



accordia

# the advantage

Winter 2016

## The importance of ongoing research

We have often referred in our previous editions of Advantage to the ever changing world that we live in, with so many dynamics affecting global financial markets. One of the most important contributions to the Accordia Portfolios is the research work done by the team at Caliber, the manager for the portfolios. This research is a critical component of the portfolio risk management process and is a very large factor in managing portfolio outcomes. Every year, there are a number of offshore research trips undertaken by Mark Wooster, Chief Investment Officer, and Michael Gray, Senior Portfolio Manager. These trips take Mark and Michael to the United Kingdom, the United States and Australia.

The internet has made the world a much smaller place, and there is a large amount of information and data available via desktop technology. However, there is still no substitute for the value and insight that is gained when meeting directly with managers, strategists and analysts and the ability to participate in technical conferences and seminars. For this reason, Caliber is committed to an ongoing programme of offshore research trips to complement the research work done in our offices here in New Zealand. A key element of these trips is to meet with organisations with whom there is an existing relationship to review and monitor their performance. There are also visits to new or potential managers, funds or securities issuers in order to conduct research. In many cases these organisations may never be used in the Accordia Portfolios, but Mark and Michael find that there is valuable material from these meetings that can assist in overall portfolio construction.



Mark recently attended an Advanced Investment Strategist Conference in Toronto, Canada. The conference had about 140 attendees from around the world, mostly professional investment strategists who consult with pension funds and large private wealth groups. Mark was the only New Zealander there. The conference covered two days with a number of very high profile speakers presenting on a number of key topics.

There were a wide range of presentations, from the management of portfolios in the face of economic trends, to specific technical sessions on addressing specific risk factors within a portfolio. Other presentations addressed behavioural finance issues, and investment and wealth management trends that are now becoming more mainstream in practice. There were a number of other valuable technical presentations addressing specific techniques and processes for managing areas of portfolio construction and management.

---

**The importance of ongoing research**

---

**Foreign Trusts - What are the real issues?**

---

**Brexit - An update**

---

**The US Election - What is driving public opinion?**

---

Mark reported that there was a very good mix of academics and practitioners amongst the presenters. A number of these people are regarded as being expert within their field, and come from some of the most respected universities, business schools and financial institutions in the USA and Canada. In many cases, these presenters are also engaged in commercial consulting, which combines a great mix of academic rigour with a practical perspective. Overall, the conference proved to be very valuable in terms of new insights and research in portfolio construction. Mark was very pleased to get exposure to presenters and material that is not available in Australasia.

#### Where to from here?

Caliber will now be analysing the knowledge gained from this conference to see how it can be used to improve current processes in portfolio management. The overall conclusion was that the conference was extremely productive, as it achieved the objective of bringing up to date global best practices back to New Zealand.

## Foreign Trusts - What are the real issues?

**There has been a lot of publicity lately about the use of foreign trusts in New Zealand. The release of the Panama Papers and subsequent access to them have seen allegations from a number of investigative journalists and other commentators that New Zealand has been used as a tax haven by foreigners using our foreign trusts regime.**

How do they work? In trust law, there is no reference specifically to foreign trusts. They are just trusts. However, the term “foreign trust” comes into play for tax purposes.

In broad terms, foreign trusts are settled by overseas people or entities. The beneficiaries are overseas, and the assets in the trust are overseas. All income is earned by non-residents and earned on assets outside New Zealand, therefore there is no tax liability in this country under current New Zealand Tax law.

This is where the loophole exists. New Zealand taxes trusts based on a settlor’s residency status. In other countries, trusts are taxed based on where the trustee lives, so if there is a New Zealand based trustee then that removes any tax liability in the other country. As highlighted by journalists discussing the Panama Papers revelations, if these trusts are set up with this issue in mind, then a foreign trust in New Zealand will escape tax everywhere.

Many tax experts are of the view that foreign trusts aren’t necessarily a bad thing. For example, if a trust was established in another country, and the trustee moves to New Zealand, it doesn’t necessarily mean that there is a valid reason to tax that trust just because the trustee now resides in New Zealand.

There has been a huge amount of debate as to whether there was any intention to create a tax haven in New Zealand, and there are many opinions on that subject. Many people are concerned however that our reputation as a well-run country with robust taxation laws is at risk, due to individuals or entities being able to hide assets in a foreign trust and avoid taxation liabilities.

Former PwC Chairman and tax expert, John Shewan has conducted an inquiry into foreign trusts and has made a number of recommendations to the government. His findings concluded that in the wake of the Panama Papers revelations, New Zealand’s foreign trust regime was being used to disguise assets and transactions from foreign taxation, and other regulatory authorities. He noted that the current foreign trust disclosure rules are inadequate. His findings included the comment that “the rules are not fit for purpose in the context of preserving New Zealand’s reputation as a country that cooperates with other jurisdictions to counter money laundering and aggressive tax practices.” His report to the government addresses stronger rules around disclosure, with a register of foreign trusts searchable by authorities. The register should include details of the settlors, people with effective control over the trust, details of non-resident trustees, and beneficiaries. He has also recommended that these trusts file an annual return disclosing financial statements and details of distributions. Also recommended is that the government expand the application of Anti-Money Laundering rules.

