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

Moving Forward

Most of you will have received emails from the Association about settlement of the defamation action against us. These covered the media release and outlined the very minor effect on NZSA's finances. For those without email, we have reproduced both in this copy of the Scrip.

The settlement involved a confidentiality agreement. While your board favoured transparency, this requirement was imposed on us. Having given that undertaking we have not, and cannot make any comment around the nature of the agreement or even respond to speculative articles in the press. However, you can draw your own conclusions about how the media got wind of the settlement several days prior to the agreed date for press releases.

I was anticipating howls of protest – we "shall fight on the beaches, we shall never surrender" type of stuff. That approach ignores the reality that the Association would likely have been bankrupted by legal costs before we even got to court. I have actually received very few letters, and those that have come in are 3 to 1 in favour of us getting this particular monkey off our back.

In some ways, this issue should be seen as a defining part of our history, but it has no part to play in our destiny. For eighteen months we have felt hamstrung. How in all conscience could we try to build funding and resources, or advance long term programmes and ideas if we might not be around? That burden is now lifted and the pedal, as they say, is firmly to the metal.

Immediately, we have been able to announce a sponsorship deal with listed Australian litigation funder IMF. As with all corporate donations, this is strictly "no strings attached." Part of these funds will assist with extending the Company Performance Data in our members' area on the

NZSA website to cover the top 100 listed companies - and keep it totally up to date. This very useful source of data presented in an easy to understand graphical format is exclusive to NZSA members. It should form part of the information you look at when considering your investment choices.

Editors note: At the time of publication the website is being updated after a change of server. This has caused some temporary distortion in the CKPD presentations, which are being remedied by our service provider. Further information is in our note on page 4.

A couple of weeks ago we announced a joint initiative called Future Directors. This is a collaborative effort between NZSA, Institute of Directors and Sir Stephen Tindall. A real problem facing people seeking directorships is that they may have skills, but lack board experience. The catch 22 is that without being able to get onto boards, they can never get the experience! A common pathway is often via small companies or not for profit organisations, but this slow grind does not necessarily expose directors to the high standards that investors expect from public company boards. Arguably that lack of best practise experience may be a contributor to the lacklustre performance of a number of our companies. Unless exposed to something better, you only know what you know.

Future directors involve identifying very highly skilled people (most likely already in fairly senior executive positions) who have the potential to become public company directors. They will then be placed within selected public company boards where they can be exposed to best practise governance, learn what it takes to be a successful director and receive valuable mentoring. At the same time they can demonstrate their own abilities via participation in discussion. They will not however be able to take part in decision making as this would expose both them and the company to issues around "deemed" directorships. For many company boards, we hope this will be a win-win situation as the future director appointee will often bring a greater understanding of social media, technology and next generation concerns. It will also be an opportunity for those from non accounting and legal backgrounds to demonstrate their abilities.

Any doubts about the demand for such a programme were dispelled with over 200 initial expressions of interest in the first 48 hours. Since only a few positions are likely to be available, it is certain that the quality of those chosen will be exceptional.

A number of members have asked us to comment on the Mighty River Power (MRP) float. This is very difficult in the case of an IPO because there is a fine line between comment and investment advice. It may be one thing to have got rid of the "monkey", but the prospect of the FMA "gorilla" coming after us is very much more daunting!

Of particular interest will be the percentage of shares that go to the various groups. Retail investors have often been the poor cousins in this process. It will be fascinating to see if the Prime Minister's rhetoric about giving ordinary New Zealanders a fair go is reflected in the reality this time around.

One aspect that does worry me is the apparent enthusiasm of people to participate without having seen any information about the investment. Many have never owned shares and rather frighteningly, appear convinced that a couple of thousand dollars invested in MRP will set them up for life. This uninformed enthusiasm has all the hallmarks of the Facebook fiasco in the USA - over hyped, overpriced and over sold. Many people there rushed in without any consideration of where cash flow and profits would come from, resulting in financial disaster for those who were over committed when the share price fell dramatically.

I am not for a moment suggesting MRP has such a brittle business model – for a start it has a track record of success, is in an essential industry and has an established pricing model with relatively predictable cash flow. However, I urge all would be investors to carefully read the prospectus when it becomes available. Perhaps the most important section will be that covering specific risks to the business. New Zealand has no shortage of electricity generation and with the prospect of the Bluff aluminium smelter and some major pulp and paper industry retrenchment, pricing pressure could quickly intensify.

The so far unresolved issue around water rights and Iwi is another potential concern. The politicians are keen to make soothing noises about this being a government matter, but we all know that they are quite capable of performing back flips if they think it will help their re-election prospects. If you feel that wading through the documentation is too difficult, then you should get guidance from a professional advisor or your broker.

A number of commentators have said that the share price will be attractive to ensure the issue gets off to a good start and sets a platform for follow on sales. That has certain logic and no doubt will become more obvious once the price and likely earnings information is released.

However the government will want to achieve the best price it can. If it pitches the price too low, it will face a great deal of heat for "giving away" the family jewellery. With over 400,000 preliminary registrations of interest having been received, it seems likely that demand will be high for a limited supply of shares. I have been around for more birthdays than I care to admit to. In all that time I have never seen something in short supply sold at a knock down price – be it breakfast cereals, houses, shares or dare I say it – electricity companies.

John Hawkins

Chairman

Press Release

The New Zealand Shareholders Association has settled a defamation court action issued against it by Mark Hotchin and Eric Watson. Mr Hotchin and Mr Watson sued the New Zealand Shareholders Association over comments made in media interviews in 2009 by its then Chairman, Bruce Sheppard that Mr Hotchin and Mr Watson did not act correctly in relation to Hanover Finance's debt restructuring proposal. Mr Sheppard published a retraction in respect of his comments after the interviews, and the Shareholders Association similarly accepts that Mr Sheppards' comments were incorrect. The Shareholders Association regrets any adverse public sentiment as a result of the comments.

