"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc
NZSA
June 2016

In this Issue

What do they do all day?

For some time, Alan Best, the editor of this terrific publication has been requesting that I write something about what we actually DO at head office. After much unproductive nagging, he finally threatened to write about it himself. That would never do as the truth might get out. So I have been roused from my usual champagne and caviar morning tea to put electron to flat screen. (Pen to paper sounds better, but who does that these days?) I hasten to add in a more serious tone that this is not a self promotion exercise, but rather an attempt to show the breadth of activities that your Association is involved in.

Let's start with the "big stuff".

You may be wondering what has happened about the BHP demerger tax. Getting the government and IRD to admit there are silly consequences from the existing law - which result in investors (especially smaller investors) and even Kiwisaver funds being taxed on their own capital was the easy bit. Getting them to actually DO anything to fix it has been a challenge. Resources, priorities, budgets, politics. You name it, we've had it. So, we have been busy (and successful) in building a strong consortium of participants from all sides of the market who support us, and can bring pressure to bear at various levels. Hopefully we can get action before the APN/NZME demerger adds to the list of grossly unfair taxation, which in recent times includes Orica, Westfield, NAB and of course BHP/South 32. If this simple fix is so hard, no wonder the large multinationals are not concerned that their outrageous transfer pricing and tax avoidance strategies will be jumped on any time soon.

ISSN 1179 -4275

What the powers that be have forgotten of course, is just how persistent NZSA can be when we are determined to change something.

Many of you are troubled by the constant upward spiral in CEO and director pay. While it is important to be realistic and pragmatic, companies should take account of such social concerns or they will eventually find themselves in a regulated hole that they may not much like. NZSA has been challenging quite a few companies in private with a reasonable degree of success. We could scream and shout at them through the media, but that would not achieve the outcomes we want and be self defeating in my view.

A major problem with CEO pay is the lack of formal remuneration reports. We could copy Australia, but we would end up with long winded, difficult to understand novels (novel : a work of fiction). Instead, we have been working with our current PhD scholarship holder, Jeremy Beckham, to produce a concise two page report. This lets shareholders see the key CEO pay metrics at a glance and requires the main performance criteria to be disclosed. This is currently being beta tested by some of our Corporate Members and other institutions. So far, the feedback has been very positive. The ideal outcome will be to have it adopted as a voluntary standard. We are also working on some statistical data that will once and for all will settle arguments about the relationship between pay and performance in the NZ context. This is very time consuming, but no-one else is putting their hand up.

Financial education, or rather the lack of it, is a real problem in NZ. We already offer regular face to face courses in Auckland, but these are not accessible for many. Currently we have a sub-committee of members and NZSA directors working to develop a web based solution which we hope to begin rolling out in the next few months. This will be a work in progress as we see what is popular and what is less successful and fine tune the offering accordingly.

We know from the recent survey that members like the proxy voting intention emails that we send on controversial or significant issues and we will keep doing this. We now want to extend this to all AGM resolutions at all the companies we cover. We have completed developed of a comprehensive voting policy manual, and the board recently signed off on website alterations which when complete, will let members easily access current and archival voting intentions. To resource this initiative, we will need a number of "proxy teams" each covering perhaps 3 or 4 companies. I will be shortly be tapping some shoulders to get this under way. This is a great way for interested members to become involved in short bursts, without the burden of having a continuous commitment.

As you know, NZSA has been involved with the urgently needed review of the Financial Advisors Act. As well as our submission that many of you read, we have attended a number of working groups and provided members for focus groups, something MBIE said they found particularly helpful. Now we are making strenuous efforts to ensure commercial organisations such as insurance companies and banks do not have the early draft proposals "modified" so that their front line sales people can somehow be called "financial advisors". The conflicted position of people with limited knowledge, selling single source products on a commission basis should be obvious. Sadly, where profit or potentially higher costs are concerned, that is often not the case. To ensure investors can access independent advice, we must win this battle. With the help of some like- minded groups that support us, we intend to do just that.

On Saturday, September 3rd, the 2016 Investor Conference will be held in Auckland. Planning is well underway. To keep costs down, NZSA organise the whole thing ourselves - not bad for one of the largest events of its type in the country. We have secured a tremendous venue at Eden Park Convention Centre and will release the theme and presenter details in a couple of months. Put this date in your diary now!

That's a few of the big things, but of course, we spend much most of our time on a huge variety of smaller tasks. Some recent examples:

- We have a live complaint in at NZX Regulation regarding board composition at an NZX listed company; and have also highlighted problems in how directors are currently deemed to be independent.

- We are pushing hard to stop notices on NZX being removed after a maximum six months. NZX should be the main archive for this information as it is in the Australian ASX. The argument that the companies have notices on their own websites does not wash. Everyone does it differently and it can be an exercise in frustration to locate the information you want. Don't believe me? I suggest you go to the Sealegs website and try to find their 2015 annual report.
- We have queried why the previous registry deletes all information if the issuer changes to another registry. This means that anyone requesting a (paid) dividend and tax summary at year end may not get a complete document. This despite the claim that "all" your holdings will be on the summary. We have asked Link and Computershare to find a solution and await their reply.
- Most critically, we continue to engage with many companies, institutions and individuals each month. Most are trying to do the right thing and they do genuinely value input from NZSA. This two way dialogue and consistent message is achieving results. For example, it was no accident that Sky City did a rights issue this time or that NZ Refining is now revising its board structure (See the NZR AGM report in this issue).
- To the many members that write to me - thank you. We try to provide a detailed response to all these queries, even if sometimes the answer is not necessarily what you want to hear!!

And finally, some comment on the aftermath of last month's Scrip lead article - "Of Icarus and Air Accident Investigations". Members may have noticed that the CFO has now left Wynyard. The director chairing the Audit and Risk committee and a second independent director have resigned. Chairman Murray Horn has also resigned from both Wynyard and Spark citing (genuine in my opinion) recent health concerns.

Their replacements have a track record in building listed tech companies. Let's hope they also keep management on a much tighter rein. We strongly criticised some of Wynyard's actions both publically and privately in the past. The whole unfortunate saga certainly does demonstrate that flying too high too fast may well melt your wings - and the crash landing that results is never pretty.

Well, got to go. I have a date with the company masseur before the NZSA limo arrives to take me for pre dinner drinks and a slap up meal at the French cafe - which just like the champagne and caviar morning tea will happen "quand les poules auront des dents."

John Hawkins

Chairman

NZSA AGM and Annual Conference

NZSA's AGM will be held this year in Auckland, on 3rd September, at the Eden Park North Stand Function centre. Please mark this date in your diaries.

Nominations for the Board (Rule 12.3c) and any Notice of Motion (Rule 20.2c) should be lodged with the Secretary (Chris Curlett) 44 days before the AGM (Rule12.3c). Members wishing to nominate a Board Member or propose a Motion should contact Chris via email at secretary-treasurer@nzshareholders.co.nz for the forms or other details, or on 021-738032 or by post to NZSA, c/-40 Tidey Road, Mt Wellington. Auckland 1072

This event is always worth a year's subscription on its own, and we will reveal the programme in our next edition..

The Scheme of Arrangement

The Takeovers Panel on schemes of arrangement that affect voting rights in Code companies: "Code company schemes"

Schemes of arrangement under Part 15 of the Companies Act 1993 are Court-approved procedures that enable the reorganisation of the rights and obligations of shareholders and companies. In July 2014 the Companies Act was amended with new provisions relating to Code company schemes.

The new provisions were introduced to better align the schemes procedure under the Companies Act with the protections for shareholders under the Takeovers Code. The provisions also align New Zealand's law more closely with Australia's.

Under the new provisions, the Court cannot approve a Code company scheme unless:

- the Court is satisfied that the shareholders of the Code company will not be adversely affected by the use of a scheme rather than the Code; or
- a statement in writing by the Takeovers Panel, that it has no-objection to the scheme **(a no-objection statement**), is produced to the Court.

The Panel's **flowchart** depicts the steps that occur for a scheme, including the giving of a no-objection statement.

The purpose of the Panel's no-objection statement is to signal to the Court that the Panel is satisfied that the shareholders are not adversely affected by the use of the schemes provisions rather than the Code. The fact that a transaction is being undertaken as a scheme rather than as a transaction under the Code is not an adverse effect in itself.

In deciding whether to issue a no-objection statement, the Panel has regard to the information proposed to be disclosed to the affected shareholders. The Panel also enquires into whether there are separate interest classes of shareholders for a scheme proposal. As is the case with transactions under the Code, the Panel takes no view on the merits of a scheme. It is for shareholders to decide what is in their own best interests.

As regards the information for shareholders, the Panel will give a no-objection statement for a scheme if the Panel is satisfied that information like that disclosed under the Takeovers Code (where relevant) is disclosed in the scheme documents, including a report from an independent adviser who has been approved by the Panel.