As a result of the inquiry, the Government has recently confirmed that it will implement the changes as recommended by John Shewan.

## Brexit - An update

The UK political landscape has seen one of the biggest shakeouts in modern times following the Brexit vote outcome. The constitutional and political vacuum and general atmosphere of uncertainty into which Britain has entered is now very much uncharted territory.

Following David Cameron's resignation as Prime Minister, the Conservative Party elected Teresa May to replace him. She has been a conservative member of parliament since 1997, and has been the UK home secretary since 2010.

Other UK political figures are also under pressure, with the Labour Party leader Jeremy Corbyn facing a possible leadership challenge over his position on the Brexit vote. Another interesting move came from Nigel Farage the leader of the UK Independence Party, who has stepped out of the political scene, claiming that he has fulfilled his ambition to get Britain out of the EU.

A major challenge for the UK Government, and the new Prime Minister, will be to try and repair the deep societal divisions over the Brexit vote, and to work closely with other members of the UK, namely Northern Ireland and Scotland. A challenging time for the UK indeed.

After the Brexit vote, the initial financial market reaction was extreme. Markets have however, calmed over the last few weeks, with most major markets recovering to near pre Brexit vote levels. It is anticipated though, those markets will continue to display some ongoing volatility, with a high likelihood that global interest rates look set to remain lower for longer.

The Pound has depreciated significantly against major trading partners, reflecting negative sentiments around Britain's decision to exit the EU. The exchange value of the Pound has fallen 13% against the US Dollar, 12% against the Euro, and 15% against the New Zealand Dollar as at the time of writing this article. The Brexit vote has also had an adverse effect on the country's credit rating. However, UK exporters will benefit from a fall in the value of the currency. There is also no doubt that anybody planning a holiday to the UK will find that they will now have much more spending power!

Uncertainty will remain around the future for employment and business intentions in the UK, particularly the London Financial district. As we noted in our post Brexit commentary, there is little doubt that the process of the UK negotiating its way out of the EU will be lumpy, and could take up to two years. As yet the UK government has not voted formally on exit, nor has it implemented article 50 of the Lisbon Treaty, (the formal mechanism for commencing the exit process from the EU).

Until then, it is not anticipated that there will be significant impact for rest of the world. The UK accounts for only 2.5% of global growth and it is worth remembering that this event is not a global banking crisis as was experienced in 2008.





## The US Election - What is driving public opinion?

On the 8th of November 2016, the United States will hold the 58th quadrennial US Presidential Election. This event has been preceded by the Presidential Primary and Caucuses that have been held in all states since February this year, running to the end of July.

The Primaries allow voters to cast ballots for a group of delegates in their preferred party. Party delegates take these nominations to the Republican or Democrat nominating convention to elect their party's presidential nominee. This will occur at the end of July. The outcome is that Hillary Clinton (Democrat), and Donald Trump (Republican), seem highly likely to receive their respective party nominations.

Of particular interest, are the current voter ratings for both candidates. In a recent ABC Post poll, 64% of Americans said Donald Trump was unqualified to be President, in an earlier poll, 58% said that he was unqualified.

In contrast, Hillary Clinton's numbers were the reverse, 61% saying that she was qualified. In an earlier poll, 63% said that she was qualified.

An interesting outcome of this poll was the percentage of voters who said that Clinton had the better personality and temperament to serve as US chief executive. The vote favoured Mrs Clinton 61% to Mr Trump's 28%.

Overall, it would seem that neither candidate is viewed particularly favourably with the electorate, with both candidates not rating well relative to any previous nominee at this point in the past 10 presidential cycles.

There has been some controversy around Mrs Clinton over alleged improper use of her private email account for state business, and Mr Trump's remarks about racial groups, women, religious comments, and the building of a wall between Mexico and the USA.

Mr Trump is appealing to disaffected Americans, who have not been happy for many years with the state of US politics, along with a long term static wage and salary environment. In contrast, Mrs Clinton is regarded as more representative of the political establishment.

In spite of these issues, US voters are facing an important decision with the election of their next President. The successful candidate will be dealing with ongoing United States military involvement in the Middle East, civil unrest at home, along with the need to engage with US trading partners around the Trans Pacific Partnership (TPP).



**Accordia Freephone** 0800 444 999  
**Accordia Email** service@accordia.co.nz  
**Accordia Christchurch** Unit 4B, 303 Blenheim Rd  
**Accordia Auckland** Level 7, 203 Queen St  
**Accordia Hamilton** Suite 9, 9 Lynden Court