Whilst this finalises the position with the Shareholders Association the defamation action against Bruce Sheppard remains ongoing.

E-Mail to members regarding the settlement

Members may have seen coverage of the recent defamation settlement between the NZSA and Hotchin and Watson regarding matters that occurred in 2009. As part of the settlement, the parties were subject to a strict confidentiality clause. The NZSA has respected this requirement.

Some of you will no doubt be worried about possible effects on the Association's finances given media speculation. I want to reassure you about this.

In last year's accounts, we noted a $2000 insurance excess charge relating to this litigation. This is the ONLY uninsured payment we have made. There will be NO additional provision made in this year's accounts, nor is any anticipated going forward. To make the situation completely transparent, the board has instructed the Treasurer to make sure this matter is clearly identified in the annual accounts you will receive later this year.

Most importantly, the Association can now concentrate on moving forward. Members can expect a series of announcements over the next days, weeks and months. At least one will give you significant increases in your membership benefits. Others will be related to projects that enhance the whole investing environment. And regrettably, some will no doubt raise issues for you to beware of.

The board thanks you for your ongoing support and looks forward to continuing to make sure your voice is heard loud and clear.

John Hawkins

Notice of AGM and Annual Subscriptions

NZSA National Conference and AGM

The Annual Conference will be held this year in Christchurch on Saturday 7th September at Chateau on the Park. Notices of motion and nominations for director must be in the secretary's hands 44 days before the meeting, that is, by Friday 26th July 2013.

An exciting list of speakers is being arranged in conjunction with Canterbury Branch, and it is hoped that members will take the opportunity to travel to Christchurch and spend a few extra days in the South Island either before or after the Conference.

NZSA Membership fees

The Board has reluctantly decided that a small increase in fees is necessary to cover the increased cost of insurance and other overheads. The subscription for the 2013 year will be $125 per member, effective on the renewal date.

Upgrades to NZSA Website

At the time of publication the NZSA website was being moved to a new server. Unfortunately this has resulted in some distortions to the Company Performance Data. Our service provider, Netinsites is working to trace the problem and we expect the graphs and descriptive material to be corrected shortly. We will be publishing a full outline of the CKPD plan in our next issue.

Future Directors

Editor: ***Three years ago, Des Hunt proposed to the NZSA Board that we expand the number of candidates for NZX listed boards by launching, what was effectively, a training programme for Future Directors. It was important that he obtained buy-in from the Institute of Directors and some key players.***

Caution was necessary around having a non elected participant present during confidential governance meetings. Even though they cannot vote, it would be possible for them to be considered "deemed directors." The programme is now launched and expressions of interest are already exceeding expectations.

Future Directors Initiative Launched

Sir Stephen Tindall (The Warehouse/Tindall Foundation), Michael Stiassny (Vector/Korda Mentha/Institute of Directors) and Des Hunt (NZ Shareholders Association) have today formally announced the launch of a broad-based joint initiative to address the problem of developing new directors in an increasingly technical and regulated market.

Future Directors is aimed squarely at addressing the experience gap faced by skilled younger professionals seeking to become directors of public companies.

Sir Stephen said Future Directors was designed to develop the next generation. "We will seek out high calibre candidates and match them with organizations willing to make a commitment to developing their skills." He said four recruiting firms - Hobson Leavy, Kerridge & Partners, Momentum, and Peter Ross Consulting have agreed to participate in the project. Those selected will sit at the board table of participating New Zealand public companies for a 12 month period. This will give them valuable experience in a dynamic governance environment. Future Director participants will be required to attend all board meetings, and potentially some subcommittee meetings. They will also be assigned an experienced director mentor. Appointees will be required to commit to confidentiality, share trading protocols, and other relevant policies. "Occasionally, meetings may not be open to them, but the expectation is that these will kept to the absolute minimum" said Tindall.

Mr Stiassny commented that "Future Director appointees will have a real head start, gaining top level governance experience much earlier in their career." He said that "currently, directors frequently begin their careers in smaller organizations where the support and best practice governance frameworks may be less developed. The new initiative would directly address that weakness." Stiassny said the scheme will be administered by the NZ Institute of Directors who will provide the resourcing to ensure success

Mr Hunt said "the programme was a positive way to broaden the pool of qualified people able to take on senior corporate governance positions, something the NZ shareholders Association and many others had long expressed concerns about." Hunt added that "senior directors would also gain a new perspective on emerging issues such as social media, technology changes, sustainability and diversity, which would add a double-edged, win-win to the project."

Future Director appointees will not be invited to join the Board of the Company where they have spent their development time. Neither will the companies offer any other form of employment contract to their Future Director. The founders have agreed that this would ensure that the objective of creating a widely available, talent pool was not compromised.

Des Hunt

Dividend Reinvestment Schemes

A number of companies offer shareholders the option of taking shares instead of receiving a cash dividend. The usual method is to issue the number of shares a person would get if they spent their dividend buying them. Sometimes the shares are slightly discounted. The actual price is decided by a formula –involving an average over several days and is called the strike price. For example –and ignoring any tax complications: You have a net dividend due of $300. The current share price is $3.06 and the strike price is discounted 2% to $3.00. If you participated in the dividend reinvestment scheme you would receive 100 shares instead of the cash dividend of $300.

Why some do companies offer this option and what are the advantages and disadvantages?

