A Message from the Chairman

Investors have certainly had an interesting year! I hope for most of you it has been a positive one. The dramas surrounding Pumpkin Patch and especially Wynyard will have caught out some, but the correction during October should not have surprised market watchers. Political uncertainty around the globe (and at home) along with likely increases in interest rates and inflation and the potential fall in house prices in some overheated areas such as Auckland will bring challenges and opportunities. So 2017 certainly promises to be interesting.

For the NZSA, it has been another big year. A highlight (or should that really be lowlight?) was our success in removing a sitting director at Rakon. Membership is at an all time high, and our activities continue to see the NZSA held in high regard across the corporate and regulatory world – even if they do not always agree with us.

My thanks go to your hard working directors and committee members, my EA Jacquie Spillane and all those who have assisted the Association in some way or written to me with advice or words of encouragement. As always much remains to be done. The Association is up for the challenge – I hope you will all come along for the ride!

To everyone, enjoy the festive season, and as always, I hope that 2017 will bring health, wealth and happiness to all.

With best wishes,

John Hawkins,
Who pays the piper?

On 14 July 1789, the French revolution began with the storming of the Bastille. Over the next five years, thousands, including the King and Queen were executed as a whole new order was established. A dictatorial bankrupt monarchy led to martial law under Napoleon, and ultimately a democratic republic.

On October 25th 1917, the Bolsheviks seized power in Russia and a short time later, the whole royal family, including young children, was summarily shot. A dictatorial, bankrupt monarchy became the world’s first communist state.

In Romania, a revolt against the corrupt, 24 year communist dictator, Nicholae Ceausescu began on December 15th 1989. By December 24, Ceausescu and his wife were dead. The country is now a democracy and member of NATO.

On June 23rd 2016, British voters elected, by some margin, to leave the European Economic Community in a stunning “upset”. The outcome in macro-economic terms remains uncertain, but inflation is sure to rise initially given the drop in the value of the pound. Britain remains a constitutional monarchy -for the moment.

On November 8th 2016, self-proclaimed billionaire Donald Trump was elected President of the United States, a role he will formally assume on January 20th 2017. Despite some claims to the contrary, it seems certain that he will favour big business and the wealthy – his proposals to cut corporate and top tax rates and greatly alter the low cost “Obama care” health insurance are hardly “ordinary worker” friendly. The expectation is a lurch to the right, rising inflation and potentially a more interventionist US foreign policy -which has its own risks, not just for the USA, but for the whole world.

So, you may ask, what is the point of this history lesson? Well, in each case the trigger was significant inequality between the ruling corporate, financial and political elite and ordinary people. In every case, those at the top enjoyed a life of massive excess, eye watering incomes and manipulation of power to make sure the ordinary people paid up to maintain their life style.

In France and Russia, people were starving. In Romania, it is said that Ceausescu spent more than 50% of the country’s GDP on his huge “palace.”

However, in Britain, the low paid, unemployed, “uneducated” and those in the neglected and rundown north ensured Brexit passed. In the USA, the right wing braggart Donald Trump was supported by a strong turnout from poor, disadvantaged and ultra conservative groups, many of whom typically don’t bother voting. Perhaps they got to the point where they really had nothing more to lose. It seems that the Occupy Wall Street protests of a few years ago were indeed a forerunner of things to come – but Wall Street and the elite were deaf and blind.

The reality is that when the mass of ordinary people are pushed too far, they simply want change. They don’t care what the future may hold.
get rid of the present situation, by force if necessary. The examples above have resulted in outcomes from extreme left to extreme right and everything in between. In the most recent cases, it seems to me that the excesses of some multinational and large businesses have been a significant factor in people’s disillusionment. During the GFC, large investment banks such as Goldman Sachs got handouts and almost immediately reinstated massive bonus payments to the very executives that had got them (and arguably the world) into the mess in the first place. The sight of CEO’s turning up en masse in their private jets to beg bailouts made headlines everywhere. The low taxes currently being paid by large multinational companies across the world, mostly completely legally, are perceived as massively unfair by workers who are socked for 20% or 30% or even 40% on every dollar they earn.

The most recent data shows that over the past 40 years, CEO’s in the USA have gone from a ratio of 20x average worker pay to 300x, in Europe about 200x and Australia about 100x, often with little improvement in performance over time. Locally we see ratios of perhaps 30x.

In the UK, PM Theresa May has openly warned that legal action to stop Brexit will test politicians “who should not resist the will of the people.” She will also force firms to publish the ratio between the pay of chief executives and ordinary workers to stem the increases in “fat cat” pay. And a ceiling equivalent to $NZ128,000 has been placed on government advisor roles. Perhaps it is time to consider introducing similar rules here including a version of the Australian two strikes legislation. We have been spared the worst of the excesses. Let’s keep it that way.

The Australian experience this year has seen a significant number of companies receive a first strike against their remuneration report – effectively a protest vote by the owners of the company, the shareholders. A high profile example was CBA Bank where more than 50% of votes cast opposed the report – well in excess of the 25% threshold. This followed uproar over the “soft” short term incentives proposed for the CBA CEO who is forced to struggle along on a minimum of $12m for the year. For the first time since 2012, executives did not get 100% of bonuses, suffering a slap with a wet bus ticket as these were downgraded to a mere 95% instead! Meanwhile, shareholders will fork out at least $105m to settle shady and downright illegal dealings made by the bank’s management.

In our own back yard, A2 Milk recently held its AGM in Sydney. 28% of votes opposed a huge hike in director fees. There is no doubt that A2 has done well in the last 3 years following a long gestation where performance was poor. The directors claimed that the proposal was in line with the “internationally benchmarked” recommendations of the London based consultants they appointed and paid. Had they published this document or the executive summary as some companies are beginning to do, all would have been transparent. But they didn’t.

A2 has set its base directors fees at 73% of the Fonterra director fees, and its committee Chair fees at 90% of Fonterra’s. To put this into perspective, A2 which does not even manufacture its own products (Synlait does), had revenue in 2016 of $352m and sold in four markets –mostly in Australasia. In 2015, the fully vertically integrated manufacturing and marketing operations of Fonterra had revenue of $1,8850m and sold all over the world. In effect, A2 is the size of a small Fonterra marketing division. NZSA did its own research and came to the conclusion that A2 Milk was seeking 39% above a comparator group for base director fees and 70% above for committee fees. A2 knew of the
Auckland Airport’s Board announced recently Kiriwaitingi Rei will participate in the Future Director Programme during the 2017 financial year. Ms Rei is the chief executive officer of Maori Investments Limited and managing director of Tarawera Land Company. She has a legal background and extensive knowledge of the tourism, forestry, geothermal, agri-business and property sectors.

Auckland Airport’s Chair, Sir Henry van der Heyden, says, “Our company has benefited considerably from the three Future Directors we have welcomed to date. Auckland Airport strongly believes in the value of the Future Director Programme and we were proud to appoint New Zealand’s inaugural participant in the Programme in 2013. Our ongoing participation in the Programme helps to promote diversity of leadership and the development of governance talent. The Board looks forward to Kiriwaitingi joining our discussions over the next 12 months.”

Photo supplied by AIA

opposition to its fee proposal from most NZ investors and institutions. It got it through only on the back of Australian institutional support. NZSA supports high pay for high performance, but there is a limit to the largess that is reasonable and equitable.

I think large companies need to be careful. The “best interests of the company” test surely requires directors and management to take note of broader social expectations. In Britain and the USA, the consequence of ignoring these responsibilities has led to significant change – almost a soft revolution. If inequality between the haves and working people continues to increase, then political and social unrest is in my view inevitable. That cannot be good for either the risk takers or entrepreneurs who drive economies nor the shareholders who fund it.

Those at the top of the corporate, financial and political world would do well to remember who pays the piper – the people do!

John Hawkins
Chairman
This year, NZSA inaugurated a “Business Story of the Year” award to try and stimulate interest from journalists working in this area. The judging panel was Independent convener and well known former journalist and TV presenter, Janet Wilson, former Editor-in-Chief of The New Zealand Herald, Tim Murphy, and Chairman John Hawkins and Director Martin Watson from NZSA.

The award criteria sought stories that were accurate, readable and tackled difficult or complex issues. They needed to be business or financial stories that were intensely researched and demonstrated best journalistic practice. They could be a single story or a group of related articles.

The story could come from multiple sources, be it radio, television or print but it must have a text element as part of it. Ideally, they would be stories that start a conversation or bring about change.

Tim Hunter’s series of investigative news columns into the affairs of listed company Intueri was the outstanding entry in a field of excellent financial journalism. This was an exceptional example of a deeply informed, intelligent journalist realising the importance of a tip-off, committing time and energy to confirming the facts of that information and reporting in the teeth of denials and obstruction.

Hunter’s stories revealed the serious deficiencies, and worse, in the prospectus, practices and performance of a company taking money from private investors. But crucially, they also revealed sustained misuse of public funding from the taxpayer into a sector of real importance to New Zealand’s education and workforce needs.

The spotlight shone by Hunter in the National Business Review has directly or indirectly led to multiple inquiries by regulators and other agencies.

This was public interest journalism - business journalism - at its finest.”

John Hawkins
2016 Beacon Award Winner Announced

The conventional wisdom is that senior executives need a breadth of experience across a range of different enterprises, in order to develop the skills required to perform at the highest levels. They should also go to the “right” school, have a business, legal or accounting qualifications and have spent time in Europe to get an international perspective. Our 2016 Beacon Award winner, Michael Daniell didn’t do any of this!

Educated at Hastings Boys High School, Michael obtained his BE (Hons) in Electrical and Electronic Engineering from Auckland University - where he is now a Council Member. Shortly after, he joined a tiny division of Fisher & Paykel Industries developing ventilation systems for hospital patients with serious respiratory issues.

37 years later he retired as Managing Director of a worldwide leader in the treatment of sleep apnea and non-invasive, humidified ventilation systems. Initially working as an engineer, Michael jointly developed five patented technologies relating to humidifiers and control systems, one of these with Lewis Gradon who has recently succeeded him as MD at what is now Fisher & Paykel Healthcare.

In 1990 he was appointed General Manager of the Fisher & Paykel medical division, and in 2001 became the CEO and MD of Fisher & Paykel Healthcare when the company was listed. Since 2001, FPH has increased revenue 450% and now boasts two state-of-the-art manufacturing plants in New Zealand and Mexico. It exports to 120+ countries and employs 3500 staff globally.

Among many other awards, recent highlights include Fisher & Paykel Healthcare receiving both the Exporter of the Year, and the Commercialisation of Innovation for Export Awards in 2015. Personally, Michael was recognised as the Deloitte Top 200 Executive of the Year in 2013, and received the INFINZ Leadership Award in 2015.

Michael’s exceptional corporate leadership and the huge contribution he has made to both New Zealand business innovation and the lives of so many people with respiratory problems worldwide, puts him in a league of his own.

Michael Daniell is a most deserving winner of the New Zealand Shareholders Association 2016 Beacon Award.

John Hawkins
Michell Daniell’s hobbies of tramping and photography are picked up in this Dean Fletcher cartoon presented to him along with the Beacon.
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5. They send an email to NZSA to redeem with their Membership Number on Gift Cert, we activate membership and they enjoy, all thanks to you.

Any questions/need more information? email: ea@nzshareholders.co.nz if you do not have email access please write to: P.O. Box 6310, Wellesley St, Auckland 1141

A small step towards Commonsense Tax

On 17th November, the Minister of Inland Revenue confirmed in a speech to Chartered Accountants, that “demergers which do not involve distributions of income to shareholders, should not in principle give rise to a dividend for tax purposes.” He said that he had asked his department to fast track their consultations, with a view to introducing a bill early in 2017. NZSA will be watching this closely.

Alan Best

On CEO pay

Total remuneration packages are hard to measure and are often far higher than the numbers quoted in the company’s report. Our view is that CEO pay has often become excessive and are in breach of an implicit social contract a company has with the wider community.

Recently a company chairman came to see us and in our discussion we told him that we were unhappy with the large compensation package awarded to his CEO.
He told us that the ball was in our court and if we did not like it, we (and other institutions) needed to push back.
So, to show our displeasure, when the issue came up at this years’ AGM we abstained. Next year, if things don’t change we will vote against the remuneration report.

Ross Barker
Managing Director, Australian Investment Foundation

Good sentiment. Adequate action?
Environmental, Social, Governance (ESG) 101 - The latest buzz

ESG is a relatively new concept for New Zealand retail investors. Investopedia explains ESG Criteria is a set of standards for a company’s operations that socially conscious investors use to screen investments. NZ Superfund believes environmental, social and governance factors are material to long-term investment returns. MSCI is a leading researcher into ESG, they define ESG into 10 themes and 37 key issues as per the below table. To make life easier for fund managers, they also develop a scoring system to rate companies and industries on their ESG risk from AAA-CCC.

Most investment professionals believe ESG risk has a medium to long term impact on company returns. However when we look into the 37 key issues, we see that ESG risk can also be a short term issue. For example when the bad news around Samsung batteries was announced, it had an immediate impact on the company’s share price.

Like many other issues, one needs good

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<thead>
<tr>
<th>3 Pillars</th>
<th>10 Themes</th>
<th>37 ESG Key Issues</th>
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</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Climate Change</td>
<td>Cabon Emissions* Energy Efficiency Product Carbon Footprint</td>
</tr>
<tr>
<td></td>
<td>Natural Resources</td>
<td>Water Stress* Biodiversity and Land Use</td>
</tr>
<tr>
<td></td>
<td>Pollution and Waste</td>
<td>Toxic Emissions and Waste Packaging Material and Waste</td>
</tr>
<tr>
<td></td>
<td>Environmental Opportunities</td>
<td>Opportunities in Clean Tech Opportunities in Green Building</td>
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<tr>
<td>Social</td>
<td>Human Capital</td>
<td>Labour Management* Health and Safety*</td>
</tr>
<tr>
<td></td>
<td>Product Liability</td>
<td>Product Safety and Quality Chemical Safety Financial Product Safety</td>
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<td></td>
<td>Stakeholder Opposition</td>
<td>Controversial Sourcing</td>
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<tr>
<td>Governance</td>
<td>Corporate Governance</td>
<td>Board** Pay**</td>
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<td>Corporate Behaviour</td>
<td>Business Ethics* Anti-Competitive Practices</td>
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* Indicates “universal” issues assessed for all companies in MSCI world
** Board, Pay, Ownership and Accounting carry weight in the ESG Rating model for all companies. Currently, they contribute to the Corporate Governance score directly and 0-10 sub-scores are not available

Source: MSCI.com
Too often, executive compensation in the U.S. is ridiculously out of line with performance. That won’t change, moreover, because the deck is stacked against investors when it comes to the CEO’s pay. The upshot is that a mediocre-or-worse CEO - aided by his handpicked VP of human relations and a consultant from the ever-accommodating firm of Ratchet, Ratchet and Bingo - all too often receives gobs of money from an ill-designed compensation arrangement. Warren Buffett
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

A² Milk AGM 22nd November

A² Milk’s AGM was held this year in Sydney. For those shareholders who were unable to attend in person, there was an option to attend “virtually” using the Link Market Services platform. Since there were two resolutions that NZSA had concerns about it was important for NZSA to have a representative at the meeting. As proxy holder for NZSA, I was able to “attend” from my office at home using the virtual AGM platform. I had previously participated in the Xero virtual AGM, which had been a very straightforward experience. For the A² Milk AGM, things did not go quite so smoothly, but nonetheless the Link Market Services platform is a valuable option for companies to use to increase their AGM attendance.

