"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc NZSA
February 2017

In this Issue

Virtual reality	1
The tale of a contrarian investor	4
Aligning investing to United Nations sustainable goals	5
Pay off a mortgage or invest in shares?	6
NZSA Annual Conference and AGM	7
Some thoughts on Virtual Reality	7
Proxy report for 2016	8
Company Meetings	
Rubicon, Tenon and Arborgen - An Update	9
Sanford AGM	10
Scott Technology AGM	11
Hallenstein Glassons AGM	12
Caught on the Net	14
Branch Reports	
Auckland.	16
Waikato	17
Canterbury	18
Bay of Plenty.	18
Wellington	18
Members' Issues	
My bond is my bond – for ever and ever.	19
We've said it before.	19
Educational Videos on the NZSA Website	20
Upcoming Events	20

We live in amazing times. George Lucas, our own Sir Peter Jackson and many other talented and creative people share the ability to turn the stuff of dreams and myths into real worldly experiences, aided by technological leaps that come ever more quickly. The advent of super computers and sophisticated software that enables lifelike three dimensional rendering of images as though they actually existed seems to have no limits. Or does it?

Given the opportunities to create almost anything in this new virtual world, why is it that movies, music, dance and other entertainment genres are still dominated by real people doing real things and reacting with real emotions? I think the answer is that humans are social animals that like to interact with each other and experience what others experience. We may be fascinated by computer creations in a virtual world, but we do not necessarily identify with them in the same way that we might a real life friend, lover, sportsman or indeed, a company director or CEO.

Recently, both Z Energy and Spark announced that they intended to hold virtual-only AGM's in 2017. As a result, there would be no meeting you could attend in person - you would have to log in by computer. Several companies including Z Energy and Spark have held hybrid AGMs in the past. Shareholders had a choice whether to attend or log in. This is a sensible solution to the limitations that distance places on investors. After constructive discussions and considering our survey results, we are pleased to announce that Spark has agreed to continue with hybrid meetings in the meantime. NZSA commends Spark for listening and acting in the

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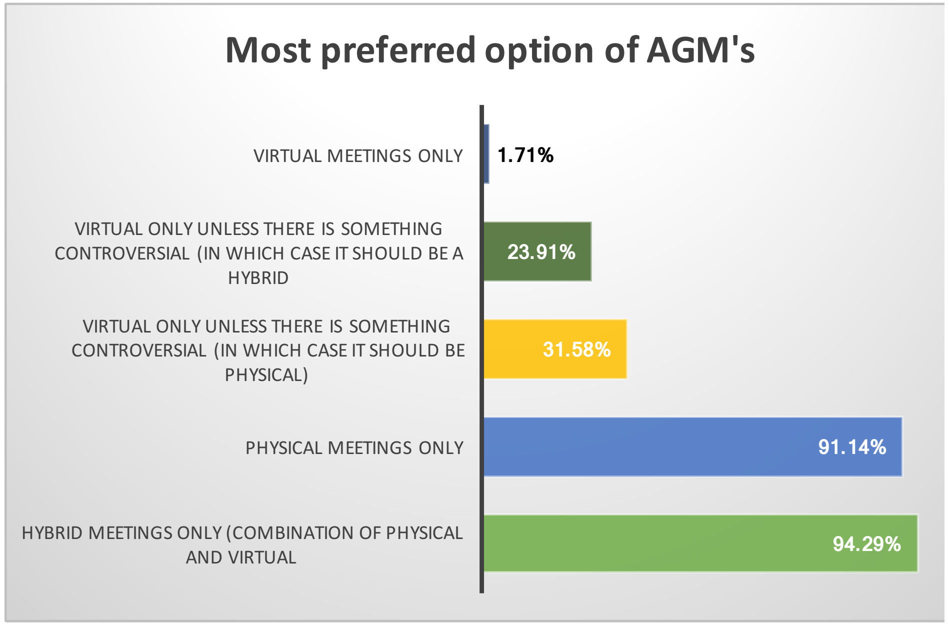
best interests of all shareholders.

NZSA is sceptical of virtual only meetings for a whole host of reasons. To ensure we were in tune with members views, we carried out the survey referred to above late last year. This only went to members who receive NZSA information electronically, the very group that is targeted by advocates for virtual-only meetings. So it should be skewed in favour compared to a broader demographic. Your response was exceptional with more than 350 submissions.

The full results can be seen by going to the NZSA public website and clicking on the survey, but I want to concentrate on the main themes, and also dispose of a few myths that have been quoted by those who would remove one of your major shareholder rights.



- Well over 90% of you favoured hybrid or physical meetings. Some could accept the concept of virtual meetings if there was provision for a physical or hybrid meeting for "controversial" topics. A mere 1.7% favoured virtual only meetings. We gave you a number of options to determine who should decide what constituted a controversial matter. It must be disappointing to companies and regulators alike that you don't trust any of them to make that call, with 50% opting for NZSA to decide.

So why were so many opposed to a virtual only meeting. There were four main reasons – all relating to the need humans feel for personal interaction.

- 90% felt the ability to "eyeball" the chair and directors face- to- face was important or very important. Those who have attended virtual meetings will know that the camera concentrates on the speakers face. Viewers do not see the subtle body language from everyone that often speaks louder than words. It was notable that at the last Spark AGM, the Chair spoke about the delegation the CEO and he had led to meet important industry figures in Israel. If virtual meetings are so effective, why did they need to waste shareholders money by going in person? The answer of course is that we need to meet people and form a bond of trust before we are comfortable dealing remotely. Why then should shareholders not have the same opportunity to meet the people who run the company that they collectively own? At the last Spark AGM, there were two new directors up for election that shareholders had no prior opportunity to assess.
- 83% worried about the loss of the ability to ask oral questions at the meeting. Our own experience at the A2 meeting reinforced this. It is all very well to type in a prepared question, but it is the follow-up that is perhaps more important. A polite "thank you for that information Mr Chairman, now could you please answer the question I actually asked" or "can you clarify ZYZ" simply becomes impossible.
- 80% of you value the ability to interact with directors informally both before and after the meeting. It takes courage to ask a question in a public forum and some minor matters are best addressed directly with management or a board member. Why would shareholders (or the company) want to lose that opportunity?
- A serious concern for 73% of you was whether virtual questions could be censored. The Chair controls what is answered and will usually respond only once if a number of questions cover the same topic. But by doing so, the subtle

differences between each are not addressed. And of course, if it is a really curly question ....!