From the companies point of view it is a cheap way of raising additional equity to fund growth. There is no need to issue prospectuses or pay large promotional costs. The downside is that the amount raised is relatively small and there is no certainty how much will be generated as shareholders can opt for either shares or cash in any year. This type of equity raising appeals to companies on a growth path, but others who are treading water may not offer such a scheme as they do not see a way to generate adequate returns from the extra equity. It is also generally not suitable for funding large capital expenditure.

For shareholders the equation is more complex. An important consideration is whether they need the cash to spend on living expenses. You have to eat, so the decision may be an easy one if you have limited income. For those with room to move, there are several things to think about. If you take cash, there is the certainty of money in your pocket. If you take shares, there is a possibility that they might rise in price and compound your gain. On the other hand, they could fall, wiping out the benefit.

You could consider taking the dividend and buying on market. That strategy certainly works if you time purchases to coincide with price weakness, but brokerage, which does not apply to dividend reinvestment schemes, can be a significant cost. You might in fact consider investing the cash in a different company that has better prospects or one that is less of a dividend play.

Then there is the dilutionary effect to be considered. Companies pay dividends on a per share basis, but in reality the amount available comes from the pool of profit that is left after providing for capital expenditure, cash flow requirements and so on. For example, if Perfect Company has 100m shares on issue and determines it can afford to distribute $10m to shareholders, each share will receive a dividend of 10c. Assume that the market price is $1 per share, we have a 10% yield and a PE ratio of 10x.

However, what if 50% of the shareholders take shares instead of dividends? Perfect Company will retain $5m and issue 5m extra shares bringing the total to 105m. The market rightly says that based on past performance, the $10m dividend is now going to be 9.5c per share ($10m/105m shares). That reduces the yield to 9.5% and pushes the PE ratio to 10.5. If nothing changes, theoretically the share price should fall to 95c to restore the yield and PE ratio. In practice, it often under or over compensates, but this is a perfect company in a perfect market so if we assume Perfect Company is able to utilise the extra retained funds to generate similar returns, equilibrium will be re-established and the share price will rise back to $1 meaning the cash dividend investor will have 1000 shares and $100 dividend totalling $1100. The investor who took shares will have 1100 shares worth $1100. So at this point you may think there is no difference whatever you do.

But here is the rub. Assuming Perfect Company being exactly that, at the end of the next year the dividend pool will rise to 10.5m (10% on 105m shares.) and our cash dividend will again be 10c. Again assuming the share price does not change (or rapidly recovers), our cash dividend investor will now get a $100 dividend and his total value for the year will again be $1100. However, the person who previously took shares and continues to do so will get 10% of 1050 added to his holding, meaning he will have 1155 shares worth $1155. Obviously this compounding effect will become much more significant over time.

If Perfect Company does well and the share price appreciates the effect is magnified. Let's say in the following 12 months the price rises to $1.50 per share and the dividend to 15c. In year 3 the cash taker will have shares and dividend of $1650 which is a pretty worthwhile lift. But the person taking shares instead of cash will now have 1270 shares worth $1905. The problem for the person taking cash dividends is that over time he owns a smaller and smaller proportion of the company – that is, his holding is being diluted.

Naturally, if the price falls and the dividend stays the same or reduces, the effect can rapidly swing the other way. For that reason, these schemes work best with reasonably steady growth companies and are probably less suitable where there is high volatility. Even then, by opting in and out each year, you may be able to maximise the gains by taking cash when the share price is falling which will allow you to buy more on market than you would receive from the dividend reinvestment scheme. Another option that is usually available to moderate the swings and roundabouts of these schemes, is to consider taking part of the dividend in cash and part in shares. This reduces potential downside if things go pear shaped. While you will not get the full upside, you will have some cash to buy the champagne if things go well.

Who said making money was easy!!!

John Hawkins

Investor Education – Courses for a song

NZSA now draws a clear distinction between financial literacy and investor education. NZSA does not currently have the resources to contribute significantly to the national drive for financial literacy as outlined by the Commission for Financial Literacy and Retirement Income (CFLRI) However we do remain a committed participant in plans for investor education.

Community Colleges:

NZSA's own Investor education courses are available in 2 Auckland Community Colleges, and we believe that investor courses run by an independent educator, in an interactive face-to-face group will be the most enjoyable and beneficial to students. The price of the Western Springs course is $65 – well worth the price

Other community colleges like Selwyn College also run Investor courses.

Western Springs College	14th May 28th May	Investing for your Future Sharemarket Basics	John Hawkins Jacquie Hagberg
Glenfield Community College	Times to be advised	Investing	John Hawkins

Brokers' Courses:

Financial Advisers have strong investor education programmes.

The largest of these is Craig Investment partners. You can enrol in tutorial courses through the website – investor education, or to review the basics by clicking on to the web tutorials. Other financial advisers like Chris Lee and Partners, and Forsyth Barr educate investors through their email newsletters. Investors are conscious of the fact that Investment advisers use education as a PR tool to gain clients. However under the new Act, advisers must declare commission arrangements and conflicts of interest.

Internet brokers:

Internet brokers are not expected to offer full service advice. However they do offer a good glossary and explanatory articles on investing. The two largest are ASB Securities and Direct Broking, now owned by ANZ Bank, and they offer the opportunity for investors to buy and sell cheaply, and the further opportunity to separate investment advice from broking so that the conflicts of interests can be more limited. Of these, Direct Broking offers written tutorials with investment examples.

Other key players:

NZX's website education is so far, disappointing. However the ASX website contains excellent graphic tutorials with clear simple commentaries for inexperienced investors. CFLRI's website "Sorted" offers printed or pdf guides to savings and investment. These are a good starting point. CFLRI also offers its Sorted seminars with professional facilitators at intervals in main centres.

Nevertheless the best introductory guide is the most recent: go to the Financial Markets authority website – FMA and read "Help me invest."