The question as to whether there are separate interest classes of shareholders for a scheme is important, because the scheme can only go ahead if it is approved by each interest class, by at least 75% of the votes cast in each interest class.

In addition, all of the votes that are cast on the resolutions approving the scheme must add up to more than 50% of the Code company's total voting rights on issue. If this threshold is not met the scheme will fail. Conversely, if both approval thresholds are met, the scheme will be binding on all the company's shareholders.

This means that it is very important for shareholders to exercise their right to vote. Being passive, not voting, has an impact on the outcome of the scheme votes in two ways:

- **for the interest class vote-count, not voting effectively reduces the pool of votes out of which the 75% approval needs to be gained**. Consequently, if, for example, those who do vote mostly support the scheme, and those who do not vote mostly do not support the scheme, it will take fewer votes to cross the 75% threshold than it would have if the passive non-supporters had voted against the scheme;
- **for the >50% of total voting rights vote-count, not voting is effectively a 'no' vote**. Consequently, if, for example, those who do not vote mostly support the scheme, they effectively reduce the chances of this voting threshold being crossed, because their non-voted shares are a portion of the company's total voting rights on issue.

Some market commentators and practitioners suggest that schemes are an 'easy way' to do a takeover because, they say, the thresholds for a scheme are lower than for a takeover under the Code. This way of thinking is a little

Thresholds and hurdles	Takeovers Code	Companies Act scheme
Thresholds for 'succeeding'/being able to take up shares in the 'target' company	If >50% of shares are accepted into takeover offer, bidder can take up all shares that are accepted into the offer. Bidder becomes the company's majority shareholder. If 90% or more of shares are accepted into the offer, bidder can compulsorily acquire the rest.	Bidder can only take up shares if the two voting thresholds are met: • 75% of the votes cast in each interest class approve of the scheme; and • >50% of total voting rights are voted to approve the scheme. If approval thresholds are met, scheme is binding on all shareholders
Do the bidder's shares count?	If the bidder is already a shareholder in the target company, its shares count towards the >%50% and 90% thresholds. E.g., if bidder already has close to 50%, it will take very few acceptances to get over the 50% threshold	Bidder has to vote in a separate interest class, so, effectively, its vote only counts towards the >50% of total voting rights threshold
Hostile or friendly?	Code enables both hostile and friendly bids. In hostile bid, target board usually recommends shareholders not accept the offer; even so, shareholders may accept the offer.	Must be friendly, as the Companies Act requires target company board to resolve to do a scheme. Bidder cannot put the scheme to shareholders without target board's support
What happens if thresholds not met?	If only 50% or fewer shares would be obtained by bidder (including bidder's own holding), the takeover fails, and bidder cannot take up any shares	If one interest class fails to approve scheme, or if only 50% or fewer of total voting rights are voted in approval, the scheme fails and bidder cannot take up any shares

simplistic and not really accurate. A comparison of the two methods for achieving a takeover is set out in the table below (which assumes all contractual conditions are satisfied or waived).

Code company schemes can be used as a method of doing a takeover. With the changes to the Companies Act now in force, the Takeovers Panel views schemes as a legitimate and valuable means for undertaking corporate transactions. The ability to carry out takeovers as schemes, rather than under the Code, provides economically sensible commercial flexibility. The Panel's role ensures that shareholders receive independent advice and that they are given appropriate information on which to base their decision.

Margaret Bearsley
CEO Takeovers Panel

IPOs that turn into an IOU

NZSA recently circulated a Pulse to members covering some of the issues to consider when looking at IPOs (Initial Public Offerings), with some specific comments on the Tegel IPO.

This article expands on some of the things to keep in mind, beyond the historic performance and future projections for the company that is subject to the IPO.

For **cyclical businesses**, IPOs that occur when the cycle is at or near its peak will often be good for the selling shareholders but not for the new IPO shareholders. A recent example of this is real estate agency McGrath Ltd (MEA) which listed, in December 2015 on the ASX, after a long boom in the housing market. Selling shareholders received $A 2.10 for shares sold into the IPO. Purchasing shareholders, six months later, after a profit downgrade, are holding shares with a market value of $A 0.96 (on May 26th), a loss of 54% in just a few months. Investors in Australian listed finance houses Bell Financial Group (BFG) and Austock (ACK) had a similar experience (though it took a bit longer to play out) after these companies listed in finance sector boom conditions in 2007.

During a **share market "bull/bear" cycle,** IPOs that occur early in the cycle (when investors are less "bullish") will frequently be the more attractive in terms of value. The current bull market has been running since March 2009 so IPOs at this stage in the share market cycle require even more scrutiny than usual.

For IPOs, the seller always knows more than the buyer since the seller has generally owned and operated the business for a significant period of time. Brokers and advisors will have some knowledge of the business but they will know less than the seller. "Caveat emptor" is therefore appropriate.

In a bull market some investors suffer from FOMO (fear of missing out) and, as a result, rush to invest in IPOs that have the potential to leave them worse off.

A rule of thumb that is often quoted in relation to retail investors is "If your broker offers you shares in an IPO then you don't want them. If he or she doesn't have any to offer you then you do". Share broking is a business too and brokers will naturally look after their largest clients first, with access to good opportunities, as they are the most important to them in revenue terms. One thing that flows from this though, if no shares were available through the IPO, is that if the company is high quality and has good long term prospects, it may still be worth purchasing after listing even if this costs a little more.

If the seller is selling why should the buyer buy? Evaluate the reasons for the sale – if the reason is that additional equity is needed to fund growth and the potential growth is credible, this is likely to be more promising than if the listing is to provide an exit strategy for pre IPO holders.

Who are the owners of the business leading in to the IPO? If the owners are Private Equity (PE) then extra caution is warranted. Naturally enough PE's main interest is the welfare of its own investors and not the welfare of those investors who purchase businesses from them when they fully or partially exit through an IPO. The business that is subject to the IPO will be shown in the best possible light. It is possible to make changes to a company leading up to an IPO, for example stripping out costs, that result in higher short term profits but that ultimately leave the business in poor shape.

Amongst PE firms, some have a better IPO record than others. For every Freightways and Scales Corporation that has proven to be a successful PE sourced addition to the market, there are many that have been disappointments (or even disasters) for example Feltex; Intueri Education; Dick Smith; Myer and Kathmandu.

Who are the individuals making up the board and management teams of the company and what is their track record? Have they been successfully associated with the company for a while? Do they have relevant skills and are they recognised for upholding high ethical standards? Good performance in the past is not a faultless indicator of likely future performance but it is often one of the best guides we have. Likewise individuals who have had a dodgy past are unlikely to "change their spots" – which is one of the reasons why investors are well served by a good memory.

Be cautious of companies that feel the need to include high profile/name recognition directors on their board where these directors have little in the way of relevant experience. The appointment of former politicians, to the boards of companies about to list, is frequently an example of this.

Only **speculators** will be drawn to an IPO by the potential for "stag" profits. **Investors** are interested in the medium to longer term. An IPO listing at a premium to its issue price is not vindication of the decision to buy. What matters to investors is that the company has listed with attractive fundamentals and forward prospects and that it is able to meet its forecasts.

Forecasts are just that. They are not a guaranteed outcome. How credible are the forecasts contained in the IPO? Investors need to bear in mind that if IPO forecasts are not met, the market value of the company is likely to take a significant hit.

If the company being listed is forecasting growth, where is this growth coming from? E.G. if the company has historically grown organically, but after the IPO intends to grow by acquisition or by offshore expansion, how credible is this?

We all have limited funds to invest. IPOs are marketed (one way or another) in the lead up to a float. If we purchase shares in an IPO, this implies that we think this is a better "destination" for our funds than shares of those companies available for purchase everyday on the secondary market (NZX and ASX). For any particular IPO, how confident are you that this is the case?

Martin Watson

A very fine doorbell

NZSA was recently circulated by FMA with access information on their organisation. We thought the chart showing the structure and managerial focus of the organisation was very good – something that other service organisations would do well to emulate.

Alan Best

NZSA Membership Survey

A big thank you to those who completed the membership survey.

We sent out approximately 1100 emails and received 360 responses. Marketing people will know that this is a very good response rate

We must be doing something right. 95% of those who responded were either extremely satisfied or moderately satisfied.

You most value the ability of NZSA to provide the small shareholder with a voice. This was followed by our activities in making submissions to regulators on your behalf. The Scrip, receiving information, and proxy voting intentions, attending branch meetings where you can meet like-minded people and our educational activities were also highly valued.

While 72% had used the members' area of our website, we were surprised that 28% had not. There are valuable resources there including company key performance charts, videos of speaker presentations and a complete archive of the Scrip.

Unlike most shareholders, our members are frequently found at company AGM's. Around 64% of you attend when you can, (But only about 1-2% of non members do).

We were a little disappointed that 21% of you have never recommended NZSA membership to friends or colleagues. A growing membership is essential if the Association is to thrive.