Getting onto the virtual AGM site was straightforward, as was asking initial questions and voting on the resolutions. The problem I had was that the webcast wouldn’t initially play and when this did work, the presentation slides didn’t progress along with the commentary. I was able to call a Link help line, though during this process the issue seemed to resolve itself. Following up with Link the next day, it seemed there had been only a small number of calls to the helpline (given that approximately 180 people attended virtually). Two of these, mine and one other, seemed to be connected to our choice of web browser. Link planned to investigate this further. They were confident this glitch would be overcome for any subsequent virtual meetings.

A² Milk had a good year in 2015/2016, and to the delight of shareholders announced an excellent first four months of the current financial year. NZSA voted proxies in favour of the reappointment of the auditors; the re-election of David Hearn and the election of Warwick Every-Burns.

NZSA questioned the appointment of Peter Hinton as an independent director. Mr Hinton is a corporate lawyer and a long standing partner of Simpson Grierson, the legal firm that represents A² Milk. Mr Hinton has given legal advice to A² Milk over a period dating back to the time the company was founded. NZSA does not have reason to doubt Mr Hinton’s abilities and the contribution he can make to A² Milk as a director. However, NZSA does not believe that Mr Hinton should be classed as an independent director. The Chairman gave an outline of the steps that A² Milk and Mr Hinton would be taking to support the “independent” tag. These include an agreement which sets out potential issues, and how these will be managed, including the sorts of matters where Mr Hinton will need to step away from board deliberations.

A² Milk has also arranged for Andrew Harmos, from
Harmos, Horton, Lusk to advise on issues where there may be a conflict of interest. The need for all of this surely confirms that Mr Hinton should not be characterised as “independent”. Disappointingly, the company just released the outcomes of the voting and not the final voting numbers. We do know however, that 19% of proxies held by the Chairman in advance of the meeting where opposed to Mr Hinton’s election. It would appear that our concerns were shared by others.

The other resolution we questioned, sought a $350,000 increase (from $600,000 to $950,000) in the amount available per annum for non-executive director remuneration. The company set out in its Notice of Meeting the increases it proposed for the non-executive directors’ board fees and committee fees. In the view of NZSA, the increases are excessive and not in alignment with the market. When questioned on this, the Chairman predictably referred to director “workload”, the international nature of the company’s operations and a supportive remuneration consultant’s report (are remuneration consultants’ reports ever not “supportive”?). It would have been interesting to have seen this report, but of course shareholders were not given this opportunity. The Chairman did state that the remuneration consultants were London based and that A2 Milk was competing with large international food companies. So how “comparable” were the comparators chosen by the London consultants? NZSA carried out its own comparison, drawing on New Zealand listed (like A2 Milk) companies of comparable size, complexity and international presence. The nine companies chosen included Air New Zealand, Fisher and Paykel Healthcare and Mainfreight. The base fees proposed by A2 Milk were 35-40% above the average of the comparator group and the committee fees were around 70% ahead. The Chairman’s justification for the increase was unconvincing and proxies held by NZSA were voted against this resolution. Of those proxies held by the Chairman, in the lead up to the meeting, 28% were voted against the fee increase. Clearly there was a significant level of concern around the extent of the fee lift.

The “debate” around the fee increase did highlight a limitation in attending the meeting virtually. The question lodged by NZSA on the remuneration resolution included comment that the proposed fee levels were well in excess of those of other NZX listed companies of similar scale, complexity and international presence. Though the Chairman did read out this question, he then attempted to dismiss it by in effect saying that “A2 Milk could not be compared to local companies”. This deserved a follow-up response, but by the time it had been typed in and sent, the debate had moved on. Had we been physically present, the Chairman would not have been able to get away with this.

Mr Hinton should not be classed as independent. It would appear that our concerns are shared by others. 19% of the proxies held by the Chairman in advance of the meeting were opposed to Mr Hinton’s election.
Nearly 200 shareholders attended to learn about their company’s performance over the past year. All divisions of the company performed well above expected levels and are expected to continue for 2017, with an increase of 7-10% in Net Profit
Animal Care up 16%
Pharmacy up 49%
Consumer goods up 6%
Contract Logistics up 9%
Institutional healthcare up 20%

Prospective acquisitions are measured carefully, and many are rejected because they do not meet the criteria. The merger of the Terry White Pharmacy Group, still subject to final approval by the regulatory authorities is considered an important component for the new financial year.

Several questions were asked by shareholders.
Robin Harrison the NZSA proxy congratulated the company on a job well done and asked, “if the technology was in place to protect intellectual property and business information against potential hackers.”
Mark Waller answered that they employed four different platforms across the business and security managers regularly assessed their situation. They also had independent reviews to ensure against any possible gaps in their system. He noted that with on-line trading so prevalent these days there was an ongoing battle to ensure all loop holes were blocked.

Max Smith, NZSA board member asked, “what was the companies policy with regard to the rotation of the companies accountants and auditors.” Again Mark Waller answered “both accountants and auditors were tendered for every five years and they had independent tax advisors separate from the auditors. The tax partner was also rotated every five years”

Another shareholder asked. Because of the high percentage of revenue and profit being generated in Australia was there was any possibility the Head Office would be transferred to Australia? Mark Waller replied, “this is a possibility, head office personnel were placed where they are needed. It had already been necessary to split the head office function because there is a need to have several key personnel in Australia.

The possibility of a share split was raised by another shareholder and the answer was that such a move was being seriously considered.

The possibility of expansion beyond the current field of activity was raised with the potential in Asia being the focus of the question. Again this geographical area represented both opportunity but also the need for caution. Although China was of interest, the company considered S.E. Asia more important, in particular, Malaysia and Indonesia.

The election of officers was by a show of hands, and although not preferred by the NZSA, it was allowed to proceed unchallenged as there was nothing controversial in the notice of meeting. After the meeting, executives of the company including two board members were advised that the NZSA preferred a poll vote. The reasons why were explained although Elizabeth Coutts was reluctant to agree.

All three board members up for re-election were successful in their bids. These were, Mark Waller, Peter Williams and Elizabeth Coutts.

Max Smith
A small group of about 35 shareholders were on hand for this serial underperformer. It seems NZSA members may be more discerning as the Association held proxies from only a few shareholders.

Chairman Tim Cook gave a short presentation which, in my opinion, skimmed over many of the negatives including any mention of the share price plunging 50% over the year to just 20c. The slides showed that losses at EBITDA level were incurred at Nosh. EBITDA was down at the Mad Butcher and the only growth area was the Better Bars hospitality division which had a stellar 40% lift. That was fortunate because without it, the overall EBITDA drop of 8% would have looked very ugly. The bottom line statutory NPAT was a $4.6m loss (last year $3.3m profit). Like many other strugglers, Veritas prefers to use “underlying” NPAT which excludes “significant items” and concentrates on continuing operations. This yielded a profit of $3.16m. On the plus side, operating cash flow was a positive $1.4m unlike in 2015 when it was negative $0.78m.

The Chairman had various reasons for the result. Mad Butcher faced supply issues, stronger competition and several franchise stores failing (similar to last year). The “plan” is to find better franchisees, improve margins and explore international trends in meat retailing. He had little to say about how the Kiwi Pacific Foods joint venture fiasco occurred. This has ended up costing a small fortune in failed litigation as well as a net write off of $1.6m. Nosh was worse with a $1.9m EBITDA loss. No indication was given about the NPAT effect for this division (which was surprising given the newly opened Pakuranga store). For Nosh, the “plan” is new management (now complete), better marketing and better margins. As in 2015, Veritas intends to franchise Nosh stores. Better Bars was a better story with all bars profitable and a limited amount of investment planned for existing sites. The final comments related to claims that strategic decisions were taken to sell unprofitable bars, close unprofitable Mad Butcher stores and write down impaired assets. That’s all very well, but it does seem that plans to improve performance as detailed above have so far failed to achieve any turnaround. The Chairman finished by forecasting an FY17 NPAT of $3.0-3.6m, slightly up on this year’s adjusted figure.

Then it was Managing Director Michael Morton’s turn. Only it never came. He sat there grim faced and made not one comment during the whole meeting, even when numerous questions of an operational nature were asked. That is simply not good enough. Questioning was at times quite animated. Unsurprisingly, the Chairman would not be drawn on providing a profit figure for the year to date, given NZX continuous disclosure obligations. Nor could he give any undertaking to regularly disclose total borrowings. A question about the qualified audit was met with a blunt response that the company and auditor disagreed on the carrying value of the Nosh subsidiary. When pressed further, the Audit Partner from PWC said that they formed their view based on past performance and a review of the company’s plans for Nosh. Clearly they are less optimistic than the directors.

Another shareholder asked how the “lifting of margins” was progressing at Nosh. The answer from the CFO was that these had improved 2.6% in FY16 and they wanted a further 3.5% over the next 5 years. When asked how many Nosh sites had been franchised over the year, the answer was “none”.

Questions around the Kiwi Pacific Foods litigation debacle were diverted by saying the board relied on advice from two legal firms, but the arbitrator disagreed and found against Veritas. They decided not to appeal because of the additional cost and no certainty of outcome.

NZSA observed that MD Morton only attended 11 of 14 board meetings (78%) and asked if the board was satisfied with that given the difficulties facing Veritas. There was no response.

NZSA told the meeting that the reality was that Veritas was effectively at the mercy of its bank. Current borrowings were up 163%; over 60% of “assets” are intangibles (which have little value if the company is not a
It was pointed out that he had been on the board since the beginning and he was asked if he took responsibility for poor past decisions. Cook said that in line with the board collective responsibility protocol, yes he did, but would not be drawn when asked if a fresh set of eyes would be a better option, other than to say he was working “hard” to improve things and it was not easy to get directors prepared to take on companies in difficult circumstances.

With so few proxies, we were unable to ask for a poll. Several shareholders including NZSA voted against Cook’s re-election, but it was passed on a show of hands.

Veritas faces a host of difficulties. The apparent unwillingness of the Managing Director to front shareholders in a meaningful manner hardly inspires confidence. Chairman Tim Cook did his best to emphasize the positives such as they were, but it was obvious that there is little room for manoeuvre. I don’t hold shares in Veritas and I am certainly not planning on buying anytime soon.

John Hawkins

Contact Energy AGM 12th October

The AGM started off with a speech in Maori, followed by the board and executives singing a waiata. Chairman, Ralph Norris, focused on Contact’s people, customers, improved product offerings, and reducing debt.

EBITDA was $523 million, Free cash flow $403 million (+17%). There was a Statutory Impediment loss of $66 million in 2016 as a result of closing down the Otahuhu power station. The company in the last two years had paid out to shareholders $1.16, made of a dividend payment and return of capital. They are now targeting to return some $847 million to shareholders over the next two years.

The chairman stated the market was very competitive so that it is important to improve all parts of Contact’s business. A very important aspect was employee engagement, which came in at only 56% and which they seek to improve.

Another key area is using technology to improve productivity. The company produces 82% renewable energy, and so is well placed to meet competition. This has resulted in a 50% reduction in greenhouse gas emissions in the last 5 years.

Dennis Barnes, the managing director stated the company has at last started to see its customer base go up again. It has gone up by 4,000 new customers since 1st January 2016. He said they are keen to increase their market share from the current 21%. The cost to service a customer is $106 per year.

There were a number of questions from the floor but nothing major of concern. The chairman stated none were received from institution investors so the impression I came away with is that Contact is likely to make steady progress from where they are at present.

Des Hunt
Genesis Energy AGM 19th October

Chair, Dame Jenny Shipley did a masterly job of introducing each Director, and the talents they bring to the board table. She also asked the three directors who were up for re-election to present themselves. Maury Leyland, ex-Fonterra, was particularly impressive.

CEO Mark England then

- Introduced a refreshed executive team, including 4 new members with a strong focus on new technology and engagement with customers
- Presented an excellent video which cleverly spelled out Genesis’s new strategy to ‘Reimagine Energy’ This is now available on the Genesis Investors web pages - shareholder meeting 2016.
- Essentially, this means embracing the sweeping changes in options for electricity consumers brought by domestic solar generation and domestic scale storage batteries, both aspects connected through smart metering and ‘connected devices’ in ‘smart homes’. This change is coming and Genesis can only prosper by embracing it.
- Genesis needs to think about enhancing electricity customers’ use of energy ‘beyond the meter’ rather than – as has been traditional – only focusing on delivery of electricity to the home.
- An important part of this approach will be stronger engagement with customers by connection more closely to them, using data more creatively and offering them more options.
- Carbon emissions down by 9% in 2016 year due to higher gas utilization/less coal at Huntly.
- Looking forward over the next year, England expects earnings broadly in line with the past year and echoed Shipley’s commitment to the progressive dividend policy.

England was an impressive speaker and dealt with complex topics clearly and simply with humour and flair.

England then handed back to Shipley to take the meeting through voting on resolutions; 1, 2 & 3 on confirming Director appointments, 4 on increasing the Director fee pool by up to 15% over the next two years. In discussion it emerged that average NZ board fee increases are currently 22%. NZSA had engaged with Genesis Board to give feedback on their proposals and in a discussion after the meeting Shipley acknowledged the input from John Hawkins. NZSA discretionary proxies were voted in favour of the 4 motions. The resolutions were decided overwhelmingly by poll, and the proxy count was shown during voting for each resolution. NZSA recommends proxies be withheld until voting is complete.

Q & A Summary

Genesis does not necessarily see Commerce Commission and EA market intervention as unhelpful but it needs to take more account of change in the industry and the impact of, for example, inconsistency and complexity of lines company charges as well as the developing user market ‘beyond the meter’ including the battery market which is currently unregulated. Genesis is keen to participate in policy development and review with the EA, CC, Government departments and industry participants.

