

TDB Digest, December 2015

Iwi investment strategies and performance

Over the last twenty years over 50 iwi have reached Treaty settlements with the Crown. The settlements totalled around \$1.6b. TDB estimates that the iwi have now grown their total assets to around \$5.5b. How have the iwi achieved this - how have they structured their activities, what investment strategies have they adopted and which iwi have fared best? TDB has just released the Iwi Investment Report 2015 addressing these questions for seven selected iwi. The seven iwi covered in our report – Waikato-Tainui, Ngāi Tahu, Port Nicholson Block, Ngāti Whātua Ōrākei, Rangitāne o Wairau, Tuhoe and Ngāti Porou - account for around 70% of the total assets of the post-settlement iwi. See the 2015 TDB Iwi Investment Report: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Iwi-Investment-Report-2015.pdf>

Dairy Matters

In our annual review of the NZ dairy industry we highlight how unusual it is for there to be two successive years of negative cashflows on-farm. The forward whole-milk-powder curve, overlaid on FX hedging by processing companies, shows an increased probability of a third loss making year to come. We consider the implications for land and cow values, with cow prices likely to fall the most. Of course it's not all doom and gloom, a lower milk price is translating into higher EBIT for Fonterra and the competing NZ milk processing companies. Most processors have released their 2015 results and they show continued growth in volumes and gross margins. Of interest is the increasing divergence in milk prices being paid by the different dairy processors. Based on our analysis of competitors' differing export product mixes and FX hedging policies, the trend of increasingly divergent milk price payouts seems set to continue. See the executive summary of our report: <https://www.tdb.co.nz/wp-content/uploads/2016/05/TDB-Advisory-Dairy-Industry-Review-Exec-Summary-December-2015.pdf>

Disruptive Technologies

Digitisation of different industries is having a profound impact on consumers, suppliers and regulators. Whether it's the disruptive effects of airbnb on the accommodation sector, Uber on the transport sector, block-chain technology on the authentication business, or the blossoming of the "internet of things", scarcity is being replaced by relative abundance as costs plummet and Moore's law affects one traditional industry after another. As one example, the first sequencing of the human genome 15 years ago cost US\$2.7bn - now a genome can be sequenced for as little as US\$100. Similarly, the long-heralded solar energy is now becoming commercially viable with the cost of solar panels halving every 22 to 30 months. For a fascinating presentation on the effects of disruptive technologies see <http://youtu.be/FNQSM4ipZog>. The speaker is Salim Ismail of Singularity University. Salim visited New Zealand earlier this year as a guest of Callaghan Innovation.

Happy Christmas

Rather than present our usual curious correlation, we would like on this occasion to wish all our readers the very best for the festive season. We look forward to being in touch again with you in 2016.