80% of you have been sharemarket investors for more than 10years.

We have work to do to attract a younger membership! 78% of members are over 61, slightly higher than in 2014. On a positive note we are seeing a small increase in the 31-50 age group, albeit off a small base.

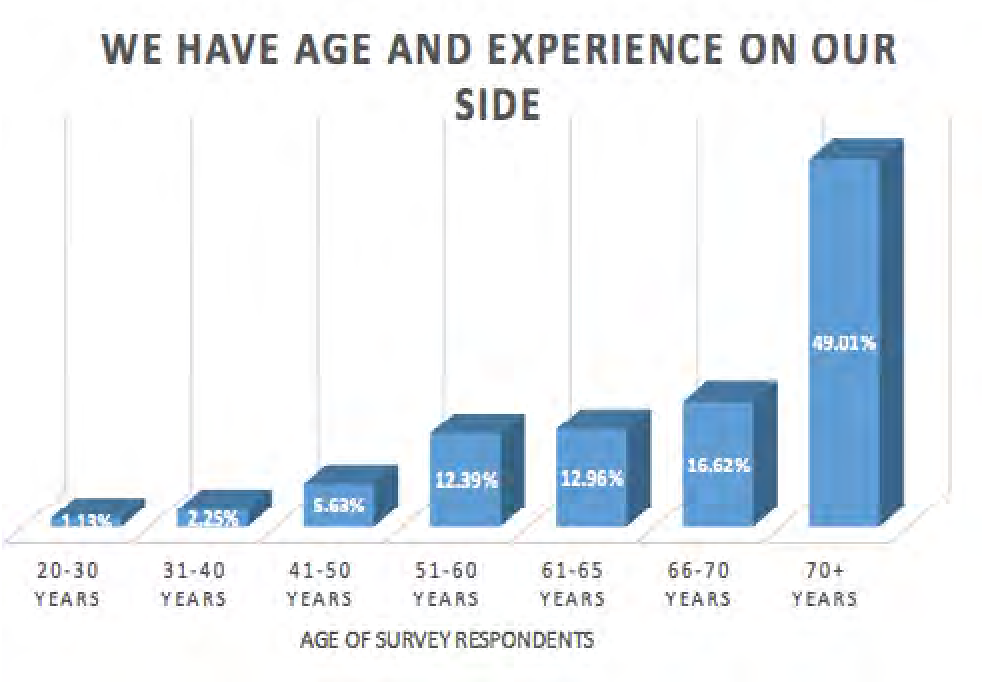
Kiwisaver membership has slipped significantly from 45% to 34.5% since 2014.

Our members have heeded the advice to diversify with most of you holding a range of equities, bonds, cash funds and direct property. Very few are participating in complex, higher risk derivatives such as futures trading.

For the first time we plucked up the courage to ask about the value of your investments. We know that this type of question can be considered very intrusive. We were therefore very pleased that 92% of respondents were prepared to answer. And we were astonished at your thrift! We now have information indicating NZSA members control somewhere north of $1.2billion in directly held shares, with 40% of you individually above $1m. These sorts of numbers command attention when we talk to companies and organisations.

We received a lot of comments and suggestions in the free-form part of the questionnaire. Most were very positive and constructive. We are analysing these into categories and will take them into account moving forward. We will likely address some matters raised through Scrip articles as part of our investor education programme.

John Hawkins



Discretionary proxy voting process

The April issue of the Canterbury newsletter recently ran an article (originally published in 2011) warning about the potential difficulties in casting a discretionary proxy vote. As noted in the article, giving a discretionary vote to the Chairman or any of the directors is effectively a vote in favour. Fine if that is your intention, but a waste if you would rather have NZSA vote in your best interests.

New Zealand

Since the 2011 article appeared, NZSA has been active in effecting considerable changes. Most companies are now using a modern, easy to understand proxy/voting form which includes a 4 box alternative. This allows you to direct your voting, abstain or give your proxy discretion to choose.

There are of course, outliers and we will continue to show them the error of their ways!

These dinosaur companies cling to a 3 box form without the discretion option. In all cases, if you leave it blank, you are automatically giving discretion to your appointed proxy. Instructions will be somewhere in the small print, but probably not obvious unless you have recently upgraded your glasses.

Importantly, most companies now offer an electronic proxy/voting option, and with few exceptions they include" NZ Shareholders Association" on their list of regular appointees.

If you still use paper proxy forms, it is sufficient to simply fill in "NZ Shareholders Association". So long as the intention is clear, both registries will accept this or a similar version (you can even use NZSA, but not something like SA or NZS). Fortunately for most of us who dozed off during school grammar and punctuation lessons, the registries don't get too hung up about spelling, apostrophes and obvious abbreviations. It is now rare to see a request for an address, but if asked," Auckland" is sufficient.

Australia and UK

Unfortunately, in their usual arrogant and overpaid way, directors of Australian companies continue to bowl underarm to their retail shareholders. Few use plain English documents, and most only offer a 3 box format. However, the same comments as above apply - leave the voting part of the form blank to give discretion to your proxy. If you wish to appoint the ASA, you can simply enter "Australian Shareholders Association" in full. If necessary, you can enter "Sydney" as the address. Most companies do not have the ASA as a regular appointee on their electronic voting either. You must enter it manually. And they tend to organise documents to steer you towards appointing the Chairman. Slow learners, these Aussies.

In the UK, it remains necessary to enter the full name and address of the proxy. Painful stuff.

Multiple Trust Signatories

We may not have levelled the whole playing field, but NZSA has made great progress with a bit of prodding and poking. And to be fair, it has not been hard to persuade NZ companies to make things easier for shareholders. We are still working to have more accept a single trust signatory (where that is approved by resolution of the Trust concerned). However, this has been more challenging with differing legal opinions making companies nervous. The stupidity is that one signatory is fine for electronic proxy appointment or voting, but not on the paper version!

We will keep working on this as rounding up trustee signatures can be a real problem for those of you who do not have the desire or ability to vote on line.

John Hawkins

After years of increases, in the U.S., top CEO pay fell last year. The average compensation package for the highest paid CEOs declined to $19.3million in 2015, from $22.6million in 2014. Last year was the first since 2012 that no firm awarded its CEO more than $100million. ~ The New York Times

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***

Opus International Consultants AGM 12th April

Opus International Consultants Ltd have not had a good year. By signalling this earlier they gave good reason for shareholders to attend the AGM to find out why and to learn what the board was doing about it. It was disappointing that less than forty turned up, one of them a "refugee from Auckland."

The Chairman Mr Kerry McDonald intimated to shareholders that, despite a disappointing year, the company remained focused on the future and would be adopting a sustainable global growth policy based on geographic identification of best opportunities that Opus could excel in. This would require a focus on lifting efforts in all sectors to a new level and accepting that what was ok yesterday was not ok for tomorrow. He noted that their markets are challenging. This was confirmed by CEO, David Prentice, who advised of a slow start in New Zealand for the New Year and that Canada was a problem requiring special attention. On a more optimistic note, the United Kingdom was continuing to be a strong sector and Australia was showing signs of improvement. In addition to geographical assessment of opportunity, more effort would be placed on transport, water and building sectors

The bigger critical mass within a location should lead to better judgement and decision making. By the end of June, the company will have a better idea of the costs associated with implementing the strategic plan - last year $14m was spent on impairments and redundancies.

The JV entered into two years ago in the Middle East was also the subject of interest - it was established this had not progressed to the level originally intended and was receiving specific attention. The collective reporting of results with regard to joint ventures and the lack of clarity this produced was raised as a concern by NZSA as this could blur the true performance of these enterprises. Again the chair acknowledged the truth of the observation and undertook to have this lack of transparency reviewed.

The year ended March 2016 was disappointing with NPAT down 36.25% and return on assets down 7.3%. Revenue was down 6.37% and EBIT down 5.2%. There were adjustments involving one off costs which made the overall result a little more palatable, in particular with regard to Stewart Weir Ltd in Canada, a new acquisition which had not proved to be as promising as originally thought.

Questions

Prior to asking a number of questions, the NZSA proxy stated that the NZSA was monitoring Opus where the decline of 27% in the share price over the past two years reflected shareholder concerns.

1) Q "The decline in the share price suggests a weakening in confidence in the ability of the board to grow the business. Is this a concern to the board?

A "Yes it is. However, we have had to make some difficult decisions, which will produce a positive outcome in the future"

2) Q "The board has made the decision to close six offices in Australia. What is the risk to Opus from competitor predation on your market share by reducing your market presence?

A “This was a calculated decision that took into account that the minimum impact would be incurred by choosing carefully the branches we closed. In addition, the use of computer technology has allowed Opus to take advantage of this communication system”

3) Q. “The UK and New Zealand look to be reasonably secure into the foreseeable future with commitments in areas such as the NHS, network rail , road construction and flood prevention. Do you have a strategy in place that will win a reasonable percentage of these opportunities?

