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SIMPLE JOB FOR OVERPAID SOCIAL WORKERS?

This article asks questions in a deliberately inflammatory manner!

During September 2007, *The Herald on Sunday* ran a column to attempt to explain the conundrum……. Why directors are paid so much and why is their pay rising faster than the wages paid to those on the shop floor? I commented on this topic and the themes that were reported, accurately, but out of context were these:

- The job of a director is simple, or put another way is not hard.
- The fair remuneration for a public company director is about $30k per basic directorship, yielding an income for a full time professional director of $150k pa, thus directors in general are overpaid not underpaid, and finally that the job of a director of a public company is akin to community service.

One prominent public company director summed up the likely reaction of your readers to such thoughts when he described my quoted comments as those of a "deranged socialist".

What is driving directors' pay and what should be driving it?
In my view directors' pay is being driven by three key factors, none of which are relevant. The first is that of directors own perception of themselves. I have heard prominent directors at IOD conferences deal with the vexed issue of director reward by saying that a professional fulltime director is akin to a senior partner in a law or accounting firm and should be paid accordingly. That is how they come up with $80 to $150k pa per directorship. It is interesting that directors think of themselves as accountants and lawyers.

Directors who regard themselves primarily as accountants and lawyers should not be serving on boards. What lawyers and accountants may be paid is of no relevance to the worth of a director.

The second factor is international comparisons, both as to general levels of fees and fees relative to size and risk. What Australian directors get paid is mostly irrelevant to the service of directors in NZ. And why does size make any difference to the job done? Size may mean complexity, but need not always mean so.

Why should directors be paid for taking risk, all public companies pay Directors and Officers insurance to protect them from financial risk personally, they cannot and should not expect to be indemnified against reputation risk, and nor should they be paid to take such risk.

The best way to preserve one's reputation is to do a good job.
The final factor is the effect of surveys on average income.

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I am yet to meet a board that thinks of itself as below or even average. Thus, surveys are used to justify increases in fees to average or greater and the net effect is that the average increases.

There are only two factors that are relevant to board pay, the first is performance and the second is opportunity cost.

If you want to attract top board members you have to pay them at a level that compensate them for turning down the next best alternative.

If you want someone who could be the CEO of Telecom, you would have to pay $1m pa and if the performance was there, where is the problem with that?

Why do boards set fees at the same level for all directors and never ask themselves the question what is the individual worth? This tribal view that all directors are equal is nonsense and is an impediment to successful recruitment.

So where did the $30k come from? Simple old duffers with nothing better to do than play golf are more than adequately compensated for being deprived of their leisure with a fee of $150k for a full time equivalent. Sadly many board members of public companies fall into this category. This is not to say that they are not wonderful contributors, it is just that their time has no significant opportunity cost.

What is the job of a director of a public company?

The job of any director is to supervise the creation of value for owners; if they succeed they have performed. In addition they have the job of recruiting rewarding and mentoring management, and checking the results of management and reporting faithfully and fairly to shareholders. None of this sounds particularly hard to me. That is not to say that some decisions won't be hard or hard to make.

With public companies directors have an added function, which is that of overall responsibility for the latest catch word, governance and compliance.

This too is simple as governance is all of the above plus recognition that as the agent of shareholders you hold a fiduciary position where those to who you are responsible are totally incapacitated and utterly dependant upon the quantity of your decision making.

How much more like community work could it be?

If you want to be a director of a public company and you don't accept that social work is part of the task you really should give it a miss.

So directors who do it for money without having a view of how they will deliver value for the price they are paid should not be appointed, those who do it for free as a social service should not either. Somewhere in the middle is where the truth lies.
Bruce Sheppard

KEEPING A CHECK ON THE CHIEF'S PAY – What has changed?

Since I last wrote about CEO remuneration it has been heartening to see more institutional investors in the local market join smaller shareholders in resisting moves by companies to grant excessively generous option packages. However, it remains disappointing to see so many boards of directors still proposing inappropriate remuneration packages for CEOs. Worse still is the tendency of many to follow the lead of Graham Henry and Co by steadfastly refusing to entertain the thought that they are doing anything but following best practice, even as the score/votes mount against them.

Similar institutional unrest can be observed in other Western economies, with the public questioning of CEO, and in some cases Chairmen's, pay packages. This is hardly surprising given the continual acceleration of top executive pay ahead of the "man in the street's" wages. The remuneration of the top three executives in US corporates was around 40 times the average wage in 1970, rising to 160 times in 2005, before skyrocketing to

400 times average pay in 2007. Even well paid fund managers are not oblivious to the fact that this is not simply a matter boards can brush under the mat and explain away with yet another consultant's report.

So shareholders of all shapes and sizes, like much of the general public, are increasingly outspoken about the rewards offered to corporate leaders, particularly poor performing ones. Historically it was large redundancy packages being paid to get rid of poor performing Chairman and CEOs that were headline grabbers. This is still occurring; Stanley O'Neal of Merrill Lynch Ltd will receive between US$130 to 160 million and Charles Prince of Citigroup Inc. around US$70 million, reinforcing public perceptions that when companies like Merrill and Citigroup get in to trouble it is the employees and shareholders who pay the price while top execs walk away for some well-funded R&R (or worse still for shareholders, straight into a similar role).

However, it is clear that attention is now focused on the remuneration packages being offered to new and existing CEOs as well as those being shown the door. Just across the Tasman we are seeing shareholder activism sweeping the boardroom, with shareholders voting against Sol Trujillo's A$11.7 million package at Telstra, Suncorp Metway's proposal for John Mulcahy and the remuneration report tabled by Babcock & Brown's board.

If boards fail to heed the messages that are being delivered loud and clear by mainstream shareholders, not just traditional activist groups, then they will have far bigger concerns to deal with. While militant unions may seem a thing of the past, this is a potentially galvanising issue for workers and one that expensive remuneration and PR consultants will not be able to help much with in terms of broader societal opinions. Potentially worse still is the prospect that real and perceived corporate largess that benefits an elite group, regardless of performance, will bring increased government involvement in the business world.

Warren Buffett reported in the Economist January 2007, "In judging whether corporate America is serious about reforming itself, CEO pay remains the acid test", concluding that "To-date the results aren't encouraging". That icons of the investment world like Buffet treat the need for reform as beyond debate must carry weight with those at the head of our companies. As I have argued elsewhere, CEO remuneration and the communication and process around it is fundamental to shareholder perceptions of their boards' competence and fairness. It is critical the CEO pay is linked to appropriate measures of their own and their company's performance, and that this is transparently and willingly demonstrated.