Open Learning Providers:

Apart from the University and Technical Institute long and short courses, there has been an explosion in distance learning through the internet. This has been called the greatest democratisation of learning in human history. For example when MIT offered a free IT course recently it received 250,000 registrations. USA government's Money website shows how effective interactive financial literacy courses can be, although the questions do concern USA regulations and are less appropriate for New Zealanders. InvestorWords, Investopedia and Wikipedia all provide comprehensive dictionary-style definitions complete with examples, while Yahoo Finance provides international news and educational material. The most interesting development is found in MOOC (Massive Open Online Courses.) Top universities in USA now offer free courses from some of the best teachers in the world, complete with assignments, and graded papers. If you needed a university course on company valuations you could hardly do better than the University of Pennsylvania's MOOC on Public Company Finance. And its all free!

It is never too late to become computer literate. Senior Net claims to have helped over a million boomers and seniors into new worlds of information via the internet. NZSA's work and advocacy would be impossible without it. Shareholders must keep up with their grandchildren. Otherwise the wisdom of best investment practice will be lost. When you cant recognise a boom, you are more certain to go bust.

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***

Tower AGM 21st March

NZSA proxies approx 440,000 votes

It was interesting to note that 2139 shareholders were represented by proxy holders, most as usual, by directors. Nevertheless the venue proved a little small for the number of attendees. NZSA was invited and replied with several questions for the chair.

Interim Chairman Steve Smith, referred to the strategic review of operations, and explained why the health business had been sold. It was in a declining market dominated by non profit players. Lack of established distribution channels (like those of the banks) had influenced the decision to sell the funds management business. Both businesses had increased profits for the year. This meant that Life and General Insurance were left as main stream operations, both having achieved significant profit improvements.

Rob Flannagan CEO had just given a year's notice of resignation allowing time for a planned replacement. The chairman also pointed to the refreshment of the board, and paid tribute to Susie Staley on her retirement.

Rob Flannagan, and Chief Operating Officer, Mike Bloggs both gave us an update on Christchurch, where 60% of claims had been settled, and Life Insurance, where claims were within budget. Flannagan stated that there was no disagreement within the board between the GPG directors and the independents.

The Annual reports and announcements can be viewed at tower.co.nz/company/investorcentre. A number of questions and comments were made. Two shareholders shared the view that Tower was fading away and questioned the interest being shown in the balance of the company by outside parties. This was refuted by the chairman.

Terry Nuthall asked whether the board was now too large for the reduced size of the company. Although the current workload was high, it was conceded that a reduction in board numbers might occur in the near future.

Several policy holders voiced the complaint that the bonuses on policies were so low that the fund managers must be asleep. They questioned whether policy bonuses were, or should be aligned with executive bonuses. This represents a conflict for the shareholders who are not policy holders. However, Rob Flannagan pointed out that the KPI for executive bonuses relied on a mix of hurdles, largely aligned with a return on funds at a minimum benchmark of 12.5% - ie they were aligned with shareholder interests. However, policy holders are customers, and you have to keep them happy if you want to stay in business.

Voting also raised a few questions.

The chairman happily deflected the question of a possible conflict of interest over his employment 9 years ago with the auditor PWC. John Spenser is chair of the audit and risk committee, and a member of the External Reporting Board.

Messrs Smith, Spenser, Hancock, Stuart, and Stiassney were all elected by a show of hands. Each spoke well. Michael Stiassney had previously agreed to chair the company if elected.

The return of capital does require further comment. A return of capital is usually accompanied by a reduction in the number of shares. If the number of shares were not reduced in the same proportion as the capital return a dilution may occur to the shareholding of each member. The calculation was explained to questioners by the chair. First decide on the amount of capital surplus to the companies needs, ($120m). Then decide on the average market price of each share, ($1.92) Take the resulting number of shares (62500000) as a proportion of the total number of paid up shares in the company, (261091094) and you get 3 shares out of every 13 owned, or something very near to it. A return of capital accompanied by a cancellation of shares in this way should be tax free in the hands of the shareholder. The scheme of arrangement was approved by 99.89% of votes in a poll. Michael Stiassney commented that this should clearly satisfy the court as to the fitness of the scheme.

GPG holds 35% of the shares in Tower. GPG wants to sell, so that it can complete the return of its capital to its shareholders.

Your proxy holder did add that we wanted the company to remain listed on the NZX. Michael Stiassney said later, "You can't charge me with the responsibility for keeping Tower on the NZX." He is of course right, but the best insurance will be results that continue to improve, so that potential bidders have to pay above the odds. If GPG sells its shares in one tranche, under the Takeovers Code the same offer must be made to all shareholders. If GPG sells in smaller trade parcels –say to several funds, it will avoid the offer to all shareholders. We say GPG should make an offer to the retail market which is looking for good investments. Readers can draw lots on which way GPG will jump.

Alan Best

Renaissance AGM 28th March

This meeting was held as late as possible, because the directors had hoped to announce the findings of their strategic review. They now hope to advise the market within a month.

Prior to the meeting, they advised shareholders of the potential opposition to the reelection of the existing board, by shareholders controlling 18.8% of the vote. NZSA emailed members with its voting intention, supporting the re-election of Messrs Thomson and Giffney and also the election of new director, Robert Bijl. Although your proxy holder held only 279000 votes it was clear that our influence was positive.

The chairman's report summarised the uncertainty of direction in the face of unsettled Christchurch claims, the resignation of the CEO, the sale of the Apple distribution business, the undervalued share price, the poor retail trading for the 9 Yoobee stores, and the difficulty of attracting foreign students into the Yoobee Design schools. He revised the earnings guidance down.