A “We have made a decision to be sector focused and to concentrate our efforts where we are best equipped to succeed. Our objective is to become leaders in sustainable infrastructure and the successful implementation of this philosophy will ensure our continued acceptance at our current level with existing customers.

4) Q. “What is the point of difference for Opus”

A. The answer, given by both the CEO and the chairman, was the professionalism of their asset management and getting more out of each asset in its area of activity.

5) The use of “adjusted profits” was queried. The NZSA proxy raised this point with the board pointing out that we were wary of the use of such accounting. The chair agreed this was not ideal but considered they were justified in using such as this was a difficult year and to ensure that one off costs did not distort the true picture. The NZSA proxy accepted the answer but let it be known we would not like to see repeated use of this type of accountancy.

The NZSA put some effort into analysing Opus before this meeting and concluded that although it had not been a good year, the board was moving in the right direction and acting in the best interests of shareholders.

Max Smith assisted by Pam Hurst

Briscoe Group AGM 19th May

Briscoes continues to be a high performer relative to its peers in the retail space and Dame Roseanne Meo enjoyed her positive overview. Briscoes has recorded the 5th consecutive year of record profits, reaching peak gross margin of 40% in 2016, and a consistently high dividend payout of 76% of net profit. She summarised the outstanding executive options of which only 45% have been exercised in the past, an interesting figure considering the success of the company. She also talked of the company’s community work with Cure Kids, and its tertiary education programme.

Board refreshment was endorsed with messages from retiring director, Stuart Johnstone and last term executive director, Alaister Walls. Managing Director, Rod Duke, maintained the variety by introducing CFO Geof Scowcroft to talk about forward exchange cover and the 15% increase in prices as a result of the declining exchange rate between NZ and US $.

Peter Burilin also spoke about the detailed market research undertaken by Briscoes to direct its merchandising more effectively, and support the accelerating growth of its on-line business. With the new Westgate stores for Rebel and Homewares, warehousing in Hamilton and the South Island and beefed up security in 14 locations, Briscoes has an active development programme for 2016. The new appointments in Human Resources and loss prevention will provide longer term benefits.

The re-election of Dame Roseanne Meo, Alaister Wall, (retiring 2017) were uncontested and although NZSA sought clarification on the extra payments made to directors above the base amounts cited in the notes of meeting, we supported the increase in the directors pool to enable the appointment of an additional independent director. The one off, additional payments to directors were made during the intensive takeover bid for Kathmandu, and although the company wrote back its 19.9% holding by some $7m in the January accounts, it was evidently comfortable with the investment after meeting with Kathmandu’s CEO and CFO to discuss their plans for this complementary business.

Alan Best

Intueri Education AGM 17th May

Chair, Chris Kelly, gave an overview of the disappointing results for 2015. Massive impairments of almost $60m had eaten up the modest EBITDA of $21.9m. Capped funding was restricting the ten NZ schools and Australian Online business, while funding reviews in both countries, put earnings guidance for 2016 on hold, and forced the suspension of management share schemes. The board showed its commitment and leadership by promising to cut 2016 directors' fees by 50%.

CEO Rob Facer, nevertheless, gave a positive presentation, emphasising the positive outcomes for students, achievement of high standards of tuition, upskilling staff, and realising a 39% increase in EBITDA before extra-ordinaries. While acquisition activity was on hold for the present, and growth in Quantum NZ was restricted by regulation, organic growth opportunities were being pursued in all schools. Court action over the diving school and Fraud office investigations predated the IPO, and the vendors of both operations were aware of claims which Intueri would be detailing in the near future. Rob outlined 2016 focus on increased enrolments, cost savings of $8m, cooperation with regulators to achieve reasonable funding outcomes for the schools, compliance with new bank covenants, and achievement of budgeted margins.

Questions from shareholders were numerous and searching. A shareholder familiar with ERO's ranking categories suggested that high standards were not being met. However, the company reported that most schools achieved a cat 1 rating in their 4 yearly assessments, and that the others were solidly in cat 2. (There are 4 ranking categories.) The chairman also confirmed that no current management was involved in the Fraud office investigations or safety claims at the Dive School. It was clear that the mainstay of the NZ operation, Quantum had been overpriced, and that the directors had prudently reduced its holding value, while putting the previous owners on notice of claims. NZSA asked about the drastic variance on gross margin from 34.8% in the prospectus to 23.9% in the report. Rob Pacer believed that although 2016 would not show much improvement, the cost savings and management improvements would produce results in 2017. The company had responded to Australian discussion papers on tertiary education, but there was uncertainty of funding there, and a possibility that blunt budgetary constraints would be adopted.

NZSA's proxy holder supported all the resolutions re-electing Chris Kelly and Russel Woodard, but especially welcoming the election of Dame Allison Paterson whose chairing of the Audit committee and strong governance will definitely be utilised. This company has a strong and diverse board, and considerable potential, provided it manages the cost constraints over 2016-17 period firmly.

Alan Best

Valuations can be an imprecise science

An appraiser at an Antiques Roadshow (U.S.) proved to be a little off the mark when he dated a grotesque face jug to the late 19th century and valued it at up to US$50,000.

After the show aired a viewer called to say that she recognised the piece and that had been made by her friend at an Oregan High School class in the 1970s. When shown photographic proof, the appraiser, Stephen Fletcher, admitted he had been wrong and downgraded his estimate to $3000.

CBL Corporation Ltd AGM, 3rd May 2016

CBL Corporation's (CBL) strong start to listed life was reflected at the AGM, when staff at the Pullman Hotel had to put out additional chairs to accommodate the larger than expected number of attendees.

CBL listed in October 2015 on both NZX and ASX. The company has a low profile in New Zealand perhaps because 98% of the company's business is transacted offshore. CBL is a niche insurance company focused on financial risk and credit surety. It operates insurance, reinsurance and managing general agency businesses, with many of its products targeted at the building and construction sector.

CBL's origins date back to 1973, though the current major shareholders first became associated with the company in 1996. The IPO raised $NZ 125m of which $90m expanded the capital base of the company and $35m went to pre IPO shareholders who modestly reduced their holdings but retained the majority of their shares. As outlined in the prospectus, the company has grown strongly over recent years and forecasts for growth to continue.

My interest in CBL was sparked by articles that appeared about the company in the months leading up to the IPO. I have followed it with interest since, investing both through the IPO and adding to my holdings post listing.

Chairman Sir John Wells opened the AGM with an introduction to the board and to a number of senior managers. Sir John then reflected on the considerable effort that had been put in, by all involved with CBL, to ensure both a successful listing and meeting, and in many cases exceeding, the financial targets that had been outlined in the prospectus for FY 2015. Some of the additional capital raised through the IPO was put towards the acquisition of Assetinsure in Australia and Professional Fee Protection in UK. The expanded capital base also means that CBL can continue to fund the broadening of its geographic base and this is a key growth opportunity for the company.

Managing Director Peter Harris started his address with a review of the financials. Over the 2015 financial year CBL Group's gross written premiums increased to

$NZ 294m and net earned premiums grew to $NZ 214m which was an increase of 26% on the previous year.

Many general insurers rely on returns from investing their "float" (premiums held as reserves to pay future claims) for a significant part of their profitability whereas CBL's focus is on writing profitable policies. This is reflected in the combined ratio* of 79.7% achieved by CBL during the 2015 year.

NPAT rose to $NZ 35m in 2015 from $NZ 19.4m in 2014. The compound annual growth rate (CAGR) of gross written premiums over the past five years was 48% and CAGR for operating profit was 62%. This level of growth is truly remarkable and takes a lot of managing.

Peter Harris then moved on to talk about the individual entities and their geographic spread. Currently a large part of the business is transacted in Europe, with France being a particularly important market. The Scandinavia region is also showing good growth for CBL and the company expects Europe to be the major growth contributor again in 2016.

The Assetinsure acquisition will allow CBL to expand its business in Australia following adjustments that CBL has made to the business mix.

CBL has offered builders warranty products in Mexico through a partner arrangement since 2002. In 2015, CBL acquired a 35% stake in Mexican surety and bonding insurer Afianzadora Fiducia. The company sees a lot of promise in this market and expects that Mexico will be a good source of growth in 2017/2018.

Rating agency AM Best increased CBL's financial strength rating to B++ during 2015 and it is the company's intention to work towards achieving an A rating over time. However, Peter Harris also commented that less attention is likely to be paid to ratings in the future, as more focus is directed at regulatory solvency regimes.

The formal resolutions were uncontroversial and their passing saw the re-election of directors Alistair Hutchinson and Anthony Hannon.

There were surprisingly few questions – only three in fact, of which two came from me. Questions related to the competitive position of the company, given that strong profit margins attract others wanting to share the opportunity and what efforts were being made to attract wider broker coverage.