Hydro Storage currently very high in the North Island, less good in the South. With hydro, gas, and buying capacity /hedging from other generators, Genesis has flexibility to maintain margins

There was a series of questions around the proposed Directors’ fees increase. Some of these usefully explored the justification and relativity of the proposed increase. Shipley and Remuneration Committee chair Doug McKay stressed the iterative process they went through, consulting widely and using specialist consultant Korn Ferry to benchmark fees and report on trends. This report is on the Genesis website.

Several questions focused on how many meetings and or hours the directors would work in order to earn their fees. EG “Did they turn up to meetings, and if they didn’t, would their pay be docked?” The writer found this line of questioning
startlingly naïve and thought Shipley handled it well, always respecting the feedback. The Korn Ferry report noted that the average NZ Director spends around 230 hours a year in formal meetings, preparation, follow-up and briefing all on top of this.

In response to a question about electric vehicle trends and the Genesis strategy, England noted that Genesis is feeding this development into its plans, and wants to make it easier for customers to charge their cars at home.

Noting the requirement for diverse skills and experience on the board, Shipley stated that Genesis was NZ’s most complex generator from a fuel point of view – gas, hydro wind and coal and had NZ’s largest retail business.

Simon Walter

Comvita AGM 26th October

There was a very good attendance of shareholders and a number of VIPs including Mr Zhu Guangping, Chairman of Shenzhen Comvita Natural Food Co., his wife & a Director who came from China for the meeting and gave an address.

Unfortunately, it was hard to gauge the atmosphere of the meeting as approximately 140 people were jammed into the “beehive” and a further 80 down the corridor jammed in the Board Room. They could only see the backs of some in the “beehive” & half the Board members. Their show of hands could not be seen/counted and if they wanted to ask a question they had to come into the “beehive”. A most unsatisfactory arrangement when there is a perfectly good community Hall just down the road which could accommodate a lot more shareholders!

Chairman Neil Craig was still pretty casual in conducting the meeting but an improvement on other years. However, Comvita has continued to progress and achieve over the last 15 months. New product development seems to be paying off and some smaller product lines such as olive leaf extract are showing strong growth.

The Seadragon Investment could be positive but shareholders need to hear/see a decent update on this investment. It was requested but not really forthcoming. The Chairman did admit that it was “quite an opportunistic” investment.

Before the resolutions were to be voted on, as Proxy holder, I asked the Chairman if he would be conducting a proper poll, meaning under the guidelines of best business practice. He assured me this would be the case and promptly proceeded to take the votes by a show of hands; no voting papers were collected! Afterwards, when asked why, he laughed and said he had the numbers anyway so there was no point, but he was surprised that there were a number against.

Resolution 3 was the re election of Luke Bunt who had only attended 70% of meetings. When questioned, the Chairman took over and basically said what a great job Luke Bunt had done thus far for Comvita. His missed meetings were due to his commitments with Pumpkin Patch which went belly up the same afternoon. To me, it shows weakness in a director not to stand up for himself! NZSA voted against the resolution.

Resolution 4 was the election of Murray Denyer. He missed his first meeting which gave him a 72% attendance but NZSA believe he is a very good fit for Comvita. On questioning him he stood up and assured NZSA and shareholders present that in future he would attend fully and represent the company’s and shareholders’ interests from hereon in. NZSA voted for the resolution.

Jane Lyndon

Editor: NZSA Chairman has written to the company about the accommodation and procedural aspects of this meeting seeking to improve the conduct of meetings in future.
At Tegel’s inaugural meeting as a listed company, a good crowd of shareholders were keen to see how the company was progressing and meet the directors and senior management.

Chairman, James Ogden, who ran the meeting well, noted that all key metrics were ahead of the IPO forecasts. Given that listing was toward the end of Tegel’s financial year, anything else would have been a real surprise on the down side. With proceeds paying down debt, Tegel is now poised for export growth, refreshing its branding and expanding its value-added product line.

The Chair covered off governance and with an experienced board it is plain to see that unlike some recent start-up listings, long established Tegel understands what the market wants and expects in this regard.

CEO Phil Hand introduced his management team and went on to give a confident address. Of particular note, he announced that Tegel now has approval to export raw poultry to Australia. This is a new development and opens up a large (although highly competitive) market for NZ exports, and one which is not available to any other competing countries because of biosecurity concerns.

While volume rose 9.5%, revenue lagged at 3.5% because of intense competition and a degree of oversupply. Still, NPAT was a useful 29.5% ahead of the previous year. The CEO covered training, health and safety and animal welfare, all of which are receiving plenty of focus and reiterated that branding and marketing, new products and increased exports were the main strategic focus. Looking ahead, demand has remained soft but is expected to pick up over summer, with results in line with IPO forecasts.

The resolutions to re-elect Mr Tang Kok Yew and Mr Brett Sutton as directors were easily carried by over 99% of votes. Voting was by poll. NZSA voted in favour as you might expect at this early stage when the board has had insufficient time, but deserves a chance to show its mettle.

There was a good cross section of questions, some of which are noted below.

Q: Why have some of the Directors not purchased Shares in the Company – This sends the message of ‘Lack of Faith’?
A: Kok Yew Tang cited a ‘Conflict of Interest’ policy that his organization (Affinity Equity – a 45% shareholder in Tegel) had in regard to situations where they sat as Directors representing the interests of that organization.

Q: From NZSA. Kok Yew Tang said he “represented the interests of Affinity Equity”. However, NZ law requires directors to look after the best interests of the company they direct (and by extension, all shareholders). Where does his priority of responsibilities lie with regards to Tegel as a company?
A: He did represent the interests of the company and all shareholders in the Board Room, but his comments around Affinity were related to his election and that he was from Affinity Equity.

Q: The escrow provisions meant Affinity could sell half its holding in a few months time. This could depress the price. Should shareholders be concerned?
A: While that was true, the share price would have to be at $1.86 or above to trigger this. If that occurred, shareholders would probably be pretty happy (current price around $1.50)

Q: What impact does bio-security have on Tegel and the likelihood of competitors coming into NZ?”
A: At present NZ allows only tinned chicken to enter NZ. NZ takes bio-security very seriously and as such has strict measures in place.

Q: What access does Tegel have to the Australian market and is it reciprocal?”
A: While recently Australia has relaxed it’s laws to allow NZ raw chicken to be...
imported into the country, (due to our high standards of bio-security) it is not reciprocal (see above answer regarding tinned chicken).

Q: Will a potential Inghams IPO in Australia have an effect?

A: Inghams is their largest competitor and they have been battling in the market for many years. They see little changing.

Tegel is one of the few long standing companies with a proven track record to IPO in recent years and it enjoys a solid position in its markets. Growth will depend largely on export prospects. The news about access to Australia for raw product was a very positive step in this regard. Shareholders seemed happy with what they heard and following the close of proceedings had the opportunity to sample some of the very diverse range of products that the company markets. Yum!

John Hawkins

Precinct Properties AGM 17th November

The big question for everyone at this annual meeting was, how did Precinct’s Wellington properties survive the Kaikoura earthquake two days earlier? Chairman, Craig Stobo, cleared the air in his opening remarks. He reported that, apart from some damage to the building services and fit-outs at Deloitte House, their buildings had escaped damage. He said Precinct staff had responded quickly to ensure the safety of their buildings and those who worked in them. Further assessments were being carried out. Precinct’s Deloitte House should not be confused with the old Deloitte House in Molesworth St – earthquake damaged and now demolished.

Scott Pritchard, CEO of Precinct’s management company, told us that there is limited demand in Wellington for corporate office accommodation. Precinct’s strategy is towards housing government departments and is in the middle of a planned development/refurbishment on its Bowen campus to meet that demand. In answer to a question from me, he said costs are mostly locked in and unlikely to be materially pushed up by a probable post-earthquake increased demand for building services.

On the other hand, the Auckland CBD environment has strong demand from both corporate office and retail increased activity. Eighty percent of Precinct’s development is in Auckland at Wynyard Quarter and Commercial Bay (Downtown). Post current activity, there are further opportunities for development on these sites. Capital for development is not seen as a problem - policy is to keep gearing in the mid 30% range. With long term government leasing for the Bowen campus in Wellington and significant pre-commitment from anchor tenants at Commercial Bay, Mr Pritchard is confident in the company’s future. He will have been heartened post meeting by a Court decision allowing Precinct to complete its purchase of Queen Elizabeth square from the Auckland Council.

Mr Stobo confirmed a first quarter dividend of 1.4 cents a share with an expectation of an annual return of 5.6 cents.

Two of Precinct’s four independent directors are subject to election each year. This year it was the turn of Don Huse and Graeme Wong. Both spoke to their re-election and were re-elected by a show of hands. As was authority for the Board to set the auditor’s fees.

Mr Stobo told me that next year he plans to offer a webcast of the meeting proceedings. He has no interest in going down the path towards a virtual meeting. Indeed, directors and senior managers seemed to enjoy the opportunity for face to face interaction with shareholders.

Bruce Parkes
Cavalier Corporation AGM 22<sup>nd</sup> November

Most of the questions in shareholders’ minds were answered in the addresses first by CEO Paul Alston, and then by Chair Sarah Haydon. The rationalisations caused by a massive increase in wool prices, and a flood of imported competition, continue, and although the company showed a non-GAAP normalised profit of $6.3m for 2016 it is forecasting only $3-5m (normalised) for 2017.

The previous AGM promised reduced debt, redefined core business, reduced costs, and increased staff buy-in to the changing processes. These achievements are well covered in the annual report, and include the sale of the Australian Onterran tile business, sale of the Sydney warehouse, restructured management and sales, launch of the Siren and Valour ranges of nylon carpet, implementation of the revamped Kaisen productivity system, and introduction of the Jive wool range based on fresh market research.

Still subject to further provisions, are the consolidation of scouring, which is still under appeal by Godfrey Hirst in the High Court, and combining 3 spinning plants (Whanganui and Christchurch) into one in Hawkes Bay. (*Post meeting, the Godfrey Hirst appeal was unsuccessful*). Current lower wool prices will after the usual 6 months lag, translate into $600k pretax for every 1 cent drop, while increased sales as the new ranges gain traction, and reduced costs from spinning will add to the bottom line in 2018.

Questions from the floor asked about gearing – (ND: ND+Equity,) 34% in 2016, down from 45% in 2015, but forecast to increase a little as investment in new product, spinning, and sales are approved.

NZSA raised the issue of retirement payments to independent directors, now restricted to no more than a year’s pay. Payments to James $70k and Hawkins $96k were permitted under NZX rule 3.5.2 because those directors joined before 2004, and the payments were contractual. Sarah Haydon explained that shareholders must expect a further retirement allowance to founding director, Grant Biel who is serving his last term. Mrs Van Camp questioned the merit of the allowances on the basis that these members had not coped with the crisis leading up to 2014, when the board was revitalised with 3 new directors, and there was considerable support for her view.

One questioner wondered about the net cost of the vacated Onehunga building and we established later that this was being partly sublet, and used partly as storage by Cavalier; the shortfall having been provided for under onerous contracts, and therefore not likely to affect future profits.

Inevitably, shareholders wanted to know when dividends would be resumed, but the chair could only reiterate that when the restructuring was complete, future proofing established, and profits had recovered the board would be keen to reward the patient shareholder.

The resolutions electing Sarah Haydon, and John Rae were approved by poll. I spoke to both and formed the view that the current board is on the right path to return the business to profit, but they will continue to test the patience of shareholders, most of whom saw Cavalier even 6 years ago as a dividend stock in a mature market.

*Alan Best*
About 120 shareholders attended. Resolutions including the re-election of Bruce Irvine and John Harvey were passed by poll with NZSA support. New director Vanessa Stoddart adds new skills, which will help with Heartland’s planned digital developments including customer initiation – not just digital banking.

The presentations of the chair and the CEO (Jeffrey Greenslade) are on the Heartland website – they reiterated Heartlands chosen strategy to find market niches where they can operate alone and pointed to outstanding (higher than expected) growth in P2P lending (Harmoney) and Reverse Mortgages. They mentioned that they would be interested to buy UDC (competitor, currently owned by ANZ) and have declared their interest to ANZ.

Jeff Greenslade demonstrated (as part of their digital transition) their newest “Open for Business” offering – online approval of a business credit up to $50k. I was afterwards quite relieved to hear that the fast approval process is followed by a human verification of the provided information, before the credit is paid out.

The only somewhat controversial issue was the proposed increase of the directors’ fee pool from $1m to $1.2m, which NZSA had decided to support.

Q: Justification for increase of directors’ fee pool?
A: Directors fee unchanged for 5 years (was 75k plus 10k committee fees), now 100k (with no additional committee fees); First rise after 5 years, looking to add Australian director and (as it sounds) close to an appointment.

Comments: The NZSA supported the increase – and the proposal was accepted (with roughly 11% of votes opposing).

Q: One shareholder asked about the benefits to publish the annual report in Te Reo.
A: Te Reo is one of the official languages in NZ;

Q (NZSA): Is the board concerned about the high reported impaired asset expenses (nearly 9% of revenue)?
A: While impairment cost are higher than for the big banks, so are their margins. Their impairment costs are in line with other organisations (mentioned SBS) operating in the same field;

Q (NZSA): Is the board happy with the current credit rating (BBB - which is basically lowest investment grade rating) – or do they strive to improve this rating?
A: BBB- would be lowest investment grade, however while the board is happy with the current rating they do intend to further improve;

Q (NZSA): Harmoney did not always have positive press for the way they treat their creditors (optimising their fees over creditor returns) – are they concerned that this could impact on Heartlands brand?
A: Heartland is only a small shareholder … and Harhoney team is learning their way and improving;

Q (NZSA): there is currently worldwide some trouble for the banking industry (like Deutsche Bank or as well the big 4 Australian Banks impacted by apartment speculation in Australia) – does the board see any related risks for Heartland?
A: No, they operate in different market segments

Q: What kind of acquisitions would they look at in Australia?
A: They are currently looking for “bolt on” business to their reverse mortgages, no other specific targets;

Q: One shareholder expressed her frustration that Heartland does not offer cash handling facilities and points to their responsibilities to teach children in cash handling and saving (like good old savings account).
A: Board expressed their sympathies, but pointed out that cards instead of cash are the way of the future;

Overall a positive and well managed AGM of a company which has, so far, consistently increased shareholder value. They presented a solid looking plan forward and intend to significantly improve their digital presence based on the business segments they are strong in.

Heiko Muller- Cajar
Port of Tauranga AGM
20th October

There was a very good turnout of shareholders (approx. 450) at Holy Trinity Church, Tauranga, despite the fact that parking was a nightmare & it was a long walk for some! The mood was buoyant after a special dividend, the dredging of the harbour to take the new class of container ships completed and working. The original container crane is about to be decommissioned and two new ones almost assembled.

