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Interest rises in inflation-proofed bonds

KRIS HALL

SOME Kiwi investors are buying inflation-protected bonds, fearing that global efforts to prevent a long recession will spark inflation.

NZ Funds chief investment officer Michael Lang said the appetite for bonds that rise with inflation has soared. "Typically investors have shied away from investing in assets which grow with inflation, choosing the safe havens provided by bank deposits and government and corporate bonds," he said.

"But inflation has done a 180. Instead of being the No 1 enemy of reserve banks it's become the number one target because the alternative, deflation, is destroying asset prices."

Rising inflation erodes the value of returns on fixed-rate securities such as bank deposits, while inflation-protected bonds are designed to compensate investors for inflation by paying an increased coupon in line with inflation rates.

In addition, at maturity, instead of receiving back only the original

principal paid, the holder gets the principal adjusted for the change in the consumer price index.

Some issuers have embedded inflation floors into their offerings, meaning the value never dropped below the original issue price.

Local interest follows that in the United States, where investors worried about inflation and high fees have poured money into inflation linked bonds.

In June, the iShares Barclays Treasury Inflation Protected Securities (TIPS) Bond Fund saw the

second-biggest cash infusion in the US, with the inflation-conscious sinking US\$942 million (NZ\$1.5 billion) into the fund.

Financial advisers say too few Kiwis are considering the likely inflationary effects of government stimulus packages. Craig Myles, director of South Island financial planning firm Myles Wealth Management told *BusinessDay* it was the adviser's job to raise inflation with investors before it landed.

"Investors underestimate risks that are not completely in front of

them," he said. "Inflation is a somewhat opaque risk and they only know what impact it can have after their purchasing power has been eroded."

Not only would government-issued, inflation-proofed bonds soothe the economy, experts say, but they would create a much needed way of keeping capital onshore – attracting the billions of dollars sitting in cash deposits.

New Zealand government inflation-index bonds were last issued in 1999.



Fruitful venture: Mary Biggs has turned Featherston's lemons into a viable business and is now eyeing the Melbourne marketplace. Photo: ROBERT KITCHIN

Lavender dream turned out a lemon

CLAIRE McENTE

WHEN life gives you lemons you're supposed to make lemonade – or so the saying goes – and that's exactly what Lavender's Green founder Mary Biggs did.

A move to a homestead on 7.3 hectares (18 acres) in Featherston in 1997 had Ms Biggs originally eyeing up a future in organic lavender farming.

"It just seemed like a gorgeous thing to do. I saw myself speaking French and living in Provence. It didn't work out like that, of course."

Lavender farming coupled with raising children soon proved to be

"really hard work", and it wasn't long before she stumbled upon another venture. "I noticed there were all these amazing lemon trees in Featherston but the lemons were just falling on the ground and going to waste. "I still wanted to make an income and work from home. So I had the idea of making lemon cordial which my friends and I had always made for school fairs."

Ms Biggs took one of her first batches to Wellington department store Kirkcaldie & Stains and



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netted an order for 500 bottles.

After a spell hiring out the kitchen at the local RSA, she decided to get serious and install a commercial kitchen in the family home.

"Once I had a kitchen I had to keep it busy so I came up with a whole range of different lemon products."

Today Lavender's Green products – including lemon curd and roast lemon chutney – are sold in more than 100 outlets around New Zealand. The business' products

are competitively priced, and its "flagship" lemon and lime cordials sell for between \$12 and \$18, depending on the outlet.

Lavender's Green has grown steadily each year and now turns over about \$250,000 a year, she says

Ms Biggs plans to begin selling the products in Melbourne, where she lives with her husband advertising guru Peter Biggs – who heads Clemenger BBDO there – and is relishing the challenge that the new market brings.

"It's been so easy to do business in New Zealand. In Australia the competition is greater and the scale is so much greater, too."

The company's products have

potential as ingredients in other foods, and its lemon curd is already used by an icecream manufacturer, she says.

Ms Biggs returns to New Zealand every six weeks or so to hold tastings, meet distributors and check in with her five staff.

Lavender's Green is a true Featherston product, she says.

The company sources some lemons from people's backyards in exchange for its products, and the Featherston Mobil petrol station is one of its longest-serving and proudest stockists. "There's a real sense that we've got Featherston behind us. They own the brand as much as we do."