Management of CBL believe that the businesses are well placed to continue to grow in established markets as well as expanding geographically into new markets. Factors that will support the company's efforts to remain highly competitive in existing markets include:

- Strong and long established business partner relationships with MGA's (Managing General Agencies), brokers and other intermediaries.
- Works closely with partners to offer tailored policies, to meet specific client needs in a timely fashion. This is something that many competitors struggle to do, either because they do not have the expertise or because their systems do not have the flexibility.
- Individual policy sizes are small which limits the risk exposure in relation to any specific policy. This also means that larger insurers are less interested since they generally prefer larger sized policy opportunities.
- The increasing emphasis being placed on regulatory solvency regimes means that smaller competitors will struggle to meet the requirements in the future.
- CBL has the opportunity to increase the range of policies it writes to cover incrementally higher exposures without stepping on the feet of larger competitors.
- CBL can introduce additional products, covering new risk areas, through its existing channels.
- There is a trend in a number of CBL's markets for some construction related covers to be made compulsory which expands the opportunity.

CBL does take on long tail risks, with some construction related covers extending through to ten years after the policies are written. Of course this requires extensive loss modelling to ensure appropriate reserving to cover these prospective liabilities. The assumptions made and the level of reserving is reassessed each year by external actuaries and to date the company reports that the loss models and reserving have been well supported. Any required adjustments to reserves impact reported profits and the financial statements at the time liabilities are reassessed.

In relation to broker coverage, Carden Mulholland, CBL's CFO, confirmed that coverage was currently limited to the lead IPO brokers, Forsyth Barr and UBS. One of the issues has been that insurance is a specialty area and apparently most local broking houses do not have analysts that cover that sector in depth. In his view expanded broker research (and consequently coverage) of CBL is more likely to emanate from Australia.

With key members of management and the board being longstanding and significant shareholders in CBL, there can be no doubt that the interests of principals are well aligned with those of external shareholders. The long term shareholder focus was demonstrated in the following statement included in Peter Harris's address:

We met or exceeded all of our PFI projections in 2015, as we promised, and we look forward to doing the same in 2016. We are happy with our numbers for the first quarter of 2016, but neither the PFI, nor the 2016 projections, run our business, and are not in themselves a focus for us. Instead, we will continue to run the company in the best way we possibly can – for future long term profitable and sustainable growth. That way, the 2016 numbers will look after themselves.

Martin Watson

*The combined ratio is the sum of losses incurred

+ expenses divided by earned premiums and is a commonly used measure of insurance company profitability.

NZ Refining AGM 4th May

The Pullman Hotel's relatively small room was packed as shareholders enthused over a stellar year for the company.

New Chairman Simon Allen highlighted high refining margins received which meant that the upper price cap was invoked during the year resulting in a $14m hit. The completion of the Te Mahi Hou expansion on time and on budget, and the very strong cash flow, which has allowed the company to reduce debt to equity to within its conservative 10-20% range, was also noted. Responding to previous criticism that the refining margin calculation was too difficult to understand, the company has produced an investor guide which is available in hard copy or on the company's website.

The 25c dividend (the first for some time) will be welcomed by shareholders who also saw a dramatic increase in the value of their holding over the period. While 2015 will be difficult to emulate, NZR has produced a profit matrix which allows investors to see the effect of changes to various inputs and the exchange rate - all very helpful stuff.

The Chair also talked about the intention to restructure the board to achieve a majority of independents on a seven member panel. NZSA welcomes this long overdue development. Subsequent to the meeting, the second director from Exxon-Mobil has resigned, so the way is now clear to achieve the optimum structure of 4 independents and 3 oil company representatives once a new independent is appointed.

CEO Sjoerd Post gave a wide ranging and at times very amusing overview of the year's activities. He updated the various projects underway or planned to improve efficiency, the most significant of which is a proposal to dredge for larger ships. He claimed consultation was going well and anticipated a resource consent application late this year. With the known glacial pace of these processes, your reporter considers this may be rather too optimistic. He gave no direct projections for the year ahead, but his final comments regarding the application of the new profit matrix seemed to suggest that a much reduced figure is expected for 2016/2017. That will come as no surprise to investors, who no doubt consider the $58m forex boost in 2015/2016 unlikely to be repeated.

NZSA asked the board to consider a change to the cap and floor arrangement which limits profit (as per this year), but also limits losses (as per last year). If prices change and either situation reverses, the support money has to be paid back. Currently this operates only within a financial year and has disadvantaged NZR in both years. We would like to see it extend over at least two years to smooth the effect. Although the company knew this question was coming, Mr Post's response was less than satisfactory. He essentially said that this could work against the company, but that ignores the reality of what has happened in 2015 and 2016. We hope the board will look at the idea, and we will raise it again in the future.

The few other questions were mainly concerned with clarification of information, or minor operational details. Mercifully, there was little of the controversy surrounding the refining margin that has dogged the meeting for the past few difficult years.

Resolutions were conducted by poll and the proxy position was not revealed until after discussion and voting was complete. The resolutions to re-elect Vanessa Stoddard, Mark Tume and Tony Warrell were all carried with more than 99% support. So to was the important constitutional change that allows the board composition to be re-jigged as detailed above. NZSA used its 28 proxies to support all resolutions.

Shareholders were then treated to a sumptuous afternoon tea in keeping with the annual result.

John Hawkins

NZX AGM 20th May

NZX moved its AGM to the Ellerslie Convention Centre, Auckland this year. Although much easier for shareholders to park compared with the previous central city venue, the 9.30am start on a Friday somewhat upset this advantage by forcing shareholders to brave the Auckland rush hour traffic. More thought needed here, NZX.

Chairman James Miller started by summarising the relatively strong growth in market capitalisation, stronger listing on the NZX debt markets, progress in the dairy derivatives business and some growth in the trading income which has extended into the first quarter. The company has also successfully retained the operation of the electricity market, something that was uncertain for many months.

He noted the ongoing NZX review of corporate governance, something members will be aware that NZSA has been deeply involved in. He then went on to detail the flat performance of the company in 2015, with the higher reported profit due only to the sale of the 50% of Link Market Services previously owned by NZX. Without this, profit was slightly lower. The Chair blamed the ongoing Ralec litigation for much of the poor share price performance, but while this undoubtedly is having an effect, the underlying financials are clearly not encouraging to the market. 2016 EBITDA guidance remained in the $22.5m - $26.5m range which is much the same as 2015 - and also not likely to boost the share price any time soon.

CEO, Tim Bennett outlined the contributions each part of the group makes. NZX is known as the operator of the stock market and listing and transaction fees account for about 54% of revenue. Other income is from operating derivative markets for electricity and dairy, funds management via the Superlife, ETF and NZ Wealth Technologies businesses and various Agri businesses including the poorly performing Grain Exchange which is the focus of the Ralec litigation.

Costs have grown substantially, but the CEO claimed many were one off relating to acquisitions and new initiatives such as the ETFs. The ongoing Ralec saga currently playing out in the courts is likely to cost $9-10m in legal fees alone, a significant part of which has already been spent.

Bennett also noted that in his view, Kiwisaver funds were under invested in NZ, and had consequently missed out on considerable growth during the year. (In my view, many fund managers might disagree and complain that there were insufficient investment opportunities available.) Going forward the expectation is that trading activities and funds management will be the drivers, with the Agri businesses less important.

Investors asked a number of questions.

- One wanted to know whether ETF's could be expanded to cover Asian markets as well as the traditional USA/Europe offerings. there are no plans to do so at present.
- A question about Ralec litigation was not answered with the matter still in front of the court.
- NZX disaster recovery procedures received the response that the company had two independent data centres in Wellington and Auckland.
- A comment about the low share price was addressed by the chair who said total shareholder returns, developing a strong market and controlling costs were all important and the market would set the price.
- The final question related to why there was no price query for a particular company. The CEO noted NZX Regulation operated separately from management. Speaking generally, he said that the NZX system threw up hundreds of price alerts each week, all of which were looked at. NZX does not comment on price queries publically unless a formal request is made to the company.

All resolutions were decided by poll. The re-election of Dame Therese Walsh and James Miller to the board passed with 93.8% and 99.8% support respectively. NZSA was in favour of both resolutions.

John Hawkins

Seeka AGM 27th April

The meeting went off well with 58 Shareholders in attendance, although, a lower- than-expected turnout.

The company seem to be hell bent on expanding rapidly in the next few years to become a $200 million company. Both the Chairman & CEO Michael Franks are really pushing for this. They are looking for opportunities that deliver profitability. They also want to "de risk" company exposure to kiwifruit alone by diversifying into other crops. They did not see their debt level as anything to worry about, but it would be continually reviewed, and they were working towards reducing it to a more comfortable level.

The Chairman said he was very frustrated by the fact that Zespri is not open to regulatory scrutiny, whereas other organisations such as themselves are continuously scrutinised by NZX and government agencies.

