"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc
NZSA
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In this Issue

The End of the Beginning

Those of you who manage to wade through my two monthly ramblings will know I am fond of quoting Winston Churchill. Following the end of the Battle of Britain, he was quick to warn the populace that "this is not the end, it is not even the beginning of the end; it is however, perhaps the end of the beginning". And so it is with NZSA. 16 years after Bruce and his dedicated band of activists started the Association we have reached the end of our own beginning and opened yet another chapter in our development and influence.

On March 1st Michael Midgley commenced as the full-time CEO of the NZSA. I told him this would be a full on role, but I don't think either of us could have imagined just how intense it has turned out to be.

If anyone out there thinks that the NZSA is no longer needed, the significant issues during the last month must surely have made them realise that the strong voice we give retail shareholders is absolutely essential. (Remember- tell your friends to join. Member numbers give us strength!)

Most people know them as AGM's, but Z Energy prefers the term ASM (Annual Shareholder Meeting) and in the context of their earlier announced move to a virtual only meeting that is perhaps appropriate, because it is just that - a shareholder's meeting, not a directors meeting. It should be set up to allow the broadest possible participation in whatever way works for all shareholders. The NZSA survey on shareholder attitudes was instrumental in having Spark revert to a hybrid meeting. We have been lobbying Z Energy, both privately and via the media and just as I sat down to write this article, NZSA received a letter saying that Z

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Energy has also been persuaded that a hybrid meeting will be the way forward.

Despite some claims that virtual meetings are the future, we are starting to see signs that even large shareholders recognise their limitations. Influential NYC Comptroller Scott Stringer who oversees $US170B of assets says he will vote against directors who hold only virtual meetings. Timothy Smith who manages $US3B at Walden Asset Management went further saying " Online-only events give company officials "tremendous power over controlling, censoring and really limiting the engagement of share owners with the board and management."

In some US states and Australia, a physical AGM must be held although it can be a hybrid meeting as well. This is the favoured NZSA option as it gives the broadest coverage for all shareholders. So we commend the Z board for listening to the company's owners.

Once again Heartland Bank has disappointed its many loyal retail investors with an institutional placement of $20m for the lucky few and a $20m Share Placement Plan (SPP) for the other 9600 shareholders. Because this was hugely over-subscribed, the SPP was scaled back to only 32%.

In our view the HBL board has failed dismally on several levels.

In our view the HBL board has failed dismally on several levels. They claimed to need the funds in a hurry due to greater than expected growth. So their capital management was less than ideal. Then they said time was too short to do a rights issue before Christmas. Time issues are a common excuse for favouring institutions over retail, but with the introduction of same class rules and accelerated rights issues, that's all it is – an excuse.

And to rub salt into the wound, HBL did not even have the decency to scale relative to existing holdings. Instead they scaled based on what was applied for. So someone with 1000 shares and someone with 500,000 both got 3317 more assuming they requested the SPP maximum of $15,000 worth. Totally unfair and least you think I make this stuff up; we had complaints from members at that upper level who were significantly diluted.

This is not the first time HBL have dumped on their retail shareholders. Perhaps at the next AGM we will seek to make an example of a director or two if they will not undertake to treat all shareholders fairly. If we do, then your voting power will be essential.

Management has made a string of excuses, but we don't see much evidence of accountability at the top

Then we have the dismal Fletcher Building (FBU) situation. Management has made a string of excuses, but we don't see much evidence of accountability at the top. Mark Adamson has been in the job for 4.5 years. During that time, he has dramatically changed the management team, presumably so he had the best people in the roles. Here are a couple of quotes from Mr Adamson.

You get paid a sh**load of money for success and if you fail you get fired. It is very binary -- there is nothing in between." and people should be recognised "handsomely for what is massive value-add".

So presumably when you end up having value subtraction by having to write off at least $110m (which is $2780 for every shareholder on average) we would be expecting Mr Adamson to be contemplating his position pretty seriously.

Although as mentioned, management have had plenty to say, disappointingly the Chair (Sir Ralph Norris) and Board have made no public comment to date. We wonder why? Given the requirements of continuous disclosure, we can only assume that the directors were blind-sided when not one, but two write downs were required in short order.

Given the disproportionately large hit that the share price took, it seems the market believes there could be more to come. Media reports indicate that many people in the market were aware that all was not well long before the disclosures were made, particularly in regard to the Christchurch project. There is no doubt that construction is a tough business at the moment. Mainzeal failed and Hawkins Construction (no relation!!) has been bought when it too was apparently on the brink.

Fletcher clearly under-quoted some jobs. We also understand there may have been something of a disconnect between the sales arm and the physical building arm of the construction division. With so many personal changes across the company, there are known issues with morale. It would also not be surprising if the loss of some very experienced staff has been a factor in the recent problems. Investors will be hoping there are no more write-offs to come. We have been assured by Sir Ralph that the issue is not systemic and that everything known to the board is now out in the open. The market will not want further surprises.

However, the long term risk to Fletcher may be a reputational one. A senior property executive told me that he would be unlikely to use Fletcher again. "They used to command a premium and people were happy to pay that because in return you got top quality built by skilled tradesmen, on time and on budget. Now I don't see that you get any of these". Perhaps the board would benefit from having an experienced building construction executive appointed as well?

Should Mr Adamson survive, shareholders will expect his total remuneration to be very significantly reduced. If he leaves with a bulging wallet, there will be serious questions asked of the board and the nature of the contracts it commits shareholders to. And herein lies a real problem. In Australia, regular employment protections cease for salaries above $A400k. In NZ the same rules apply whether you earn $16/hr or $16,000/hr. That makes it very difficult to fire senior executives for serious performance issues. They have to be counselled and retrained! By whom is not addressed in the legislation.

All too often, there is no-one in an understudy role in case the CEO departs suddenly. Cynics would say that is no mistake on the part of the incumbent, but it is in my view a governance failing that boards should be alert to. Certainly shareholders want the best people to run their companies, but we should be able to demand accountability at the sort of salary levels that are being paid. After all, $110m is not small change.

As well as these big issues, Michael has also been busy meeting many senior corporate and institutional figures, MBIE, regulators and the media as well as speaking at Canterbury and Waikato branches. Just as he thought his feet might touch the ground, we have the NPT/KPG/AUG/Salt saga, AFT's preference share issue and the Property for Industry management contract internalisation.

For Michael, it might also be the end of the beginning, but there is no chance he will ever get to the end of the end. Human nature, greed and corporate excess will see to that!

John Hawkins

Chairman

NZSA AGM and Annual Conference

NZSA's AGM will be held this year in Wellington, on Saturday, 19th August. Mark this date now. Preparations are underway. If members have any special issues they would like to have aired during the conference or AGM, please advise a branch committee, or board member..