And what of the myths? Despite what we often hear, the refreshments on offer were not considered to be important. Neither was the cost of holding the meeting. This has been advanced by some as a reason, but in our view, it is not valid. The significant costs of virtual technology and administration, registry and other professional services and preparation of presentations still have to be met. Spark currently holds their meeting at Spark HQ, so that has no cost, and every company has a directors meeting prior to the AGM, so attendance costs are unchanged.

Rather surprisingly, concerns about your ability to manage the technology were not a major issue. However, 18% of those who had attended meetings on-line reported problems with the technology not working properly. Loss of sound or vision, inability to access parts of the service and problems connecting due to "incompatibility" or internet capacity remain at an unacceptable level. We did not count the inability to easily ask questions orally as a fault, but it remains a serious restriction to be resolved before the technology can be considered mature.

So what are the other reasons for considering virtual-only AGMs and what is our response?

- One is that meetings are largely procedural and large shareholders rarely attend or speak. That may be news to Rakon, Veritas and Stride among many others. It also ignores the access fund managers have compared to ordinary shareholders. And it dismisses the important interactions referred to above.
- The continuous disclosure provisions mean that AGM's have lost their relevance and companies are happy to speak to investors at any time. While partly true, AGM's often deal with matters that are consequent to formal disclosure. While the investor relations manager may speak to investors, the prospect of the CEO or Chairman having time to meet or speak with hundreds or thousands of investors is simply not practical. Even if it was, your lone voice in private is unlikely to effect change (unless you happen to be the NZSA Chairman!) Speak at an AGM in front of other shareholders and the media and you have a much greater chance of concerns being addressed.
- Many shareholders cannot access the AGM. Here we agree, which is why NZSA supports hybrid meetings to encourage maximum participation. At a virtual-only meeting, those who do not have any (or inadequate) computer access would lose the chance to participate. Companies must also play a part in encouraging shareholder attendance. The location of meetings is important as is availability of cost effective car parking and public transport access. Timing of meetings is also an issue - 9.00am in an Auckland CBD venue is just plain dumb, but this does happen. Perhaps Z Energy should try holding their meeting at 5.30pm so that Wellington CBD worker/shareholders can more easily attend? Coordination between companies is still an issue. In Auckland, two or three meetings on the same day at widely separated locations means shareholders have to select which to attend. Logically, they will not feel such a need to attend the one that is doing well.
- It's the way of the future. Maybe, but not until the technology matures and a generation more comfortable with computers and social media is in the ascendency.

Perhaps the modest attendances which have caused concern at Spark and Z are really a compliment about those companies current performance. While they may have fewer attendees, that is not the case with the less well performing companies, or the others such as Mercury, that add some pzzazz into the mix.

NZSA has canvassed a wide cross section of directors and management. We have found little enthusiasm for virtual-only meetings. Spark to its credit has viewed our survey, listened to feedback, and modified its position. We will be engaging with Z Energy to try and persuade it to also retain its current hybrid meeting model. That would surely be a virtuous reality!

John Hawkins
Chairman

The tale of a contrarian investor

On 31st December 2017, whilst the campers amongst us were waiting for the weather to improve, the NZ Herald acclaimed our most famous member. Founding Chairman, Bruce Sheppard was made an Officer of the New Zealand Order of Merit for his services to business. Bruce, the son of a Matakohe farming family, the Herald claims, was a maverick from his student days at Auckland University. His early career in Ernst and Young, then Deloittes only confirmed his contrarian view of our orthodox social system. Having founded Gilligan Sheppard Accountants, in association with Kevin Gilligan, Bruce became a venture capitalist with, he claims wryly just enough success to compensate for the howling failures. However, this contact with private and publicly listed companies forced Bruce to make a cold hard comparison between the two. Public companies, he observed were dysfunctional, run secretively by the financially literate cliques to the disadvantage of an apathetic and often deluded private investor. What was needed was a coordinated effort by retail investors to hold public company boards to account.

As I read back through the early editions of NZSA's Scrip, Bruce's contribution to the issues of the day is unmistakeable – contesting Brierley attempt to register in Bermuda, taking issue with Joint venture arrangements in Contact Energy, calling out Patsy Ready (now Governor General) in a Telecom meeting, and the hardy annuals of rights issues which disadvantage small shareholders, demanding board refreshment beyond the old boy network, using your proxy vote wisely in a company meeting. There is social commitment there, a readiness to applaud right and question secrecy. Sentences like "Independent directors require courage, tenacity, care, diligence, and a desire to protect those who are not at the table to protect themselves." This is how the NZSA gained in strength and accumulated a wide spread of members. My own favourite image of Bruce was as he stood at the back of packed general meeting of Fletcher Forest, chainsaw in hand, hard hat on head, and lectured the directors on how to add value to a timber processing operation instead of stashing dollars under the mattress of the Central North Island Forests.

photo, Michael Bradley/Fairfax NZ

The Herald quotes Bruce's advice to investors: (Never one to miss a chance.)

- Join the Shareholders Association: It exists to enable, protect, and reward ownership. In order to invest you have to have knowledge… you have to understand what you are buying.
- Favour simplicity: invest where you have a better chance of understanding.
- Buy in your home market: that is where you can form a view of whether the business is operating well.
- Speak up. Don't be afraid of questioning a chairman or CEO. In NZ they will answer you, and hopefully you can have a rational discussion.