The company was pleased that, with their Australian acquisitions, they had bought permanent and some temporary water rights with room for expansion. I suggested to them that if they intend to expand that operation, they might do well to buy more permanent and temporary water rights, as they would not like to be in the position of the Bendigo vineyards about 2 years ago. When drought hit, the authorities just turned the taps off. A number of attendees applauded my comments.

At a face to face chat with Chairman Fred Hutchings after the meeting, he said that they would be "buying in expertise," re their expansion.Past experience taught him that he employed key people who, were very good at acquisitions, but then promptly left at the implementation and integration stage. They don't want that to happen again.

Jane Lyndon

Life Lessons from a Wall Street Legend.

At 83 years of age, Bryon Wien, the investing legend and strategist at Blackstone (which runs c$350B of private equity) is a similar age to Warren Buffett. The WSJ Barron's magazine recently ran a feature article on Bryon's life in which the 83 year old guru outlined ten key lessons he has learned over more than 50 years in business

1. Network Intensely – Luck plays a big role in life, and there is no better way to increase your luck than by knowing as many people as possible
2. Read all the time – Have a point of view before you start a book or article and see if what you think is confirmed or refuted by the author
3. Travel Extensively – try to get everywhere before you wear out. Attempt to meet local interesting people where you travel and keep in contact with them throughout your life
4. When you meet someone new – treat that person as a friend. Assume he or she is a winner and will become a positive force in your life.
5. Get enough sleep – sleep is the fuel of performance and you need 7 hours until 60, 8 until 70 and 9 thereafter!
6. On Philanthropy – try to relieve pain rather than spread joy
7. The Hard way – is always the right way. Never take short cuts. Short Cuts can be construed as sloppiness, a career killer.
8. Don't try to be better than your competitors; try to be different. There is always someone smarter than you, but there may not be someone who is more imaginative.
9. When seeking a career as you come out of school or making a job change, always take the job that looks like it will be the most enjoyable. If it pays the most, you're lucky. If it doesn't, take it anyway.
10. Never Retire – If you work forever, you can live forever.

Caught on the Net

Online shareholder meetings lower costs, but also interaction

In a quantum step past webcasting meetings, virtual meetings are a growing phenomenon in the US. The New York Times reports (with disapproval) that not one shareholder turned up to Intel's recent shareholder meeting. All questions were submitted in advance with management and the board making their presentations online. No pesky questioners and no meeting costs. I can think of a number of NZ companies that might be interested. **More**

The downside of making a back-up plan and what to do about it

Having a 'plan B' has been an article of faith for all those looking to mitigate the risk to their enterprise but now new Wharton research finds that merely thinking about a back-up plan may actually cause people to exert less effort towards their primary goal. **More**

Corporate propaganda - Sweet little lies

The Economist comments that the recent US reporting season has become a carnival of confusion, obfuscation and fibbing that would make even a presidential candidate blush. (that's a rather low benchmark). The article offers tips on how to read between the lines of companies' accounts. **More**

What you need to know before investing in bonds

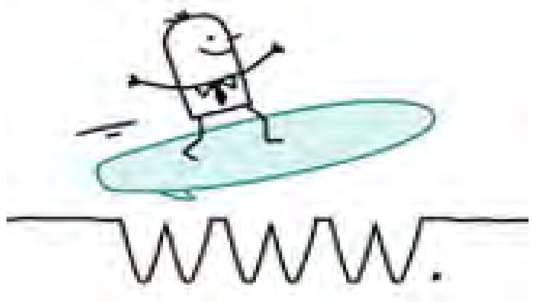
Investing in bonds can be a little more complicated than investing in shares. The Alert Investor offers a 101 on investing in bonds covering the variables potential investors need to consider. **More**

Why luck matters more than you might think

According to the Pew Research Centre, people in higher income brackets are more likely to those with lower incomes to say that individuals get rich primarily because they work hard. Robert Frank, in an Atlantic article, discusses the part chance plays in peoples' life outcomes and research that reports successful people are less generous and more likely to resist taxation, regulation and government spending. **More**

Making investment mistakes

We all make them. Hugh Dive, Senior Portfolio Manager at Aurora Fund Management, says that mistakes offer more lessons than stocks that went up several hundred percent. When professional fund managers get together the talk is rarely about successful investments but situations where they got it wrong. **More**



Tracking Mutual Funds: What drives performance?

After winning the 1990 Nobel economics prize for work on the Capital Asset Pricing Model, William Sharpe went on to devise a groundbreaking way to gauge performance of mutual funds and other investment portfolios. For that work, which produced the style analysis process widely used by asset managers, he has been awarded the Jacobs Levy Prize for Quantitative Financial Innovation. His interest in the past few years has been on retirement income for ordinary people. In his view, investing in index funds is the best way to go.

More

Index investing makes markets and economies more efficient.

With US equity index funds having grown to S4trillion there is considerable disquiet that this growth is unsustainable. A long piece in Philosophical Economics argues that the trend towards passive management is not only sustainable, but that it actually increases the accuracy of market prices because it removes lower skilled investors from the market fray, thus increasing the average skill of those investors who remain. **More**

What CEOs really make: Breaking down executive compensation

For the average investor, understanding the nuts and bolts of executive compensation can be challenging. The Alert Investor offers a break down on how stock awards and bonuses can be variable and tied to different metrics. **More**

The how-to of investing in small caps

The potential growth from investing in small caps can be alluring, but it does not come without risks. One way of mitigating those risks can be to keep a check list of important factors to research. What goes on that checklist is what really matters say Mark Devcich, from Pie Funds and Chris Stott, from Wilson Asset Management, when they were interviewed recently in a Livewire Video

More

To save wisely for retirement, sometimes less choice is best

Choice is good - up to a point, says Wharton finance professor, after a study into defined contribution retirement plans (like complicated Kiwisaver plans). An embarrassment of riches can make the outcome worse. He found that investments suffered when fees are too high and employees are more likely to stumble into high fee funds when having too many options discourages doing proper homework. He found that employees are content with a plan that has fewer, simpler choices, presented in a format that is easier to understand. **More**

The value of land

Housing and the underlying availability of land are topics frequently covered in our media. How should land for residential development be priced? Writing a year ago in Peria, Neal Hudson, offers models for calculating the gross development value of potential residential new build sites. **More**

What does the UK experience tell us about cyclicality in banks' risk appetite?

In a Bank Underground post, Matthew Osborne, Alistair Milne and Ana-Maria Fuertes, look at whether the risk appetite of banks vary of the cycle? Their findings were consistent with recent theories emphasising cyclical variation in bank leverage and risk appetite; and difficult to reconcile with traditional theories of bank intermediation. In brief, 'in good times' there is a positive relationship between capital ratios and lending rates, in bad times, the relationship reverses, namely, higher bank capital ratios come hand-in-hand with lower lending rates. **More**

Start-up survival and a balanced "burn rate"

A critical factor that determines whether a start-up succeeds or fails is its level of spending, or burn rate. Both overspending and too much thrift have downsides. The key is to reach a balanced rate of spending, according to a research paper by economics professors, Pablo Hernandez and Ron Berman. They found that there is a U shaped relationship between burn rate and the probability of failure. **More**

The key to making money in the markets: buy, hold ... and wait

Writing his last column for The Age, Malcolm Maiden, a veteran of over 40 years financial reporting, advises that for investors, buy and hold is the default. He is sure that there are some people who have timed all the tactical rises and falls sufficiently over the years to make money out of them. However, over his career, the overwhelming story is that patient, diversified investment in the market works. **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.

Branch Contacts		
Auckland	Andrew Reding	andrewNZSA@gmail.com
Waikato	John Davies	cjdavies@xtra.co.nz
Bay of Plenty	Jane Lyndon	janelyndon@orcon.net.nz
Taranaki	Grant Langdon	ghlangdon@xtra.co.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

Auckland

On 13th April, Chris Heaslip CEO of Pushpay Holdings gave a convincing talk on how sophisticated software apps will increase subscriptions in any large church congregation or utility business where payment times are regular.

This was followed by Mike Bennetts CEO of Z Energy, who gave a strong outline of the enlarged business just in advance of the Commerce Commission's approval of its acquisition of Chevron's chain of Caltex service stations. Both of these addresses are available in the Members' section of the NZSA website, and in the light of recent price movements are well worth a look.

Upcoming Auckland Branch Meetings

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

Dates for 2016:

Wednesday 15th June	Liz Stanford	Institute of Accountants, on new audit reporting
	Jane Elrick	CFO, Steel and Tube
Wednesday 14th September	Brian Gaynor	Milford Asset Management
Wednesday 16th November	Speakers to be advised	

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

Company Visits

June 7 Metroglass Factory (open to first 25 to register)

August (date to be confirmed) Comvita

Please register with

Fiona Gray – **grayfion@gmail.com**

Company Visit to Airwork

Airwork is an aviation company that dates back to 1936. Fifty members of the Auckland branch of the Shareholders' Association visited the company at their Ardmore base and were addressed by the CEO Chris Hart then divided into groups and given a comprehensive tour of their operations. This visit was most illuminating and it was astonishing to see first-hand the amount of expansion the company is undertaking at Ardmore.

