



New Zealand 2015

Michael H. Morris
Chief Executive Officer

Since our founding, Naples Global Advisors has strived to be geographically indifferent in our ongoing search for attractive investment opportunities. A recent research trip to New Zealand validated that maxim, once again showing that we really are willing to go just about anywhere to uncover a good value. While arguably one of the most picturesque places on the planet, the still-memorable jet lag is a reminder of just how remote a place New Zealand truly is- from anywhere.

Our attraction to distant and lesser developed economies is often driven by special demographic characteristics: namely, rapid population growth and rising living standards, as seen in well-known examples China and India. That is not the case with New Zealand. The population is roughly equal to that of Los Angeles, with more sheep occupying the two major islands than people, and a GDP per capita that rivals that of Italy. New Zealand will not likely ever be mistaken for a classic developing market growth story. Nonetheless, we see the geographic remoteness and the somewhat underwhelming demographic trends as a potential investment advantage.

As a consequence of its location in the bottom corner of the world, there are simply fewer eyes focused on companies based in New Zealand. With that lack of attention comes less mainstream herd-type investing and greater opportunity for meaningful discovery. However, there is also the economic reality that in order to survive and develop some sort of world trading relevance from such a remote location, New Zealand-based companies must excel at what they do, or at least be able to effectively leverage the country's small population, location, and natural resources to compete.

A parallel can be drawn between the potential we see in certain New Zealand investments and the New Zealand national rugby team. The rugby team, known as the "All Blacks" for the color of their classic rugby uniforms, has won the two most recent quadrennial Rugby World Cup championships and is widely considered the most successful rugby organization in the world. Admittedly, rugby is a mysterious game that has yet to capture the fancy of most Americans. Yet, it is every bit as popular in much of Europe, and former colonies of European countries, as football is in the U.S. How can a country of only 4 million people dominate world rugby and consistently outperform much larger powers like England, France, South Africa, and Australia? The answer seems to lie in a deeply rooted craving for respect and a long-developed cultural expectation to stand out- a perfect blending of native

Maori tenacity and British insistence on perfection. Talent is identified through a country-wide integrated system, and intense national pride is nurtured in all New Zealanders from an early age. What they lack in numbers they make up for with passion, commitment, and lack of distraction. Rugby is not the only game in New Zealand, but it is the most important.

What we found most appealing are those New Zealand companies who, like the All Blacks, have taken advantage of their far removed location and unique circumstances to become world class over-achievers. There is more than one airport in New Zealand, but of the nearly 3 million people who visit New Zealand each year, 70% of them come through the Auckland International Airport (AIA NZ). Investors get paid for every arrival and departure, along with a portion of every cup of tea or duty-free souvenir kiwi purchased by travelers waiting for a flight. Additionally, and every bit as attractive, AIA owns 1,500 hectares of prime industrial property surrounding the airport. Portions of this land are currently used for typical necessities such as parking and rental car facilities. But, in addition to that, the properties now hold three high occupancy rate hotels and numerous warehouses leased to logistics firms like DHL Express and marquee multi-national exporters like Fuji Xerox and Coca-Cola. Additional acreage will be developed by AIA over the next 25 years as they continue to capitalize on the scarcity of easily accessible commercial real estate.

Another New Zealand cash flow machine is located at the Port of Bluff, the closest land mass to Antarctica, known as Southport New Zealand, Ltd. (SPN NZ). The Southland (of which Southport is the southern-most point) is responsible for generating a sizeable portion of New Zealand's total exports by value. Significant amounts of aluminum, timber, dairy products, meat, and fish move through or are bulk-stored at Southport. A port makes money from the storage and efficient movement of goods from one place to another, and South Port is strategically located to benefit from both imports into New Zealand and exports to the North Island, Australia, and Singapore.

Leveraging their remoteness of location for success is something New Zealanders do well. As with rugby, being formidable may be a result of years of careful, cultural nurturing. Or, it may be a function of the singularity of focus brought on by its geographic isolation. We can only speculate and appreciate the accomplishment and consistency of excellence. We confirmed the existence of several businesses thriving in spite of their location at the very edge of the globe. Streams of near perpetual cash flow are appealing, and when they are consistent and compounding, they are especially compelling. It's irrelevant to us if the cash flows are coming from Auckland or Austin. Near or far, well known or obscure, we're happy to participate in profitable businesses no matter where they are located.