A warm welcome to Michael Midgley

This is our first opportunity in The Scrip to welcome our CEO, Michael Midgley; and has he been busy making waves since he joined? The media and companies have received a stream of comment on the issues of the day – annual meetings for shareholders (Z Energy,), accelerated rights issues - or the lack of them (Heartland Bank,) and the downwards revision of forecasts, (Fletcher Building) – all this alongside setting up office, and understanding our central administrative systems.

Michael was a lawyer in private practice and in government before moving to senior management roles in commercial and professional publishing. He has considerable experience in administration, marketing and in the management of voluntary organisations. The good thing is that he had been an NZSA member for 3 years, and has served on the associations Canterbury branch committee. So he has form in upholding the values and aspirations of the association.

Michael's key message to Scrip readers is, "Our members are our eyes and ears. Tell us what you think. We like--- no, we **need** feedback." Fortunately, if our experience with The Scrip is anything to go by, Michael will get plenty of leads and comment, and NZSA will grow under his leadership because of it.

Alan Best

AFT Pharmaceuticals placement and share purchase plan

We have received some enquiries about AFT Pharmaceuticals announcement on 17 March of a share placement and share purchase plan.

AFT issued Redeemable Preference Shares on 27 March at a 5-day volume weighted average price of $2.74. At the time of writing the share price is $2.65.

The preference shares carry a dividend of 9.4% p.a. on the issue price of $2.74. AFT elects whether to pay in cash or accumulate.

We recently met with the company to get some understanding of the position and for a general briefing on the company's activities.

The shares have been issued to the existing investors, the Atkinson Family Trust and CRG. CRG is a United States healthcare-focused investment firm with more than $3 billion of assets under management across 45plus portfolio companies.

The apparently generous dividend rate is more understandable when compared to drawing down on the the current long term debt facility with CRG which is at 13.5%.

The company said it was conscious of its responsibility to shareholders and will pay attention to that in setting the terms of its Share Purchase Plan. The final terms of the SPP are expected to be announced in late May 2017 when the FY2017 financial results are released.

Michael Midgley

Financial Advisors - Recent developments

The Financial Markets Authority (FMA) is commonly seen as the guard dog for New Zealand's financial markets and recent court activity suggests that its teeth are getting sharper. However, the Authority also has a role as a guide dog. This February, in its role as a guide dog, it published a series of pointers for customers to use when they are dealing with financial services providers.

These providers include KiwiSaver providers, superannuation schemes, fund managers, financial advisers, auditors, discretionary investment managers, derivatives issuers, peer-to-peer lenders and equity crowd-funding platforms.

Paul Gregory, FMA Director of External Communications and Investor Capability, said, "we have published these investor entitlements to help customers deal more confidently with their providers and be able to make more informed decisions about their investments." The FMA wants to address this imbalance of information between those who make and sell financial products and those who use them.

When dealing with a licensed provider the FMA believes you are entitled to:

- Competence
- Be treated honestly and fairly
- Be informed
- Know how much you are paying
- Have problems and complaints dealt with properly.

To bring these 5 key entitlements to life and prompt people to ask questions the FMA has produced an animated version at **https://fma.govt.nz** Customers should expect to be told about any conflicts of interest or commissions received through the sale of a product. Fees should be clearly set out, and providers should be willing and able to explain why they are reasonable. If there are limits to what the provider can offer the customer, this should be made clear.

Mr Gregory said, "We can see or be told about bad conduct by providers and do something about it. But prevention is much better. Customers considering a financial product need to know what they should be told, know to ask good questions, and then choose with confidence, or walk away to avoid a bad result. Also, they should be told

what they'll be paying, including any commissions, and we strongly encourage them to test their provider on why they think their fees are reasonable."

Turning to the FMA's guard dog role, it has the power to license, supervise and monitor providers' conduct. Since December 2016 It also has stronger powers to intervene where it has concerns about misconduct or potential harm, and can take action against misleading or deceptive conduct through fair dealing provisions in the law.

That's all well and good – but hold the horses. An exposure draft of the Financial Services Legislation Amendment Bill, which repeals the Financial Advisers Act and introduces financial advice provisions into the Financial Markets Conduct Act has been out for a six-week consultation period ending March 31st. The Ministry of Business Innovation and Enterprise (MBIE) was looking for feedback on its proposed transitional arrangements.

There have been concerns about several aspects of the bill, including the "financial advice representative" designation, and the wording of the client-first duty.

MBIE said it was seeking feedback on the terminology used. "After receiving feedback that the term 'agent' wasn't workable we changed it to 'financial advice representative. However, we have heard some concerns that 'financial advice representative' may also be problematic. We would like to understand this further and welcome suggestions for alternative designations that will be more suitable and why."

It said it was important that it understood if any of the drafting or terminology could have unintended consequences. "For example, we have heard some concerns about potential unintended consequences from the current drafting of the client's-interests-first duty."

It said the idea of sales and advice being separated in the law had been hotly debated. "We consulted extensively on the option of applying fewer obligations to some people who would be labelled 'salespeople'. However, this would have meant that these people would be able to give financial advice (that is, make a recommendation or give an opinion to acquire or dispose of a financial product) without being held to the same standards as others performing the same activity.

The caveat here is that corporate providers of financial advice would be bound by codes of conduct and the obligation to treat consumers in the light of their own circumstances, regardless of whether the representative is a qualified adviser or not, and therefore the decision to accept or reject a client is ultimately the responsibility of the corporate provider. We suggest that members who are interested in the review visit the webpages - **www.mbie.govt.nz/faareview** and let Michael Midgley have your comments.

Bruce Parkes

13th Annual Financial Markets Law Conference - 27 June 2017 – Auckland

This conference will review recent legislative changes within NZ's financial markets and the effects of emerging technologies on various stakeholders. Superhot issues include financial advice regime reforms; assessing the impact of technology on financial markets regulation, navigating post-transition challenges under the new FMCA regime and making sense of NZ's market manipulation rules. For details and registrations See **www.conferenz.co.nz/FMLaw**

Towards Stronger Committees

NZSA was founded by the participation of its original members. As we grew we needed more professional input, and our recent moves to appoint a CEO and an Executive Assistant are bearing fruit. However, more than ever we need the involvement of branch members. The common misconception is that you need to be a trained accountant or a financial adviser to be a committee member. That is far from the truth. People volunteer their services to their local branches because they appreciate what NZSA is doing to monitor boards and keep their investments safe, and they want to learn more. They help to arrange talks by directors and executives of companies, and swap ideas with other investors. They come from diverse backgrounds – widows and beneficiaries, trade and small business, student and academic, corporate and professional – and the diverse mixture adds to our strength just as it does in a company board.