Current Chairman John Hawkins says it takes someone very special to tackle the establishment head-on and it is not possible without generating strong popular support. Bruce is the only person I know that could have done that. His ability to generate attention to so many important issues in a way that garnered media attention and made the issues accessible to ordinary investors was in fact quite extraordinary. However the real proof is the fact that most of the issues he raised have since been recognised as real problems and acted on by governments and regulators. The ongoing strength of NZSA and the recognition we now have is a direct result of Bruce's foresight. Many others helped and Bruce says the award is about them. However, none of this would have been possible without his enthusiasm and strong leadership, and the ONZM is a personal reflection of that.

NZSA members have widely applauded the award to Bruce for his commitment to better regulation of those who seek funds from private investors, his work on behalf of the small retail shareholder, his strong sense of the national good for his country, and his fearless championing of integrity in business. Is that really contrarian?

Congratulations Bruce!

Alan Best

Aligning investing to United Nations sustainable goals

Politics was a big focus in 2016, Brexit and Trump winning the US election were a surprise to many. One of the many issues to surface was that liberalisation in the past few decades led to less inter country inequality, but deepened the gap of inner country inequality. At the same time, the UN 2030 agenda for sustainable development with 17 Sustainable Development Goals (SDGs) came into effect in 2016. This is a global initiative aiming to include those who have been left behind, and provide a better future for generations to come. What can a private citizen contribute to the fulfilment of these goals? Responsible consumption is a good one to start.

Capital investment is also a key aspect. There are three major sources of capital for social and environmental investment: public tax, philanthropic giving, and private capital. As a private citizen you can cast a vote and hope your tax goes to the right place, you can give to a cause of your choice, and you can invest in companies making a difference to this world.

The trend word now is "impact investing." Investopedia defines impact investing as "investing that aims to generate specific beneficial social or environmental effects in addition to financial gain". A 2013 study by GIIN and JP Morgan found that over 90% of impact investors reported that their investments were meeting or surpassing their projections.

Responsible investment is a good starting point for impact investing. The common practice of responsible investment starts with excluding certain companies doing harm to our world, such as cluster bomb and tobacco companies. The next step is to use environment, social and governance (ESG) to screen companies.

Some impact investing focuses on solutions for a better future, such as clean energy, or medical solutions to disease. Many these investments go in at pre-IPO stage investment, which is difficult for small investors to access. There are new high growth innovative companies in listed space. These companies are generally considered to be high risk compared to traditional risk and return investing, as they may still be at the cash burn stage or need to reinvest all available funds to grow the company. In my view, those are key issues that hold small investors back from impact investing.

One solution would be blue chip companies deliberately aligning parts of their business strategy to SDGs. A famous Harvard Business Review case study involved Unilever in India. Unilever wanted to sell soap in rural India communities, but struggled to find proper distribution channels. The solution was to partner with a local charity to provide micro loans for rural women to start a soap selling business. Unilever grew new revenue; those rural women improved their living; a win-win outcome.

Looking back in New Zealand context, we have about 200 public listed companies. So far, we do not have an ESG reporting standard, it's hard for small investors to compare apples to apples. Large companies tend to have corporate giving/sponsorship to charities and/or let their staff to take time off for volunteer works; some even have their own philanthropic foundations. Those activities are good for corporate image and staff engagement.

What I really want to see is companies to thinking creatively, and finding ways to make environmental and social changes that lead to less cost, more revenue and better bottom lines. Shareholder advocacy is a great way to deliver such message to companies. For small investors, we can't afford to give out most of our wealth for charity as Bill Gates did. We do need to invest our nest egg wisely for our own retirement needs, but we can tell companies that we want growth and income as well as social and environmental good.

2017 is the year that private investors should look into aligning investment to SDGs and tell companies they should do the same.

Ally Cui

Pay off a mortgage or invest in shares?

Conventional wisdom is that a working couple should pay back the mortgage before investing in the sharemarket. Financial advisers generally do the calculation on taxable interest to show that arithmetically you are better off not earning the higher taxable rate of return on bonds simply to pay most of it to the bank in interest and repayment charges. However, I have always believed that investing in equities while maintaining a mortgage on the family home is appropriate for young families. It was only recently that I reread the advice of James Cornell, author of Market Analysis, and a founding director of NZSA who rationalised the thinking behind my actions.

Firstly, it is fundamental to portfolio management that savings should be diversified. The diversification of financial interest beyond ones residential property is an obvious hedge, but there is a diversification of time involved here too. Stockmarket returns do not occur evenly, but randomly with good periods and slower times. It is possible that good periods will occur during the early part of a working career, rather than the latter part. You have to give yourself time to take advantage of the bulls, rather than risking a bear during the later part of a career. The more years you invest, the better the chance of capitalising on the good periods and minimising the impact of the slower years.

Secondly, investing successfully requires experience. ASA's Bill Dodds, whose videos form the core of our new members web education, says a successful investor needs discipline, patience, and experience, and these are developed over time. New investors make mistakes, and learn from them. It is better to make the mistakes when you are young and have smaller amounts of money at risk rather than when you have paid back the mortgage, and have larger amounts at risk in the stockmarket.

Thirdly, investment returns benefit from compounding over many years. A deposit of $1000 at 10%pa becomes $2653 after 10 years, $7039 after 20years, $18679 after 30 years and $496512 after 40 years. It takes 7 years to double your money, 12years to treble it and 24 years to increase it 10 fold. So it makes much more sense to start early with small amounts than to start later with a large amount.

And finally, there is the whole habit of saving. Good habits are comfortable, and stress reducing. Savings without the hassle of mortgages, rent collection, continual maintenance, negative gearing and all the things associated with property management, can be achieved easily with a portfolio of shares, the proven long-term, low debt, path to financial independence. Most people need to save about 10% of their income over the whole of their working life to achieve a good investment income in retirement. The way to increase this is to reduce or cap living expenses so as to increase savings as your income rises. You can't do this without the habit of deliberate saving.