Aside from the high profile payouts to failed CEOs mentioned earlier, numerous pieces of empirical research show that this link between performance and pay frequently doesn't exist, or is purely one-way. For example, Marianne Bertrand of the University of Chicago and Sendhil Mullainathan, a Harvard economist, studied the US oil industry to investigate whether CEOs were paid for luck as much as accomplishments directly attributable to them. They found that chief executives' pay always benefits when the oil price is high, but does not necessarily suffer correspondingly when the price is low. They found that the typical firm rewards its chief executive as much for luck as it does for good performance. The effect cannot be explained simply by the increase in the value of managers' share options: it also shows up in their base salaries and bonuses, which are directly controlled by boards.

There is no doubt in my mind that boards in New Zealand need to avoid many of the mistakes that are occurring in countries like the USA and Australia if we want and expect the loyalty of the company employees and shareholders. Without for a moment seeking some sort of communist-inspired utopia of equal earnings for all, it is critical that there remains some relativity between senior executives and the other employees in the company. Furthermore, from a shareholder perspective, it is vital to see a clear alignment between short, medium and long term equity-based executive reward and return to shareholders.

In summary, we at the NZSA do not begrudge rewarding key executives and employees for long term results, providing shareholders have similar benefits. What we do wish to see is boards of directors do more to justify CEO (and their own) remuneration than their current strategy of relying on the reports of "independent" (who pays their bill) consultants who in every report regurgitate the same justifications about increasing demands on CEOs, the global marketplace, etc, while rarely mentioning actual performance. As Warren Buffett notes, how many of us have every actually met a remuneration consultant who thought a chief executive was underpaid?

A final thought - the way that a CEO's package is structured is an integral part of the Board's management of the CEO, and this, surely, is a strategic and company specific matter. There is something fundamentally flawed about a board seeking to comply religiously with "norms" of what and how other similar sized corporates do in such an important area. Excellent performance and shareholder returns seem more likely to accrue in companies that think for themselves in such critical areas, and that have CEOs who aren't insistent on being treated identically to their peers.
Des Hunt

NEWS FROM THE CEO

Research
We are making steady progress on the establishment of PhD Scholarships, and expect to announce two scholarships in 2008, with a third pending.

Financial Literacy Education
We have prepared a comprehensive proposal which we will be taking to funding sources in the New Year. We have received some seed funding from a number of organisations, which will help us with our initial work, but have yet to receive the large base funding we require. More on this in February.

Mydirector
We have finished the design specification for the website and will be going to tender for the build in January. Interest in the site is high from directors and fund managers we meet.

Thanks to all branch members for your support and feedback – it has bee great to get around Hamilton, Wellington and Auckland to meet you all.
Kevin McCaffrey

INSIDER TRADING AND OTHER SECURITIES LAW CHANGES

Current Law
The Securities Act 1978 dealt with offers of securities to the public for subscription. These are all defined terms, and a wide range of case law now exists to assist in deciding whether a particular event or arrangement may be caught by the Act.

Future Intent
There is an extensive review process under way which will tie together the requirements of all securities offerings, insurance, non-bank deposits (finance companies), superannuation and advisors of all such products. The target date for the completion of the review and implementation of all such legislations is 2012, but parts are coming into effect now, and set out the parameters of change in all such areas.

In general, the policy is to provide for a co-regulatory model of approved professional bodies that have a disciplinary role. There will be searchable databases of financial advisors, and consumer dispute resolution services will be provided. It will continue to be a disclosure based model. Service providers will be licensed. The Reserve Bank and Securities Commission will between them end up as final recourse regulators.

Disclosure regimes require a public education programme so that the public can understand the information provided. This is currently being provided via the “Sorted” website and the activities of the Retirement Commission, and of course the NZSA is providing investor education that focuses on risk assessment and equities.

Insider Trading Law
The new regime is expected to be in force by the end of this year. It is very different from the existing regime, and it springs from knowledge rather than relationship. That means an ‘insider’ is not someone with a particular relationship to an Issuer (a company), but is someone with particular (i.e. non public) information about an Issuer. This hugely increases the catchment of potential “insiders”.

The relevant knowledge is of material information (i.e. price sensitive) that is not generally available to the market (i.e. not publically available).

Prohibitions on use of the information is not now limited to ‘buy’ or ‘sell’ tips. A ‘hold’ tip can now qualify as a use of inside information (which is logically sound but very harsh). However, this means that an insider is forced to ensure disclosure, so is a useful means of enforcement of the general disclosure duty.

Market Manipulation
New Zealand has been unregulated in this area, but new regulations have now been passed (but not yet in force) which will prohibit common manipulative practices.

The prohibitions are again disclosure based, and read much like the Fair Trading Act prohibitions on false or misleading statements or conduct, which will effectively prevent most manipulative ploys.

However, it is not clear whether there will be some exceptions from the general regime, such as short selling - selling shares you do not own, waiting for the value to drop and then purchasing later at the lower price to "close out" the sale and purchase. This is permitted in overseas jurisdiction, but the liquidity of the New Zealand market may be too small to allow these.

Substantial Security Holder Disclosure
The new regime for security holder disclosure significantly increases the number of entities within the definition of a substantial holder, essentially by requiring 'chains' of holding to be disclosed (ie. Subject company is 20% owned by Co. A, and Co. A 100% owned by Co. B, making Co. B a substantial security holder of Subject company). The chains can be long and complex, and the new rules aim at requiring disclosure of the ultimate control rather than of every link in the chain. Accordingly, the definitions are very particular, including how to calculate a simple percentage.

Changes in holding must also be disclosed, in increments of 1% of the class of security (once the holding is over a threshold of 5%). Disclosure is now by class of security rather than by interest in Issuer, which better reflects where true control may be.

There are of course new forms for disclosure. The aim was to make the forms more user friendly, but that has yet to be tested. In some circumstances, a single event may require multiple forms (total divestment for instance will require one form for reduction at 1% increments, and another for total divestment).

Investment Advisors
Any investment advisor will have to disclose a range of information to every client – commission calculations, investment advisor qualifications and background being the main areas.

The form of disclosure is very prescriptive, is an ongoing duty and must be accurate.
Advertising requirements are also introduced. Penalties can be up to $10,000.00 per day, plus up to $300,000.00. Plenty of incentive to comply.

Summary
The changes are significant, and are shareholder friendly to a point. That point is: you will be provided with a lot more imformation, but you will have to know what to make of it. That is why shareholder education is such an important part of NZSA activities.
Ross Dillon

THE FUTURE OF THE AGM – use it or lose it

A number of events have occurred in the last couple of years that have had the effect of dramatically reducing the rights of shareholders.