In the words of Jean Gorman, coordinator of our most recent discussion group in Nelson, "As soon as I mentioned the word "Committee" they all turned green and rushed for the door." There's really no need to fear. Our branch committees are conducted in a friendly informal way, and you are not asked to do things that you are not comfortable with.

Speaking of discussion groups, there is plenty of scope for this kind of group outside our main branches. In smaller centres NZSA is helping investor groups to assemble and listen to more skilled investment advisers, form investment groups, contribute ideas to this publication, and familiarise themselves with the content of our correspondence and website. That is how some of the most important social movements in our society were started. If you live in a smaller centre, even if you have no listed companies in your town, you can be an active member and contribute, either by email or by organising your own group. To start a group, enquire with Michael Midgeley, **ceo@nzshareholders.co.nz**.

Facilitating the NZSA network, NZSA members' website is now set up for member-to-member contact. To join this in your locality go to your members page, and from the directory on the left, choose

Update your details. In the dropdown box alter your instruction to **Share email and/or phone**. Then change your instruction shown in red to **Yes**, which permits other members nearby to contact you. Only when you have changed your member details and logged out, will the option **Search for members** appear on your directory. When searching other members near to your own post code, click on **Search for members**, enter your post code in the space provided and other members close by will be revealed below. Rural members will find it handy that the system will identify approved contacts from the five postal codes on either side of the target – 11 postal codes in all. So it's getting easier to join forces with NZSA.

Alan Best

Web education for shareholders

Many of our members were unable to attend the seminar courses we have run in each branch, and yet, so many have entered "investor education" as a subject of interest on their membership form, that we have loaded some video presentations on our website for those who wish to upgrade their knowledge from the privacy of their own office or home.

The first set is available to anyone from the public on the home page of the website. Go to nzshareholders.co.nz – Resources – Investor Education, and scroll down to accept the terms of use. These are introductory videos are publicly available through NZX as well as NZSA.

However, members have the advantage of a special selection in the members pages. Enter the members' area from the symbol top left of the home page, using the member number and MAC code. Once in, choose **Education Information** – and again scroll down to accept the terms of use. On the way you will pass links to the NZX page which contains a current record of NZX listings, both shares and debt issues, with the ticker codes prices and volumes traded. We have also included a link to the definitions pages of Investopedia, where you can tie down the meaning of any investment term you hear or see.

When you have accepted the terms of use, you will be given the choice of basic videos and those for practising investors. The basic New Zealand Herald series features seasoned advisers, Brian Gaynor, Rebecca Thomas and Jeffrey Stengl. They may be stating the obvious, but you could not get better advice by going to a one-on-one interview.

For more **experienced investors** we heartily recommend the Bill Dodds series produced for our Associates the Australian Shareholders Association. Although Bill's examples are drawn from the ASX, it is the principles that are important, and his techniques are reinforced by a question and answer series accessed beside the question mark at the foot of the video block. Watch the video and then try the questions. To check your answer simply click on the plus sign to the right of the question.

The final video in the series for practising investors is part of a respected series from the English journal Moneyweek, and presented by Tim Bennett. This is also available on YouTube and each of the ratios Tim discusses in our video, is also the subject of a separate and more detailed video on YouTube. Because the Moneyweek video comes to your computer directly from YouTube it may take a little longer to load. Having introduced YouTube, we also note that, for a member keen to use a variety of presentations, there are lots of videos on YouTube introducing different aspects of share and debenture investment. So if you want more, have a surf through them.

Our **CKPD graphs** also form part of our members' education service. Use the graphs to look for trends and questions in the companies you are assessing for future investment. We have recently installed new methods for alerting us to gaps and edits that need attention. However if you see something that needs changing please let our team know – **ea@nzshareholders.co.nz**

Alan Best

Company Meetings

New Zealand listed companies now usually post AGM presentations by the chair and CEO, on their website. Our commentaries therefore concentrate on the flavour of the meeting and the questions raised by shareholders. We encourage members to use the company website, before attending the general meeting, to see what has been said previously, and to familiarise themselves with the latest news. Comments are those of the attendee, who will often be a shareholder in the company, and are not necessarily NZSA policy. ***Run your cursor over the report heading for a link to the company website***

Gentrack AGM 23rd February

Gentrack does some things well. Sales, revenues, dividends and the share price all rose substantially in year 2016 and that positive trends are forecast to continue through 2017. Any drop in the NZ$ will further improve results.

What Gentrack does not do well is its annual shareholder meeting. The mind set of this company does not seem to have advanced from its days as a private undertaking. The notice of meeting was sloppy; particularly in the notes around the increase in directors' fees. Corrections were made at the meeting but this was of no use for those directing their voting by proxy. I was bluntly told that the meeting was seen as a costly necessary evil – only held because the stock exchange required one.

Cost should not have been an issue. The Board met that day. The (appropriate) meeting venue in the Link registry office was utilised without charge and the quite adequate refreshments were far from extravagant. The meeting was not webcast.

The slides used during the presentations by chairman, John Clifford, and CEO, Ian Black, are on the company and NZX websites. Their actual addresses are not. Their message reinforced what we are being told by our gentailers - we are experiencing a disruptive energy market. This offers opportunities for Gentrack's client management and billing systems. They see significant opportunities in the UK as deregulatory change takes place there. While looking for global expansion, the company is cautious on entering new geographies unless they can build scale to ensure efficiencies. Any acquisitions will be funded by borrowing and the board sees an appropriate gearing level as 30% of EBITDA.

For the resolutions, all of which were voted on by a show of hands, John Clifford told us he held proxies for 60% of the shares. Leigh Warren and Graham Shaw were re-elected as directors. The Directors' fee pool was increased by $100,000. Mr Clifford gave an assurance that of that $100,000, current directors would enjoy a slight increase and the rest held to allow the appointment of a further director.

On March 29th Gentrack announced it had an unconditional agreement to purchase Junifer, a UK based utility customer information and billing system. The combined business will be the market leader, by number of utilities, in the UK market with 32 customers.

The acquisition was being funded by bank debt, a share placement to Junifer vendors and a share placement to Hg Capital, a global investor in application software businesses. Post-merger, Hg would hold 11.4% of Gentrack shares and a senior partner would join the Gentrack board.

Gentrack held an investors conference call to discuss the acquisition. This is available on the Gentrack website.

Bruce Parkes

Tenon SGM 20th March

This special meeting was called to approve the second return of capital, the first having occurred after the sale of the North American distribution business to Blue Wolf Capital.

Chair Mark Eglinton, supported by his independent director Stephen Walker, and advisers Deutsche Craigs, outlined the background and requirements for each resolution. The Tenon directors who were part of the successful tenderer Rubicon's Tenon Clearwood Limited Partnership did not attend, and so could take no part in the discussion over the selling the Clearwood mouldings factory in Taupo. The primary concerns over possible conflicts of interest in the handling of the sale were put to rest by the Chairman's description of the process. He told me outside the meeting that if the tendering had not been handled by Craigs in the way it was, the price struck by the Rubicon insiders could very well have been lower to the disadvantage of all shareholders.