As proxy holder I congratulated POT for their foresight & vision and it was a great day when the largest container ship glided into the harbour. The foot of the Mount and the harbour foreshore to Ferguson Park in Matua were lined with people. The Port enjoys by and large the support of the community as well as the many local shareholders.

I also made a special point of congratulating Julia Hoare on her appointment to the Board. At afternoon tea, the Chairman, David Pilkington commented that she was shaping up to become a very good director for POT.

Hopefully next year the company will move their AGM to the ASB Stadium where parking is a breeze and the capacity much better.

Jane Lyndon

The Warehouse Group AGM
25th November

Chair, Joan Withers, reported the company had a sound result for the last financial year. They achieved a 12% increase in EBIT and NPAT went from $57.1 million to $64.1 million. Same-store sales grew by 4.1%. Growth came from the Red and Blue Shed Stores, Noel Leeming and Torpedo. The only area still of concern was Financial Services. The board of The Warehouse Group has told shareholders that an impairment of goodwill in its financial services business is “highly likely” after a weaker-than-expected first quarter trading in the new division. Chief executive, Nick Grayston, said the focus for financial services was to start leveraging the scale of the group’s retail businesses and continue to drive growth to achieve scale.

Trading for the first 3 months has been positive and forward projections so far have been reasonable. Focus has been given to cost control and overcoming the weakness in the NZ dollar.

The final dividend declared of 6cents per share will bring the total for the year will be 16cents per share.

The CEO, Nick Grayson commented they have 6 key result areas:

1. Brand positioning and engagement.
2. Products and services.
4. Digital retailing.
5. Store experience.

It was mentioned retail was getting more intense. Their strategy is to focus on continue profit growth.

Joan Withers commented the NZSA has been actively involved in improving corporate governance in the public arena, which the directors of The Warehouse fully support. Joan also gave the Future Director program a big push encouraging other companies to get behind and participate.

Des Hunt
This meeting was held in the newly reconstructed Great Hall of the Arts Centre in Christchurch. The restoration of the building was a major post-quake project for Fletchers.

The Chairman, Sir Ralph Norris, outlined the company’s financial performance which have been very strong for the 2015-16 year and he pointed to an expected continuation through the 2016-17 financial year.

The CEO, Mark Adamson and the Chairman responded to shareholders’ questions:

Q: Why is there’s no mention of timber sales in the annual report? Fletchers no longer owns any forests but does, of course, purchase significant quantities of timber material.

Q: NZSA proxyholder Max Smith praised the company for their excellent performance then asked:- What research and development is being conducted on laminates to enhance its sales? Considerable research has been undertaken to improve laminates’ resistance to heat and scuffing on benchtops also to improve its flexibility to go into sharper angles. They are also now producing antibacterial surfaces for use in medical facilities and fast food outlets. There are developments of wireless charging capability being etched into the back of laminates. Overall they are working to ensure that laminates are a product for the 21st century.

Q: You mentioned increasing housing construction from 300 to 1500. Is it targeting a particular market segment? There’s a mixture of housing including social housing but mainly in the mid-range rather than the top end. They have a significant land bank around the country (including Christchurch’s East Frame) and are well positioned to build a mix of social housing, affordable housing and slightly more upmarket housing.

Q: In a statement made in 2013 it was indicated that FB Unite would benefit the company to the tune of $100m. Will it achieve that figure? So far they have achieved $75m and FB Unite has now been morphed into the larger Accelerate programme and management expects the residual $25m to be exceeded.

Q: There’s mentioned in the Report of “Significant Items” contributing $37m. Could you elaborate on them? The major item arose from selling a quarry asset above its book value.

Q: Was the10% increase in Placemakers’ sales made up from trade rather than DIY? Yes trade makes up the vast proportion of sales through Placemakers with wholesale counting for over 80%.

Q: Are there plans to drop the DIY side? No. It offers good margins. Bunnings and Mitre 10 target DIY but have difficulty servicing the trade.

Q: Why do the annual accounts record very minor plant closures among the “Significant Items”? General accounting principles require them to be so listed and follow their auditor’s guidance. This application has been consistent over time.

Q: A resident from Otuataua asked if the Chairman or senior management would visit the proposed development area and talk to the community including the Save Our Unique Landscape group? The Chairman noted that the group had made their points at last year’s AGM but noted that there are fundamental differences of viewpoints which may not be reconcilable. Those areas of archaeological or historical significance abutting the development area will be protected by a median strip and any areas found to be of archaeological significance will not be built on. There are on-going negotiations with local iwi. While he was prepared to visit on-site it was unlikely that the company would deviate from what had been approved already. There are similar challenges elsewhere in Auckland region arising from higher densification requiring consultation with local groups.

Three directors were up for re-election; Tony Carter, Dr Alan Jackson and Sir Ralph Norris. Each addressed the meeting in turn to outline their contributions to the company. The voting was held using electronic clickers. The system worked well; the results were displayed quickly and all directors were re-elected with overwhelming majorities. I left confident that this was now a successful and well-managed company with excellent prospects.

Robin Harrison
Hellaby Holdings AGM 25th October

It was standing room only for this shareholder meeting. Those attending were not there to hear the good news on new directions put in place by new Managing Director, Alan Clarke. Their interest was in the unsolicited bid for the company from Australian raider Bapcor.

Chairman, Steve Smith, started off by addressing the unexpected and unsolicited Bapcor bid. He said Hellaby’s board considered the bid opportunistic and did not represent fair value. He noted that Castle Investments, owner of 27% of the company, had agreed to sell to Bapcor. He recommended shareholders not accept the offer. Since the meeting the rhetoric between Hellaby and Bapcor (supported by Castle) has continued to escalate.

Mr Smith then went through the restructuring and divestments made by the company; admitted the FY216 produced a soft result; conceded that declared dividends exceeded earnings per share – this based on director’s confidence in future maintainable earning streams. More than once he mentioned that Hellaby was a corporate member of the NZSA.

The company had been close to finalising the appointment of two new directors who would have offered gender and geographic diversity. These have been put on hold until the Bapcor bid has been resolved. Retiring director, Gary Mollard, had agreed to stay on to help deal with the Bapcor bid. Therefore, the board would re-appoint him after the AGM and he would retire permanently once the takeover bid was resolved.

Alan Clarke took us through the history of the company and the planned new direction focussed on two core business groups, automotive and resource services. A third non-core footwear group would be cleaned up with a view to a sale in a 2 to 3-year time frame. He noted that it was the automotive group that Bapcor wanted to get hold of. We also had presentations from Colin Daly (automotive) and Ivor Ferguson (resource services). The growth area in automotive is in auto electronic and batteries. Hellaby will seek benefits in scale but first has to improve its IT systems.

Mr Clarke said that the two core groups presented significant investment and value creation opportunities for Hellaby shareholders. He urged them not to give them away for Bapcor shareholders to enjoy.

There were only two resolutions before the meeting. The usual one around auditor’s fees and the re-election of non-independent director, James Sclater. Mr Sclater is the nominee of Castle Investments. We were told that he had no prior knowledge of the Bapcor bid or Castle’s involvement and he would play no part in the deliberations around the Board’s response. The Board supported his re-election. This rather troubled me. Despite Mr Sclater’s abilities and non-involvement in the Bapcor bid, he is there as the Castle nominee and Castle is actively supporting Bapcor. I can sympathise with his position but he is surely compromised. He and the board recognise this and he will take no part in the most important issue before the board, the Bapcor bid. I thought he would have felt honour bound to resign.

Am I being too sententious, or should pragmatism rule the day? I rose to speak to the resolution but Mr Smith called for the vote (by show of hands) without calling for discussion or recognising me. All those at the meeting, other than me, either voted in favour or abstained. Democratically, pragmatism ruled the day.

After the meeting Mr Smith apologised for not noticing my wish to speak to the resolution. Mr Clarke told me that he favoured voting by show of hands as it is quick and easier. We may see a change at future meetings. In a later discussion he told me he accepts a move to poll voting as inevitable. Hellaby is also a little different by having all proxies lodged with the company secretary and he being prepared/able to accept proxies up to the start of the meeting. Post meeting, they did publish the lodged proxy votes. They were over 99% in favour of the resolution.

Bruce Parkes

In December Bapcor raised their bid price and the Hellaby Board appears to be ready to recommend shareholders accept - as long as Bapcor allows a Christmas present of a final dividend to mop up imputation credits. 
PGG Wrightson AGM 18th October

Superb weather and a beautiful Hawkes Bay venue saw about 60 shareholders at Mission Vineyard. Not surprisingly, the majority appeared to be retired farmers.

The Chairman, Mr Alan Lai, addressed the meeting; essentially emphasising the improved EBITDA and net profit despite a lean year for New Zealand dairy farmers and the serious floods in the South American operations. He congratulated the management team for achieving this result.

The CEO Mr Mark Dewdney expanded on this theme. However, a cautious approach to dividend payments was made, down half a cent on previous year, but still providing an excellent yield (about 7%) compared to bank deposits and bonds. He considered the 2016 EBITDA of $70.2 million to be outstanding but cautioned the forecast for next year was in the $62 to $68 million range.

Some questions were raised about the level of exposure in South America. PGW aims to bed in existing operations for the next 2-3 years. The board considers that investing overseas, in Australia as well as Uruguay, diversifies the exposure of the company to climatic and other risks when compared to operating solely in New Zealand.

It was anticipated that purchase of “Subterranean Clover Germ Plasma” from the West Australian Government would be a “game changer” providing increased sales in the Australian market.

Generally, the shareholders were pleased with the results. Mr Lai, via Agria, owns more than 50% of PGG Wrightson. A query was made about the impact on Wrightson should Mr Lai, in particular, or any other board member, suffer demise. Apparently, there is no formal succession plan in place, and the whole idea seemed to surprise the directors. They seemed to consider they would be able to manage, but one hopes the query will give them some food for thought in future.

Questions about a lack of female directors, brought the usual response that the board seek “diversity of thought”, and consider they already have a well-rounded and successful board, (one cannot argue with that) but would certainly consider a suitable female candidate should the need arise. Otherwise, there was no formal plan for introducing ladies to the board.

Re-election was sought of Mr Trevor Burt and Mr John Nichol, as well as re appointment and remuneration for the auditors KPMG

Both directors spoke to the meeting, Mr Burt came from behind the board table and spoke in a confident, flamboyant manner. He spoke first in Maori, presumably as a recognition of his representing the holdings of Ngai Tahu, emphasising he was passionate about ensuring the board maintained “Good Governance”. Judging from some of the mutters and mumbles from the shareholders behind us, his approach was possibly a bit “over the top”.

The voting was by poll, and all motions passed, this was of course a foregone conclusion given that, Mr Lai controls a majority of shares.

Paul Pratchett
Abano Healthcare Group AGM 25th October

Shareholders can find presentations by chairman, Trevor Janes, and CEO, Richard Keyes, on the NZX website. These are also on the company website along with a webcast of most of the meeting proceedings. What these do not disclose is that despite the positive results and positive reflections for the future, there was an obvious tension in the air (we won’t be able to detect that in virtual meetings!). At the time, I put it down to the presence of former director, Peter Hutson, who said nothing at the meeting but displayed his feelings by his voting on the resolutions. Now of course we know he was readying for a takeover pounce.

Having sold its half share in Bay Audiology to Hutson, Abano is primarily a dental consolidator under the Lumino (New Zealand) and Maven (Australia) brands with a smaller investment into the high end radiology sector in Auckland. Ninety-five percent of revenue is from dental with 55% of that in Australia. Abano’s policy is to pay out 50 – 70% of underlying NPAT in dividends. 2016 dividends were 30 cents a share with approximately 50% of these reinvested under the DRP.

The sale of the audiology business has allowed Abano to pay down debt and with $41m of undrawn bank facilities it has headroom to continue buying dental practices and/or developing green field sites. The aim is to grow to hold 10% of the $11billion trans-Tasman dental market. For 2016, same store sales in New Zealand were up 2.7%. The fly in the ointment is Australia where, overall, same store revenue was down 3.6%. Richard Keyes outlined plans to turn this around – Abano’s whole growth projections rely on them being able to do so. The key is duplicating the Lumino strategy through (mostly digital) marketing the Maven brand.

Talking to Abano’s IT experts after the meeting I was comforted by the depth of the company’s back room IT structure and the emphasis the Board places on cyber security.

There were five resolutions at the meeting. Authority was given to set the auditor’s fees. Trevor Janes, Danny Chan and Ginni Mansberg were re-elected as directors. Dr. Mansberg is a Sydney based GP and medical media commentator. She looks a really useful addition. Trevor Janes indicated that he will step down as chairman in the next year.

Approval was gained to increase director’s fees. Within the total sum there is a $150,000 contingency fee for extra work. It has been there since 2010 and unused. I was given an assurance that it would not be dipped into to raise base fees over the next 2 years.

Voting was by poll. The numbers clearly show that Mr Hutson voted against Trevor Janes and the increase in director’s fees and abstained in the election of Ginni Mansberg and Danny Chan.

I did not notice any attempt by Mr Hutson or his associates to engage with shareholders. His written communications (including his 3 sloppy attempts to get out correct partial takeover notices) do not give this shareholder any confidence in his supposed claims and intentions. Is his bid for a controlling interest just another of those acquisitions that seem to be so good for the Australian predator but not so good for the New Zealand shareholder?

Bruce Parkes
Meridian Energy AGM 27th October

Meridian is the largest of the “gentailers” with a combination of: renewable, hydro and wind generation. Primarily New Zealand based with a small operation in Australia, Meridian is heavily exposed to any changes at Tiwai but generally the thinking is that a reduction or closure of the smelter may be positive for the company. Currently it sells significant electricity to Tiwai at a low margin and this could probably be sold at a higher margin on the general market; even though average electricity cost will probably fall. On most measures including underlying NPAT the company’s performance was satisfactory. Dividend was slightly increased and a special dividend paid for the second year running.

The Chairman, Chris Moller, outlined the company’s market and financial performance which have been very strong since its partial privatisation three years ago. A more technical presentation followed from CEO, Mark Binns. The particular issues covered were:

- Smart metering now covered 90% of their customers.
- They operated two windfarms in Australia and were testing the viability of solar generation. However, wind was superior to solar; both forms had experienced cost reductions in recent years but returns were low. Meridian was well positioned in Australia to take advantage of any move away from carbon to renewables.
- The Tiwai smelter which took 12% of NZ energy would be paying a higher price for power in 2017 but was still the cheapest in NZ. Closure of the smelter, if it were to occur, would require a minimum of 12 months’ notice of termination. However, Meridian would prefer it to stay.
- In NZ their monthly reports showed hydro levels were currently at 140% capacity and they did not need forward cover for the possibility of dry periods.