The first event of note was the move by the New Zealand Stock Exchange to ensure that any changes to the listing Rules would, in so far as they were relevant to listed companies, automatically be mirrored in the constitutions of all companies that were prepared to place this change before their members. There are now only a handful of companies that have so far resisted the move. It is important to realise that the change goes completely against the Companies Act 1993. I am not one to suggest that change is not a good thing. However I do believe that unless there comes a time when our Acts of Parliament take a lower order of precedence than the Stock Exchange Listing Rules, there is a serious possibility that any changes made could be considered ultra vires. In other words unenforceable. Our Association seems to be the only organisation vaguely concerned about this matter. The solution is easy and that is change the Companies Act.

Unfortunately a general review of this Act only seems to occur every half century so we will have to wait. In the meantime, let those companies who have made the change be warned.

There is much however to be said for amending the Act. Until recently a review of the Stock Exchange Listing Rules took place at irregular intervals and it was no hardship for companies to move special notices to take effect of the changes required. We now live in the age of the instant fix and it becomes untidy to have some listed companies relying on old rules until their next annual meeting. This is aside from the fact that the Listing Rules now require change more frequently.

The recent amendment to the Companies regulations recognises that very few shareholders ever bother to read an annual report. This was initially addressed in many countries by allowing companies to prepare a concise form of annual report, now commonly referred to as the Annual Review that gives shareholders basic facts without boring them with too much detail, rather like the Investment Statement which was introduced to try to separate some of the detail from the Prospectus. In both cases the problem turns out to be that what is being substituted is more a PR document extolling the virtues of the company than providing factual information.

In July this year, a further amendment to the Companies Act was made that required a shareholder to make written request to the company for an Annual Report before any information other than a notice of a meeting need be sent to shareholders. This has been covered in the previous newsletter. From the comments by the chairman at the Sky City Entertainment Group AGM it seems that less than 2,000 reports were printed instead of the 22,000 required in the previous year; a considerable saving for the company.

We are a nation of largely DIY equity investors. We prefer to make our own decisions about investment matters. We seek advice from our friends but on the whole we are averse to paying for investment decisions. I have a strong feeling that our membership is made up largely from this category and I suggest you should always seek as much information from the company as possible. Obtaining and reading the annual report is a necessary chore for you. So I am going to suggest that for all your companies where you are a shareholder, you sit down during the Christmas holidays and write requesting a copy of their latest annual report if you do not already have one. You should all be using a computer but that is a story for another time.

In the middle part of the year I was overseas and took the opportunity when in England to attend a couple of annual meetings. The first of these meeting was in Bristol. Mitie Group (pronounced mighty) is a service company very much along the lines of Rentokil which will possibly be well known to many of you. There were a total of 18 resolutions to be passed and the agenda for the meeting dealt with in 15 minutes. The reason for the swift conclusion became apparent when shareholders were invited to retire to the dining room for a buffet lunch. I can only describe the food as lavish and the wine flowed freely. However as an example of corporate democracy the meeting was a disaster and I came away wondering whether there was any useful place for these gatherings. Surely we could organise governance in a more realistic manner. There must be a better way!

I have just read the December newsletter of the Australian Shareholders' Association, our colleagues across the Tasman. A major article covering almost 4 pages was headed 'Reconnecting with Shareholders'. It is an abridged version of an article by Zilla Efrat that appeared in Volume 5, Issue 19 of the Australian Boardroom Report. It makes for interesting reading. There were a number of suggestions which included setting up a booth in the foyer where shareholders can make contact with company representatives, taking a poll vote the next day and taking questions in advance of the meeting as being essential to good communication.

In summary my view of AGMs is that they are a deep disappointment. Whilst the quality of questions may have improved and, certainly in New Zealand, there is greater shareholder participation, I am sure with modern communications, that meetings could be reorganised. Finally, if we do not take advantage of the shareholder meeting then, like the annual report, the privilege may be taken away from us. Perhaps this is a topic for 'letters to the editor'.
Oliver Saint

COMPANY MEETINGS

Air New Zealand AGM - 28 September Wellington

I knew I had the right place as an Air New Zealand flight crew greeted me, and this theme was maintained right up to the start of the meeting when a flight attendant gave the 120 shareholders in attendance a safety briefing. By this stage I had already stowed my baggage under the seat in front of me – more legroom than in your average cattle class flight.

Air New Chairman John Palmer kept the theatrical tone alive during his address by starting off with a promotional video followed by a video of Air New Zealand ground crew doing a haka for the World Cup bound All Blacks. The point of this was to show that morale in Air New Zealand was recovering well from the restructuring of the last few years.

The record 2007 NPAT of $268 million was achieved in spite of fuel prices increasing from 14% of revenue in 2003 to 26% of revenue in 2007. Annual savings due to the restructuring were $324 million vs. the target of $245 million and the balance sheet is stronger than ever with a billion dollars in cash and gearing at 47.3%. Not a bad result considering the perilous state of Air New Zealand in 2002.

Given the good performance a special dividend of 10c per share was declared, in addition to the 8c a share dividend (interim plus final).

John Palmer explained why Air New Zealand is seeking shareholder approval for a series of purchases and options to purchase Boeing 777-300 ER and 787-9 over the next seven years. The aircraft are needed to allow Air New Zealand to compete effectively – the extended range allows them reach many Asian and American destinations non-stop, and they are more fuel efficient than current aircraft. Shareholder approval is needed as when considered together the purchases and options are a very large transaction – more than half the value of their assets before the transaction.

CEO Rob Fyfe spoke next, explaining that revenue and passenger number growth was driving the increased profitability. Contributing to this was growth in the long haul business and a focus on optimising routes - code sharing or culling those that are under performing and adding capacity and routes where there is demand.

Looking forward more of the same and a make over of Air New Zealand's domestic service including faster check-ins, premium seats, more cheap seats on grabaseat (www.grabaseat.co.nz) to make life hard for Pacific Blue and themed flights!

We then had the pleasure of watching a video selling Air New Zealand's commitment to the environment – a bio fuel pilot with Boeing, lots of efficiency and recycling, and helpful tips to passengers such as save fuel by taking less baggage. The one tip notable by its omission was how to save fuel by reducing the number of flights you take.

All resolutions were passed. There were a number of questions from shareholders; the more notable were answered as follows:

- No plan to move to triple bottom-line accounting – Air New Zealand reports on these issues anyway.
- The charter business is not a core business for Air New Zealand – it is used only as a way of keeping aircraft busy that would otherwise be idle.
- International flights from Palmerston North were discontinued because they were unprofitable.
- Expect an announcement within the next six months on plans for carbon credit offsets.
- No comment on what the board will recommend to an incoming government in regard to maintaining or reducing the government's stake in Air New Zealand, but John Palmer did note John Key (leader of the National Party) is on record as saying a National government will keep a majority stake in Air New Zealand.