NZSA asked for an explanation of the variation between Grant Samuel's valuations of Clearwood in October 2016, ($63.3m - $74.4m,) and January 2017, ($52m - $62.5m.) The chairman confirmed that the following factors had caused the drop in valuation:

1. The second appraisal was more detailed than the first which viewed Clearwood as part of the larger operation, and therefore more realistic
2. Adverse currency movements between the two valuations was part of the explanation
3. G-S had altered the comparator groups to achieve as realistic a value as possible given that the comparators were very large overseas multiproduct companies.
4. The comparison between the listed valued and the sale value showed clearly the advantage of an outright sale.

NZSA also asked about the forecast and potential for Clearwood sited next to an abundant supply of timber. The Chairman agreed that the output could be increased, but their discounted cash forecasts still pointed to the current sale as being the best option for minority shareholders. This confirmed the strategic review in 2015, and was reflected in a cash return to shareholders of more than 50% over the market price of the shares. Mark also described the initial Fletcher view of pine log economics – tree top for pulp and fibre board; mid trunk for structural use including cross laminating; and lower trunk clear woods for mouldings and finishings. Clearwood's expertise was in this last category not the others.

All resolutions – the transaction, the second capital return, the delisting, and the liquidation were approved. One shareholder asked if the NZSA proxy voting could be disclosed, and I was happy to oblige, because it gave us the opportunity to explain how we researched the issues, and advised members of our voting intentions before an important meeting.

Finally, NZSA did draw the attention of the directors to the partnership structure within Rubicon which would hold the shares in Clearwood. This could easily be used to conceal private equity activities from other shareholders in a listed company as had happened in PGC. We asked the Chair of the independent directors to pass a request to the Rubicon directors that a reasonable degree of disclosure be accorded to Clearwood, so that those investors who wish to retain a shareholding in Rubicon have the means of evaluating the intrinsic value of the whole enterprise. The Chair agreed but encouraged us to take this up in the next Rubicon meeting of shareholders.

Alan Best

Cavotec Investors Meeting 7th March

Cavotec de-listed from the NZX in 2011 and is now listed on the NASDEQ Stockholm. About 500 New Zealand shareholders still registered though declining in recent years. Link Market Services has an arrangement with Cavotec to facilitate information and dividend dissemination. The Christchurch design office employs about 40 working on the designs of the MoorMaster system.

About 30 shareholders attended the meeting address by Chairman, Stefan Widegren. He gave a 50 minute presentation on the company's performance and included two videos showing the MoorMaster system in operation.

Stefan pointed out when originally formed, Cavotec concentrated on mining support but it now accounts for just 10% of their activities. Today, the maritime ports and airports division account for most of their business.

The management of the company has undergone a major rejuvenation over the past year, including a new CEO and Stefan Widegren stated that he would be stepping down as Chairman later this year. A Q&A session followed:

- Will MoorMaster remain in NZ? Each installation is different, requiring a special design and as Asia is the largest potential market, NZ is better placed than Europe or the USA to service it. He saw no need to change. Indeed there was a need for more engineers.
- What's happening with INET? It is only made in the USA with a big factory in California! This could change with expansion but these are unsettled times with Trump's election and his threat to raise tariffs which could start a trade war and impact Cavotec's businesses.
- Has the litigation over INET in the USA been resolved? The two cases have been resolved in Cavotec's favour. The award has not been yet been paid and therefore not entered into the accounts pending conclusion.
- Will they continue to hold shareholder information events in Christchurch as it is not very well attended? Well, it is still better attended than their meetings in Europe! Of their 1700 shareholders 500 are in NZ although 47% of the shares are held by management.
- What is their dividend policy? The dividend was reduced last year in response to temporary downturn in profitability. However, with the recovery the dividend will be restored to its previous level. As the company grows so will the dividends.

Cavotec shares were valued at NZ$2.45 when finally traded on the NZX in September 2011 but are currently trading on the NASDEQ Stockholm at (Swedish Kroner 24.20) the equivalent of NZ$3.90; down slightly on a year ago.

Robin Harrison

A MoorMaster module

Tower AGM 30th March

There were 3 burning questions on shareholders minds as they assembled in good numbers, in good time, with good parking at Ellersllie.

1. What was the latest state of play on the takeovers offers by Fairfax ($1.17) and Suncorp – Vero ($1.30)?
2. What more was to come out of the woodwork from the Christchurch earthquake?
3. What sort of structure and results could they expect from the on-going operations?

The last question was answered easily by Chair Michael Stiassney, and CEO Ricard Harding. The normalised result had reflected a turnaround through cost control including overheads, claims control in the hands of senior management, rebuilding the culture, and taking a $20m impairment charge on software which was being replaced, and generating premium growth. There was a renewed feeling that Tower could stand on its own as a general insurer, and that it was still undervalued by the market. Subject to takeover negotiations, a separation of ongoing operations from a Canterbury Run-off company was still a desirable so that management could focus on the two different activities. However, the chairman did signal the possible need for an equity raising to maintain desirable debt/equity parameters.

Question 2 was elaborated in question time. The reserve required to meet claims in the accounts was $67m. Tower has provided $140.8m (210%) – still a suspiciously small figure when measured against home replacement costs and consequential loss. The chairman confirmed that all claims would have access to the full reserves of Tower Limited whether managed by a run-off company or the parent company. The rate inwards of new claims during 2016 had surprised the insurers, because EQC had harboured undisclosed claims which were initially assessed as below cap ($110k) – assessments which were in many cases found to be well astray. This gap had since been closed by an industry-CERA meeting, and would not recur in settling Kaikoura claims. The velocity of new claims was slowing, but the rump of claims would be investigated carefully and some would go to arbitration, because it was clear that several were gaming the system, rather than settling for a rebuild as contracted. John Hawkins followed up with a question on the rejection of the reinsurance of the first earthquake, and shareholders were assured that all liabilities were included in the actuarial assessment. Both Auditors and directors, who are all independent felt that the provisions in the accounts were adequate, and conservative.

Question 1 – the takeover, though, is still up in the air. No confirmed offer had been received by Suncorp – Vero, though it had made purchases on market at $140/share on its way to a 19.99% holding but was prepared to offer only $1.30 for the whole company. This effectively scuttles an offer under a scheme of arrangement by Fairfax at only $1.17. The first questioner wondered whether this was sanctioned under the Takeovers code and was assured that Suncorp – Vero had complied with regulations. Later Mr Stiassney said in his nomination address that he was not prepared to talk to either offeror unless they at least met the price paid on market - $1.40.