So there was reason behind my persistence with share investing while paying interest on a mortgage, and in the words of Henry V the lessons of saving to invest *"be in their flowing cups freshly remember'd. This story shall the good man teach his son"*...... or in this case, my grandsons.

Alan Best

NZSA Annual Conference and AGM

Our constitution and financial reporting regulations require us to hold our AGM before the end of September. This year our AGM will be held in Wellington. The date will be advised in our next issue. If members have any special issues they would like to have aired during the conference or AGM, please advise a branch committee or board member.

Some thoughts on Virtual Reality

I like live audiences, with real people - virtual reality is no substitute. - Hilary Clinton,

Virtual reality is the one-time next big thing that never quite was. - Nick Scott,

"Wisdom of the Ages: "Virtual Reality" A fairly plausible explanation for the abundance of Virtual People running around these days." — Matthew Heines

Most people are awaiting Virtual Reality; I'm awaiting virtuous reality.- Eli Khamarov

In the virtual world of social networks, we get attracted to identities that are virtual. We don't know who is behind them and what their intentions are. Sometimes, they are just predators looking for easy prey. - Stevan Nikolic

Virtual reality is an event or entity that is real in effect but not in fact. - Michael Helm

The revolutionary nature of virtual reality is inconsequential if it is inaccessible to nearly everyone. - Justin De Guzman

Proxy report for 2016

An excellent number of AGM and SMs were attended by proxy representatives of the Association – a total of 101 – our best yet. This is another great achievement by our dedicated members, who give up their time to actively attend company meetings on behalf of all members.

A favoured initiative amongst our members and the wider business community is the provision by your National Board of background information into company resolutions and issues raised prior to an AGM or SM, and pulsing members with the Board's consensus view. This has also given good support to our proxy holders, and I believe has led to members being more confident of acting as proxy holders.

Breakdown by Region

Auckland	65 (a good increase)	Wellington	12	Dunedin	3
Christchurch	17 (including Invercargil 1)	Tauranga	4		
Total	**101**				

We thank all our active representatives who give their time freely to research companies for potential issues, attend the meetings, ask questions of the directors and write up the reports for The Scrip. It is a very valuable service:

Auckland	Alan Best	Jacquie Hagberg	Simon Waller	Tony Connor	Noel Thompson	Bill Jamieson
	Bruce Parkes	Jenny Miller	Grant Diggle	Des Hunt	Fiona McKenzie	John Hawkins
Wellington	Martin Dowse	Paul Prachett	Matthew Underwood	Christine Pullar	Adrian Parkyn	Vinny Venkatesh
Christchurch	Robin Harrison	Max Smith	Barbara Duff	Tim Kerr	Pam Hurst	Heiko Mueller-Daja
Dunedin/Bluff	Gary McIntyre	Tim Kerr	Stephen Wasselingh			
Tauranga	Jane Lyndon					

Online voting is now efficient and easy to use. Please take the time to appoint the NZ Shareholders Association as your proxy for all your shareholdings, including if you are 'attending online' a virtual meeting.

Attending meetings, researching the resolutions, questioning the Boards, and then voting is a vital activity, and important for all shareholders in order to maintain the integrity and ethics that the NZSA aspires to. If you wish to and can assist us, please get in touch with me by email on **proxies@nzshareholders.co.nz,** or your branch chairperson.

Jacquie Hagberg

Proxy Co-ordinator.

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***

Rubicon, Tenon and Arborgen - An Update

Rubicon owns almost 60% of Tenon the listed remnant of Fletcher Forests, and 31% of Arborgen the large unlisted producer of forestry seedlings. In January of this year Tenon confirmed that since the sale of it half of its capital had been returned to shareholders at US$1.10/ share leaving about 32.5m shares on issue. The assets remaining are the Clearwood factory in Taupo which is currently under offer. In a disclosure on 3rd February, Tenon lowered its forecast earnings by 11%. Last year's Grant Samuels valuation of Clearwood was $63-75m, compared with Tenon's market capitalisation post capital return - $78m

Rubicon will have received about NZ$38.7m for half of its share in Tenon. Early in 2016, we expressed reservations about the need for the listed holding company, Rubicon, when both Arborgen and Tenon were self-sufficient. However it is important that the scrutiny of a public listing is maintained over the activities of Arborgen, and we are sure this could be realised at reduced cost. However the liquidation of Tenon has revealed an extreme under valuation of Arborgen. If the value of Tenon is deducted from Rubicon's market cap, even after the deduction of the $38m debt on Rubicon's balance sheet, which the company has advised is attributable to Tenon, the residual value of Arborgen is very modest.

Brian Tyler questioned Mr Luke Moriarty, CEO of Rubicon, over the operations of Arborgen. The company was promoted for a number of years, for its high value genetic engineering of forestry seedlings, and was likened to the explosive growth of Monsanto. However it now seems to be pursuing less technically-advanced mass-production for markets in USA, Australia, and Brazil. Perhaps the demonstrations of anti-genetic engineering groups in South Carolina have cooled its ardour for science? Luke Moriarty's response was that the current approach nevertheless captured about 60-70% of the scientific gains promised with no regulatory or negative publicity risk.

Brian Tyler also asked about the promise of ethanol production, and expansion in into China and Brazil. Mr Moriarty noted that in Brazil, Arborgen had moved from zero to 30m seedlings in a year, and could build on that growth. He stated that the expansion into China was still on the table, but that the possibilities previously seen for ethanol "fooled us all."

Discussion then moved to the slow takeup in USA as compared with Australasia. Luke Moriarty said that after the GFC, lumber companies in USA had conservatively preferred lower cost seedlings from established sources rather than achieve a provable higher return on better seedlings.

The questions concluded with a positive view of the potential for Arborgen:

Recovery in the North American market.

