaitiaki of the land, tangata whenua are important partners in kiwi conservation.
- Educating and engaging. Kiwis for Kiwi creates campaigns (such as Save Kiwi Month) to bring awareness and action to kiwi conservation.

Currently Kiwis for kiwi have 105 birds on transmitters. The transmitters enable them to monitor the kiwi and determine when they are incubating their eggs. They plan to find more wild kiwi to put transmitters on and increase this amount to 240 in the next four years. For each kiwi monitored they conservatively aim to rescue one egg per season. All going to plan, by 2024 they will have hatched and reared 550 kiwi chicks.

The cost of transmitting and monitoring those kiwi chicks is $2,363 per chick per annum. If 550 eggs were left in the wild only 5% would survive, this is only 33 kiwi. The chances of kiwi finding mates and having successful, sustainable off-spring is also very limited. A reduced population base brings issues around reduced genetic diversity (in-breeding) and increased susceptibility to other threats.

We are proud to partner with Kiwis for kiwi, working towards growing the numbers of our national icon.

Find out more at https://www.kiwisforkiwi.org/

Jarden - Carbon Negative

In 2019 Jarden embarked on a journey to manage our carbon footprint (greenhouse gas emissions). The rationale for doing this is simple:

Our clients trust us to look after their future. That is what our business is built on. Looking after our client's future means being sustainable.

Furthermore, we have a carbon business and a lot of intellectual property in this area.

To achieve this goal, we worked extensively with Toitū Envirocare to accurately measure our carbon footprint and then put in place strategies to reduce/manage our carbon emissions. Our carbon emission reduction plan involves reducing electricity consumption by 5% and a 10% annual travel reduction per employee, relative to our 2019 base year. In order to become carbon neutral, we need to offset unavoidable carbon emissions. We chose to purchase twice the number of carbon credits needed to become carbon neutral, making Jarden carbon negative. This aligns with our values to be driven to go above and beyond for our clients, so we are doing the same for our climate. The carbon credits we brought to offset our 2019 carbon emissions help native forestry projects in New Zealand and Australia, protect against wildfires in Australia and improve air quality in Bangladesh and Ghana. To maintain carbon zero certification compliance with the programme, we have agreed to be independently audited annually.

While purchasing carbon credits is typically done in 5,000 tonne parcels currently valued around $150,000, clients wishing to participate in the carbon space can instead invest smaller sums into the Carbon Fund (CO2) listed on the NZ Stock Exchange.

Focus on Sustainability

We are placing sustainability at the heart of the way we do business

Our commitment to sustainability goes beyond being carbon negative. We are placing sustainability at the heart of the way we do business:

- Our in-house sustainability focus group strives for continuous and tangible improvement in our daily office practices.
- We monitor and report our carbon footprint.
- We encourage staff to minimise business travel and use video conferencing.
- Our new Auckland office is in Commercial Bay (a 5-star Greenstar rated building).
- We choose a green electricity supplier where possible.
- Our staff give back to the community with volunteer days.
- We support the principles-based reporting of climate-related financial risk as part of the Financial Reporting Act 2013.

Trusts Act 2019 Coming

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.

A review of existing trusts usefulness is worth considering

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 seek legal 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

New Financial Advice Regime on its Way

The new regulatory regime for financial advice comes into force on 15 March 2021

Since 2011, financial advice has been regulated by the Financial Advisers Act. The government was required to review this Act after five years. The review was initiated in 2015 with two key objectives for the new legislation; to raise the quality of financial advice across the industry and make advice more accessible for New Zealanders. The new Financial Services Legislation Amendment Act which was passed into law on 4 April 2019 is a result of this review. The legislation introduces a new regulatory regime for financial advice that will come into force on 15 March 2021.

Main Elements of the New Regime

- Licensed advice firms (such as Jarden) can deliver financial advice in three ways; by the firm (such as by an online 'robo-advice' tool or research), by Financial Advisers or by Nominated Representatives. Our Financial Advisers will continue to deliver our wealth advice.
- Both firms and advisers are subject to the Code of Professional Conduct for Financial Advice Services. Key elements of this Code require those providing advice to treat clients fairly, act with integrity, give financial advice that is suitable and ensure clients understand the financial advice.
- The distinction between 'Personalised' and 'Class Advice' under the old Act is removed, providing more flexibility on the scope of advice provided.
- The regime introduces new disclosure standards.

Our View

We fully support the government's twin objectives of improving both the quality of advice and access to advice

Jarden staff have been engaged with the government and regulator in a variety of capacities, including working groups and industry consultation processes, since the review began nearly five years ago. We fully support the government's twin objectives of improving both the quality of advice and access to advice.