Voting by poll confirmed the election of Michael Stiassney, and Graham Stuart. NZSA also raised the question of an equitable rights issue if and when capital was raised. Mr Stiassney was surprised that anyone could think otherwise of such a reputable, fair-minded group of independent directors. Yes, but there are a number of issues to play out, and NZSA will keep monitoring Tower.

Alan Best

Caught on the Net

How to identify high quality stocks

How do you identify high quality stocks to invest in? Compare your check list with one produced by Roger Collison of DMX Asset Management. One of his criteria is shareholder friendly management. This certainly turns me off when I do not see it. **More**

How to assess a successful investment

In a similar vein, Steve Johnson from Forager Funds discusses going back to the basics for value investing in small and mid -cap stocks. **More**

Why are some people more gullible than others?

Have you ever been taken in at April Fools, or with any other too good to be true story? Homo sapiens is probably an intrinsically gullible species says psychology professor Joseph Forgas. He says we owe are evolutionary success to our unique ability to receive, trust and act on stories we get from others. However, in this age of unlimited and unfiltered information it is becoming a major challenge to decide what to believe and what to reject. **More**

What would El Nino do to Agri stocks?

The likelihood of an El Nino weather pattern developing this year has risen to 50%. This is double the usual probability. A report from sharebrokers, Bell Potter, looks at the impact of an El Nino event on Australian agricultural stocks. Is it time to consider what that would mean for weather reliant New Zealand companies? **More**

How to evaluate likely returns from a real estate investment trust.

The Wall Street Journal offers a three step formula to estimate future returns from a REIT. Their analysis that the good times are over in the US may, or may not apply here. **More**

The art of the deal: what can Nobel winning contract theory teach us about regulating banks

The 2016 Nobel Prize in economics was awarded to Professors Oliver Hart and Bengt Holmström for their contributions to contract theory. The theory offers a wide range of real-life applications, from corporate governance to constitutional laws. Contract theory is also helpful in regulating banks says this Bank Underground post which looks at: How to pay banks' chief executives and traders, how to fund a bank's balance sheet, and how to regulate banks. **More**

Should you invest in commercial property?

Looking at individual purchase or syndication rather than an exchange listed property company. Still this Australian centric opinion piece by Nerida Conisbee, chief economist at REA group could be helpful for those looking to diversify their investment mix. **More**

What the textbooks get wrong when they explain GDP

A Political Arithmeteck (sic) blog setting out to explain differences in the various definitions of GDP seems particularly germane in light of the rhetoric expected between now and a certain September event. I wonder how many of our current parliamentarians could offer any definition of GDP. **More**

Does productivity drive wages? Evidence from sectoral data

Something else our political class like to pontificate about. Research reported in a Bank of England staff blog indicates that rather than a simple and clean link from productivity to wages, the industry level data point to a richer and more multi-directional relationship between productivity and wages. Productivity growth is linked to wages, but the relationship may go both ways, and the link between productivity and real wages may operate through prices as much as nominal wages. **More**

Want change? Shareholders have a tool for that

New York Times columnist, Gretchen Morgenson, urges investors to take the radical step of casting their proxy votes because their votes do count. She illustrates her article with examples where US company shareholders have driven changed behaviour even when losing votes at shareholder meetings. She suggests shareholders could persuade their companies to not take advantage of President Trump's relaxed climate change approach. **More**

What's behind the rise in shareholder class actions

A study by University of New South Wales finance professors found that, in Australia, a common theme in recent Australian securities class actions was that these companies had not been straight with investors, issuing falsely optimistic information or concealing negative information. (Now where else have we seen that behaviour?) To further understand class actions they looked at 1400 securities class actions targeted against US companies and found that over confident CEOs seem more prone to overstate their firms' prospects or conceal negative information in the erroneously overconfident belief that future performance can make up for past failures. **More**

The world's biggest gamblers

An Economist review found that Australians were, per resident adult, by far the biggest gambling losers with Singapore and Ireland, although well behind, taking the silver and bronze medals. Before we start feeling smug, New Zealand came in 5th, just behind the USA. The survey did not consider stock-market activity. **More**

Beating the Street

Peter Lynch ran the Fidelity Magellan Fund for 13 years, during which time Magellan was the number one ranked general equity fund in America. His books One Up on Wall Street and Beating the Street are filled with his accumulated wisdom. Lynch sums up his points in Beating the Street with 21 humorous "Peter's Principles." No number crunching - just common sense. **More**

Excessive CEO pay for dumb luck

Barry Ritholtz blogs in a Bloomberg post that CEO pay isn't pay for performance that its advocates claim. Instead, it is unmoored from any rational basis. This makes it an inappropriate wealth transfer from shareholders to management. **More**

Is a traffic tax the solution to congestion in cities?

There is always someone banging on about taxes and/or tolls being the way to fix Auckland's traffic woes. It is all relative. In Cambridge, U.K. the problem is too many bicycles. Wharton Professor, Gilles Duranton, has been studying traffic congestion. From his initial study in Bogata Columbia, he concludes that the social cost of congestion is much smaller than we think. He now reconsidering how much priority should be given to charging for congestion and how useful that charging would be. His team is now moving on to generalise data from 5,000 cities world wide. **More**

Bruce Parkes

Branch Reports

We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of those presenting to us. The work of these professionals who give their time is appreciated by all who attend. Members are encouraged to refer to the individual company websites for the latest news and disclosures.

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Auckland

Guest speaker: Bernard Doyle, JB Were Strategist - 15 February.

OUTLOOK 2017 was the title for Bernard's address, and he referred to it as an "Orange" swan event with many uncertainties affecting equities in 2017. Below are the highlights:

World markets:

Free Trade Agreements are under a cloud in USA and Europe (Brexit.) Internationally the number of these agreements was trending down, and a cause for stress to trading nations.

USA – China trade war would cause more stress to China than the USA, so that relations are unlikely to deteriorate drastically.

Inflation is rising and could level off. Wage inflation and the unemployment rate were important indicators to watch. The US Federal Reserve will adjust interest rates appropriate to this risk.

