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

## In this Issue



June 2014

# Dispatches from the Colonies

Being remote from "the action" means that shareholders often have little input to the governance of their offshore investments. For companies duel listed on the NZX, we think that is particularly unsatisfactory and, so as far as possible, NZSA attempts to ensure member's interests are represented. I want to discuss a recent case, and outline the processes we follow to arrive at a balanced view, before we send you email pulses with our undirected proxy voting intentions.

The example is GPG, whose 2014 AGM was held in London. Many shareholders remain New Zealand based and were no doubt disappointed at not being able to have their say in person. The company claims that with its asset sell-off complete, it is now essentially Coats, and the AGM needs to be near that company's headquarters. They also claim a cost benefit in London which will be a surprise to those of you who have had the good fortune to visit this remarkable, historic and expensive city! Several of the GPG board and many executives are based on the other side of the world, so the cost difference can hardly be material. Most of Coats operations and a considerable proportion of sales are in Asia, and the regional office is in Singapore. Colonial Raffles in Singapore is 10,847 km away from London. Raffles to Auckland is 8405km. You do the maths.

The GPG information, although extensive, contained plenty of arcane language – no plain English rules in the UK apparently. The executive director's incentive scheme related to the annual report while the staff schemes were contained in the notes. The unfamiliar layout of the proxy/voting form/notes to the resolutions, plus the large number of resolutions meant it was no easy task for shareholders to understand the documents, much less make an informed decision.

NZSA was fortunate to be able to appoint as our proxy, Rodney Smith, a London solicitor and twin brother of our own Max Smith (two of them in one room would be a formidable team!!) Even to do this required a flurry of email and telephone exchanges between NZSA, Computershare and GPG.

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Initially one board member prepared a précis of the GPG information in terms of how it met NZSA policy guidelines. This was circulated to the whole NZSA board for additions and checking. Over a couple of days, there followed a robust, email based refinement and adjustment process, which culminated in an email pulse being prepared, reviewed and sent to members. No imperial dictatorship here! We were critical of resolutions regarding annual bonus and long term incentives (LTI's) and we also gave our view on the re-election of New Zealand's knight, Sir Ron Brierly, something we opposed on several grounds.

The phone rang in less than 24 hours- first a director and then the company contacted us to explain the reasons for the various resolutions. A conference call involving three NZSA directors was arranged with Brendan Fahey, Head of Reward at Coats. GPG Chairman Mike Clasper intended joining us, but was ultimately unable to do so. This call went on for over an hour. The initial comments related to GPG's new legal obligation to publish a forward-looking remuneration policy for executive directors, even though currently it has none. We have no problem with this as it sets the ground rules. However, it was obvious that GPG expected shareholders to accept that directors could be completely trusted to do the right thing when deciding on annual bonuses of 100% of base salary, and LTI's of 150% (increasing to 250% in exceptional cases). While acceptable in theory, in our view, GPG has an unfortunate history of paying over the odds for what has often been very average performance. It is outperformance that should be rewarded by bonus payments, and a bonus is not an entitlement for mediocre achievement, at least not in the post colonial era.

Now Mr Bull, things have changed around here. We don't want any more of your rubbish

We did discover that the "additional" 100% LTI was apparently intended to only be used instead of "golden handshakes" or "golden handcuffs". Nowhere in the documentation was this spelled out. While we philosophically disapprove of both, we do accept that very occasionally there may be a need to replace income

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forgone when a senior manager joins. However, this should be transparent and up front rather than being hidden in a three year vesting process. We could see no good reason why a suitable policy could not be incorporated in the remuneration statement and told the company so.

Following the company discussion, we held our own conference call and wrote another email pulse giving some additional details and indicating the substance of our earlier view was unchanged.

A detailed letter was then prepared for our proxy indicating how we should vote undirected proxies and the reasons why. This applied equally to resolutions we supported as well as those we opposed. Obviously the colonists are renowned for their fair approach!

*Previous London GPG meetings have been very dull affairs. At the last one held there not a single question was asked. Not so this year! There was quite some surprise that the colonies should be in revolt (or should that be revolting?)*

The meeting itself was quite interesting. Previous London GPG meetings have been very dull affairs. At the last one held there not a single question was asked. Not so this year! There was quite some surprise that the colonies should be in revolt (or should that be revolting?). The Chair gave a prepared speech which traversed a number of issues including the pension's scheme problems and remuneration, but he seemed to struggle at times to provide clear answers to the questions we raised. When it came to Sir Ron Brierley's re-election, our questions about his relevant skills, pension fund involvement and poor meeting attendance (Page 35 of last annual report) were met with a stony silence all round – or was that actually a stiff upper lip?