The CEO and the Chairman responded to shareholders’ questions:-

Q: How would they cope with the surplus power if Tiwai closed? The upgrade of the HVDC Cook Strait link to the North Island meant that 65% could flow north. Manapouri was the cheapest generator in the country and would be needed; perhaps some of the more marginal thermal plants in the North would close! Computer simulations indicated some surpluses in the short term but equilibrium would be restored within 3 to 5 years. They maintained a strong balance sheet to withstand such eventualities.

Q: Could the 12 month notice be used as a lever to lower the power price to Tiwai? The smelter owners could exit the agreement and then go to the market for power, but no other generator could offer them a better price; they had tried that before and failed.

Q: How far away are we from solar competing with wind on a large scale? Solar has been falling in price but so too has wind. Current modelling suggests some time in the 2020s.

Q: The report indicated that more “base load capacity” may be required from 2018? With thermal retirements in the North, and with their assumptions of demand growth of 1.3% pa, an increase in required “base load capacity” was anticipated sometime between 2019 and 2022 from renewables; either geothermal or wind. Meridian was in a good position to provide more wind generation.

Q: Is that true of Australia as well; that Meridian is well placed to expand into Australia? They are exact opposite of NZ with 81% thermal; with most of that from coal and most of that brown coal which is twice as bad as black coal in terms of emissions. But there would need to be legislative changes to ensure new windfarms were viable since they cost about $300m. The recent major outage in S. Australia led their Premier to criticise renewables – this only adds to the uncertainty facing new windfarms there.

Q: If Tiwai is reduced to one pot line or closed will Meridian restore the river flow to higher levels? If not, why not? If the smelter
was to close it would be for experts including hydrologists to model the river flow implications. Management will be asked to consider the implications and report to the Board.

Q: Reference has been made to expected demand increases over the next five years but in recent years it has diminished. Would you comment on these figures? Demand since 2006 has been flat but influenced a lot by the closure of some large industrial plants. However, there are not many such plants left to close. Furthermore unseasonably warm winter weather in recent years has cut demand, most notably hitting the 2016 result by $10m to $20m. However, experts’ predictions of GDP, irrigation and population growth through immigration indicate that the assumption of 1.3% demand growth is reasonable.

Q: In the 2016 Annual Report (page 78) hedging with financial instruments are shown to have increased, while on page 54 the income statement shows hedging resulted in an $83m detriment? The hedging strategy is underpinned by their water management modelling to match load demand with generation. It is a risk management strategy to buy cover to avoid shortfalls.

Q: Do you expect a similar detriment in the coming financial year? The hedging is in three things:- electricity pricing, interest rates and LGC (Australian Support Certificates) to ensure certainty of cash flows. The CFO, Paul Chambers, said that international accounting rules require that the hedges are at “fair market values” which can sometimes be negative other times positive flows in the accounts, but it does not imply a cash flow effect; they are locking in certainty. In the 2016 accounts there were two large negatives; one arising from falling interest rates and the other from rising LGC prices. Both were motivated to lock in shareholder value. He noted that accurate predictions of these prices were not possible and so hedging was the appropriate strategy to manage the risk from price volatility. In recent years the hedging has largely balanced out.

Two independent directors were up for re-election; Jan Dawson and Chris Moller. Each addressed the meeting in turn to outline their contributions to the company. Both directors were supported by the NZSA and were re-elected with overwhelming majorities on poll votes. A resolution for the increase in directors’ fees in two stages for 2016 and 2017 was also supported by the NZSA and passed by poll vote.

Southport AGM 20th October

The South Port AGM meeting was a repeat of previous years’ with record figures for turnover, profit, share price and dividend. As at last year’s meeting there was a cautious note by Chairman Rex Chapman and CEO Mark O’Connor as to these trends continuing. They stated that allowance will need to be made for higher repairs and maintenance, notably the main bridge entrance to the port. Retiring director Graham Heenan was replaced by Clare Kearney. The only resolution with any votes against was the increase in remuneration to directors. One a NZSA proxy vote and the other a local shareholder.

The meeting was noted for the attendance of shareholder Norman Dickie, a recent birthday celebrant of 100 years. As long as dairy prices stabilise or increase, results should mirror previous year’s, As of today, 20 October, asset backing per share was $1.36, share price at $6.08 with final dividend payable November bringing total divvy to 26 cents per share.

Gary McIntyre
Sky City Entertainment Group AGM 21st October

The Chairman, Chris Moller in welcoming a large attendance, was very mindful of the very poor attendance the previous week at the Z AGM, and provided an entertaining video, a virtual tour of all of the SKC operations. They also provide an envelope including vouchers for car parking, gambling, and $20 of food. SKC considered it important to address shareholders at AGM’s.

The 2016 year was a record for the company anchored on the growth at Auckland. The 1st quarter update, being 5% down on the comparable period last year was disappointing. Auckland was lower, the international gaming business down 20% and Darwin continued its downward trend. Hamilton was up 11% and Adelaide flat.

The big news was the recent arrest of Crown employees in Macau by Chinese authorities as reported in the media. SKC employs only independent contractors in China, and complies with the laws of China. None had been detained, but this will impact the VIP international business which accounted for 15% of revenue, 10% of EBITDA, in the short term. 50% of customers were from China. Other Asian markets were being targeted for business.

The Auckland convention centre was progressing well and on budget, due for opening in 1st quarter of 2019. Adelaide expansion was scheduled for completion in 2020, and the business has been affected by economic conditions. The 5 star resort in Darwin relies heavily on tourism & VIP customers, and has suffered with no direct international airport, a local Govt. tax increase, and issues of additional gaming licences.

Directors – Jennifer Owen (Australia) and Murray Jordan (NZ) are to be appointed and Richard Tsiang is resigning, while a CEO replacement for Nigel Morrison is to be announced shortly. (Editor: The appointment of Graham Stevens, ex Sun City South Africa, has since been announced.) Chris Moller and Bruce Carter were re-elected at the meeting.

Answers to questions: The share price has been affected by the recent cash issue, and the news from China. Adelaide parking issues in the riverbank precinct are to be overcome in building project, which the board considers a good long term opportunity for SKC. Criticism was levelled at Auckland, notably - Action Points expiry, blackjack changes, and health & safety. The lack of sports bar facilities in Auckland is under consideration in the expansion plans.

Noel Thompson

Methven AGM 12th October

This year marks the 130th anniversary of the founding of this engineering business, and the opening of a new plant in Auckland. A good range of samples and a 3D video were available to members who arrived early. Chair Phil Lough pointed to increases in revenue and profit, and a decrease in debt, which resulted in total dividends of 8.9c/share, representing 81% of NPAT. They were achieved during a major provisioning and clearance of redundant stock, and $3.7m expenditure on R&D. Currently NZ sales are 10% stronger than last year, UK is profitable but not achieving the top line growth targeted, while the Chinese plant is performing to budget. Though not a major Methven customer, Masters (ex Woolworths) liquidations are disrupting the Australian market.

With shares issued to all permanent employees under the staff share scheme, Methven has been modernised, tidied, and focussed to its markets. CEO David Banfield confirmed the strong marketing focus by reviewing the achievements and shortfalls against the objectives set in each market. The goal for 2018 is that Methven will generate and extra $10m revenue from new products. Already the new product introductions in 2016 were greater than all introductions in the previous 4 years. Sales will increase to $130m (circa 30% up) and NPAT of $13m. David defined the key values providing the platform for this growth: Insight drives action; the spirit of innovation; respect for our planet, communities, and team; we’re in this together.

The election of Phil Lough and long-standing Richard Cutfield passed without dissent. The board appears to have a healthy mix of diversity and experience.
A detailed review of the constitution was not able to incorporate the notice periods requested for shareholder meeting or mandatory voting by poll, because these are not able to be specified under the Companies Act. However, Methven will adopt both NZSA suggestions. The Questions then flowed. Criticisms of chrome plating quality, proxy voting, and the company’s vulnerability to takeover, were all fielded. Two shareholders felt that after 10 years of poor results in UK, Methven should pull out and concentrate on the Australasian orbit. However the company feels that the opportunities in UK and Europe are on the verge of opening. Bunnings a major customer is expanding there. Other shareholders asked about benchmarking when there are no similar enterprises in NZ, and competitive advantage in NZ when imported alternatives are so easily available, and batch processing when long run automated engineering is needed to exploit international markets. There was no lack of confidence in the answers, but there is no doubt that plumbing fittings is a very competitive market here and overseas and that product development in chosen niches is crucial to expansion plans.

Alan Best

Vital Healthcare Property Trust AGM 10th November

The Chairman, Graham Horsley welcomed approximately 80 attendees. The report and overheads of the address are available on the Vital website. Graham showed a video of a facility in Hurstville, Sydney that the company had purchased in 2012. His presentation was interesting, concise, and used the prior year’s AGM report card as the basis for comparison against this year’s result.

Vital had completed a $160m capital raising, had more resources, was thinking of long term stability and diversification. With regards to tenancy there had been a risk reduction over the past 4 years. The average income expiry had decreased from 4.4% (2012) to 1.7% (2016). The Trust was insuring sustainability to investors with their highly successful capital raising improving liquidity and scalability on the NZ market. Vital’s gross rental had increased 15.7% over the past year and net profit had increased 21.4% to $117.2m. Vital had the highest Net Tangible Asset in the sector ($1.60 per unit) and the Board had just approved a 1st quarter distribution of 2.125 cents per unit.

The CEO, David Carr, spoke about the $109.1m gain on property, the highest long term occupancy in 10 years (99.7%), the long term goal of WALE (Weighted Average Lease Term to Expiry), and the $200m capital committed over the 5 years. He also advised that part of Vital’s diversification strategy was to enter the Residential Care and Aged Care sector.

Claire Higgins was up for re-election and how refreshing it was to listen to a female director who was humbled to represent the Vital Unit Holders. She recognised that Vital was a defensive stock in turbulent times and as Chair of the Audit Committee she had built up a productive and respective relationship with the Auditors. After hearing Claire’s speech I wanted her to be on more Boards. There were few questions, which the Chairman took as confirmation that the management and trust were performing well.

Q: Why were they entering into Residential Aged Care as this sector is under threat from the government in Australia? A: Vital looked at the core drivers for Aged Care and found it was an underfunded growing market. Parts of the Aged Care providers have come “under fire” particularly recently listed providers and others for non-performance. Vital would not be in these categories.

Q: There was a 2 for 9 rights issue at $2.08 now $2.02 is there any reason for the drop in shares/units? A: The market has pulled back since capital raising. It was $2.25 at the time of issue. Nothing systemic or operational, just a number of global events which bounce the markets up and down including yesterday’s USA election results.

Jenny Miller
Mercury AGM 3rd November

Around 180 shareholders made the long trek out to Mercury’s new AGM venue at Vodafone Event centre in South Auckland on the 3rd of November.

As usual the company provided plenty of razzmatazz with a large display of electric vehicles and new solar/battery storage systems on display as well as sponsored double Olympic champion rower Mahe Drysdale in attendance. The slick audio visual went off without a hitch and was used to highlight some of the electric transport options being championed by the company.

Chair, Joan Withers spent some time talking about this as did CEO Fraser Whineray. There is no doubt the company is committed to being at the forefront of the change from petrol to electric cars and is proud of its 100% renewable generation. Along with Air NZ, they have put in place a programme that will see 30 corporates put 1500 new EV’s on the road over the next 2 or 3 years.

An announcement was also made that Mercury had linked with United States company PLUGSHARE. This will bring a new cell phone app to New Zealand enabling owners to find all 500 public and private charging stations that are already available and new ones as they are built.

There is no doubt that electric cars are the future and the company is determined to be a leader in getting them accepted, but I did not hear any specific ideas for how this was going to be monetised for the benefit of Mercury shareholders.

Joan Withers briefly covered the past year financials which were solid enough. TSR was 14% and a special dividend was again paid as well a slightly increased ordinary dividend. Mercury has now committed to fixed dollar guidance instead of the previous band format, and it announced a slightly higher EBITDAF figure of $495m compared with earlier guidance.

The CEO highlighted the Research and development facility being built and introduced some new faces on the executive team. He outlined progress being made in customer retention with a net gain of 5000 in the latest period and industry leading low churn rates, partly driven by popular fixed rate longer term deals. Generation was up over 2015, (but prices are softer reflecting intense competition), and costs were held flat.

Joan Withers and James Miller were both easily re-elected as directors with NZSA voting undirected proxies in favour. Voting was by poll.

There were a number of questions:
Q: Did the company have any plans to get financial gains from EV’s beyond the sale of electricity.
A: They certainly would not be selling EV’s and at this early stage were simply stimulating demand and considering how to best turn growth into cash.

Q: Would they offer their $500 discount on electric bikes to shareholders.
A: No. only to customers. Shareholders were welcome to become customers!

Q: What did the new Bee logo represent and how did it reflect Mercury?
A: It incorporates the infinity symbol for renewable, a reservoir for water and various other symbols. Most people when asked did not associate the previous logo (of the Greek mythical God) with Mercury.

Q: What will they do with the batteries in cars and solar when they die?
A: Fudged a bit and said solutions will be found over time including recycling into other applications.

Q: What is happening to the old Southdown site?
A: Now largely cleared and gas turbines sold. The site is being re-developed as their R and D centre.

Q: Can they extract valuable minerals from the geothermal steam?
A: Currently not cost effective, but they are monitoring as they would like to do so, if and when it makes commercial sense.

The presentations, while very professional, were probably longer at 90 minutes than most shareholders attention span. Fortunately a generous morning tea was provided and there were a number of interesting things to look at with plenty of enthusiastic Mercury staff on hand to assist with enquiries.

John Hawkins
NZ Oil and Gas AGM 27th October

Again 80 to 100 people attended, to meet the new chairman, Roger Findlay appointed in February; and the new acting CEO, Andrew Jeffries, appointed in August. What a difference a year makes!
The ‘lower for longer’ strategy adopted in 2015 had improved the company’s position leading to a:
- Drop in the cash burn rate
- A change in accounting policy, now writing off exploration expenses in the year incurred unless it generated funds
- The share buyback, so far of 64m shares or 6% of capital reflecting ongoing confidence in the company

However, the loss for the year was $51.8m (including $41.8m from Cue Energy Resources) up from $15.5m in FY15 and drop in operating cash flow from $59.3m in FY15 to $56.2m this year. Net cash from operating and investing activities increased to $21.1m up from $6.7m. A dividend of 4 cents/share fully imputed was announced.