NZX market has done well over the last 5 years averaging 15%pa. Market liquidity has improved and can support more large IPO's. More offshore investors have entered the market - now 36% of total equity, mainly looking for yield and the question

Upcoming Auckland Branch Meetings

All at Alexandra Park Convention Centre, Green Lane. 7pm tea & coffee – 7.30 pm start

Dates for 2017:

Wednesday 26th April	Simon Bennett	CEO, AWF Madison
	Mark Lister	Craigs Investment Partners Head of Private Wealth
Wednesday 21st June	Grant Webster	CEO, Tourism Holdings
	Todd Hunter	CEO, Turners
Wednesday 20th September	Angela Burglass	CEO, Trilogy nzx
	Dean Hunter	NZX, SmartShares and ETFs
Wednesday 15th November	Green Cross Health - to be confirmed	

Please mark the dates in your diary and have your questions ready for the speakers

Company Visits

Fletcher Building	26th April	This visit is full - contact Fiona for wait listing
Cavalier Carpets	24th May	This visit is full - contact Fiona for wait listing
Milford Asset Management	22nd June	Register now

Fiona is currently working on 3 other possible company visits for 2017

Numbers are severely restricted to comply with health and safety regulations. It is essential that members register with Fiona Gray – **grayfion@gmail.com**

Members should also check the latest information and special conditions on the NZSA website.

is: will they stay? At the September peak the NZX pricing was a 30% premium to world markets and has since come off. Although the market is currently still high, there will be price adjustments and hopefully orderly growth with minor wobbles.

There is still major growth in immigration putting pressure on infrastructure and there is no spare capacity to meet current growth needs. NZ is a volatile economy and can change quickly. The election in September is likely to be close, creating another uncertainty. Taking into consideration the overseas situations as well as the effect on NZ, we question whether we can be adequately rewarded for equity risk?

Investing in Global Themes for specific equity sectors can be beneficial in diversifying risk.

Questions:

- Share market rally in USA continuing? The risk to the bull market this time is inflation and wage growth which need to be monitored.
- High Debt levels in USA? USA Govt. Debt is 80% of GDP (NZ 20%) which is not of major concern. Household Debt, although high, is actually falling in USA.
- Effect of China holding US Debt Securities? Not of concern as can be replaced and is not a bargaining tool in a trade war which has greater downside for China than USA.

Branch visit to Z Energy's biodiesel plant – 17th February

The BioD plant. Since this photograph was taken the neighbouring "lake" has been transformed into a ready-mix concrete plant

Z BIO D (with the byline "5% of good") is the acronym for Z Energy's new Biodiesel plant located at Wiri Auckland.

After a light lunch and short presentation on the concept of sustainable fuels and environmental emission trends and the part NZ was playing towards improving carbon emissions, we removed cell phones, donned hard hats, safety goggles, vests and gumboots and toured the plant in 3 groups.

Our visiting party were "all ears" during a post tour question and answer session

Z Energy has set up this new plant which is still in the trial stage, making trial batches that will eventually produce 20 million litres pa of B100 biodiesel from locally produced tallow feedstock that will be blended up to 5% with ordinary diesel called B5 blend. Major initial customers are Fulton Hogan and Fonterra.

The plant is completely new with the major design, and construction and engineering done in NZ, with the exception of the

Distillation Columns. It looks similar to an oil refinery.

The plant has almost no waste and the major by-product sold is Glycerol. The first part of the operation is a batch process leading into at continuous purification & distillation process to be operated 24/7, computer controlled, by 2 operators on shifts.

The setup is impressive and the management and operational staff have a good understanding for producing efficiently a fuel that is beneficial to the environment.

Noel Thompson

Education News Flash

As Western Springs College has closed its Leisuretime Learning Programme. NZSA will look for opportunities to run its well established courses: Investing for your future, and Sharemarket Basics, at different locations according to demand.

Meanwhile, investors who want to improve their knowledge or fine tune their skills should join the NZSA, use the website as outlined above, and the branch meetings including discussions, talks, and company visits .

Waikato

On 23 March, the guest speaker at the Waikato Branch was Todd Hunter, Chief Executive Officer, Turners Ltd. He joined Turners Group NZ in 2006, and in 2016 he became CEO of the wider Turners Limited.

Turners operates in three key areas:

Automotive retail – they are New Zealand's largest vehicle and machinery retailer, a 10% share of a highly fragmented market (there are over 3500 car vehicle dealers in New Zealand). Their national distribution network includes 27 automotive retail sites (including Buy Right Cars and Autosure) and a third party dealer network of 500 sites, with 36,500 vehicle units or machinery items sold in 2016.

Finance and Insurance – This includes Dorchester Finance, Oxford Finance, and Southern Finance and has a highly profitable and integrated financial services business, primarily focussed on the cross selling of finance and insurance products to the automotive sector. There were 11,000 loans and 10,000 insurance contracts written in 2016. They are also an 8% shareholder in Motor Trade Finance.

Debt Management Services - it entered into debt management services through the acquisition of EC Credit. There are long-term contracts with banks, government departments, insurance and other sectors. It does not acquire books of bad debt. It is highly cash generative, very little capital to run, and provides counter cyclical protection for the group.

The recent acquisition of Buy Right Cars has increased Turners' footprint in Auckland. It is mainly into motor vehicle import and dealerships. At one time, Todd noted that the average holding period for Turners is less than 45 days but that Buy Right Cars has a longer holding period due to its higher margin model.

In the New Zealand market, the average age at which light vehicles were scrapped was 19.2 years for imports and 18.7 years for New Zealand New. His chart showed that 20% of New Zealand's cars are over 20 years old. This means that 700,000 cars will need to be replaced in the near term and there are over 1.4 million used vehicle transactions every year.

Some vehicles are from Japan but cars also come from lease companies, government departments, and repossessions. Also, these days, more people now want a fixed price for their car rather subjecting themselves to the vagaries of the auction process.

Their new group initiative is Cartopia, an on line-only car store, the first of its kind in New Zealand. There is no-pressure browsing for the customer, no haggling pricing, transparent and clear vehicle descriptions, and a seven-day right-of-return period for peace of mind. Other initiatives include their partnership with Motor Trade Finance which lends to 250 franchises and dealers. In December 2016, Turners acquired Autosure Insurance and also formed a corporate partnership with Vero Insurance.

Turners own very few sites but there is an issue with landlords wanting large building and small outside space, where-as in the motor world, dealerships would rather have small building and a large outdoor retail space.

Turners are not moving into the car rental business – this would cause a backlash from car rental businesses who would then not sell their hundreds of older cars every year through the Turners business.

They have some machinery sales sites, such as Tauranga, Christchurch, and Auckland. For example, Downers are always turning over their equipment; Landcorp have to sell their old tractors somewhere. Much of the product is still good value.

In summary, the talk from Todd Hunter was an interesting insight into the car market and Turners role in it. In some ways, Turners is 'still under the radar' but we are sure more will be aware of their name as an overall sales and finance group in the future.

Cliff Thomas

Bay of Plenty

Friday discussion group 24th February – Jon Murie - Craigs

Jon a professional and open presenter has addressed our group for the last 3 years.

He posted his predictions from last year, and assessed how he done – a brave move, and successful, in that he had forecast that interest rates would remain low, and companies with sustainable dividends would be well supported.