Airwork has two parts to its business; helicopter maintenance which is based at Ardmore and a second division based at Auckland Airport that looks after heavy airframe maintenance of large aircraft such as the Boeing 737 freighters for Toll Australia. Both divisions are of roughly equal value.

Although the company also maintains and operates fixed wing aircraft, their base at Ardmore is all about helicopters. Airwork is one of five companies in the world accredited Honeywell service centres for servicing and repairing Honeywell turbines. They are one of the few that has its own in-house Non Destructive Testing Laboratory. This allows Airwork to give much faster turnaround time on repairs compared to the competition and this allows them to capture work from all over the world. The cost of freighting a turbine from Europe to Auckland is small compared to the total cost of servicing a turbine so New Zealand's remote location is inconsequential for this high-tech, high value work.

The company has some very innovative in-house developments. A good example is they have a modification kit that upgrades the 750hp Honeywell turbine to 850hp and the conversion has been approved by Honeywell. They've also developed in-house a sophisticated avionics control module to enable the cockpit of older model helicopters to be upgraded to modern specifications to extend their flying life. Airwork believes there is a world-wide market for this service.

The company is also capable of fully refurbishing helicopters that have reached the end of their useful life back to near-new specifications for the secondary market. This is proving quite a lucrative sideline for Airwork.

Shareholders' Association members were impressed with the fact that the company has an extensive in-house apprentice training system to provide the required skills for mechanical servicing and avionics.

One of the most telling statements of all, however, came towards the end of our visit when the host of our particular group taking us around said that the company had doubled in size since he joined it in 2011. I interpreted that as a very positive statement.

This was an extremely interesting visit to a company that gets little media attention but is doing some impressive work and competing successfully on the global market in their business segment. We wish them every success for the future.

Fiona Gray

Bay of Plenty.

"After 5" Meeting

This Event was well attended with over 70 attendees of which 20 were non- members.

Tim Brown – Capital Markets & Economic Regulation @ Infratil, Chairman of Wellington Airport, & Director of NZ Bus was our guest speaker.

Tim began by pointing out that Infratil shareholder returns over the past 21 years were 20% which was higher than Warren Buffet's much publicized returns for Berkshire Hathaway. Infratil is a diverse investment company concentrating on transport, energy and social infrastructure companies. They have a strong emphasis on measuring risk and with a sector focus they create value for shareholders using the company's funding.

Infratil seeks out investment opportunities where they can deliver better, cheaper services. Tim used the investment, which they have in Wellington Airport, to emphasize this point. Competition is important in the travel industry and by improving the operation of Wellington Airport which is now a cheaper operator than either Auckland or Christchurch.

The electricity sector is important for Infratil and Tim used their Trustpower investment to highlight the risks and opportunities in this sector. He outlined their views on splitting Trustpower into two separate entities so that the returns for each part were more transparent. The Australian Government has committed to long term low carbon projects in the Energy sector. This makes the wind power business more viable there than in New Zealand. By splitting the company, the investments in Australia will be able to be reflected in the share value.

There was a huge suck-in of air by attendees when Tim declared that electricity rates are the cheapest in five years, and that one should change one's supplier every couple of years!

Social change is now very rapid because the technology is available, and we should be thinking Iphone and applying that to transport. People are able to change energy company suppliers with the touch of a button chasing lower costs. There is now a large gap between risk and its reflection in pricing. In 2008, 545,000 shares in Infratil worth $162000 or $573000 of bonds, would provide the average wage of $40,000. In 2016, 285,000 shares in Infratil worth $642,000 or $1225000 in bonds are required to give the average wage of $60,000. With the falling interest rates and people trying to understand negative rates, one investment manager has said "keep your investments near to the door".

Graham Jamieson

Bay of Plenty Branch AGM - 26 May 2016

There were 69 attendees of which 12 were non-members. The Committee were all re-elected unanimously and we also welcomed an additional new member – Trish Gardiner.

Our Guest Speaker, David Darling, Executive Director & CEO Pacific Edge Ltd, is another inspiring Director & CEO tackling his roles @ Pacific Edge @ 200 KPH with just so much enthusiasm and knowledge. It was a very big day for him with annual results announced earlier in the day.

Pacific Edge Ltd, seem to be going the right way to do business in the USA, their key market with considerable success. They are a world leader in the three cancer diagnostic tools, which are much less invasive than previous treatments, and a fourth in the pipeline. This gives them diversity. The American market is 70 million cancer patients out of a population of 370 million. PEB spends around $500,000 p/a on obtaining patents which last for about 20 years. They have expanded their USA sales executives, and added to the commercial marketing and product development teams in New Zealand. PEB has also announced a new commercial relationship with Tolmer in Australia.

Their goal is to become a "one stop shop" of high performance Cxbladder products for urologists. They are well on the way, and hope in two years, to reward their loyal shareholder base with dividends.

Jane Lyndon

Waikato

Presentation to Waikato Branch by Grant Webster, CEO, Tourism Holdings Ltd, April 2016

Grant joined the company in 2005 and became CEO in 2008. Nowadays THL is our premier tourism company with the following divisions:

1. Design, Manufacturing & Sales of motorhomes and hybrid Fire Engine/Ambulances for the rural sector.
2. Self-Drive Experiences - the largest provision of motorhomes and RVs for rent and sale in New Zealand, Australia and the USA that cater for customers who seek unique destinations and experiences. These tourists comprise 40% of world travellers. The new Flexibility model involves bringing in vehicles from the UK, renting them out over the peak season of November to February and then selling them over a six year cycle. THL have a buy back arrangement with Toyota. A new initiative called Mighway was started in December. THL are trialling share rentals with owners who only use their motor homes for one to two months each year. Innovations include an App called Telematics which gives information of routes, roads and accommodation based on what similar tourists have done. An in-vehicle App, which monitors where a vehicle is and how it is driven with alerts for speeding, is being trialled in Australia. This also allows the tourist to communicate with the company. The USA is a bigger market and bigger vehicles up to 24 tons are able to be driven on a current driving licence.
3. Guided Experiences - operating the iconic Kiwi Experience and the Discover Waitomo Group including the newly opened Waitomo Caves Homestead ex Waitomo's Big Apple.

Financials

Year to date sales in the USA are ahead of expectations, and there is a great opportunity for further growth with the development of the new Seattle branch to be opened this year. Operating revenue is up 20% on last year, with net profit after tax up 45%. Interim dividend is 9 cps – up 29%. NPAT is $20 million with a target of $30 million by 2019, (since reduced to 2018) and the company is looking world- wide for growth. Liquidity is improving.

Questions

- Does fleet caters for wheel chairs and disabilities? Next to none at present which is embarrassing. Issue being looked at.
- THL is promoted to customers through agents and on-line and through independent travellers. Most people prefer to choose their own route.
- THL is not strong in the Farm and Homestay market.
- Germans are the best tourists – they stay longest and spend the most.
- The advantage in bringing vans from UK to NZ to sell here is that the vans can be left in UK if market crashes. Desire to own RVs growing. Market strong and way off saturation point.

Marie Hutchinson and Helen Glyde

Taranaki

Martin Watson spoke at the conclusion of our AGM held at the end of March. I think most members were impressed by the depth of activities that the national executive are involved in.

Early in April we hired a bus and visited the Fonterra plant at Whareroa (Hawera) which went well and I think even our Farmer members learnt a few things they were unaware of. We then adjourned to a bar in Hawera before returning to New Plymouth,- all in all, a good day.

May 4th saw us as the guests of Craig Investment Partners at their annual "Mark Lister" presentation. Mark delivered his usual very polished performance and I was certainly left with the impression that we are very lucky to be living and investing in this part of the world. Early in June we will also be invited to attend the Argosy Property road show. We are finding that companies presenting in New Plymouth are very happy to have our organization as guests even if we don't necessarily own shares in their companies and at this stage our members seem happy with this arrangement.

We intend to have a mid-winter dinner on June 30th at the New Plymouth Club and our guest speaker will be Kevin Murphy who is the CEO of the TSB Bank. Our members have already been advised and our chairman would be pleased to have numbers in as soon as possible

Grant Langdon

Canterbury

We held a very successful event on Tuesday, 26th April with a talk from Bruce Sheppard, founding Chairman of the NZSA, titled "Entitlements". As expected Bruce delivered an energetic and not very politically correct presentation! His challenging views generated many questions and extended well beyond our scheduled closing time. All agreed that it had been a very successful gathering and we signed up some new members afterwards. As this event was open to members and their guests we held it in a larger venue than usual in the new RSA building; completely rebuilt after the 2011 quake damage.