The meeting finished at about 3:15 with Air New Zealand offering samples of their in flight catering and the opportunity to see Air New Zealand sponsored World of Wearable Arts fashion items being modelled.

Martin Dowse

Abano Healthcare Group AGM 9 November

All businesses in the Abano group are currently performing either at or ahead of the recent market guidance forecast. Fee increases, new ACC and DHB contracts and improved business processes have boosted performance for all businesses.

Record operating levels, continuing growth and new acquisitions were the focus for shareholders and confidence was confirmed in Abano's strategy to invest in the private healthcare and medical services market. In the past seven years, revenues have grown by 162% from $34.1 million in 2001 to $89.5 million at 31 May 2007 and the Group is on track to provide a record profit for the 2008 financial year.

The Lumino dental business has grown from 24 to 31 clinics. Acquisitions are providing an average EBITDA to revenue contribution of over 20%.
The Bay Audiology network in NZ has opened or acquired an additional 6 new clinics in 2008, taking the total network to 44 clinics around the country. In addition, the Bay Audio network in Australia has grown to 15 clinics. The Australian strategy is to establish a critical mass of profitable clinics in Queensland, through both acquisition as well as the setting up of new clinics.

Significant opportunities have also been identified for Bay Audiology in a number of Asian countries.
Alan Clarke commented: "Most countries, including Asia, have a one in six proportion of people with hearing difficulties. However, in Asia, the treatment rate is in the low single digits. We are being encouraged to enter these markets by major international manufacturers of hearing devices who see advantages in partnering with retail specialists such as Bay. These partnerships have the potential to significantly mitigate our risks in entering these markets. Conversely, the potential in these markets, now and over time, is huge."
Comment from the Chair was made on the recent sharemarket activity around Abano Healthcare Group:
"The value of Abano has been highlighted in recent weeks and we have been pleased to see the market recognises and has responded to this. As previously advised, due diligence is continuing with other parties, and discussions are still progressing".
"It is important that shareholders appreciate Abano is in the early stage of a significant growth phase and that benefits of the reinvestment of proceeds from the sale of ElderCare business into the four Abano business platforms – Audiology, Dental, Diagnostics and Rehabilitation - is only now beginning to produce the types of returns anticipated. As the intrinsic demand for healthcare continues to increase, so do the opportunities in the private healthcare market. We are well positioned to take advantage of this increased demand and expect to see shareholder returns continue to increase as we grow through expansion and acquisition".
Masthead was invited to speak to the meeting on their vision and strategy for the company in respect of their revised take-over offer for shares, but they declined on the basis that they were attending the meeting as observers.
Jacquie Staley

Cadmus Technology Limited AGM

Cadmus made a net loss of $4.5m after promising a turn round the previous year. The new team lead by Chairman Peter Maire (ex Navman), and CEO Julian Beavis (ex Burroughs) believes it has made adequate provision for the delayed merger costs with Intellect holdings Australia, receivables and inventory, and is now setting sail on a new course to pursue a merger with Provenco. Previous management had said that the volumes available in the New Zealand market for ethos terminals and associated point of sale solutions are too small to support a proper manufacturing concern, and it is hoped that the joint company will be strong enough to pursue niche market opportunities overseas. A new manufacturing partnership with Navico, formerly part of Navman, will allow economies of scale to be achieved, as it is already building a million electronic boxes per annum while Cadmus was making only 75000. The ratio of 4.6 Cadmus shares to 1 Provenco, caused some disquiet amongst shareholders, but beggars can't be choosers, and Peter Maire with 55m shares and Singaporean Thiam Beng Lau are not going let go of any more shareholder value lightly. Peter Maire is the first to concede that he should not be the chair of the merged enterprise, but he will be close to the operations and this gives some cause for hope in this very speculative enterprise. A special meeting will investigate the proposals in more detail in the New Year.

Cavalier Corporation AGM 8 November

Cavalier operates in mature markets in Australasia in which it tries to secure a premium on design and quality woollen carpets over a volume synthetic market. I t has tried owning retail outlets in USA but exchange volatility and severe price competition has made this unattractive. Only 8% of sales are generated outside Australasia, and most of that is in scoured wool from two plants Timaru (recently upgraded and consolidated) and Napier. The major growth area is in Onterra carpet tiles and modular carpets.

New moves include a takeover over for the No3 manufacturer in NZ, Norman Ellison, and strong engagement with environmental gradings, Greenstar and Greentuft. It is an income stock, with the speculative sideline Microbial Technologies which is still at the critical "go/no-go" stage of development.
Shareholder issues surround the reappointment of Grant Biel and Tony Timpson, two of the most knowledgeable men in the NZ Carpet industry. Cavalier has appointed its managing director to chairman on two occasions in the past, Tony Timpson, and the current chairman, Alan James. As a result it has done well by sticking to its knitting, with superior trade knowledge, but it has suffered from a lack of vision and invention.

The board now looks tired and is in need of renewal. Shareholders questions challenged the meeting date and venue, the fashion and colouring of carpet ranges, the languishing share price, the surge in share price after the waiver decision 11th September (Norman Ellison announcement), and increase in directors fees. However all formal motions were carried convincingly without formal counting of proxies.

ICP Biotechnology AGM - 28 November

ICP Bio, presented as exactly the sort of niche business New Zealand should be investing in, managed to treble its losses to $13.5m in the last financial year by completely misjudging the whole process of industrial marketing while installing a new plant. Industrial marketing requires painstaking sampling to customers who evaluate and then specify the product suited to their purposes. It is a complex and time consuming interaction between supplier and customer that starves factories and upsets lenders. ICP Bio narrowly averted catastrophe by involving Viking Capital as a large cornerstone shareholder, converting debt to equity, issuing rights worth $4.05m. Sane Milles the new CEO, has restructured reducing staff from 125 to 80, and reorganized the business towards its market, emphasizing its strength in vetinary products, and developing beyond that to human biopharmaceuticals. Shareholders used the occasion to learn more about the freeze-dried products and their 2 year shelf life together with the new distribution partner, VWR in USA. The financial restructuring has left 50% of shareholders owning less than the marketable parcel of 2000 shares, a high cost to a small company. The board of 3 is too small, but is having difficulty in finding people with the right mix of business and technical knowledge. The meeting left us with the feeling that this is a high risk enterprise, but now pointing more realistically in the right direction – a perfect opportunity for Sanne Melles to make his name.
Alan Best

Michael Hill International AGM - 8 November

Shareholders of this Company were, in the past, used to more exotic locations for an annual meeting than the rather staid conference facilities of Ellerslie Racecourse. Additionally the Dominion newspaper next day had managed to catch a rather tired looking Michael Hill walking down the aisle prior to chairing the meeting. However this scene set was misleading. Whilst the chairman may have looked below his usual robust self the message he gave to the shareholders was certainly one to catch the attention of members. Two items of news were particularly noted. The chairman apologised for the absence of fellow Board member Emma Hill who had the previous night given birth to twins – a boy and a girl. Whilst this news was greeted with pleasure the second message had more immediate significance for the Company and that was the subtle change in the logo of the group that many had noticed was a deliberate move to position the organisation into evolving a brand for its products, particularly in this context watches. Therefore branding was ‘in’, discounting was ‘out’.