Ruth Cooper gave a lively presentation of Yoobee Design School's activities, as it aims to extend globally, grow its portfolio of design schools, and re-establish local growth in Christchurch on the new Marehau site. The market for qualified students is strong in 3D graphics and educational game development. Collaboration with the Open Polytechnic of NZ will give students the opportunity for degree pathways. The development of Yoobee publishing and on-line learning platforms are very near release, while Yoobee Design Sydney is a step nearer. In answer to a question, Ruth said that White House Design Sydney had been set up for accreditation, and the equipment had now been repatriated to the new Auckland city site.

Questions on the annual report revealed that the Renaissance Head office had now been established at 3 City Road, Auckland, where Director, Ron Halls, was acting as CEO, and new CFO, Donovan Smith, was based. Renaissance with losses in Yoobee retail and profits in Yoobee Design was not burning cash, but was approximately cash neutral.

Clive Lewis a former executive director of the company spoke to his nomination of Robert Bijl, who seems well qualified with degrees in law and accounting, and experience as acting CFO of Lincoln University, as well as a long association with Apple retailing and Natcol design schools.

Independent director, Richard Ebbet, revealed that directors had taken a 33% pay cut since the sale of the distribution business, and that Colin Giffney had provided strong and sane leadership.

Significant shareholder-director, Mel Thomson also spoke. All three nominees were elected convincingly by poll.

Alan Best

Meetings of Genesis Bondholders 26th March

Genesis Energy called meetings of holders of its Capital and Senior bonds to replace an interim trustee installed by the Financial Markets Authority. In September 2012, the FMA declined to issue a licence to existing trustee Perpetual Trust and appointed Corporate Trust as trustee for the debt for a period of six months. The interim appointment allowed Genesis time to either confirm Corporate Trust in the role for find an alternative.

Corporate Trust, which trades as Foundation Corporate Trust, was created by a management buyout of the trustee business of Pyne Gould Corp. Its sole shareholder is listed as Kim von Lanthen, Perpetual's former risk management executive.

After discussions with a number of licensed providers of trustee services, and having undertaken a formal process to evaluate and determine the suitability of each of those service providers, Genesis proposed the appointment of Trustee Executors as the new trustee in respect of the bonds.

Separate meetings were required for each class of bond.

The Capital Bonds meeting was brief. The longest part being the vote count. The resolution to change to Trustee Executors was passed with 99.4% of votes cast in favour. I note the votes cast represent only 30% of bonds held.

With only 4% of the required minimum 10% bondholders represented, the Senior Bondholder meeting lacked a quorum. After the mandatory 15 minute delay, chair Jenny Shipley adjourned the meeting to the 22nd of April. At that adjourned meeting, two or more persons present in person, or by proxy, holding Bonds (whatever the number) will form a quorum. I expect the resolution to shift to Trustee Executors will then be passed.

Bruce Parkes

Cavotec Update for Shareholders 13th March

Cavotec Information and Update event held at Clearwater Resort 10.30 am Wednesday 13 March 2013

Chairman Stefan Widegren opened proceedings by announcing that 2012 had been a record year for Cavotec despite the economic plight of Europe. Their performance over the whole group was very pleasing with an increase of 15.8% over 2011's accumulated revenues. Also, their operating result increased by over 51% - their order book was up by 4.3% compared to 2011 and their earnings per share increased by a substantial 93%. The New Zealand invented Moormaster (formerly Mooring Systems) revenues increased by 17% and now contributes about 8% to their overall revenues of Euro 220 million.

Two videos were screened covering the operation of their port and their airport activities. These were a useful way to view how effectively and comprehensively they are involved in both sectors, essentially providing a 'one stop shop' for port and airport operations. Their emphasis is on a high degree of efficiency, speed, and virtually eliminating any pollutants such as diesel fumes. More information on their extensive involvement in a range of engineering activities can be viewed at ***www.cavotec.com.***

Mr Widegren mentioned court action the company took against Mike Colaco, the former owner of a company they bought, (INET Airport Systems) in 2011. Mr Colaco who was a member of the Cavotec executive team was dismissed and filed a claim against Cavotec who counter-claimed stating that Mr Colaco was involved in certain practises which were harmful to Cavotec. Cavotec's management acted swiftly when they realised what was happening and the case is proceeding satisfactorily. Their airport systems team is working extremely well and was not detrimentally affected by this event.

Mr Widegren said that Cavotec want to become a 500 million Euro annual revenue company in the next 3 to 4 years and he sounded confident that this would be achieved.

In conclusion, it was an uplifting and confident presentation and I'm sure all those present were delighted with the progress of this innovative company. There are about 800 shareholders in New Zealand and it is listed on the Stockholm Nasdaq. For New Zealanders, shares can be bought and sold through Link Market Services.

Barbara Duff

Caught on the Net

Bitcoin - the new electronic money

One of the more interesting developments of the modern electronic age of money has been the rise of Bitcoin, a decentralized digital form of money. If you're not familiar with it or you're confused by what Bitcoin is, you're not alone. It's a fairly new, innovative and complex form of money ***More***

Reasons why you shouldn't buy bitcoins

Forbes technology writer Timothy Lee, a holder of bitcoins, offers 4 reasons why holding bitcoins might be a high risk strategy. ***More***

The future of retirement

HSBC undertook online surveys of 15,000 people in 15 countries asking how much they thought they would need for a comfortable retirement. Most people say they are falling short in what they feel they require for a comfortable standard of retirement living (average 78% of income) ***More***

How much do you really need for retirement?