This year he suggested that USA looked strong with or without Trump, noting that USA was our 3rd largest market, and provided 8% of the tourist spend. Economic activity had picked up, and the Euro had strengthened. NZ was buoyed by net migration, recovering dairy prices, and a stronger dollar.

Then he catalogued a few risks – natural disaster, China slowing, climatic and disease risks to agriculture, ageing demographic, high household debt (160%) increasing interest rates. Internationally, government debt to GDP figures are concerning – Japan 250%; Italy 133%; G7 countries 122%; UK 89%; but NZ 30%.

However, NZ's market p/e at 20.1 is 33% above the long term average.

So in summary: diversify; be defensive; take some profit; increase cash reserve; add US$; consider gold; reduce some of the high fliers.

Ian Greaves

Business after 5 meeting 23rd March – Liam Dann

Liam is the business editor at large for The NZ Herald, and reports on the most influential people entities and markets in the country. He outlined how information from these groups is fed into the media. Liam used the latest release of policies jointly by Labour and The Greens as an example of news organised for the media. He stressed that we should celebrate business activity with the same enthusiasm we give our sports people.

The media has a role in providing information on which people can assess risk in relation to their own appetite and circumstances. They have been expecting print to drop away rapidly, but newspapers have not died as fast as expected. The major problem is: how to get people to pay for digital information. Business journalism is playing an important role in keeping the press alive.

Graham Jamieson.

Bay members should also diary 28th April 3pm Gate Pa Bowling club for the branch discussion group, and

AGM on 25th May at Mt Maunganui golf Club – 6pm with a guest speaker TBA

Jane Lyndon

Taranaki

We wound up last year with a dinner at the New Plymouth Club and our guest speaker was local man, Mr Bryce Barnett from Augusta Capital. Bryce spoke a little about Augusta's bid for National Property Trust, but the main thrust of his talk was that we ought to be very careful of companies where the directors have no skin in the game apart from their reputation. Very often egos get in the way of good decision making. I know it has made me more mindful of watching the announcements to the market of the relevant directors' change in shareholdings. It was a talk that was well received and a number of people commented afterwards that they got a lot from it.

Our first speaker for the year was Cathy Clennett from Launch Taranaki which is a local group made up to enable local start-up companies to obtain capital to get started. She started her talk with going through how a large corporate would evaluate a potential investment and the criteria they would use in assessing it. Part of the criteria would also include how you might exit from that investment and when. The second part of her address was on Launch Taranaki (Angel Investing) The purpose of which is to sort out whether the proposition is a goer and then to match investors with those who require the funds. It was interesting to note that about half of the propositions were centred on cell phone Apps.

March 14th saw Guy Roper the CEO of Port Taranaki presenting to us. He not only spoke about the port but also about freight in general around the country. One or two interesting facts that not many knew were, 1, Port Taranaki is the third largest port in NZ by tonnage. 2 There are 13 ports in NZ and he didn't really see that number dropping because all of them have their own characteristics that are necessary to the area they serve. He also spoke briefly about the devastating effects on the Ports of Wellington and Lyttleton from the earthquakes and how we as a country are very vulnerable to such events and need to plan for these events that will inevitably occur again.

At the end of April, we have Mark Butcher chairman of The New Plymouth District Council Perpetual Investment Fund to talk to us; that will be of interest to all the locals as we all have a stake in it. The branch AGM will be in May and at the beginning of July we have a mid-winter dinner with our NZSA Chairman John Hawkins as our speaker.

Grant Langdon

Wellington

On the 12th February 2008 Wellington Branch members trooped off to Old Bank Arcade where Rod Drury gave us a demo of Xero and told us how Xero would take on the world. I especially remember on that night Rod saying he thought Xero would be worth more than Trademe. At that stage Xero had less than 1,000 paying subscribers and at 31 March 2008 revenue for the last year was $134,000.

Everything Rod said that night has come to pass with Xero hitting another major milestone the other day – 1 million paying customers. Next challenge, 1 billion dollars annual revenue. Thank you Rod and Xero for everything you have done for all users of Xero, your shareholders, Wellington, and New Zealand.

So where do we find the next Xero?

Maybe lurking at one of our Wellington branch meetings – or perhaps at the NZSA national AGM on August 19 2017. Put it in your diary, its great value and gets better every year!

The Branch meeting dates for 2017 are:

- 11 April
- 9 May
- 13 June
- 8 August
- 12 September
- 10 October
- 14 November

Martin Dowse

NZSA supports a Nelson Discussion Group

About 20 people attended a presentation by Kevin Armstrong, who brought along copies of his book, Investing: The Expectations Game. This explores why most investors fail, and highlights the danger of listening to so-called experts; the inherent risk and cost of complexity, and the real possibility that whoever you employ to look after your money, almost certainly won't share your view of the greatest risk, - the permanent loss of capital. It describes our natural herd behaviour to follow others often based on rumour, and the difficulty of bucking this, even if we know it is time to retreat or re-enter the market.

"Kevin Armstrong was an excellent speaker." Reports Jean Gorman, and many of the audience bought his book, (or even two for presents)." She added, "He recommends we read his monthly blog, which started as an in-house rumination and is now free and public."

Nelson members, diary Chris Lee's presentation for Thursday, 20th April at the Richmond Library. Chris is a very experienced Investment advisor who has spoken to a number of NZSA branches, and been warmly received.

Report via Southern Equity

Canterbury

Our monthly branch newsletter has undergone a facelift and appears under a new banner "Southern Equity". We had invited branch members to suggest appropriate names; "Southern Equity" gained most support. Although we carry the name Canterbury Branch we cover the whole of the South Island and we are increasing our efforts to promote activities beyond the Canterbury Region particularly in Otago and Nelson where informal satellite groups are operating.

Earlier in March we ran an orientation event aimed at newer members and those wishing to gain more from their membership. It was the first event attended by Michael Midgley since his appointment as CEO just a few days earlier although, as a long standing NZSA member and having served on the branch committee, he was already known to many. The main part of the evening was run by Chris Curlett who had flown down from Auckland and ran a "live" demonstration on accessing the many features of the Association's website.

Our next meeting will be on 20th April when Carl Davidson (CEO of Research First) will be addressing our members and an invited audience at the Christchurch RSA. Then, on Wednesday, 7th May, Brian Gaynor will be giving a talk in Christchurch which will be open to a general audience. Following the big success on his previous visit a couple of years back we are organising a much larger hall than previous.

Robin Harrison

Members' Issues

Selling a good company short

If I was going to short a larger mid-cap company - I MIGHT perhaps:

- first advertise myself as a research company, and look for a price weakness,
- begin shorting the stock by borrowing the shares from a brokers' nominee account,
- next publish and circulate research which contains some information about the company which can be verified, but deliberately undervalues its intrinsic value,
- then accelerate the shorting and collect profits on the way down, exiting before the lowest price is reached.