The message of last year was repeated - stick with us for the ride. The results for the current year were the strongest experienced for the last 7 years and those in the audience appreciated this fact. There was little comment at question time. Several matters were raised by letters prior to the meeting and these were answered by Mike Parsell.

Is there any chance that a discount card would be introduced for shareholders?
The answer, emphasised by the chairman when advising that the group intended to introduce branded products was – NO it is too time consuming to handle and does not fit in to the development of branded products.
Is it intended to introduce a Shares in Lieu of dividends plan?
There are no immediate plans.

Is there a dividend policy?
Not at this stage. The dividend is driven by cash flow requirements particularly store opening decisions.

Who on the Board have an understanding of derivatives?
Both independent directors Messrs Doyle and Peters are closely involved in financial markets and understand this risk.

Please supply an approximate percentage of turnover that is done through trade credit sales and what are the normal terms?
25% of turnover is by lay-by sales. Approximately 30% are credit payments.

On plans for the future, emphasis will continue to be on organic growth. It is planned to open 12 new stores per annum for the next three years in Australia, 2 in New Zealand and 12 in Canada (Ontario being the selected location).
Oliver Saint

Provenco AGM – 31 October

Some 100 or so in attendance under the Chairmanship of David Wolfenden who opened the meeting, welcomed shareholders and immediately handed over to fellow director Rick Christie who reported on the proposed merger of Provenco and Cadmus - which he had been negotiating in the absence abroad of Mr Wolfenden. He reported these negotiations had gone well; the merger seemed excellent from all points of view and was expected to be a "done thing". The merger terms had been examined and supported by an independent appraiser.

Mr Wolfenden then resumed the chair. He reported good growth; revenue had grown but overall results were disappointing and the company had experienced a net loss $5.2 million. However they had made good progress in positioning for the years ahead and prospects looked excellent.

What few questions there were reflected general disappointment with the company..."same old story year after year"; "where was the tangible evidence of any profitable developments. When if ever will we see these come through?"

The Chairman made reference to the scope and size of the merger with Cadmus which would help..."we are in an investment cycle; hard times difficult to predict and manage; we are a small technology company playing in a big global market that is dynamic and very competitive." In a response to a query from the floor - "it has been a bad 2007- how is it looking for 2008" he replied "at this point in time he was not making forecasts."

All in all, no great shakes from a company with a dismal record year by year. Attendees spoken with appeared to take heart from the merger with Cadmus; "which company might shake them along" while others were seemingly heartened by the appearance on the Board of two directors representing the Todd Corporation.

A spokesman for the company, when asked post the meeting, why the share price had spiked just prior to the announcement of a merger with Cadmus stated he "had no idea who or what had caused this spike" and appeared not to care. Does one hang on in there?

Joe Turnbull

Sky City Entertainment AGM – 26 October

The usual large gathering attended at the Conference facilities of Sky City. Your representative held proxies from 41 members holding slightly over 400,000 shares. Put in context there were over 22,000 shareholders at 20 August. The chairman and acting CEO took, in total, just 35 minutes to deliver their addresses to the meeting. This was a pleasant change from the Vector meeting the previous week (1 hour 15 minutes) and the result was there was more time for shareholder questions. The main topic was the poor governance displayed by the Board. The tone was sat by Paul Wahl who had travelled from Wellington specifically to place a motion of censure against the Board. There was sympathy for this move but the chairman was persuasive enough to convince the majority of shareholders present that a censure motion was not warranted. On the appointment of a new CEO there was a shortlist of 3 candidates and the Board expected to make an announcement by Christmas. There was excellent progress in finding new directors and there had been two expressions of interest. The position would be clarified before the end of November. The chairman provided information on the new law that allows listed companies to dispense with the mailing of annual reports unless specifically requested by shareholders. This first year of the new regulations has caught some companies unawares and in their haste to cut down the printing of annual reports and following the requirements of the new regulations they have delayed printing but retained the same timing for the annual meeting. In the case of Sky City this meant that the delivery of the annual report to some shareholders occurred 24 hours before the meeting. This is unacceptable and representations are needed to the Listed Companies Association on this timing problem.

However cash and the environment were winners in that the customary printing order of over 22,000 was reduced to 2,000. Brian Gaynor, a proxyholder, sought information from the chairman as to how many times the acting CEO, Elmer Time, had been out of New Zealand since his appointment in late June 2007.

The chairman advised that he had made no more than 4 trips and these were to fulfil arrangements made prior to his appointment. In response to a further series of questions the chairman replied that the profit guidance would need to be updated following a sale of the cinema assets. A number of points were raised on the reappointment of directors. Your representative sought assurance from the chairman that his workload plus his Australian residency and travel and family ties were such that his contribution to this Company would not be put at risk. Mr McGeoch gave members the assurance needed on all these matters. On behalf of the members and the Association, I expressed our support and thanks for the sensitive and professional manner in which the meeting was being conducted. I also indicated that I could think of no other New Zealand chairman who would have allowed the vote of censure to be completed at a meeting. Mr Trotter was reappointed a director for the limited period of one year in order for the formalities of appointing new directors to be completed. The chairman reminded the meeting that because of its gaming business, the police were obliged to investigate each new director before confirmation of their appointment; this took time.

Finally, members should be aware that our Chairman, Bruce Sheppard, wrote to the Company on 20 September about gaming machines and the Company responded before the meeting. Both letters should now be on our website.
Oliver Saint

Steel and Tube AGM - Wellington 9 November

This AGM was the 54th for Steel and Tube (STU), with the last 40 being held as a publicly listed company. The Chairman Dean Prichard noted that at the time Steel and Tube listed there were over 300 companies on the NZ Stock Exchange; only thirteen of these remain listed today.