NZOG will continue tight cost control in the coming year, focusing on:
- Exploration with the greatest likelihood of a positive return, in particular the Barque prospect in the Clipper permit and the Great South Basin permit. Potential development partners are doing due diligence on Barque.
- Continuing emphasis for identifying future revenue generation from Kupe – future generating capacity has been increased 50% i up from 35% in the 2015 forecast.
- As the largest shareholder in Cue Energy, encouraging cost cutting.
- Screening other potential investment opportunities.

Stronger emphasis as shown in the new sustainability report, is being placed on Health and Safety, and social responsibility in both NZOG’s own operation and that of its production partners.

Oil prices are still disappointing and this is reflected in a drop in asset values of 43%, written down by $55m of which the $43m is for Cue Energy. NZOG took impairment on the remaining part of Tui in this financial year and is now planning decommissioning in 2019.

Three resolutions including the re-election of Rod Ritchie and Dr Rosalind Archer, were passed by poll. There were several questions from the floor, which are summarised as follows:

Future Dividends
The Board does not give earnings guidance and thus will not give dividends guidance. Shareholders should take note of the strong cash flow and imputation credits position

Kupe
- Ongoing involvement of Origin Energy – no change
- Kupe and Tui valuation has dropped to $100m which is much less than fair value

Cue Energy
Also a number of answers including:
- Expect further restructuring in the next 12 months
- Cue is definitely a long term investment, having excellent assets in a strategic domicile for NZOG
- Impact of fully consolidating Cue’s costs into NZOG accounts caused a 30% increase in consolidated costs
- Cue’s capital demands are high, however there is no immediate intention to take the company over, currently shareholding is close to 50%
- Noted there is an excellent working relationship between the two companies

Clipper Permit
- More time and research is needed to learn about the region and to get to a decision to drill. NZOG was granted an extension to its exploration permit
- Deep water wells such as Barque need 10 years to bring to production
- Clipper is still seen as a game changer for NZOG and New Zealand if it comes to production

Other investments?
- The approach is to quantify the risk by balancing the size of the size of the risk against its likely benefit.
- Noted the strong balance sheet gives NZOG choice
• Intention is to look closely at near field opportunities where possible (less expensive and less negative publicity)

Implications of change in chair and CEO?
• No change in strategy
• Acting CEO had been in the role for 4 weeks as at the AGM, the Chair hinted strongly that Andrew Jeffries would be confirmed as CEO (no announcement has been made)
• Noted also 30% reduction in head office staff as part of the overall cost reduction strategy

Christine Pullar

Editor: On 16th November NZOG announced the sale of its holding in Kupe to Genesis Energy for $168m. This should benefit both parties, but in particular allow NZOG to diversify its exploration and cash yielding assets, and distribute $100m to shareholders. It is expected that shareholders will support the resolution to be put to them on 16th December.

Barramundi 28th October and Marlin Global 4th November

Fisher Funds manage the investment portfolios for both, Australian shares for Barramundi and Global shares excluding Aust. & NZ for Marlin. Annual results for both companies were disappointing. Barramundi NAV return was 6% resulting in a total shareholder return of .4% reflecting the reduction in the share price. Marlin NAV return was a loss of 6.7% resulting in a total shareholder return loss of .3% taking into account its share price. Both company’s shares trade at a discount to NAV. They both pay a quarterly dividend based on 2% of NAV to provide a return to shareholders in the last year greater than earnings which does get confused with the actual performance. Warrants on issue expired during the year – Barramundi take up (47%) at close to NAV and Marlin below NAV and not exercised. Due to the poor performances the warrants gave little or no benefit to shareholders. Fisher Funds management contract has been renewed for a further 5 years for both companies.

Q & A – The performance of both Barramundi & Marlin were questioned by several members, especially the share price. The comparison with the Fisher managed fund portfolios return was questioned. It was later confirmed that they were the same for the comparable period, except for the additional layer of costs ($500,000 est.) for maintaining a public NZX listing entity. All investment portfolios were the same, being, either Managed Funds or listed vehicles and the Directors (same for both companies) has not had any reason to change the manager recommendations. The Director’s main responsibilities was capital management, share buy-back policy and corporate governance. The Chairman indicated that a listed vehicle was still appropriate, was reviewed 4 years ago, and that most portfolio companies have a discount to NAV. Buy-back policy was also questioned.

Another asked about another Warrant issue as it provided an incentive to gain from share appreciation. This was being considered, and has since been implemented.

Noel Thompson
Steel and Tube AGM 17th November

Around 65 shareholders and employees attended the 63rd Steel and Tube AGM. Chair Sir John Anderson opened the meeting. Results-wise it has been solid year for S&T considering the difficult conditions brought about by low steel prices. The problems with substandard seismic mesh and pile casings have impacted the NPAT by about 2 million, but more significantly, going forward, have tarnished S&T’s reputation. Steel prices have rebounded a bit from the decade lows of last year and the outlook for 2017 is mildly positive.

Sir John has aged over the last few years and signalled his intention to retire in 2017 when another two directors are recruited (I’m not sure if that means the board will expand or that another director will retire).

CEO Dave Taylor spoke about the year gone, and gave more detail on the quality issues, compliance, and standards, but didn’t say any more than has been reported in the papers. Personally, I feel that S&T didn’t move into damage control mode soon enough and lost an opportunity to be leaders in moving the industry forward. S&T is one of five suppliers/distributors affected by the quality issues. There have been several small acquisitions in the past year that are performing as expected. These are part of a strategy to provide non-cyclical/non steel earnings to offset the cyclical nature of the steel business.

Overall Dave is a little more optimistic for 2017 than he has been in previous years with an H1 expected to be consistent with 2016, but a much improved H2.

Resolutions were voted on by poll (a shareholder had requested this prior to the meeting) and all were passed.

Questions were mostly around the quality issues and not really answered all that well. At the end I took the opportunity to note that NZSA favours voting by poll and requested that this is done for future S&T AGMs.

Martin Dowse

Delegat Group AGM 6th December

Whether it was complacency, perpetual Viaduct parking tribulations, or a reluctance to give up a sunny Auckland afternoon, the number attending this year’s meeting was down on the usual turnout. Of those who did attend, Executive Director, Jim Delegat, seemed to know at least half on a first name basis. The post meeting wine sampling had the flavour of an (extended) family barbecue.

Mr Delegat and Managing Director, Graeme Lord, gave an overview of the year’s activity. Their reports and the accompanying overheads are available on the NZX website. We were told that:

- No material damage had been sustained at any of Delegat’s sites from the November earthquakes.
- Global case sales were up 9% to 2,411,00 cases
- NPAT of $37m was up 8% on the previous year.
- A fully imputed dividend of 12c per share was paid. A 9% increase on the prior year.
- During the 15/16 year $113.8m was invested in developing growth assets and a further $50.8m will be invested in 2017. This capital investment supports the Group’s plans to grow sales to 3,401,000 cases by 2021.
- Shareholder equity is $313.9m. Net bank debt $282.7m. Retained earnings and undrawn syndicated bank facilities $67.3m provide adequate funding for the capital investment programme and growth plan.
- The group has appropriate inventories to achieve future planned sales growth.
- The group has achieved strong year to date sales and is on track to achieve the full sales growth goal. Exchange rate volatility makes it difficult to forecast financial performance but, based on prevailing exchange rates, forecast 2017 operating profit is in line
Weakness in the pound will drive up the prices of Delegat wines sold in the U.K.

Director, Jane Freeman, was retiring after 10 years on the board.

On to the resolutions. Atypically for Delegat, this was all a little sloppy.

First, a Notice of Meeting with detail on the resolutions was posted to shareholders (some even brought their copies to the meeting). The Annual Report and notice posted on the NZX site just recorded the time and place of the meeting. For those shareholders using custodial services and other non-recipients of posted copies the agenda was a mystery. I raised this before the meeting with Messrs Delegat, Lord and CFO, Murray Annabell. All were mystified.

Mr Annabell told me he had sent the NOM I found on the NZX site and after a query from a shareholder, sent another with the full agenda. He planned to check why it was not posted.

The resolutions before the meeting were:
- The re-election of director Alan Jackson;
- the election of newly appointed director Shelley Cave; and
- a 33% increase in the Directors’ Remuneration pool.

In opening, Mr Delegat said that he held proxies representing 86% of share capital in favour of the first two resolutions and proxies representing 94.5% of shares eligible to vote on the third resolution.

Mr Jackson and Ms Cave spoke to their nomination. Ms Cave, a former AIA Future Director, looks a good replacement for Jane Freeman. All resolutions were subsequently passed on a show of hands.

Usually, an increase in directors’ fees draws some discussion from the floor. Not so this time – although I did hear some mutterings. Perhaps this is because it is the first rise since 2007 and is only for an increase to a $400,000 total. Also, despite the increase in the pool, Mr Delegat said he had no intention to immediately increase the amounts currently paid. He said his was a simple company and while the directors were very competent, they were adequately paid for what they did. A refreshing view from a chairman who owns most of the company. Would an independent chairman be so candid?

At question time we learnt that:
- Oyster Bay sales in Australia were similar to New Zealand on a per capita basis.
- Delegat has over 500 hectares in land and planting in the Barossa Valley and this, along with production from contracted growers, is sufficient to service growth plans.
- There is strong sales growth for the Rose wine. (I later enjoyed my sample)
- There are no trade barriers expected to exports to the U.S.A. as the U.S.A. is also an exporter of wines so any trade tariffs would be counter-productive.

Bruce Parkes

Airwork Holdings AGM 26th October

Chairman Mike Daniels commented on last year’s very good result, ahead of forecast at $24.6m mainly due to the 93% increase in the Fixed Wing Division, which completed the refurbishment of 6 737-400 freighter aircraft for customers in NZ, Australia & Europe. The Helicopter Division also increased performance in spite of challenging conditions in the resource sector. Notable achievement in the year was gaining USA FAA approval for helicopter maintenance at the Ardmore facility. The updated outlook was for profits to exceed year’s result.

Takeover Offer: Dated 5 October from RIFA (Chinese company) for a conditional partial takeover for up to 75% at $5.40 per share with a minimum acceptance of 50.1%. Parties associated with non-executive director Hugh Jones holding 58.9% have agreed to sell into the offer. A committee of independent Directors, Mike Daniel & Rob Flanagan have been set up to consider the offer, have issued a “don’t sell” notice, and appointed Grant Samuel for the target statement.

Attendee’s Questions: There was good discussion from members on the proposed takeover and notable comments were;

Hugh Jones was asked why he was selling his major shareholding in such a successful business to overseas control and said he had met the Chinese purchasers who were involved in the manufacture of parts for
airlines and believed they were a good fit and was satisfied with the offer price. He would remain interested in the business. It was suggested the price was too low at 10x earnings for control of the company. At the listing in 2013 Mr Jones indicated that he would like to scale down his holding, but the illiquidity of the shares has not allowed this. He also said there was little interest from within NZ for his shareholding. Another member said that the Chinese did not have a good reputation, and was concerned about critical maintenance and aviation standards established at Ardmore. In answer it appeared that the purchaser is to retain all management and current operations in NZ. In the purchasers presentation, it was stated that China was a huge undeveloped market and an opportunity for Airwork to promote its aviation business in China. Airwork has the majority of its income from outside NZ.

Being a partial takeover, acceptances above 75% would be a pro-rata allocation. The company is to remain listed on the NZX. Possible directorate to be 2 independent and 3 non independent Chinese having board dominance.

The company has 809 shareholders at 26 August and there will be many investors interested in the outcome of this proposed takeover. It requires many conditions to be met and could take some time to conclude.

Noel Thompson

Tourism Holdings AGM 18th October

As extra seats were brought in, it was a pleasure to see a majority of women at the board table. Chair, Rob Campbell, did disclose the proxies early, but otherwise there was little to criticise. With record revenue (up 18%), and an increased return on funds at 15.1% (up from 12.9%) plus an increased dividend, shareholders were in the right mood. There is a video of proceedings on the THL Investor website. Rob summarised the challenges for the future. International success, he claimed, was dependent on 3 characteristics:

1. An open and global platform – THL had diverse brands and messages and needed to consolidate and tailor these to consumers in each market.
2. Collegial relationships, so that networking made accessing THL services as natural as turning on the water tap.
3. Personal relationships whether digital or face to face. Tourism is about interaction with people.

THL had achieved a leadership position in self-drive tourism, and needed to embrace the challenge of new technologies like autodrive. Standing still, he said, is the riskiest proposition.

CEO, Grant Webster, explained 6 successful initiatives in 2016: Flex Fleet, with its 4wd leasing option; Telematics to help driver economies and behaviour; Mighway, the Uber-style private leasing agency; Customer experience tablets in each vehicle; Waitomo enhancements; and the outperforming new Seattle branch. These will all continue to add value, by increasing returns and trimming the amount of capital needed. Grant emphasised the drive to sustainability involving measurement of emissions, trialling of electric vehicles, and driver education to protect the natural environment. Tourism in NZ is not a boom because that implies there could be a bust, but it does require communities to invest in infrastructure in partnership with operators.

Questions covered Chinese inbound tourists, Lions tour prospects, competition from the new Australian IPO Apollo, and segment report on the JustGo UK subsidiary – all of which had some negative connotations, but which pointed to market opportunities too. The resolutions to elect Debra Birch, Christina Domencq, and Kay Howe were well supported.

Alan Best
SLI Systems AGM 4th November

SLI Systems has been in existence for 15 years and listed just over three years ago. Its software development team is based in Christchurch although the majority of its workforce (sales promotion) is overseas. It is a Software as a Service (SaaS) provider of software to companies to improve their on-line retail and commerce websites.

Although its shares had peaked at $2.80 in early 2014 they now trade at about 45 cents and the company has yet to breakeven. The annual accounts show a loss of $0.6m down from a loss of $7.1m the previous year. Net cash flow was $1.2m positive, a big turnaround from the $5.8m outflow a year earlier; just as well because they only hold $6.7m cash.

However, their ARR (Annual Recurring Revenue) had dropped by 3% to $31.2m which is a decline from its previous high growth rates. This drop resulted from the loss of three major clients; two of whom went bankrupt and the third was acquired.

The Chairman, Greg Cross and the new CEO, Chris Brennan, who had started the role only a year ago, addressed the meeting to explain the company’s performance. They noted the success in turning round the outflow of cash compared with earlier years and the big reduction in the annual loss; emphasising their intention to live within their capital and not return to shareholders for a further cash injection. They also outlined the ongoing improvements to their software and their sales strategy which they expect to be yielding sales improvements.

