

TDB Digest, Jan 2018

Iwi Investment

Over the last twenty years, around 70 iwi have reached Treaty settlements with the Crown. The settlements total around \$2.4b. In our third annual Iwi Investment Report, TDB estimate iwi have now grown their total assets to around \$7.8b.

The eight iwi covered in our report – which account for around 60% of the assets of all post-settlement iwi – have all steadily increased their net assets per member over the last five years. Two iwi, Auckland-based Ngāti Whātua Ōrākei and South Island-based Ngāi Tahu have performed particularly well, with average returns of 16% p.a. and 13% p.a. respectively. Ōrākei's portfolio however is risky, being made up solely of Auckland property. Waikato-Tainui and Raukawa have generated average returns in line with our benchmark (9% p.a.), portfolio. Tuhoe, Ngāpuhi (which has yet to settle), Ngāti Porou and Rangitāne o Wairau have generated lower returns. Our report looks at how the eight iwi have structured their activities, the investment strategies they have adopted and how their investments have fared.

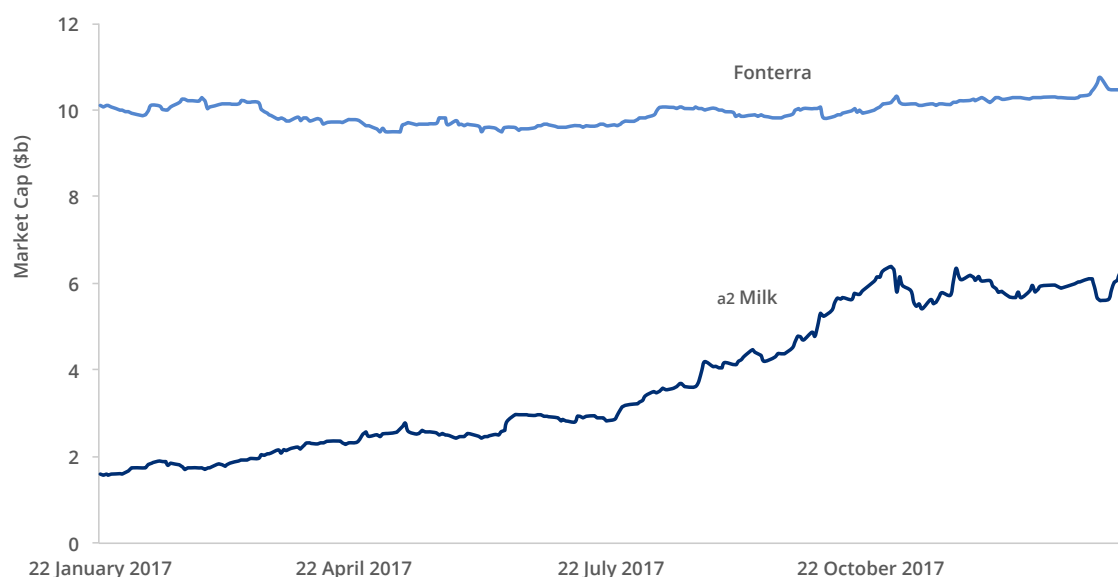
See the 2017 TDB Iwi Investment Report here:

<https://www.tdb.co.nz/wp-content/uploads/2018/01/TDB-Advisory-Iwi-Investment-Report-2017.pdf>

White gold

The market value of Fonterra's equity is \$10.6 billion. Fonterra's NPAT in FY17 was \$745 million. That gives the company a P/E multiple of 14. The market value of The a2 Milk Company's equity is now \$6.1 billion – almost 60% of Fonterra's. a2 Milk's NPAT in FY17 was \$91 million. That gives a2 Milk a P/E multiple of 66. Clearly investors like a2's story and its growth prospects. The graph below shows the change in the two companies' market capitalisation's over the last year.

Market capitalisation of The a2 Milk Co and Fonterra Co-op



a2 Milk is the Uber or Air BNB of the milk industry: it owns no cows, no milk processing facilities and almost no physical assets. Its real value is in its brand and IP. More information on the a2 Milk Company is provided in TDB's briefing note here:

<https://www.tdb.co.nz/wp-content/uploads/2018/01/TDB-Advisory-A2-Milk-Briefing-Note-2018.pdf>

Electricity price review

The draft terms of reference for the government's planned retail electricity price review indicate the review will be wide ranging. It will cover all stages of the electricity market – generation, transmission, distribution and retailing – and consider both efficiency and equity issues, including the impacts across different regions. It is not clear though whether the review will consider industrial and commercial users as well as residential users. More fundamentally, it is not clear what problem or problems the government is seeking to address through the review. In an article published in the NZ Herald before Christmas, TDB Director Phil Barry argued the review should be forward rather than backward looking and seek to ensure the regulatory regime is fit for purpose for the challenges ahead.

See the NZ Herald article here:

http://www.nzherald.co.nz/opinion/news/article.cfm?c_id=466&objectid=11941663

Funding fire and emergency services

On 1 July last year, fire and emergency services in New Zealand were amalgamated into one entity, Fire and Emergency Services NZ (FENZ). The amalgamation was accompanied by a remarkable 40% increase in average levies. In a recent report for the Property Council, TDB reviewed the funding regime proposed for FENZ and examined best-practice funding models from other countries. We found that the funding regime for FENZ falls well short of the principles in FENZ's founding legislation and well short of international best practice. Indeed, New Zealand appears to be an outlier amongst OECD countries in basing funding on the value of insured property, with most countries using rates-based funding mechanisms. We found that the regime proposed by the government for FENZ was inconsistent with the funding principles in the legislation. It results in levy payers facing charges that bear little or no relationship to the likely costs they impose on FENZ; provides little incentive for FENZ to control its cost; and provides little incentive for property owners to take precautionary measures and thus help prevent fires and save lives.

See TDB's report on funding fire and emergency services here:

<https://www.tdb.co.nz/wp-content/uploads/2018/01/TDB-Advisory-FENZ-Funding-Best-Practice-Review-2017.pdf>

Market studies by the Commerce Commission

The government has stated it will progress legislation to allow the Commerce Commission to undertake "market studies" of various sectors. But what are market studies; what will be the scope of such studies; who will be able to initiate them and who will pay; and which sectors are most likely to be subject to investigation by the Commission?

These questions are addressed in TDB's briefing note on market studies here:

<https://www.tdb.co.nz/wp-content/uploads/2017/12/Market-Studies-Briefing-Note-Dec-17.pdf>