Consolidation and increase in Brazil

Opening of new geographies like China

Bioenergy development

Arborgen is an extensive producer and developer of forestry seedlings, with 14 commercial nurseries in USA, Australia, Brazil and New Zealand, specialising in Loblolly, Radiata, and Eucalypts, but it has a long way to go to fulfil its early promise.

Alan Best and Brian Tyler

Sanford AGM 14th December

The Maritime Centre, with an exterior background of swaying masts was an appropriate venue for this meeting. The venue was chosen to allow Sanford to offer samples of their products to attendees at the close of the meeting. Something not possible at a popular conference venue adjacent to the Sanford head office. However, with its emphasis on health and safety, Sanford would be concerned that at least two NZSA members had falls while accessing the venue.

Sanford's comprehensive 186-page annual report offers readers a full account of the company's performance and drive to deliver a sustainable seafood business. The report, along with addresses by chairman, Peter Norling, and CEO, Volker Kuntzsch, are available on the company and NZX websites. Both Norling and Kuntzsch spoke for 30 minutes. While doing so, they covered the issues mentioned in the NZSA pulse to our members. It seems they do listen.

During the addresses, or in answer to questions we were told that:

- The company sees itself as a food company rather than a fishing company.
- Earnings in FY16 was the best result since 2009
- The dividend pay-out was covered 1.6 times, which the board considered marginal because they want to reduce borrowings. They consider a suitable gearing ratio at 1.75 times EBITDA.
- The vessel San Granit was sold at discount to book value because there is no demand in its area of operations. All other vessels are operating profitably and their assessed values are around or slightly above depreciated book value.
- Consents to operate aqua culture farms are due to expire in 2024. The company will be looking for government support to have these rolled over.
- Sustainability is at the core of the business and media reports of under reporting the catch of under sized fish is strongly refuted.
- After the Kaikoura earthquake the Havelock mussel processing plant was closed for 2 weeks but was now back to full production.
- The push is to move product to fresh from frozen. Currently there is a $0.5 return on each kilo of wet fish. The aim is to lift this to $1 a kilo
- Product is sold in four quality brands. The aim is to focus on the higher end of the market. Where possible, attempts will be made to reduce polystyrene packaging
- The company is not against the Hauraki Gulf Spatial Plan. They just want the opportunity to trawl outside the inner gulf – an area beyond the reach of recreational fishers.

To the resolutions. Directors, Bruce Goodfellow and Peter Kean, along with authority to set the auditor's fees were passed on a show of hands. At the start of the meeting we had been told that proxies were held for 66% of total shares (but not how they were directed)

The other resolution was to amend the constitution to allow the directors to refuse to register the transfer of shares to an overseas ownership when that transfer would lift the overseas ownership to more than 22.5% of the company's stock. The reason is that should it rise above 25%, Sanford would lose its fishing quotas – unless Overseas Investment Office approval was obtained. This is obviously mission critical and an appropriate risk mitigation approach. We voted by poll on this resolution with 99.8% of votes cast in favour.

The constitution amendments also included provisions to allow for electronic (virtual) access and action at company meetings. Never-the-less, Mr Norling was not open to a suggestion by me that a webcast would be a useful first step towards electronic access. He is not persuaded that the cost and expected take up makes this a worthwhile provision.

Bruce Parkes

Scott Technology AGM 1st December

Chairman Stuart McLauchlan

Dunedin-based Scott Technology alternates its AGMs between the HO plant in Kaikorai Valley, Dunedin and the Christchurch plant in Bexley, Christchurch. The AGM's are held within the respective factories which lends an industrial air to the meetings. About 40 attended this year's AGM, which was held in the Bexley plant. Chairman Stuart McLauchlan referred to the retirement of Graeme Batts, who has been with the company for 60 years, welcomed the presence of the NZ Shareholders' Assn and asked if anyone from the media were present – but typically, there were none. This year Scott Technology has provided a five year summary after years of prompting - and a few good-natured digs were cast in my direction. It is not a legal requirement, but something that the NZSA advocates.

The company has good forward orders, 84% of revenue is now from outside New Zealand, plus Stuart pointed out, "Our equipment assists other New Zealand firms to benefit from exports of their products." And he spoke in support of the benefits of free trade. Looking ahead, Stuart stated, there will be a drop in the size of the work force due to a drop in births throughout the world, creating a demand for far greater automation of production processes. Stuart also referred to the investment by JBS Australia, which is now a 50.1% shareholder. There are no plans for a larger holding because Scott Technology needs to be perceived as a separate entity for marketing equipment to JBS competitors.

MD and CEO Chris Hopkins gave shareholders an operational overview. The nature of the business; large contracts for one-off production lines means revenue can vary over several years because some projects take a long time. As work can come from different industry sectors, there can be troughs in one sector and demand in another. "This year it was meat, the year before whiteware production lines, the previous year mining and before that robotics." The $40 million raised with the JBS investment reduced debt by $15 million and although now over capitalised, the company has flexibility to make further acquisitions. The company strategy for the current and next year is to invest in a range of platforms, recruit more employees, improve and further invest in R&D processes - especially Govt/Private financed research within Australasia.

The NZSA held eight proxies. 9,186 votes were against all resolutions, 1,125 in favour of all resolutions and 122,201 undirected

Directors Edison Alvares, Chris Staynes, Brent Eastwood and Chris Waller

Shareholder Errol Scott with Director Chris Staynes and Mike Lynne, GM of Rocklabs

votes were cast in favour of the resolutions. Voting was carried out by show of hands. (NZSA prefer a poll.)

There were questions from the floor: What is happening to dairying? In particular the automated milking machine development? The somewhat coy response was that it has been in hiatus the past 18 months

Where will most expansion of production be? Dunedin. However, the greatest expansion will be in people.

A shareholder's comment about lack of illustrations of senior management in the annual report. "We will look into this, thanks."

At the completion of the AGM some shareholders were taken on a brief tour of the factory.