Prompted by financial planners, our views on required retirement income can be mind numbing. Macrobusiness blogger "The Householder" offers a different view; pointing out that the "comfortable standard of living" does not fit the normal income distribution curve. ***More***

Scientists claim 72 is the new 30

Is planning for your retirement a little depressing? Take heart. The Financial Times reports that a Max Plank Institute for Demographic Research report says that human longevity has improved so rapidly over the past century that 72 is the new 30. ***More***

Why is Socialism doing so darn well in deep red (Republican) North Dakota?

North Dakota fully supports its state owned bank; a socialist relic from 1919 that exists nowhere else in America. AlertNet explains why it has survived in a conservative free market legislature. ***More***

The stock market and economy are two very different animals

Blogger "Abnormal Returns" summarises the views of a number of writers on the theme of the disconnect between the stock market and the economy. ***More***

Do PPPs have a future?

BrisConnections, Brisbane's super airport connection, (now in Administration) is the latest Australian PPP infrastructure project to turn its toes up. Yet PPPs continue to light the neural fibres of some politicians. Should private investors beware? Blogger "Unconventional Economist" discusses. ***More***

10 Lessons from the Cyprus bailout

Patrick Collinson in the Guardian looks at some of the repercussions of the Cyprus situation ***More***

The Economic case for rail subsidies

The debate on the merits or otherwise of public transport rages unabated in our Northern region. Researchers at Lausanne University examining the effect of rail subsidies in Germany tried to monetise perceived benefits. They found monetary benefits were in the same magnitude as costs. ***More***

Why don't economists understand money

Victoria Chick, Emeritus Professor of Economics, University College London, addresses the question at a "Positive Money" conference. She says that in academic economics, money and banking were seen as a frivolous option on the fringe. ***More***

Who are the World's top thinkers?

Prospect magazine wants your vote for the top three from their list of 65 possibles. How many of the names do you recognise? I barely got a pass mark. ***More***

Bruce Parkes

Branch Reports

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

Auckland

Branch Meeting 20th February:

Dennis Barnes, CEO Contact Energy Limited gave an interesting address to the February meeting. In parallel with another recent speaker, Simon Moutter, Chief Executive Officer, Telecom Corporation of New Zealand, Dennis has an engineering background with a Bachelor of Science (honours) in addition to a MBA which should give him a good insight into the technical aspects of Contact as well as overall management.

His talk covered a general overview of Contact's current situation including confirmation that the somewhat controversial Dividend Reinvestment Program had been cancelled. Contact has invested around $NZ2b in recent years culminating in the completion of the Te Mihi geothermal power station in the Wairakei steamfield. On another front Contact is New Zealand's largest LPG supplier and is seeing an increase in this market due to the attractive cost of energy in this form

There may be some ups and downs in the near future as Contact is planning a number of structural changes from which it is expected that there will be fewer employees in a year forwards as the company moves to focus more on its core activities. Another emerging issue is the future cost of insurance for dams in the South Island following the Christchurch earthquakes. Dennis also commented that, overall, the New Zealand economy is becoming less energy dependant

In the retail market sales volumes for the first half of the FY dropped by approximately 1% than in the previous year and were accompanied by ongoing large numbers of customers switching energy providers. This competitive situation also saw a reduction in the overall margin for electricity sales but ongoing marketing initiatives are being put into place that are expected to improve performance in this area.

For further information regarding Contact refer to the "Investor Centre" pages of their website ***www.contactenergy.co.nz*** which deliver good rage of papers and other material around the companies activities.

Robert Johnston

Future Branch Meetings

Wednesday 17th April at 7pm, in the Hobson Room, Alexandra Park, Greenlane, 7:30p.m.start preceded by coffee. Featuring Mart Ratcliffe, CEO Chorus Ltd; Tim Bennett. CEO NZX.

Wednesday 19th June.	Speaker Chris Lee, Project Resources
Wednesday 18th September.	Speaker from Air New Zealand
Wednesday 20th November.	Speaker to be organised

Branch visit Fisher and Paykel Healthcare

First impressions were certainly positive on the Auckland Branch visit to Fisher and Paykel Healthcare. Vast low-rise, low-impact buildings stretch out on an extensive campus that represents the epitome in design of the modern industrial estate. The visitor drives through parklands; past light filled cafeterias where young people hang out in groups. The Fisher and Paykel campus is in Highbrook Business Park, (Goodman Property Trust,) a modern industrial estate on land originally owned by visionary industrialist Sir Woolf Fisher. No smokestack stuff here. The world has moved on.

Our group was welcomed by Marcus Driller, the Investor Relations Manager. Mike Daniell CEO, exhibited a huge enthusiasm for the business and his audience was able to gain a sense of his leadership ability. He said the business of the company was all about "Improving the care of patients" and "providing medical devices to improve patient care".

Mike outlined the history of the initial humidifier development. In 1969 electrical engineer, Alf Melville of the Department of Scientific and Industrial Research, made a prototype humidifier using an Agee preserving jar. It worked well and he approached Maurice Paykel who "had a particular interest in medical things". In 1979 there were $200,000 sales of medical products per year. Now the company has a "Continuing vision to be the global leader in respiratory and obstructive sleep apnoea (OSA) care devices". Mike emphasised that the company intends to stay "New Zealand based". The company has 2,600 employees and had NZ$516 million in revenue FY 2012 and paid a gross dividend of 17.2cps.

The company has two main markets:

- Respiratory and acute care 53%
- Obstructive sleep apnea 43%

For invasive ventilation the potential market is around 10 million patients in the world. FPH has a good penetration into this market. For non-invasive ventilation the market is much larger. If you include general breathing assistance for which FPH's Optiflow product is designed, the potential market is up to 30 million people. FPH currently has only a small share of this market. For surgical CO2 inflation (where CO2 gas is used to inflate a body cavity during laparoscopic operations) the potential market is 60 million patients and growing. For obstructive sleep apnea (OSA) there is a worldwide market estimated at US$ 2-3 billion a year and growing at 6-8% annually. An estimated 50-60 million people worldwide suffer from this condition but only 20-30% are being treated for it. FPH's upgraded assisted breathing masks used to treat this condition are selling very well, resulting in a recent profit upgrade. "It is", said Mike, "a market with a long way to go yet".