I might even wait for the inevitable rally and then buy long to take a quick profit on the recovery.

Don't laugh! This is happening in Australia, and one "research" company involved has targeted mid cap stocks in USA, Japan, Hong Kong and Australia.

How can the rules and authorities permit this? The larger members of the stock exchanges are brokers with nominee accounts which are available to lend out to short sellers. NZSA does not ever support naked short selling, that is where the shares sold are not covered by an arrangement with a supplier, but it is easy to get hold of shares to short, because there are healthy fees available to those to provide the stock. Brokers also earn two commissions on the sale, plus extra when they have to replace the stock they have supplied from the nominee account. They argue that such practices, like trading futures, help to smooth out bubbles in supply and demand, and contribute to the stability of the market. Even the guru of value and long term holding, Warren Buffet, shorts stock when he sees a company substantially overvalued. Several instances are cited by Alice Shroeder in her Buffet biography, The Snowball.

The problem is that the system of shorting favours the brokers, (stock exchange members,) and experts, but has little regard to the interests of retail shareholders who are the most stable supporters of a company's capital raising. Furthermore, when the rules and regulations go out to the public for consultation, a quick glance along the list of submitters, shows that retail investors and NZSA are vastly outnumbered. Although shorting is practised by investors it is a high risk game in which the chances of loss are magnified beyond the risk of a 100% loss in ordinary share ownership. The costs of borrowing the shares, paying brokerage, and slender margins tempt the seller to stake larger sums of capital, and that is probably why they sometimes push the bear along with bogus research to understate the value of a target company.

New Zealand is protected from shorting excesses by its small size and low volumes of shares traded particularly in a bearish climate. Our tax system favours buy and hold – some would say to a fault. Our settlement terms, T+3, make shorting more awkward if urgency is required. Also the small average size of our companies contributes to short term volatility and makes shorting more hazardous. Thus complaints to NZX or FMA about market manipulation and targeted shorting are almost non-existent. However, our market is very influenced by overseas events, and the increasing dominance of overseas investors amongst our companies makes it more likely that targeted shorting may occur in future.

To survive such an attack is easy. Check your fundamental analysis of the company's position and do not panic. Hold if the facts support your choice. Don't be a short term trader, but by all means buy more cherries when the cherries are undervalued. The contrarian will treat shorting as an indicator that a share might be worth more than the sellers are suggesting.

Alan Best

Is there an index fund tipping point?

Who would argue with Warren Buffett? The venerable sage from Omaha has handily outperformed the benchmark, with Berkshire Hathaway shares gaining 20.8 percent annually on average since 1965, compared with 9.7 percent for the S&P 500. He has, in his latest investor letter, said that everyone should be in low-cost S&P 500 index funds and he is apparently on the verge of winning a $1million bet that US index funds would beat active fund managers over a 10-year period.

Great advice, even though Buffett does not follow it himself. He has a very concentrated portfolio, has the advantages of scale and is able to do things we average investors are unable to do. Lower fees and the inability of active managers to consistently outperform the benchmark are touted as the main attractions of index funds. However, I suggest a few caveats to this advice. Index funds seem to work best in large markets. Who can forget the distortions in the NZX's TENZ fund when Telecom dominated our local market. Some index fund managers (NZX included,) still take a hefty clip out of the ticket for what should be a simple operation.

Currently, as active managers and independent investors analyse company performance then invest in or sell those company shares, we have movement in and out of indexes. That index inclusion or exclusion has a patent influence on those companies share price.

The question I have which, as yet, I have not seen addressed is, what is the tipping point – the point where the weight of index funds, blindly following the market, start to make the market? As index funds grow are we headed for a circular market where those companies in the index attract investment which then attracts further investment?

Bruce Parkes

Editors reply: Index funds are separate from but dependent on a broadly based financial market. Because they are passive followers of stock markets, they depend for their existence on an active trading market in which independent buyers and sellers determine prices and thereby the market capitalisations of listed companies – no market: no index. NZX is so small and the participation by large overseas investors so great that it cannot support specialised Exchange Traded Funds which concentrate on only one industry.

However, the movement of companies in and out of a general index (top 50, or top 100,) means that there is no tipping point even if a high percentage of the large companies are held within only a few hands. Provided there is a free float for some portion of the shares in each company, the index would still suit some investors as a conservative investment. vehicle. Presumably the higher the price of entry into an index fund the greater the attraction of direct retail investment or a managed fund as an alternative. Mathematically there may be a tipping point when the demand for a fund outpaces the supply of index companies, but in reality there will never be a point at which a passive fund can make the market. There will of course be times when general disenchantment with the financial markets suggests that investors seek alternative homes for their savings.

Police reporting of international fund transfers:

James Clague has suggested: I would love to see you guys speak out about the Gov't/police grab for bank data as reported recently –banks will need to notify the NZ Police all international transactions over $1,000 and all local transactions over $10k. This is a shameful development that should not be taking place. The Gov't has no business capturing private data in this manner. If money laundering is suspected the current AML laws in place mandate those specific transaction details be send to Police anyway.

Editor: We agree. Anyone who funds living expenses from overseas investments will need to transfer amounts regularly. The banks are an expensive means of transferring. You can use a sharebroker (Forsyth Barr offers the service to established clients,) a specialist forex trader (e.g. International money transfers,) as an alternative, but watch out for the limitation on transferring via a third party into UK The unnecessary interference of the Police in this normal business activity is simply another penalty on the honest to catch a tiny minority of scoundrels. The police have plenty of powers to identify and catch criminals. Let them use those.

Capital returns leave untradeable parcels in their wake

Greg Wilson has pointed out that NZOG's capital return of 50% of their holdings will leave approximately 2900 shareholders with untradeable parcels. Although a trivial proportion of the total shares on issue, the group represents almost a quarter of all shareholders. Greg's note has been forwarded to the share registry, but they are relatively powerless in this situation.

NZSA believes that when a significant capital return is made, involving the cancellation of shares, the directors should provide promptly the means by which retail shareholders can increase their holdings to more than a minimum tradeable parcel, or a sale facility to allow them to exit at the current market price free of punitive brokerage. We will take this up with the company

Upcoming Events

For more information go to Branch section of NZSA website

2017

April 11	Wellington Branch meeting
April 18	Waikato Branch meeting
April 20	Nelson discussion group meeting
April 20	Canterbury Branch meeting
April 26	Auckland Branch meeting
April 28	Bay of Plenty Branch meeting
May 9	Wellington Branch meeting
May 10	Canterbury Branch meeting
May 23	Waikato Branch meeting
May 29	Bay of Plenty Branch AGM

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New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

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Editor Alan Best

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