The following comments and questions were posed by the NZSA proxy holder:-
Looking at the recent collapse of Wynyard and its over-optimistic revenue forecasts is there a similarity with SLI given the downturn in their ARR? Are SLI’s expectations for improved revenue too optimistic?

SLI has not made explicit predictions on revenue but they are carefully managing the company to live within available cash and capital. Shareholders should take confidence in the way these have been managed over the last 12 months.

Would they clarify the statement in Note 22 of the accounts relating to “Share Appreciation Rights”? They appear to be a method by which extra options or cash payments can be given while also incorporating payment for any growth in the prior share price.

SLI has to remain competitive in the market for talent particularly in the USA and options are part of the remuneration package to stay competitive. The introduction of SARs was to give greater flexibility in rewarding executives.

Would they comment on the tax implications of SARs for SLI and the executives concerned because the IRD has signalled its intention that tax will be payable on gains made between the granting and the vesting of options or similar schemes?

There are no direct tax obligations to SLI because obligations are on the employee. The statement in the Annual Report by the Chairman and the CEO was full of “PR speak” which masks the underlying meaning. Several examples were given including: “revenue decelerated” instead of saying “revenue dropped”. Shareholders would appreciate explanations being made in plain English to clarify rather than obfuscate.

They would take these comments on board and hoped that the explanations given during this meeting came across clearly.

The Annual Report says that the company policy is not to pay a dividend; which is fair enough as the company is not make a profit. But it is a negative statement for the longer term and would the board consider a policy of returning a portion of future profits as dividends?

The board will consider this suggestion.

The following comments and questions were posed from other shareholders:-
Will they make a profit this year?
SLI does not foresee profitability this year but rather sometime in the more distant future.
SLI derived 20% of its revenue from the UK. After Brexit and the decline in the £ will this adversely affect the company?
There has been no downturn in sales within
UK but the adverse currency movement has been offset by changes in the Australian exchange rate.

Does Google pose a potential competitive threat?

Google had introduced an appliance search product some years ago but they discontinued it. There is no indication of Google moving into their space.

The performance of SLI has been abysmal and the share price has collapsed. The Chairman and the Chief Innovation Officer should be replaced.

The share price is not controlled by the company and the board has been working tirelessly to improve the company’s position. They have made great progress in controlling costs to live within their means and the accounts reflect that success. They are confident that they are working towards improving the value of the company. SLI has Accounting Rate of Return (ARR) of $31m spread over 576 customers so the company is robust financially. Perhaps the recent share price decline reflects a mistaken belief that SLI is like Wynyard.

What’s to stop competitors copying SLI?

SLI products are protected by copyright. However most of their competitors are much smaller and SLI has more resources to innovate and improve their products such as their recent personalisation search engine.

What will happen if you lose more customers next year? We lose some customers each year but it is balanced by the enrolling of new customers and improving the returns from existing customers.

What is the competitive threat facing SLI?

Competition varies from country to country with US being the toughest. However, the technology used by SLI has a learning component which yields far higher conversion rates than their competitors. The major reason for customer loss has been when customers re-platform and drop the search engine. So it’s not usually a loss to competition. SLI continues to attract and retain customers.

Oracle is your biggest competitor; are they troubling you?

They have an inferior product and are not cloud based; we do not directly compete. We continue to co-exist.

Has the board considered moving away from its NZX listing?

The board continues to reviews its financing options with a view to maximising shareholder value.

With so much of their revenue from the US, does SLI take steps to protect against exchange rate movements? They have a natural cover because so much of their costs are also incurred in the US. They do not take forward cover.

At last year’s meeting we were told that SLI was moving to signing contracts on longer terms. Has this happened?

Yes, they have been signing more multiple year contracts with longer termination times.

What is SLI doing to improve its PR?

A new marketing officer has just been appointed and the need for improved presentation of the company locally was noted.

There were three resolutions and the NZSA discretionary votes were cast in their favour. All were passed by pole vote.

Robin Harrison

Skellerup Holdings AGM 26th October

The annual report and presentations on the Skellerup website give a very good summary of the global reach and market segments of this industrial seller. To hold up in the face of dairy and mining recessions has been due to product development of synthetic rubber components amongst a range of manufacturers around the world from Mercedes cars to Charlotte pvc pipes. Shareholders were satisfied that Chair, Sir Selwyn Cushing, after 50 years as a company director, could still add value to Skellerup and passed the resolution for an increased directors’ fee pool on the understanding that new directors would be required soon. The addition of Alan Isaac has strengthened the audit and risk talent, but it is likely that another director with international experience was noted.
The opening of the Wigram plant in November, on time and within budget was seen by CEO, David Mair, as symptomatic of the resilience built into Skellerup’s culture. Similarly, the development of Masport USA from a vacuum pump distributor to a “plug and play” pumping system with easy installation coupling, which saves hours of installation time, is an example of customer led change. North American sales now top New Zealand’s and with coordination between Christchurch and Auckland development teams, distribution in North Carolina, and manufacture in Vietnam, USA offers greatest sales opportunities. David’s forecast however, was for a small increase in NPAT for the 2017 year, because low prices persist in dairying and mining.

Questions covered the marketing of the vacated Christchurch site where liquefaction has limited the future land use. David Mair explained the long gestation period for new components from new specification through sampling and fine-tuning, adoption by a manufacturer and then the marketing programme by the manufacturer or merchant distributor. Skellerup’s board therefore focus on speeding up the development cycle and will continue to spend over $4m/year in the foreseeable future on new products in cooperation with its customers. SKL reflects Sir Selwyn’s concentration on strong operating cashflow(up 13%) conservative gearing, and high dividend payout (9c/share out of net earnings 10.7c/share,) but we would like to see more growth given the market demand for water piping, milk protein and food safety.

**Alan Best**

**Freightways AGM 27th October**

Sue Sheldon, chairperson, reported on sound revenue growth and continued cost control, which saw NPAT ($54.4m) go up by 8%. Consolidated operating revenue of $505m for the 2016 full year was 5.4% higher. EPS was up by 7.7%. Freightways has around 3,700 people on its team in NZ and Australia. The executive team is strong and experienced, with the average executive having worked for the group for around 16 years. Earlier this year Freightways started transitioning from a fleet of Convair aircraft to newer larger Boeing 737-400 aircraft. The directors declared a fully imputed final dividend of 14.5c/share, without the choice of a reinvestment plan.

The Express packaging and business mail division saw increased activity from some existing customers and further new business. Overall services were enhanced, and the new aircraft will provide interisland capacity for many years to come. The new purpose-built facility in Christchurch airport, has an automated freight handling system, enabling the consolidation of 3 work centres into 1, and providing airside access to aircraft. Further opportunities will come from organic growth, diversification by industry and identifying suitable acquisitions.

Information management division’s 2016 performance was strong with increased utilization of facilities, the successful integration of a number of smaller acquisitions, and a particularly strong result from Shred-X. A purpose-built facility in Sydney allowed the relocation of 3 operations into a single site, and further benefits should flow through to the bottom line.

**Resolutions.**

Mark Rushworth, ex MD of Lion Nathan with a deep understanding of distribution on both sides of the Tasman, was appointed a director in September 2015, and was confirmed at the AGM, along with Mark Verbiest. Roger Corcoran was to be re-elected but has decided to step down.

I raised the question about the undercurrent of dissatisfaction amongst contractors who are unable to recover their rising costs. Dean Bracewell, the MD explained their income was rising because the company is feeding them more work. I am not sure they would have been satisfied with this answer.

**Des Hunt**
Caught on the Net

If you are going to sin, sin systematically

The nub of this Newfound blog piece is that if you are going to sin by being an active investor, make sure you are consistent in your approach and invest for the long term. They offer three simple observations: there is no holy grail of investing; successful investing is on part intelligence and on part discipline; and don’t put all your eggs in one strategy basket. More

A female portfolio manager at Pimco explains the real reason more women do not manage money

Women make up only 10% of US mutual fund managers. In a Market Watch opinion piece, Beth MacLean offers her views on why this is so and how to change the imbalance. More

Company directors can be held legally liable for ignoring the risks from climate change

At least that is a legal opinion on the situation in Australia as reported in a piece in The Conversation. Now, would they pay any fines or would they be passed on to the company shareholders? More

Nobel Prize in Economics awarded for modern contract theory

Two professors and economists—Oliver Hart and Bengt Holmström—received this year’s Nobel Prize in Economic Sciences for their insights into modern contract theory, specifically how businesses and organizations can better understand and design contracts in the “real world,” with all of its complexities and uncertainties. Contracts help us to be cooperative and trusting when we may otherwise be disobliging and distrusting. More

How to find high quality smaller companies

Over 80% of ASX listed companies with a market cap below $100m are currently loss making and another 90% of the same companies do not pay a dividend. Roger Collinson, in a Livewire post, identifies 2 simple filtering steps to help weed out the under performers. More

Big Decision ahead? Just roll the dice

The status quo has a strange hold over us says Tim Harford, the “Undercover Economist”. Too often duck difficult decisions and we stick with the devil we know. He suggests that if we are truly undecided about a change of direction we should just toss a coin and get on with it. More

No, enjoying a gin and tonic does not mean you’re a psychopath

Another of those false news stories to have captured the headlines after being shared more than 300,000 times on Facebook. Psychologist and regular gin drinker, Megan Wills, posts that most University research findings should be taken with a grain of salt, or dash of bitters. More

Jack Bogle. From zero to hero

Michael Regan interviews Jack Bogle, the founder of Vanguard Index Funds, in a Bloomberg article and covers his 65 year career. Bogle says we are in the middle of a revolution caused by indexing which is shifting the allocation of stock market returns away from Wall Street to Main Street. More

Studying household finance to improve people’s financial decision making.

It has taken a while, but economists have come to realise that household spending does not follow the classic economic textbook models. Romesh Vaitilingam summarises the findings of conference held this year to discuss the current research into household financial decision behaviour. More
Five ways to spend with more social purpose this Christmas

It’s the season of giving – and spending. While the common adage is that money can’t buy happiness, others have suggested that if your money isn’t buying you happiness then you are spending it the wrong way. Danielle Logue offers five global trends that are creating change for good and enable you to take action. More

Developing bank stress test scenarios

For the past three years, the Bank of England has carried out an annual ‘stress test’ of the UK’s largest banks. To do this, it designed a narrative-based stress scenario in 2014 and 2015. The goal was to determine the banking sector’s resilience to pertinent threats. However, changing scenarios each year makes it difficult to judge how banks’ overall vulnerability to risks changes over time. This is why – beginning this year – the Bank has also run an Annual Cyclical Scenario (ACS). More

Twitter influences investor behaviour whether companies intend it to or not

After studying 3516 corporate announcements published by Australian listed companies, Maria Prokofieva found that companies that tweet corporate news and financial results can significantly affect stock prices even if the company’s tweets contain no new information beyond what is already posted through the stock exchange platform. More

The case for phased retirement

In the same way that flexibility has come to the workplace - where, when and how we work — so, too, has arrived the age of the tailor-made retirement says Stewart Friedman, professor of management at Wharton University. Phased retirements, bridge jobs, “un-retirement” and second and third acts have caught on. Workers are demanding it to help pay for their longer lives, and firms have good cause to accommodate the idea that work does not one day simply stop. More

Is dividend investing dangerous?

New Zealand investors seem to have long made up their minds on this question. Not so in other markets. While this Newfound research piece has been written for US investors, it does provide a good review of the topic. More

Should Australian companies set executive pay to a US benchmark?

Or NZ to Australian for that matter. Julie Walker and Reza Monem offer different opinions. Reza notes that, “(if) Australian CEOs were under-paid, we would have seen our top CEOs going overseas and taking leadership of larger, better firms. Australia would have been a country that exports CEOs. But statistics show quite the contrary. In ASX 200 firms, 80% of the CEOs are either born or educated overseas so we import talent”. More

The 9 (bad) habits of highly ineffective investors - the common mistakes investors make

In the upside-down world logic that applies to much of investing, there are a bunch of mistakes investors often make which makes it harder for them to reach their financial goals. Shane Oliver, head of investment strategy at AMP Capital, looks at nine common mistakes investors make More

Common mistakes of momentum investors

Gary Antonacci notes that chasing performance should not be subject to myopia, irrational loss aversion, or other psychological biases. Even Daniel Kahneman, the father of behavioral economics, admits to being influenced by behavioral heuristics 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.

Upcoming Auckland Branch Meetings
All at Alexandra Park Convention Centre, Green Lane. 7pm tea & coffee – 7.30 pm start
Dates for 2017: Speakers yet to be confirmed
Wednesday 15th February Wednesday 26th April
Wednesday 21st June Wednesday 20th September
Wednesday 15th November
Please mark the dates in your diary now

Company Visits
Friday 17th February: The visit to the Z Energy Biodiesel plant is now full. Please advise Fiona if you wish to be added to the waitlist.
Please register with Fiona Gray – grayfion@gmail.co

16th November meeting
Paul Glass – Devon funds Management.
Paul’s Market View address is available on the NZSA website. He cautioned that the share market is likely to lack direction based on overseas events. NZX market has done well in recent times. However, demand for yield stocks in a low interest rate environment could be over. Market was down 11% since September, with a perception that interest rates were rising, world growth recovering, and a withdrawal of interest-sensitive foreign ownership. Corporate Governance changes had led to more respect for the NZ market than the “wild west” era 10 years ago. Executive and Director Remuneration still need to be resolved. In USA Ex. Remuneration averaged $12.4m pa. In 1965, it was 20 times average employee pay and was now 335 times. In NZ CEO and Directors remuneration has doubled and is trending up, benchmarking on Australian levels. In Australia the system of remuneration reports in the Annual Report, was not working, with consultants using company comparisons to ratchet up pay scales. During this period Return on Equity has not increased mainly due to the preference for buy back of shares.
Paul questioned the skill set of Board’s as more important than the need for independent directors, the need for mandatory rotation of audit firms, and control over termination payments to CEOs and directors.

Questions:
Trump USA Policies? – Infrastructure spending likely to increase, but US debt levels are already high. Market reaction = US bond interest rates rising and commodities like Dairy & Iron Ore increasing.
Shareholder AGM’s meeting attendance v webcast. Generally Institutions do not attend or take an interest in governance although policies of some do vary. Passive Funds also do not attend.

Noel Thompson

Company visit – Ryman’s latest village.

When we first invested in Ryman, back in the early days of it being a publicly listed company, our sharebroker tried to talk us out of it. Fortunately, we didn’t listen. But is there still a problem of perception out there in the marketplace and with the general public? There are now so many players in the retirement village industry, that some feel the market is becoming saturated, and yet Ryman has comprehensive figures showing that demand for retirement village living should dramatically increase because of the growing demographic of the elderly. Then there’s the increasing need for hospital and dementia care beds and the lack of supply.