Research and Development is 8% of operating revenue at NZ$21.3 million. Mike said there are "A lot of new products in the pipeline". The company has 98 U.S. patents and 107 U.S. patents pending. "Expect to see", he said, "every year new products being introduced". The focus is on new products being designed to generate higher margins for the company.

There are 1,000 people on site in Auckland and 400 in Mexico involved in manufacturing. Mike noted that it "Costs 20% less to manufacture in Mexico" but they "expect to grow in New Zealand." It is expected that the New Zealand/ Mexico manufacturing split will ultimately be 50/50.

1% of sales come from New Zealand. Most sales worldwide come via Fisher and Paykel's own 600 sales staff. North America accounts for 44%, Europe 32% and the Asia Pacific region 24%. Long term Mike expects that the market split between these three regions will be around 33% each. He said the company finds it "Helpful to be selling directly ourselves". They have distributors in 90 countries. Half of revenue is in U.S. dollars. Half the costs are in N.Z. dollars. "The exchange rate", he said, "really matters to us," and "we buy time by foreign exchange hedging – we have $600 million in place" – equivalent to 18 months cover.

The company is looking for growth and efficiency in Mexico. "All new products are at better margins". FPH are targeting gross margins to increase to 60%

from the current 50% within five years. Significantly Mike said, "typically, over the long term we double the business every five years." (In $U.S.)

"Typically over the long term we double the business every five years"

In the large OSA market FPH currently has 7-8% of the total market while Resmed and Respironics (owned by Philips) each have approximately 40% market share.

The company has $130 million of debt, which it wants to reduce.

There is further opportunity for FPH in the operating theatre – an area which is hard to break into – but an area in which already has good access to through their surgical humidifiers.

Mike's presentation was followed by a delicious morning tea, after which Marcus took us on a guided tour. Much of the plant could only be observed from a distance due to the strict hygiene controls around the production of medical grade products.

For many of us, the environmentally conscious and ecologically sound Fisher and Paykel Healthcare campus was a revelation and a far cry from the factories of our youth. The company gave every appearance of being modern, up-to-date, innovative, fiscally responsible, looking to expand and grow, mindful of the return to shareholders and ready for the future. And, as investors and potential investors, this is what we are looking for.

One final important point to note. As a member of our group said, it is so important to retain a manufacturing sector in New Zealand in order to train and retain the sort of bright young people we saw around the Fisher and Paykel Healthcare campus that day

Fiona Gray

Future Auckland Company Visits

Wednesday 8th May The Warehouse involving approximately 2.5 hours - a presentation and travel between venues.

July visit – to be advised

Wednesday 21st August Mainfreight limit 20 people

Please register for each visit separately with Uli Sperber

uksper@gmail.com.

Confirmation details will be sent approximately a week before the visit.

Waikato

26th February Outlook for Investors: Mark Lister of Craigs Investment Partners

Mark has been with us before and again did not disappoint. His subject is topical and he took us through what he sees as the influences on markets this year. I noted:

- quantitive easing in US and parts of Europe; what happens when it ends and the risk of inflation if it doesn't
- level of growth in the Chinese economy and it's infrastructure
- political inaction in US and Europe, which in the US could be called "kicking the can down the road"
- the great rotation out of cash; we know the cause. It's started but how much will it build?
- be aware of complacency and overconfidence. Ask where those usually lead?

If all that wasn't enough Mark took questions. We were in the thick of the reporting season and there were many questions on individual stocks.

In the end Martin Watson, our Chair for the event, called for a close and thanks to Mark.

With over 100 attending and lively chat over supper, it was a successful event.

16th March Waikato Times BusinessDay

Recently we have had comment on our coming events in the local newspaper, the Waikato Times. That has helped in a small way our drive to grow our membership. For any local readers who missed the latest, here is the link ***www.stuff.co.nz/waikato-times/business/8438955/Kiwis-buying-shares-could-save-our-companies***

19th March Michael Daniell: CEO of Fisher & Paykel Healthcare (FPH)

With more than 30 years in the international healthcare business Michael may be called the consummate professional. He certainly was that in his presentation to us and got a great round of applause at the end from the audience of 80.

In lots of ways FPH comes across as a company Kiwis should like:

- keeps it's R&D in NZ, with 320 staff and a yearly intake of 30 to 40 graduates;
- keeps in NZ it's manufacturing base for sophisticated equipment.

These two evidence a commitment to innovation and development and make for an enduring culture in the Company. (As an example of where those take FPH, Michael quoted 98 patents and 107 patents pending in USA.)

- does not forget the bottom line with focus too on growing revenue, increasing margins, lean manufacturing and reducing expenses
- has used well, hedging against the recent strengthening of the NZD. Recently Michael said "We are doing things to ensure that we can grow, thrive and be profitable despite what might be a stronger dollar longer term," Would that many other NZ CEO's say the same!

Joe Carson

Future Waikato meetings:

Tuesday, 23 April, 2013 Don Braid, Group Managing Director, Mainfreight

Tuesday, 21 May, 2013 Norah Barlow, Managing Director, Summerset Group Holdings

Tuesday, 25 June, 2013 Mid Year AGM and Dinner, Fiona Mackenzie, Head of Investments, NZ Super Fund with over $20 billion assets.