Tim Kerr

Hallenstein Glassons AGM 13th December

The Chairman Warren Bell got things underway in his cordial and affable way, introducing shareholders to some of his Group Executive team who were in attendance.

He commented on the reasons for the company's decline in profits (their forward cover was affected negatively by a lower exchange rate; a record mild winter and management issues with Glassons) – all of these have now been addressed. He said that they were particularly pleased to have Di Humphries back managing Glassons and her presence is having a positive effect already with Glassons NZ sales up 21% on last year.

Glassons Australia had a disappointing year attributable to margin pressure and unseasonal weather but things are now tracking well, being 13% up on last year. They have undertaken store rationalisation closing two stores and this will continue into the future. To counter this, a new Glasson store format is being undertaken with positive results and will continue into 2017.

Hallenstein Brothers was also affected by the exchange rate drop and the mild winter resulting in a profit of $8.5 million after tax, down 11.3% on last year. They have opened their new flagship shop in central Christchurch and two new shops in Australia.

Storm has 11 shops, including one in Australia and a new shop opening in Queenstown.

E-Commerce sales continue to outstrip the brick-and-mortar stores, growing by 24% (around 7% of the gross turnover).

The Chairman continued that the recovery of company sales was well underway. They are used to the competition from the likes of H & M and Zara and in fact like to be close to these major retail chains as they benefit from increased sales as the A grade Malls, where they are located, attract larger numbers of customers to the detriment of the B and C grade malls.

In conclusion, he spoke of Graeme Popplewell's retirement as CEO of Hallenstein Glassons after 46 years in the business. He said that Graeme had made an outstanding contribution and thanked him for his service to the company. He will be replaced by Mark Goddard. . Mark has a very strong background in retail management, including CEO of Toys R Us Japan, Myer and Spotlight Australia, and Country Road. Mr Popplewell will remain on the board.

Graeme Popplewell then spoke emphasising the volatility of trading affected by things like the weather. To counter this, their supply chain has become shorter and shorter. The old concept of ordering the winter stock, having it sit in a warehouse and hope for the best, is gone.

He asked who had been in their new Christchurch stores in the CBD? A few hands went up. He said that from his experience, they are as good as anywhere in the world. We then watched a short video showing an enormous queue waiting to enter the shop on opening day (it was raining too)!

He added that the Australian market differs considerably from NZ and it is critical to realise this in order to compete in their market. They have built up a first-class team over there which gives him considerable confidence in the future.

We then had another video of their Sylvia Park Glassons shop which competes effectively again the major chains of Zara and H & M. We then saw a couple of Hallenstein videos showing the branding of the range used on social media! As the NZ market is now mature, they have opened two stores in Australia and they are profitable. Another store is opening in Brisbane (another video). Expensive leasing costs meant the shop is smaller than in NZ.

He is extremely confident about the growth of E-commerce and predicts it will grow to 20% of their turnover, in time.

The chairman then put the resolutions to the shareholders. Both resolution 1 and 3 were passed by a show of hands. Resolution 2 re-election of directors, Malcolm Ford and Michael Donovan was by poll.

Both directors spoke briefly commencing with Mr Ford. He mentioned he chaired the audit committee. Max Smith asked about the replacement of their auditors/accountants. The chairman said every year they do a review of the audit process and they are happy with their existing arrangement. He said it is not an automatic process.

Mr Donovan then spoke and said that he felt he still had a contribution to make to the board and would therefore continue on.

NZSA proxy asked if Mr Donovan would be stepping down after this election in view of his time with the company (26 years).

Both the chairman Warren Bell and director Tim Glasson spoke highly of Mr Donovan saying they valued his extensive retail experience and found him excellent to work with and were keen for him to remain.

Max Smith then asked about succession planning for the board. The chairman said it was a matter they gave regular consideration to but their more immediate priority was to work with the new CEO. NZSA proxy discretionary votes went in support of Mr Donovan, and both directors were elected.

NZSA Proxy put forward the question regarding the new accounting standards IFRS 16 whereby the costs of their full term leases have to appear on their balance sheet. Do they see any effect on their share price as their balance sheet will not look as strong?

The Chairman said they are conscious of it and are working with their accountants on this. He added people who are very concerned about this are airlines as they lease aircraft. Like all other business in NZ, Hallenstein Glassons will comply. He said he didn't think it will have a big impact – it will have two big numbers sitting on each side of the balance sheet. One NZSA member and shareholder said he found the muzak offensive, do they do survey's. The reply was, yes they do and this is what the visitors like. I can speak personally having been to the Glassons shop, the music (to my ears) is ghastly and overly loud but, as I listen to the Concert programme daily, that isn't surprising!

Barbara Duff

Caught on the Net

Despite his name popping up almost everywhere, this is a Trump free zone

Where machines could replace humans and where the can't (yet)

As this is a McKinsey & Co view, the authors research did not include examining the work activities of consultants or those near the top of the corporate ladder. **More**

Twenty one jobs where robots are already replacing humans

The surprise in this list is that most identified are in professional and service occupations. **More**

If scandals do not make us switch banks, financial technology might

An efficient market relies on rational customers being willing to change suppliers when there is a good reason to do so. Rob Nicholls, Business Law lecturer at the University of NSW, notes that behavioural economics research shows that customers are often reluctant to make the move. Financial technology companies are now able to provide information platforms to make it easier for customers to switch. **More**

Trading by those in the know

This piece from Atlas Funds Management, looks at trading by insiders and how to interpret trade notifications. It does not look at the illegal act of insider trading per se, but rather how trades by key personnel can help frame an investing decision. **More**

The illusion of stock-picking skills

This post is an extract from Nobel prize winning Psychologist Daniel Kahneman's book, *Thinking Fast and Slow*. His conclusion, success is down more to chance than skill. **More**

Don't bet on the Active Manager revival

Will the active vs. passive investing performance pendulum swing back to active? Dennis Tilley, in a researched opinion piece, says that as dumb investors shift to index funds there is less scope for active managers to outperform the market. He does not see any prospect for a swing towards active managers until index funds grow to more than 50% of the market. **More**

Where to invest when you are investing

This article is about using data analysis to determine asset allocation. A review of the U.S. Annual Asset Performance Comparison from 1976 - 2015 shows that there is no pattern to the asset returns from year to year, making them hard - if not impossible - to predict. The key conclusion. No one knows where the markets are going so the exact portfolio which will perform best over the next few decades can not be determined. Investors should buy a diverse set of asset classes while paying the least amount of fees possible. **More**

Exchange Traded Funds: Marketing vs. Reality

The other side of the active vs. passive debate. While plumping for active fund managers, the author admits that they are hard to find. **More**

Seven reasons we play lotto - even though we know we probably know we will not win the jackpot.