Much industry discussion has centred on relying on 'robo-advice' online tools as being a way of improving access to advice. While there is obviously a place for online advice tools, we continue to believe the best advice requires a human touch. Investing is personal. It encapsulates each client's individual beliefs, circumstances, and goals. As such, our focus under the new regime is on ensuring we can continue to offer our clients access to a dedicated adviser who can provide them high-quality personalised advice and bespoke investment solutions.

What it Means for Jarden's Clients

All clients - We will be providing new disclosure statements.

Clients in our current 'Class Advice' service - We will be repositioning this service to meet the requirements of the new Act. We are currently drafting a new Scope of Service and will be in touch with you over coming months to arrange transition to the new service. We have yet to finalise the process but envisage it will only involve a confirmation of the Scope of Service. Your adviser will be able to assist or answer any questions you have.

Clients in our 'Personalised Advice' service and Compass ('Discretionary Investment Management Service') – No immediate change or new documentation is required.

Calendar

Major Events: August – October 2020

Economic Events			Central Bank Decisions	Political Events
China PMI	3 Aug			
US Manufacturing PMI	4 Aug		4 Aug	Australia RBA Interest Rate Decision
NZ Unemployment Rate	5 Aug			
US Non-Manufacturing PMI	6 Aug		6 Aug	UK BoE Interest Rate Decision
China Trade Balance	7 Aug			
US Unemployment Rate	8 Aug			
NZ Business Confidence	10 Aug			
Australia Business Confidence	11 Aug			
NZ Net Migration	12 Aug	Australia Consumer Confidence	12 Aug	RBNZ Official Cash Rate
UK GDP		EU Industrial Production		
NZ PMI	14 Aug	China Industrial Production		
EU GDP				
US Retail Sales	15 Aug			
Japan GDP	17 Aug		17 Aug	US Democratic National Convention
Japan Trade Balance	19 Aug	UK CPI		
Australia PMI	21 Aug	Japan PMI		
EU PMI				
EU Consumer Confidence	22 Aug			
			24 Aug	US Republican National Convention
NZ Trade Balance	26 Aug			
US GDP	28 Aug	NZ Consumer Confidence		
EU Consumer Confidence				
NZ Business Confidence	31 Aug			
Australia PMI	1 Sep	EU Unemployment Rate	1 Sep	Australia RBA Interest Rate Decision
China PMI				
US Manufacturing PMI	2 Sep			
US Non-Manufacturing PMI	4 Sep			
US Unemployment Rate	5 Sep			
China Trade Balance	7 Sep			
Japan GDP	8 Sep	Australia Business Confidence		
EU GDP				
Australia Consumer Confidence	9 Sep	NZ Business Confidence		
NZ PMI	11 Sep	UK Trade Balance		
NZ Net Migration	14 Sep	EU Industrial Production		
China Industrial Production	15 Sep			
Japan Trade Balance	16 Sep	UK CPI	16 Sep	NZ General Election
US Retail Sales	17 Sep	NZ GDP	17 Sep	US FOMC Meeting
				UK BoE Interest Rate Decision
				Japan BoJ Interest Rate Decision
EU Consumer Confidence	23 Sep	Australia PMI	23 Sep	RBNZ Official Cash Rate
Japan PMI		EU PMI		
NZ Trade Balance	24 Sep			
EU Consumer Confidence	29 Sep		29 Sep	US First Presidential Debate
NZ Business Confidence	30 Sep	China PMI		
UK GDP				
US GDP	1 Oct	EU Unemployment Rate		
US Manufacturing PMI	2 Oct	NZ Consumer Confidence		
US Unemployment Rate	3 Oct			
US Non-Manufacturing PMI	6 Oct		6 Oct	Australia RBA Interest Rate Decision
NZ Business Confidence	8 Oct			
UK Trade Balance	9 Oct			
NZ Net Migration	12 Oct			
Australia Business Confidence	13 Oct	China Trade Balance		
Australia Consumer Confidence	14 Oct	EU Industrial Production		
			15 Oct	US Second Presidential Debate
NZ PMI	16 Oct			
US Retail Sales	17 Oct			
Japan Trade Balance	19 Oct	China GDP		
China Industrial Production				
UK CPI	21 Oct			
			22 Oct	US Third Presidential Debate
NZ CPI	23 Oct	EU PMI		
Australia PMI		Japan PMI		
NZ Trade Balance	27 Oct			
NZ Business Confidence	29 Oct	EU Consumer Confidence	29 Oct	Japan BoJ Interest Rate Decision
US GDP	30 Oct	NZ Consumer Confidence		
EU Unemployment Rate		EU GDP		

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Investment Outlook

August 2020