Wellington

Our first branch meeting for the year was held on Tuesday 12 March at the new Royal Society rooms in Thorndon. This is the first time we have used the venue and it worked really well.

The meeting was tailored for new investors with a focus on education. We had a great turnout, in addition to branch members we had a number of post graduate students from Victoria University along, plus some people who had enquired about in the NZSA shareholder education courses. We started with a presentation from Anne Hare (Craig's Investment Partners) on Wise Investing covering the basics of investing, and following this I gave a presentation on how I started off investing and lessons learned along the way. Judging from the number of questions and comments at the end it was a very useful session and we will look at running new investor evenings at least once a year from now on.

Next month (April) we have NZX along and in May Z Energy will be presenting.

Martin Dowse

Canterbury

Canterbury Branch held a lively meeting on Portfolio Management on 21st of March. Experienced investors, Max Smith and Robin Harrison led the discussion which was full of practical tips and for investors.

The next meeting will be on 18th April at the Fendalton Croquet Club when Roger Carruthers, CEO of Connectionz will answer questions on computer servicing, and how a New Zealand Company can make good in an international competitive environment.

Robin Harrison

Members' Issues

Diligent – A lack of Diligence

Since our last issue Diligent has disclosed two breaches of governance under NZX rules.

The first was exceeding the limits approved by shareholders for options granted to shareholders.

The second was the failure to have its accounts audited by an auditor licensed or registered under the NZ Financial Reporting Act.

Diligent is the darling of investors at present, having disclosed for the 2012 year, Annual revenue of $43.7 Million, up 143% y/y

Cumulative sales of $52.3 Million, up 104% y/y

Operating cash flow of $22.1 Million, up 218% y/y

Nevertheless its failure stick to the rules is concerning.

The option plan, in the first breach, was not specified in detail save that the 2007 plan approved was to be up to 10m shrs, and the 2010 plan approved was to be a further $5m shrs. The options were valued according to a Black and Scholes formula at the time of the grant and exercisable over 3 years according to hurdles unspecified, but at the board's discretion.

The Compensation Committee's charter listed on the website was effective July 2012, which is probably when the alarm bells were ringing, though the public statement was made on the eve of Christmas 2012.

NBR reported that specifically:

2009 CEO Sodi exceeded the general option entitlement by 1.6m options

2011 CEO Sodi exceeded the entitlement by 2.5m options

2011 CFO exceeded the entitlement by 250k options

And a small number of staff options were above the cap.

Further that the issue of options to staff without a prospectus is not permitted by NZ regulations.

A subcommittee of the board, Mark Weldon and Joseph Carrabino recommended that the company cancel the options and pay the contracted remuneration in cash. The company was working with the FMA to correct the breach.

In the second instance released on 25th March, Diligent explained that its auditors, Holtz Rubenstein Reminick is a limited liability partnership, acceptable under US law, but not registrable in NZ until the new Financial Reporting Act is implemented. The FMA decided it could not grant an exemption on principle, but that it could issue a "no action letter,"

with the proviso that it may take this breach into account, if other breaches occur in future.

So Diligent is on notice. NZSA will be following the matter up with the board, because shareholders were not given a well-specified long or short term incentive scheme to consider in 2007. We will ask that all future schemes are spelled out in more detail so that the board does not simply hand out funds to successful operators at its own discretion.

Alan Best

NZX Index --- Gross!

Brian Gunning wrote: I think it would be interesting to canvas the views of members on the subject of the NZSE choice of providing only the gross index, NZSX50 for publication, and not a capital index such as the old NZSE40 as was done in what now seems to be the dim distant past.

Brian Gaynor commented on the illogical use of the NZSX50 index in a note at the end of his main NZ Herald contribution of March 16. My recollection … is that in former days both the capital index and the gross index were quoted daily in the Herald, not only for N.Z. shares but also for the other main markets we might be interested in. I hoped Brian's note might have stimulated some echo in the next Weekend Herald, but was disappointed. My interpretation of the purpose of the change which I think was made by Mark Weldon was to dress up the apparent profitability of sharemarket investment by adding dividends to trading prices to produce an index that would for ever rise (especially as tax was not deducted). The result is confusion and loss of objectivity.

I do not really have any interest in the NZSX50 - my friends and I call it the NZSAM, (for 'smoke and mirrors' of course). The Shareholders Association is dedicated to education of investors amongst other things. Brian Gaynor points out that all the world's major indices are capital only.

Should we not take a position on this?

***Editor**: Although I have sympathy with Brian on this, the NZSA board has not considered the issue in any depth. We would be interested in the reaction of readers, and will do some research before taking a position.*

Swiss voters oppose Golden Parachutes

Early this month it was widely reported that 67.9% of Swiss voters had sent a strong message to companies, local bodies, and parliament, to rein in executive pay, and deny golden handshakes to retiring directors and executives. The Minder initiative was expressed in a draft law which applies only to listed entities on the Swiss stock exchange. However it seeks to limit the mandate of directors to only 1 year, ban golden parachutes when executives leave, and ban bonuses paid for the successful sale or takeover of all or part of a company. Predictably the Swiss employers association is fighting the bill tooth and nail.

However there are signs of a stirring throughout Europe. The European Union is moving to cap bankers' bonuses, while the Dutch government is aiming to cap golden parachutes to 75000 Euros. In France a more socialist government has already capped top executive pay in the public sector at 20 times the wage of the lowest paid employee.

What should New Zealand be doing? We already have NZX rule 3.5.2 under which retirement allowances must be approved by ordinary shareholders' resolution, and cant be more than 3 year's salary. NZSA has already called for full remuneration disclosure as the next tactical step. Australia has implemented long and detailed remuneration reports and a 2 strikes rule. Should we be doing more?

Des Hunt

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New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

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