Steel and Tube turned in a sound result with NPAT only down 10% on the previous year in what CEO Nick Calavrias described as one of the toughest years he has experienced. Each section within the company has been adversely affected by higher interest rates and the fluctuating NZ dollar. On a brighter note when the NZ Fastening business was purchased last year it was making a loss, at the end of its first year as a part of Steel and Tube it is returning 25% on the investment.

Steel and Tube is a mature company whose performance is tied to the overall performance of the NZ economy. To break the dependence on the economic cycle and build shareholder value the company will be actively pursuing growth through acquisitions. To facilitate this two general manager positions have been created to manage the day to day operations so Nick Calavrias can focus on the growth strategy... and perhaps it's a bit of succession planning as well.

The outlook for next year is for another tough year with first half NPAT expected to be down four million compared to this year. Second half should be comparable to this year's second half as the economy starts to pick and rugby world cup construction projects begin.
Martin Dowse

Taylors Group AGM – 26 November

On a P/E of 12, and a gross yield of 10% Taylors is a persistent income stock, now that it has moved away from drycleaning and operates as a laundry business under the watchful eye of "big brother" Spotless Group in Australia. Spotless has assisted Taylors in underwriting guarantees for the larger scale hospital contracts which have provided a base load in this hum-drum activity, and justified the plant upgrades in Auckland and Christchurch. Further capital improvements are planned for Kelston, Hamilton and Wellington and the increases in productivity will drive better results, lifting the business away from the small scale, private competitors, despite the wage pressures in this 24hour, 7 day week operation. Some consideration is also being given to growth beyond the local laundry market, and the expertise of Spotless, with its two board members, who have shown a willingness to invest in the business, is seen as critical in exploiting future opportunities.
Alan Best

Vector AGM -19 October

The meeting was held to a full house of at least 400 members at the Guineas Room, Ellerslie. Your representative attended with proxies for 260,000 odd shares from 38 members. Put in the perspective of 41,445 shareholders on 24 August this is unlikely to raise the blood pressure of any director and we have a long way to go in education before it will be possible to be satisfied with our performance on the proxy front. Perhaps this is not a fair company on which to judge proxy counts as there will be tens of thousands of shareholders whose investments comprise this single holding. There was an audible gasp when the chairman, Michael Stiassny, showed a slide indicating that proxies had been received for over 800 million of the 1 billion shares on issue. However as I have pointed out before it is a numbers game and when a single shareholder (in this case owning 751 million shares) sees a vast majority in number of shareholders voting a different way the alarm bells should ring; there is unlikely to be any fear for Auckland Energy Consumer Trust given the apathy of existing shareholders of this group.

The address by the chairman has been widely covered by the media and I will not dwell on the criticism of government except to say that other power companies are experiencing similar problems and most have been able to achieve reasonable profits and earnings for their shareholders. At some stage responsibility by the Board for poor results must be accepted. The Chairman's address took 45 minutes and a further 25 minutes was taken up by Simon Mackenzie, the acting CEO, in dealing with results that had already been covered in the annual report. It was therefore a rather impudent suggestion by the chairman that time constraints might perhaps limit shareholders in their questions and that five minutes would perhaps be an optimum time.

However nobody was restricted from putting their view - although the coffee was cold at the conclusion of the meeting.

There was one matter that your representative was determined to bring up as soon as possible and that was the resignations in December 2006 of the three former Board members, John Goulter, Tony Gibbs and Greg Muir. I wanted to know if the prospective directors had completed due diligence and were satisfied that they knew enough to ensure that their contribution would be acceptable. Alison Paterson was the first to comment and she set the tone for Peter Bird and whilst Hugh Fletcher did not comment until I suggested that he had a last chance during his election to the Board, they all confirmed that they had not contacted the directors who had resigned but otherwise satisfied themselves that they would be able to work well with remaining Board members. This must be accepted but it is interesting to note that Alison Paterson is deputy chairman of the Reserve Bank of New Zealand and Hugh Fletcher and John Goulter are both on the Board of that bank. A number of shareholders bemoaned the lack of transparency and the size of the debt, both in their ways contributing to a riskier investment for shareholders. Shareholders were promised a review of director fees next year. It will be an interesting meeting next year if the share price continues to be subdued.
Oliver Saint

BRANCHES

Auckland

Our last Branch meeting for 2007 was held on 17 October and we were fortunate to have Brian Gaynor again as our guest speaker. As usual, he spoke with a quiet authoritative style about a wide range of topics. He was very easy to listen and the fact that we had an attendance of 150 plus was testament to that fact.

In recent times, we have been reviewing the positions and duties of committee members as part of our ongoing Branch development. Our Chairperson, Des Hunt, has made it known for awhile now that he needed more time to develop and maintain his many contacts in the business world for the benefit of the association. This being so, I offered to take on the role of chairperson and in order to relieve Des of the more mundane tasks which he has been performing for some considerable time. My offer was accepted and with the blessing of the other committee members I have begun to take over some of the reins from Des. We believe this is a win-win situation for all of us and should help significantly with our efforts to further develop the Auckland Branch.

Our first committee meeting in 2008 is scheduled for Wednesday 29 January. This will be followed by our Branch meeting on Wednesday 20 February with our guest speaker being confirmed as Craig Norgate, PGG Wrightson. Our April meeting is scheduled for 16 April and Tim Brown, Infratil, has agreed to be our guest speaker. Only 3 other meetings will be held after that time and speakers are yet to be confirmed.

We have been getting good feedback from various sources outside the Association about the work it is doing, especially when voicing concern over governance issues and accountability of directors. Some influential companies have expressed an interest in providing financial support to various initiatives being undertaken in training and research.
Ken Cook - Chairman

Approximately 30 of us met on 5 November at the new purpose built Auckland Mainfreight depot in Railway Lane, Otahuhu. Grant Smith the Auckland Branch Depot Manager gave us a brief site tour commencing with the upstairs open plan offices housing branch administration, scheduling, trucking and goods movements, sales, corporate computer systems for NZ and Australia and accounting functions.
Downstairs we toured the large covered depot at an opportune time amongst the fork hoist action unloading the “pick- ups” coming in from the Auckland outlying regions and freight stacked ready to load to the main overnight destinations, Christchurch, Dunedin, Palmerston North and Tauranga, to a strict timetable.
The site has its own railway siding holding several freight wagons (with more freight using rail which was pleasing to see) as well as several line haul trucks being loaded for overnight destinations.
The site is 2.5 times larger than the old depot and is Mainfreight’s largest with its own depot natural lighting, solar panels on the roof, recycled rainwater system and all stormwater treated on site, with some water used in the truck washing and maintenance areas. The whole site is covered with the latest wireless connections using data lines for communication with other branches.
We also viewed the “open canteen” for all employees with seating at one long table for all to mix. The depot loading stats performance board was also displayed showing the results of individual fork hoist loaders. We also viewed the large adjacent logistic site housing 3rd party managed stock where deliveries are made direct to their customers.