We were just a small group of fifteen attendees when we met at the new Bruce McLaren Village in Howick. Our host, Ryman Corporate Affairs Manager David King, had carefully explained that because the village is people’s homes, he didn’t want to be taking large groups through. (David has very kindly offered, however, to host another group of fifteen Shareholder Association members in the future as we have a lot of interest being shown in another visit).

David began by explaining that Ryman employs 4,000 staff; they are very long serving and the company likes to promote from within. The company has a ‘beginning to end’ operation. “We must,” he said, “understand our jobs in detail”. The company employs 150 construction staff and they take on apprentices. Each village has three to four gardeners. “We control it ourselves” he added. Founder Kevin Hickman stated when the company started in 1984 that “Everyone had to have their own bathroom and their own dignity”.

Ryman operates a continuum of care, from aged care and rest home, right through to hospital and dementia care. This continuum of care is one of Ryman’s points of difference from their competition. Village amenities are resort style. The village at Howick covers 4 hectares and residents come from a 6km radius. Ryman now has thirty villages and 30,000 residents and they foster a ‘family culture’. 

David said that “Fixed fees are a great seller” and Ryman enjoys “the benefits of increasing scale with good access to capital”. The company has had 14 years of underlying profit growth and they target 15% p.a. growth in underlying profit. It is early days but to date Australia is proving more profitable than New Zealand. Returns are much bigger in Auckland and Melbourne. We “Always price below the market” when selling new units in

Noel Thompson
an area David said. In Auckland they price $300,000 below the average housing price. Ryman growth is self-funded. An interesting point David made is that the Devonport village will free up approximately 400 houses, which is a huge help in the Auckland housing market.

David pointed out that, for the company, “Innovation is going on all the time”. He finished by saying “The key thing in the future will be how many people need care”.

We concluded our visit with a tour of the village.

Is it the case that Ryman is still under-valued by the market, given their rate of growth, their profitability, the fact that they are mostly self-funded and the growing demographic of elderly? Personally we have seen several lots of friends move into retirement villages, and we’ve observed that, with the people we know, the situation has been needs based and their decisions have been made independent of the state of the housing market. And will Ryman’s move into the Australian market have a positive effect on the value of the company?

Fiona Gray

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**Waikato**

Michael Spaans, a Director of Fonterra since 2013 spoke recently at the Waikato Branch.

Fonterra was created from several co-operative dairy companies to ensure the processing of all New Zealand’s milk daily. Our pasture-based industry is the only way that we can compete internationally. Milk production rose through the year to 90 million litres per day in October. This supply is converted to products such as powders, which can be stored and re-constituted later.

Internationally, world production is over 406 billion litres per year, rising at over 2.0% per year. Most of this is behind borders and trade barriers. Fonterra state it is vital that the New Zealand Government has renewed energy and commitment to its trade agenda to combat current rhetoric and actions towards protection by some of our trading partners.

About 60 billion litres is traded, of which New Zealand supplies about 20 billion litres (including milk that they source from other countries such as Australia and Chile). New Zealand and Australia still provide over 95% of their milk supply. The milk powder auctions are a means of showing price transparency regarding the Fonterra Shareholder Units in the share market to evaluate the success of their strategies which are:

- **Volume** - producing and sourcing milk
- **Value** - putting the milk into value-added products and
- **Velocity** - includes speed to market, efficiency, and debt reduction.

The overall strategy of Fonterra and its brands is to optimize New Zealand milk, build/deliver/grow, develop markets, invest in milk production (including overseas). Part of the business is termed ‘Ingredients’ meaning consumer and food service, with value added items that are used in the commercial or home markets. Starbucks in China use New Zealand product, McDonalds in China source cheese from Fonterra. Classes show chefs how to use product, such as Anchor cooking cream in New York. The margin has been increasing with a high return on capital. Fonterra trades in over 100 countries. Fonterra can easily switch between streams (e.g. powder, butter, cheese) depending on return but requires increased capacity.

Their world production is described as a multi-hub strategy with the overall aim to support product out of New Zealand. For example, by investing in Chile, advantage can be taken of the lower tariffs that apply when product is exported to Brazil. Access is to be secured into Sri Lanka and Indonesia (where New Zealand product is combined with local product for consumer sales). It is also a de-risk view, such as the supply of ingredients for Australia and Europe.

Fonterra are looking to
optimize their manufacturing footprint in Europe. Two-three joint ventures are being developed in the UK, and they are looking for partners in the United States.

Within New Zealand, the strategy is to deliver higher value at velocity. It has 85% of New Zealand’s production. But by law, they still must supply their competitors (those factories without farm contracts such as the new factory at Pokeno). This amounts to about 50 million litres per year, about 2% of their total milk supply. Fonterra has 58% of the ingredients market, 8% of the food services market, and 12% of the consumer markets. Yet, despite this consumption and supply in New Zealand, over 97% of their product is exported.

Product differentiation is important and Fonterra brands are quite strong. They promote the nutritional advantages of grass feed supply, images that tell the Fonterra story. Nutrient and effluent management means a lot with participation in the clean streams accord, riparian planting, and healthy rivers. There is a hold on taking new suppliers from forestry conversion – the extra farms would increase the impact of farming on our rivers, a cost that would falling on their existing farmers to help rectify.

**Cliff Thomas**

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**Bay of Plenty.**

**October meeting - Dean Anderson NZX Smart Shares.**

Dean explained how Exchange Traded Funds could fit into an investor’s portfolio. EFTs provide liquidity, and diversification at low cost, and NZX now offers 23 ETFs, and achieving lower fees for the $1.6b invested, as operational costs are spread over growing fund sizes.

**Christmas meeting: Joan Withers, Chair of Mercury, and company director.**

Joan, speaking candidly with a deep knowledge of governance, covered a wide range of points:
- Board positions in larger listed companies are keenly sought.
- High professional reputation of candidates lessens risk for a company.
- Identify candidates who are not overcommitted.
- Institutional investors assess directors’ commitment.
- Board performance reviews are regular and professional.
- Diversity (not just gender) assists in the rigour of debate and investigation.

CEO appointment is one of the most important duties. The key areas of recent change are:
- Risk identification and mitigation.
- Health and Safety.
- Transparency of executive remuneration and how it is measured.
- Directoral scrutiny of public offers, and the liability attaching to this.

**Ian Greaves**

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**2017 – First meeting – 24th February**

Shareholder Discussions at Gate Pa Bowling Club Rooms – 3pm.

**Jon Murie – Craigs Investment Partners - The year past and the year ahead.**

**Jane Lyndon**
Taranaki

September 28th we had a presentation from Gordon McLeod Deputy CEO from Ryman Healthcare. Ryman always has a good story to tell, what a consistent set of graphs. We were then treated by Ryman to drinks and nibbles.

Jonathon Glass from J B Were & Co spoke on the 11th of October. He spoke on the different asset classes and switching from shares to bonds and vice versa which led to a very useful discussion, one of the best we have had.

Bryce Barnett from Augusta Capital is to speak on December the 6th. As he lives here in New Plymouth he won’t have far to travel. He will speak on their company and also their funds management business (property syndication). It should be interesting comparing that to listed property.

As this is the end of the year I would like to take time to thank all of the people who have done presentations over the year. We do realise that it is a big ask of all of you to travel to us and I assure you all that it is appreciated. Happy Christmas everyone

Grant Langdon

Wellington

Thank you to branch members and the committee for your support during 2016. It has been another busy year and we have had a great variety of meetings and speakers, some earthquakes, a bit of flooding and the Trumpageddon.

Next year will be a bit like this year with branch meetings on the second Tuesday of each month (March to November), interesting speakers and the 2017 National AGM in August in Wellington. Other than that I’m hoping for a quiet year with not too much excitement.

I leave you with several quotes from the Don...

- What separates the winners from the losers is how a person reacts to each new twist of fate. It is a mistake to try to look too far ahead. The chain of destiny can only be grasped one link at a time.
- I try to learn from the past, but I plan for the future by focusing exclusively on the present. That’s where the fun is.
- Anyone who thinks my story is anywhere near over is sadly mistaken.

All the best for Christmas and I look forward to seeing some of you at our next branch meeting in March 2017.

Martin Dowse

Canterbury

Our committee expanded in October with the addition of one new member, Michael Midgley; bringing our committee number up to seven members. Unfortunately, Michael who lives in Rotherham, North Canterbury is very close to the epicentre of the 14th November quake. Michael has survived unscathed but his house has not!

The committee meets monthly to progress the interests of South Island members and at this time of the year has been busy with a number of company Annual Shareholder Meetings; organising proxyholders and preparing questions.

We have held two recent events for members. The first on 11th October with Tony Carter (Chairman of Air NZ and F&P Healthcare). The second with John Ryder (co-founder of Ryman Healthcare and author) on 17th November. Both events attracted larger than usual attendance and were held in the new Christchurch RSA building. As usual the presentations were followed by refreshments and an opportunity to talk with the speakers and other members.

Five new members joined up after the Ryder presentation.

We will conclude the year’s activities for our branch members on 8th December with our now traditional End-of-Year social and quiz night hosted by Peter Heffernan. This will be a fun evening of entertainment and enlightenment topped off with seasonal refreshments.

Robin Harrison
Members’ Issues

A warning on Perpetuals

Some members of NZSA have had a bad time with Perpetuals. One bemoaned a 37% loss of capital value in MTF perpetual preference shares, and a 25% capital loss on ASB prefs. NZSA’s “Investing” course does cover this topic, and some of the information is set out in The Scrip April 2016 - Bank Capital 101.

Today’s NZDX listings include 27 different hybrid securities ranging from those with no fixed maturity date (true perpetuals and preference shares,) to those with maturity dates set well into the future. Perpetuals and other hybrids are often issued by banks because they qualify as Tier1 capital, i.e. they will not be backed by specified group of assets, and will carry increased risk in the case of winding up. Those issued by companies are often convertible notes, and are a useful entry point if you ultimately wish to own ordinary shares in the company.

You have to look out for the reset provisions, because most perpetuals provide for the regular resetting of interest rates, at a set premium over a benchmark such as the 1 year or 3 year swap rate. Unlike bonds whose capital value tends to rise as interest rates fall, perpetuals lose capital value as interest rates fall. With interest rates at all-time lows and forecast to rise, this might be a better time to invest. However, like ordinary shares, perpetuals reflect investor demand. They can be illiquid and bearish when investor sentiment turns against them, and easier to trade when economic conditions are more buoyant. So the price will not always be a straight reflection of the interest rate. The credit rating (usually included in broker summaries), is below that of the group issuer, e.g. ASBPA is rated lower than CBA the bank that owns ASB. Advisors generally favour a mix of shares and bonds. Bonds give the certainty of a return based on interest rates, security of an asset backing, and priority in the case of liquidation. However, you have to take into account the time cost of money (inflation) and ensure the interest properly compensates for this. Ordinary Shares, by comparison yield a return based on the higher risk, and a share in the capital growth of an enterprise.

Perpetuals cloud the issues, and investors should look closely at the terms of issue, the climate for interest rates, and market sentiment towards the issuer, and the security. As always: don’t invest if you don’t understand, and seek advice if you are tempted into the hybrid market.

Alan Best

How good is your insurance cover?

Nature’s November rattles - felt by many of our members south of Auckland - has compelled many of us to review once again our insurance policies.

Freelance journalist, Diana Clement, a finalist for our 2016 business story award, submitted a portfolio based on her investigation into the culture and conduct at Youi. You can find her articles here.

Youi subsequently pleaded guilty in the District Court to 15 representative charges and has also been fined a maximum $100,00 by the NZ Insurance Council for not conducting their business in accordance with the Fair Insurance Code.

Do Youi’s TV ads make you cringe? If they do, trust your instinct.

Bruce Parkes
ASA gains $A103,400 after German firm fined for insider trading

German construction company Hochtief, the controlling shareholder in Australian engineering contractor CIMIC Group (formerly Leighton Holdings), has been fined $400,000 in the Australian Federal Court after being found to have engaged in insider trading, reports the Sydney Morning Herald. The civil case was brought by the Australian Securities and Investments Commission. Hochtief has also been ordered to pay ASIC’s costs.

The Court saw the Australian Shareholders Association as the representative body for retail shareholders

Hochtief has also entered into an enforceable undertaking with ASIC that will see it make voluntary contributions of $103,400 each to the Australian Shareholders Association, the representative body for retail shareholders, and First Nations Foundation for its adult financial literacy program. The court found Hochtief had purchased shares in Leighton Holdings, ahead of the completion of its $1.15 billion hostile takeover of Leighton while it was in receipt of inside information.

Hochtief admitted earlier this year it had issued instructions to buy 200,000 Leighton’s shares on January 29, 2014 for a total consideration of $3,244,156.97 using insider information. The court found Hochtief, through its chief financial officer, had become aware of Leighton’s expected financial result for the year ending December 31 that it ought to have reasonably known was insider information. It was also found that Hochtief had used the information to extend the completion date for the acquisition of Leighton so that it could purchase the shares.

Justice Michael Wigney said the public was entitled to expect that a corporation of the size and status of Hochtief would have systems in place to ensure insider trading did not occur.

“While the contravention did involve carelessness and inadvertence, rather than actual knowledge and deliberateness, the careless was such as to amount to a serious failure to exercise appropriate care and diligence in the circumstances,” Justice Wigney said. “It resulted in significant trading in a major Australian public company which, because it involved insider trading, had the capacity to significantly undermine the integrity and efficiency of the relevant securities markets,” Justice Wigney said.

“It was by no means a victimless crime: the victim was the market,” Justice Wigney added.

The ASA raised concerns about Hochtief’s trading in Leighton in February ahead of the release of the 2013 results given that it had several board seats at Leighton, a period known as ‘blackout’ period that restricts company directors in trading ahead of a results announcement.

Hochtief held a 55 per cent stake in Leighton, which changed its name in March 2015, for several years until it starts buying shares in the Australian contractor in 2013. As of this week it holds over 70 per cent of CIMIC’s shares.

The name-change coincided with allegations of corruption within the contracting group.

Bruce Parkes
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**Upcoming Events**

For more information go to Branch section of NZSA website

2017

February 15  Auckland Branch meeting
February 21  Waikato Branch meeting
February 24  Bay of Plenty Branch meeting
March 14  Wellington Branch meeting
March 23  Waikato Branch meeting
April 18  Waikato Branch meeting
April 26  Auckland Branch meeting

“*Yes, our investments are diversified: 20% out the window, 65% down the drain, and 15% gone with the wind.*”
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