While two James Cook University psychologists offer 7 reasons why people defy logic and "invest" in lotto, the number 1 driver seems to be entertainment. **More**

Mind over matter: is scarcity as much about psychology as it is economics?

"Unlimited wants, scarce resources". This is the economic problem. But once basic needs are met, how much should scarcity – having "enough" – be understood as a psychological problem? Is it possible to cultivate an "abundance mind set"? Bank of England staffer, Dan Nixon somewhat reluctantly comes to the conclusion that traditional economics does not provide an adequate framework for studying scarcity. **More**

Sensation seeking, sports cars and hedge funds

Research by four US academics found that hedge fund managers who own powerful sports cars take on more investment risk. In addition, performance car owners are more likely to terminate their funds, engage in fraudulent behaviour, load up on non-index and lottery-like stocks, exhibit lower R-squareds with respect to systematic factors, and succumb to overconfidence. They conclude that manager revealed preference in the automobile market captures the personality trait of sensation seeking, which in turn drives manager behaviour in the investment arena. What sort of car does your advisor drive? **More**

Financial crises in the 19th century

A three part series on the British financial crises of 1847, 1857 and 1866 with many familiar themes along the way – excessive leverage, imprudent lending, credit crunches, money market freezes, systemic financial institutions, capital outflows, international spill overs, and emergency liquidity measures The lessons learned during this time are as relevant now as they were then. **More**

Why time seems to speed up as we get older

There's very little scientific evidence to suggest our perception of time changes as we age. And yet, we consistently report that the past felt longer — that time is flying by faster as we age. What's going on? It seems it is all to do with our memories. Want time to feel like it is slowing down? Make the most of it. **More**

Monopsony takes centre stage

The blog of the University of Chicago Booth School of Business looks at the impact of monopsony (a market situation in which there is only one buyer) on the labour market and suggest that government regulation is required to make the labour market more competitive and reduce income inequality. **More**

Five economics terms we all should use

Should is a strong word, but that is the view of Noah Smith at Bloomberg. He starts with endogeniety and goes on with other terms that may, or may not, roll of your tongue. **More**

Businesses can and will adapt to the age of popularism

Between 190 and 2007 companies around the world drifted right towards shareholders says Economist columnist Schumpter. Now, he says, in response to popularism they may drift back. In the contest between shareholders and the people, companies and bosses are caught in the middle. But there are no final victories. Just constant pragmatic accommodations. **More**

Why investors do worse than the funds they invest in

Written from the perspective of an investment fund manager. His premise is that investors get emotionally involved and make bad choices. While that may be so, others might consider that having "skin the game" leads to more considered decisions. **More**

Lending to friends and family? 6 tips for generous souls

Lending to friends and family can be a tricky and sometimes costly endeavour. The Alert Investor offers 6 questions to ask yourself before proceeding down this often rocky road. **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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Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

Auckland.

Upcoming Auckland Branch Meetings

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

Dates for 2017: Please mark these dates in your diary now

Wednesday 15th February	Ricky Ward - NZ Equity Manager, and Bernard Doyle - Strategist JB Were,
	Ian Ward -CEO Gentrack
Wednesday 26th April	Phil Hand - CEO Tegel
	Mark Lister Craigs Investment Partners - Head of Private Wealth Research
Wednesday 21st June	Grant Webster - CEO Tourism Holdings,
	Todd Hunter - CEO Turners Ltd
Wednesday 20th Septembe	Angela Burglass - CEO Trilogy
	Dean Anderson - NZX Smart Shares and EFTs
Wednesday 15th November	Speakers to be advised

Please mark the dates in your diary now

Company Visits

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

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

February 17th	Z Energy Biofuel Plant - This visit is already full with a waiting list
April 26th	Fletcher Building - This visit is filling fast
May 24th	Cavalier Carpets - Includes a factory tour - register now
June	Fonterra - to be confirmed
	Milford Asset Management - to be confirmed
	Ryman Healthcare - to be confirmed

Education News Flash – Last chance for 2017 courses

We have just been advised by Western Springs College, who host the NZSA courses through their Leisuretime Learning programme, has closed the programme whilst the school is being rebuilt.

Therefore, all the NZSA courses from May to December 2017 have been cancelled, with the last ones being held this Feb and March. In a new initiative, we plan to give learners the opportunity to use our new website education pages to upgrade their knowledge and skill. *(See more on page 20)*

Auckland Education Courses 2017

Western Springs Community College will run two more education courses in February 2017

Website: ***www.leisuretimelearning.co.nz/businessandfinance***

Our courses are right for new investors, for current investors who need more knowledge, and for those who want to understand their Kiwisaver investments.

Course 1. Investing for your future – general investing principles - 2 x 2hr sessions

Commencing 15th February 2017; Tutor John Hawkins

Price $75 incl GST; plus $20 for the NZSA course book

Course 2. Sharemarket basics – understanding how and why to invest in shares.