Don Braid Group Managing Director gave a presentation of the group's 11 year history as a public company and its future aspirations to be a GLOBAL supply chain operator with a presence in all major trading nations. Current annualised revenues are over $1billion. The recently announced acquisition of a large US company (Target) for NZ$76 million with a freight profile and operating structure similar to Mainfreight should be a good fit with other owned overseas businesses.
The "people" "family" culture of how Mainfreight conducts its business was highlighted as a very important plus that gives it an edge over its competitors to help make it the high ranking performing listed company in the transport sector. Each depot manager has their own profit centre and report weekly results so that management are promptly aware of the overall figures. They have their own training and development centre and all new employees have 1 week's training. Graduates are employed and most promotions are from their own trained people with new opportunities within the worldwide growth of the business with locations mainly in NZ, Australia, USA, and China. They own a large number of their depots in NZ – value $134 million with most trucks owned by owner drivers.
Brands you will recognise are Mainfreight, Owens, Chemcouriers and Daily Freight with Carotrans in USA and the newly acquired Target. Although over 50% of present revenue is earned from overseas operations and growing fast, they are passionate about remaining a NZ listed and managed company.
We learned a lot from this visit on the Company, culture and customer focus as well as terms such as FCL, LCL, Line haul, Intracity, FTC, supply chain logistics etc. and witnessed growing use of rail freight. We shared some hospitality with a company that appreciated our interest and we learned more about Mainfreight.
Noel Thompson

Bay of Plenty

The Bay of Plenty Branch finished off a busy year with an enjoyable buffet dinner. It was followed by the guest speaker, Roger Schofield, from "The Clock Pedlar of Tirau", who gave those present a lighthearted and interesting presentation centred around the theme "Time waits for no man".
The September and October Discussion Groups were well attended. The Subjects discussed were 'Reading and Interpreting Financial Statements', led by Kerry Drumm, and 'Are Quality Growth Stocks Too Dear?', led by Allen Smith. The companies discussed were, Fletcher Building, Sky TV, Ryman Healthcare and Skellerup.
Our final committee meeting looked at some interesting suggestions for next years programme.
During the year Howard Zingel conducted a portfolio competition in which the competitors each nominate a portfolio. The entries were ranked on their performances during the year. The winners of a bottle of wine each were Allen Smith 1st and Jim Steele 2nd.
Seasons greetings to you all from the Bay of Plenty.
Lloyd Christie - Chairman.

Canterbury

The Canterbury Branch met on 5 September and considered the following topics:

1. **Company Directors**: discussion on the role of directors generated the following issues:
   - A number of members saw merit in NZSA producing a directory of "quality" according to their track records.
   - There was concern about how NZSA should grade them.
   - A number of members considered that there should be a maximum length of term for directors – particularly the independent directors. 10 years was generally regarded as a sensible maximum term.
   - There was concern that some professional directors were on too many company boards.
   - There was concern that professional directors (usually accountants and lawyers) were over-represented on the boards of many companies and there was a need to include more directors with practical experience.

2. **NZX – Index funds**

   Note: a) Passive funds (i.e. Index) managed without analysis and research rather than
   b) Managed funds which require analysis and research
   There was discussion on whether:
   - it was a proper role for the NZX to be running passive funds? (*Smartshares – SmartTenz; SmartMIDZ; SmartFONZ* etc)
   - The NZX was charging excessive fees for running its index funds which were higher than many others (e.g. Vanguard in USA, ASB's Kiwisaver).

3. **Ethical Investment Strategies:**
   a) Negative investing: Avoiding any company which has an association with something you disapprove of (e.g. gambling, tobacco, armaments, uranium mining)
   b) Positive investing. (For example selecting only companies which have a strong 'green' philosophy.) Discussion about "ethical investment" centred on:
   - What does it achieve? Is it worthwhile? Do ethical investors suffer a lower return?
   - Is this just another form of "political correctness"?
   - Is there evidence that investors in the "sin" companies receive a higher return?

4. **Prospects for the future investments.** Discussion focussed on the questions of:
   - Where to invest?
   - What companies?
   - What's hot? - Petroleum exploration, rest homes, medical…?
   - What's not? – manufacturing …?

5. **Topics for future meetings:**
   - Areas where NZSA could help develop policy
   - Revised format with each topic introduced by a committee member giving a prepared address.
   - Topics being advised beforehand so people can prepare

Robin Harrison

Company Visit: Syft Technologies - Technology that perhaps deserves to sell but doesn't - yet
Syft is a Christchurch company whose technology can identify chemical compounds in gases. It has applications in many fields. On 20 November, members of the Christchurch Branch of the Association visited Syft. This was an opportunity for us to investigate a possible investment in the way that fund managers can but we usually can't.

We were taken by the CEO, Geoff Peck, on a tour of the premises and shown a Syft machine (which is about the size of a photocopier) being used to detect hydrocarbons in samples sent in by an oil-and-gas explorer. The CEO then gave us a Powerpoint presentation on Syft.
One area of application is medicine, where the machines can be used for diagnosis, from a patient's breath, of diseases such as diabetes and COPD. Geoff Peck said that applications to medical diagnosis could be worth billions. Another area of application is food and flavour - for example the detection of contaminated olive oil before it is aggregated into, and spoils, a large batch. Syft's machines can be used by oil and gas explorers to detect hydrocarbons in exploratory oil wells. The machines can also be used for the inspection of containers for purposes of safety and security and the detection of contraband.

Syft is a fairly new company and has been developing a sales network in Europe and is also trying to sell in the US. They prefer to sell their machines rather than their services. However sales have been slow and Geoff Peck clearly feels that this is partly due to the inertia of government bureaucracies. In Britain, for example, the machines are being tried in the detection of tobacco smuggled in shipping containers, a big money-earner for criminals. Although the excise duty on one container of tobacco is over GBP1M and Britain loses an estimated GBP4B per annum to tobacco smuggling, the authorities have as yet not agreed to buy any machines. However success in Britain could bring success elsewhere in Europe.

One association member suggested that there is little technical expertise on the board, a suggestion which was not refuted.

Issues of new shares have in the past diluted Syft shares and there are now approximately 200M on issue. Geoff Peck considers the company to still be undercapitalized. He said that the company is seeking partners but is also open to the possibility of having parts of the business acquired by other companies. He said that the company is in discussion with at least one multinational in the medical sector, whether regarding partnership or acquisition he didn't say.