Our next event will be our Branch AGM on Thursday, 23rd June which will be followed by a directed discussing on DIY portfolio management. The AGM is an opportunity to renew and revitalised the branch committee which has shrunk to just five members this past year. We are hoping to attract some new committee members.

We have arranged for our members to attend the roadshow presentations by Argosy on 15th June and by Infratil later in the month.

For later in the year we are planning a larger public event as part of Money Week which runs from 5th to 11th September and have arranged for Tony Carter (Air NZ and F&P Healthcare) to visit on 18th October. Tony is expected to attract a larger audience than usual so we have again booked the RSA building.

Robin Harrison

Wellington

It is almost halfway through the year now and we have had three branch meetings and also our branch AGM.

Our April meeting (speaker Ray Jack) had the biggest turnout of members I can remember, with about 60 present out of a branch membership of 140. Our May meeting was our branch AGM and also a new member night, in hindsight it was too much for one evening and I don't think it worked that well. In future we will probably run these as separate events.

Coming up next in June our guest speaker is Lance Wiggs the founding director of Punakaiki Fund and a director of Lance Wiggs Capital Management and in July we have Dave Taylor CEO of Steel and Tube – I believe their CFO is speaking to the Auckland branch the following night so it will be interesting to compare notes.

Lastly a goodbye and thanks to Christine Pullar who is moving to Nelson and has retired from our committee, and welcome to her very able replacement Adrian Parkyn.

Martin Dowse

Members' Issues

All that glisters is not gold

Norman Godden gave us all a warning recently:

I have become aware of a lot of radio advertising by Regency Bullion which I think is a subsidiary of the Perth Mint.

The advertisement encourages investment in Gold and Silver bullion using a phrase along the lines of "experts suggest that at least 10% of your investments should be in Gold and Silver".

I have to say that in 40 years of investing, using various well known financial advisors, it has never been suggested to me that I should invest in bullion.

I believe that the naïve investor could fall for the advertising line and given the huge cyclical movements of Gold and Silver, the investor could well lose a lot, as naïve or indeed, any investors, seldom get the timing right.

Moreover, every professional share commentator on the radio refers listeners to a "disclosure" statement required by regulation which can be obtained from his or her firm. There is no similar statement by Regency and yet they are touting an investment.

Redressing the pay balance

Reading the Herald article on recent increases in CEO pay, Des Hunt had these comments.

The base pay of many senior executives has climbed well in excess of 15 times that of the average worker. While at risk incentives should be about 30% of base for the short term budget and up to 70% for the long term, the base pay gap does need to be constrained.

When there is a general wage increase to adjust for inflation, executives should receive only the same monetary amount as the average worker, not the percentage on the higher salary. So a worker on $70,000 gets $1400, and an executive on a base of $200,000 gets, not $4000, but the same as the worker - $1400. This covers the cost of living increase and gradually redresses the pay gap. Remuneration committees should be more aware of the widening gap, and try to keep it in check.

Did you know?

1 The modern university lecture theatre is a sea of laptops. You can type faster and make more legible notes on a computer than you can write longhand, especially now that joined handwriting is not taught at school. However, researchers in Princeton and UCLA have found that you will retain more of the content of the lecture by handwriting your lecture notes than by typing them on a laptop. Apparently something in our brains, which remains dormant while we tap the qwerty, is excited by the act of writing. Your editor, an incurable note taker, is feeling smug.

2 Morningstar recently quoted a McKinsey study of debt in 47 countries, estimating that in 2015 global debt increased 40% in one year, to US$199trillion and that is 286% of GDP. Only 5 countries surveyed had reduced debt. Did anyone say, "there are no new ways to go broke; it is always too much debt?"

3 Did you know your money in a bank term deposit is not guaranteed by the Government?

4 Make a list of all the things that are disappearing from our ordinary lives – landline phones, cheques, newspapers, books, televisions, joined handwriting, privacy…………

Now make a list of all those things which will decline and disappear soon: taxis, petrol driven cars

5 Money printing – in the bluntest sense – by central banks was never going to solve the structural problems of the developed world. It has bolstered the banking sector and injected liquidity into financial markets but there is little evidence of this huge monetary experiment finding its way into the real economy to foster growth.

In fact the public in general have borne the cost of this irresponsible financial engineering. Interest rates have been kept at artificially low levels penalising savers whose real returns (incorporating inflation) are now negative. Long term this futile manipulation has only weakened government balance sheets further; the costs of which will be paid by the generations to come.- Daily Reckoning

6 NZ's OIA takes 6 to 12 months to approve a sensitive case. Öur Australian counterparts typically expect approvals from their Foreign Investment Review Board within 40 days" Cathy Quinn Chair of Minter Ellison Rudd Watts.

7 Mark Devcich of Pie funds reckoned he has 76 points with weightings when assessing his small cap prospects, but he places a very high weighting on management interest, and how management is incentivised in line with shareholders.

8 "We have so far looked at (executive remuneration) in a way that has focused on pay structures rather than pay levels. We think, due to the way the issue of executive remuneration has developed, that we will have to look at what an appropriate level of executive remuneration is as well," said Yvgne Slyngstad, CEO Norway oil fund.

9 There is no new way to go broke – it is always too much debt. Vern Gowdie, Daily Reckoning

As we observe the U.S. primary shenanigans, a reminder that some things never change.

10 Politics is the gentle art of getting votes from the poor and campaign funds from the rich, by promising to protect each from the other.~Oscar Ameringer, "the Mark Twain of American Socialism."

11 I offered my opponents a deal:"if they stop telling lies about me, I will stop telling the truth about them".~Adlai Stevenson, campaign speech, 1952..

12 A politician is a fellow who will lay down your life for his country.~Texas Guinan. 19th century American businessman

13 Those who are too smart to engage in politics are punished by being governed by those who are dumber.~Plato, ancient Greek Philosopher

14 Politicians are people who,when they see light at the end of the tunnel, go out and buy some more tunnel.~John Quinton, American actor/writer

Members' quotations and contributions for this new column are welcome

Upcoming Events

For more information go to Branch section of NZSA website

2016

June 14	Wellington Branch meeting
June 15	Auckland Branch meeting
June 23	Canterbury Branch AGM
June 24	Bay of Plenty Branch meeting
June 28	Waikato Branch annual dinner
June 30	Taranaki Branch meeting
July 12	Wellington Branch meeting
July 19	Waikato Branch meeting
August 9	Wellington Branch meeting
August 23	Waikato Branch meeting

Life's ultimate statistic is the same for all people: one out of one dies. - George Bernard Shaw

No man is so old as to think that he cannot live one more year -Cicero

Anyone can get old. All you have to do is to live long enough- Groucho Marx

Auckland Education Courses 2016

Western Springs Community College will run two more education courses in August 2016.

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.

Course1. Investing for your future – general investing principles - 2 x 2hr sessions

Commencing 3rd August 2016; Tutor John Hawkins

Price $64.55 incl GST; plus $20 for the NZSA course book

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

Commencing August 2016; Tutor Jacquie Hagberg – 2 x 2hr sessions

Price $67.95 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

NEW ZEALAND SHAREHOLDERS ASSOCIATION INC

PO Box 6310, Wellesley Street, Auckland 1010, Phone (09) 309-9768

Website – www.nzshareholders.co.nz

Chairman	John Hawkins	chairman@nzshareholders.co.nz	021 640 588
Secretary/Treasurer	Chris Curlett	secretary-treasurer@nzshareholders.co.nz	021738032
Governance Issues	Grant Diggle	grant.diggle@gmail.com	
Legal & Regulatory	Gayatri Jaduram	gayatri@jaduram.co.nz	
Legal & Regulatory	Daniel Wong	wongdanielw@gmail.com	
Auckland Issues	Andrew Reding	andrewNZSA@gmail.com	
AGM Co-ordination	Max Smith	maxandcheryl@xtra.co.nz	
Company Research	Martin Watson	martinwatson@xtra.co.nz	
Co-opted Associates			
Proxy Co-ordination	Jacquie Hagberg	proxies@nzshareholders.co.nz	
Corporate Liaison	Des Hunt	desmondhunt@icloud.com	(9) 521 6117
The Scrip	Alan Best	fleshnfruity@xtra.co.nz	(9) 524 0317

Disclaimer

Comments or information contained in this newsletter or other editions of The Scrip, or within courses conducted by the NZ Shareholders Association including related course books, should not be construed as providing investment advice under the provisions of the Securities Markets Act of 1988 or its Amendments, or the Financial Advisers Act 2008. The point of our activities is to provide you with the tools needed to enable you to assess investment proposals, and decide for yourself.

ISSN: The National Library has allocated the International Standard Serial Number 1179-4275 to The Scrip so that researchers will have access to our material.

Editor Alan Best

Layout Bruce Parkes