Commencing 7th March 2017; Tutor Jacquie Hagberg – 2 x 2hr sessions

Price $75 incl GST; plus $20 for the NZSA course book

Tell your friends, family, and work colleagues about these informative courses. You don't have to be an NZSA member – just keen to develop your understanding

Waikato

This year's events start with a 'State of the Nation' address by the always popular Mark Lister, Head of Private Wealth Research, Craigs' Investment Partners. Mark will review the economic and investment landscape and provide a global and local perspective of the challenges and opportunities in the year ahead including the economic and geopolitical changes happening in the world, including the impact of Brexit and post-inauguration of President Trump.

Other speakers already booked for the first part of the year are Todd Hunter, Chief Executive Officer, Turners Ltd, Jeff Greenslade, CEO, Heartland Bank Ltd and Paul Glass and Slade Robertson, Devon Funds Management.

Another highlight of this year's programme will be John Ryder, investor, entrepreneur, co-founder of Ryman Healthcare and author of the recently released book "Global Investing - A Guide for New Zealanders".

We have introduced a new marketing initiative. Members who introduce new members receive a complementary dinner. Already we have seen our membership grow this year.

Marie Hutchinson

Bay of Plenty.

Our Branch's first meeting of the year will be on Friday, 24 February 2017 with guest speaker Jon Murie from Craigs Investment Partners, speaking on the year that was and the year ahead, @ Gate Pa Bowling Club Rooms, Tauranga @ 3 pm.

We have a Committee planning meeting on 7 Feb. More in our next issue!

Jane Lyndon

Wellington

Welcome to 2017? – I don't think anyone has a clue as to what will happen in year one of the Trump era error, but it is hard to see how it will be a pleasant experience for most of humanity.

What I am sure of is that we will be running our usual programme of branch meetings this year and we will do our best to make sure these are interesting, enlightening, and pleasant experiences.

We meet on the second Tuesday of each month (March to November) from 7:30pm to 9:00pm at the Royal Society rooms 11 Turnbull Street, Thorndon, just opposite New World on Murphy Street. It is a 5 - 10 minute walk from the main bus and railway station and there is usually good parking after 5pm at the Royal Society or on Murphy Street.

Our first meeting for the year will be on Tuesday 14th March. We will send out email notifications a week or so beforehand with details for the meeting and you are welcome to bring a friend along to check us out! We also advertise our meetings on the Wellington branch page at **www.nzshareholders.co.nz/.**

The meeting dates for 2017 are:

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

I look forward to seeing you at our meetings

Martin Dowse

Canterbury

The Branch committee has enjoyed a well-deserved summer break after what was quite a hectic finale last year with several company AGMs plus large branch functions with speakers David Carter and John Ryder. We are now planning events for 2017 with several major speakers lined up and planning for a factory site visit.

Although we carry the name Canterbury Branch we cover the whole of the South Island and last year we made a major effort to promote branch development in the Otago region. This year we intend to extend our efforts to encourage local satellite groups in centres throughout the South Island. One such locally run group is in Nelson which is very active.

Our monthly branch newsletter is soon to have a facelift under a new banner "Southern Equity". We have wanted to distinguish more clearly our newsletter from the Scrip and we had invited branch members to suggest appropriate names; "Southern Equity" gained most support. Our editor, Tim Kerr, has checked that this title is available for us to run with and will launch in the February issue.

Robin Harrison

My bond is my bond – for ever and ever.

Whoever would have thought in 1989, when a statutory receiver was appointed to Equiticorp Holdings to supervise the repayments to debenture holders, that he would still be on the job 27 years later, eclipsing the longevity record held by Doug Hazard receiver of 25years of the JBL group?

Equiticorp debenture holders were repaid most of their principal from a government settlement over the illegal sale of NZ Steel. However the accrued interest over a long period entitled them to the proceeds of a commercial property in downtown Kuala Lumpur, the security of a loan by Equiticorp. Entitlements through the bankrupt estate of Cheah Theam Swee have been delayed and delayed by Cheah's brother an 18% shareholder in the property owning company. The brothers have tried to sell the company, dishonestly withholding a deposit, and delayed the attempts by the liquidator to obtain a fair price on the open market.

A proper sale is now imminent, but funds will have to flow through the Malaysian liquidator, to the secured lender Equiticorp holdings and thence to the individual debenture holders. There were 3000 of them with secured deposits of $200m, but many have died and entitlements often small, must be split amongst their beneficiaries. The property in KL was valued at $87-$120m, and it will be interesting to see how much remains after nearly 30 years of liquidators and receivers fees.

To those who prefer the security of denture investing, this is a lesson on the length of time it can take to exercise the right of repayment under a deed. Maybe it is better to have the immediate risk and liquidity of a listed shareholding, in which if you're watchful, the first loss is the best loss.

Alan Best

We've said it before.

Warwick Smith noticed some time ago that a few people referred to the Scrip as the Script. Script of course is any old piece of writing. This we are not. However Scrip, and here he quotes the Oxford dictionary: "Orig. a receipt for a share or shares in a loan or a commercial venture; spec. a provisional certificate of money subscribed to a bank or company entitling the holder to a formal certificate and dividends after the necessary payment ….. gen. any share certificates." Yes, that is how we are named, and yes, we try to make your copy of the Scrip as guilt-edged as a formal certificate of membership in NZSA.

Educational Videos on the NZSA Website

We are about to launch our distance learning videos on the NZSA Members' website. The videos currently loaded on this section are for our testing only and will be re-arranged in the near future.

We do have a beginners series on the public page of our website. Check for these under NZSA – Resources – Investor Education. Scroll down and accept the NZSA's terms of use.

These public page videos are available via FMA, Sorted, NZX and YouTube, but you will find them more convenient and advertising free when accessed through the NZSA site.

We expect to have more information on education videos for members in our next issue.

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 11	Wellington Branch meeting
April 18	Waikato Branch meeting
April 26	Auckland Branch meeting
May 9	Wellington Branch meeting
May 23	Waikato Branch meeting

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Editor Alan Best

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