Many companies which develop new technology fail. Can Syft overcome the odds? From questions asked and comments made afterwards it seemed that at least some association members present were favourably impressed by Geoff Peck's presentation and by Syft's prospects.
It seems the technology deserves to sell but it doesn't much - yet. Syft is burning cash but the floodgates might open at any time and put out the flames. They have developed the Voice200 which is smaller and cheaper than the Voice100 and which they hope will bring various areas of application within easier reach of the equipment.

Syft trades on Unlisted. Syft has issued warrants to buy the shares for 12 cents in 2010. The shares last traded at 12 cents. As I write there are no bids for the shares but for the warrants there are bids for over 1.3M at prices up to 3.5 cents and no offers. Perhaps the market likes Syft's long-term prospects.
Peter Heffernan

Ryman Healthcare's new Anthony Wilding Retirement Village was the October destination for the Canterbury Branch. Ryman Chief Executive, Simon Challies, and CFO, Gordon MacLeod, addressed a group of about 20 on the company's approach, earning streams, performance and growth expectations. Following this, an extensive tour of the large village (much still under construction) showed us their rest home rooms, apartments and independent units.

Mr Challies said Ryman's integrated retirement villages which cater to all levels of care, were developed on greenfields sites using their own development model. Efficiencies lay in their standardised designs with much work done in-house. Capital was recycled allowing a new village to be rolled out every six months. Unit prices were related to property values in the surrounding areas.

Since 2000 the emphasis had moved toward providing more retirement village units. Ryman's portfolio now stood at approximately 1650 units and 1200 rest home/hospital beds.
Rapid growth was made possible by supportive shareholders and experienced board and staff.
Earnings came from Care Fees, New Sales (which achieved a development margin on the initial sale and established a stock of occupancy advances), Management Fees and Resale Gains.

Rising house prices allowed existing units to be repriced when they were vacated to capture the resale gain. Management fees were also reset to the new value.

Net profit after tax had gone from $15 million in 2003 to well over $40 million this year. Dividends, adjusted for The share split, had gone from 1.5 cents per share to 4 cents per share over the same time.
Georgina Hall

Waikato

On 25 Oct, we held our monthly meeting. The new CEO Kevin McCaffrey addressed the 30 (approx) members present, in a lively, thought provoking and informative session. Kevin is driving the organisation forward in a very professional manner with exciting initiatives on the way.
Proposals regarding research students should deliver good benefits all round; i.e. the students themselves, the universities, the firm sponsoring them and the Association. The knowledge gained will assist shareholders in their assessment of companies and thus enable them to be more rigorous in the governance of those companies.

Also of interest is the new education program which may start to get underway by December when the funding should be available. Graham Wilson's material will be the basis of these programs.
I was greatly saddened by Graham's recent death. I would like to acknowledge his contribution to my personal investing interest and knowledge. His friendship, charm, intelligence, humour and courage will be missed by all who knew him.

On November 28, we held our annual Christmas Dinner at a new venue – The Bowling Pavilion of the Hamilton Working Mens' Club. The good turnout (68) meant that we were more comfortably accommodated than the traditional venue of the Hamilton Club.
Our guest speaker was Bruce Sheppard who performed with his usual panache. One of Bruce's points that I found of concern, was the issue of sovereign risk and the current outflow of capital and the consequent risk to the NZX.

Bruce's anecdotes certainly highlighted how much work and influence he has behind the scenes, and how little is reported in the daily media. Bruce would be worthy of a daily column in any newspaper.
Overall a very successful and enjoyable evening - thanks Bronwyn.
On behalf of the committee, NZSA-Waikato we wish everyone a Merry Christmas and a prosperous and successful New Year.
Robert Foster

Wellington

For our last branch meeting of 2007 we all trooped off to Times Cinema in Lyall Bay – a small cinema that specialises in showing historical films. First up was a selection of advertisements and NZ film unit short

documentaries dating from the 1950's including one showing the building of Wellington airport – complete with opening day near misses and minor accidents.
The main feature for the evening was the 1987 film Wall Street starring Michael Douglas as the unscrupulous corporate raider Gordon "greed is good " Gecko. What surprised me is that this film hasn't dated, apart from the brick sized cell phones, and it is just as relevant now as it was 20 years ago. It's a fantastic film that should be mandatory viewing for all investors. Next year we will be back to see another motivational movie – perhaps Enron: The Smartest Guys in the Room.
Our next branch meeting will be in February 2008 when Rod Drury (www.xero.com) will give us an update on Xero.
Martin Dowse - Secretary Wellington Branch

QUESTIONS AND ANSWERS

Q. Fisher Funds have recently increased fees on some funds, notably NZ Growth 47% and Australian Growth 25%. Can they do this?
A. Under the terms of your contract with the fund, the manager may increase fees from time to time, but we think this increase is excessive, and should be questioned by individual unit holders. We note that there is not penalty for moving out of the fund, but the high entry fee would act as a deterrent to changing too often.
If you want a comparison of Kiwisaver fees, look at Gareth Morgan's website. There is a wide range.
Although the success rating you put on the manger is your primary determinant, fees do come into longer term investments. If you invest $1000 on the long term, say 40 years for a 7.5% return how much will your fund be worth at the end of the period? The answer is $18044. Now if you invest the same amount for the same term at 10%, how much? The amount is now $45,259.
In other words the 2.5% difference in return has made a difference of 60% in the fund at the end of a working career. So small fees over a long term make a substantial difference.

Q. Does the high value of intangibles in the Skellerup balance sheet represent a problem?
A. Net Assets are 37m, Intangibles 51m, and Deferred tax 8m. The existence of intangibles in itself is not necessarily a cause for concern, and businesses often accumulate goodwill as they absorb complementary business often built up by families over a long period. The question is what can you earn from those assets when you spend money to buy them. Recently Hellabys has admitted it paid far too much for the BBQ Factory – too much goodwill? Probably. However, the other question is how much did you have to borrow to buy them? Skellerup was sold by a private equity group which had taken out cash and left it loaded with debt. It cannot stand still because it needs increasing income to service and repay the debt. We are not into investment advice, but shareholders will be asking some questions at the next AGM.

Q. How can ING with a 20% shareholding in Calan Healthcare Limited dismiss all the independent directors without gaining approval from the shareholders.
A. Calan is a unit trust structure. The board is the board of the management company which was recently acquired by ING. ING wished to merge the total assets of the trust with its own, and this required a 75% approval from unit holders, but the two boards could not agree on the unit valuation ratio. However this did not prevent the controlling shareholder of the management company (ING) from changing the board of the Calan management company, which it is doing now.
Alan Best