For the record, the GPG resolutions were all passed on a show of hands – hardly best practice for a multinational company. In New Zealand, GPG ran polls and used electronic voting modules at its last two meetings. The proxy results released later show that most of the resolutions we supported passed with less than 1% opposed. However, both remuneration resolutions had around 5.3% opposed, and 33% voted against Sir Ron Brierley's re-election.

Following the meeting, Chairman Clasper was keen to discuss the issues with our proxy, indicating that the message had been taken on board. Over time these interchanges do modify behaviour as we have seen many times in the past. We knew of course that we could only ever muster enough votes to make a point rather than stop anything. In our view, the important thing is for shareholders to make sure the board knows they must listen to your opinion. As one of America's founding fathers, Benjamin Franklin said during the War of Independence, "We must all hang together, or assuredly we shall all hang separately." Everything changes over time ... and yet nothing changes when it comes to standing up for your rights.

The fact that companies engage with NZSA confirms that your views will be listened to if they are made in a reasoned and constructive way. If shareholders are fed partial, misleading or sometimes incorrect information, or if actions are proposed that are not in all shareholders best interests, the NZSA has a duty to address these. Equally, where contentious issues arise, we will research them carefully and form a view that in our opinion is in the best interests of retail shareholders. That may not be the old imperial way, but it is what former colonies expect today.

***John Hawkins***

***Chairman***

# NZSA posts proxy voting intentions to every Abano shareholder

On 30 May 2014, the NZSA completed mailing a detailed letter to Abano shareholders outlining why it intends voting undirected proxies AGAINST the motion to dismiss Chairman Trevor Janes as a director.

This follows a thorough, independent investigation dating back to December 2013, when we were first approached by Messrs Hutson and Reeves seeking support for their position. We have had several formal meetings with both them and Abano. We have discussed the issues with institutional shareholders and both parties' legal representatives. We have also received a considerable amount of written material from all parties.

A subcommittee of the NZSA board considered the information and provided a detailed report to the NZSA National board. At our last meeting, the NZSA National board agreed unanimously that based on the totality of the information, the removal of Mr Janes was not in the best interests of Abano's retail shareholders.

We wanted to ensure transparency around our voting intentions, taking into account that NZSA provides a proxy service open to all shareholders. Therefore, the NZSA board also resolved to write to all Abano shareholders indicating how we would vote undirected proxies given to us, and the reasons for this decision. We of course respect the wishes of shareholders who provide directed proxies and will vote these according to their instructions.

For the avoidance of any doubt, NZSA is paying all costs involved in the preparation and mailing of this information from its own resources.

The Letter to Abano Shareholders may be viewed on the NZSA website.

# Practical theme for NZSA Conference - Auckland 2014

This year's NZSA Conference theme, "Investing for Growth or Income" will appeal to practical investors, new and non members, as well as the experienced heads in our ranks. Make sure you note Saturday 6th September at Alexandra Park for your own diary and that of friends and family members.

If new members sign up and pay on the day of the conference, we will credit the non members' conference fees towards their membership. This annual event is worth more than a membership subscription on its own.

DATE – Saturday 6th September at 10a.m

VENUE – Alexandra Park, Green Lane, Auckland.

THEME – Income or Growth Investing

# NZSA Interbranch Conference 10th May

As members we all appreciate the efforts of representatives from our five branches in meeting on a Saturday, not simply to see that we are all doing the same thing, but to consider how the different branches manage their successes and to build on their experiences. The no-strings sponsorship from Auckland International Airport in providing meeting facilites, and Air New Zealand in providing special fares was appreciated.

John Hawkins chaired a forum considering recent advocacy issues. With new regulations, various company issue, schemes of arrangement, and communications with NZX and FMA it has been a busy period.

Andrew Reding chaired detailed discussions on membership initiatives, and the costs and benefits of those.

Auckland's mailers now fine tuned for inclusion in company mailouts have shown a good response rate but are expensive.

Special sponsored public meetings in Waikato establish better communities of interest, as do the After-5 business meetings in Bay of Plenty. The public meeting featuring Brian Gaynor in Christchurch exceeded attendance expectations.

AGM representation and proxy training ideas were chaired by Max Smith. NZSA does need reporters and representatives to carry proxy votes in company AGMs. Support will be given to new proxy representatives in policy and research by our national team.

Chris Curlett led discussion on administration and accounting matters. Our use of web-based accounting and enrolment has enabled us to keep costs down and focus maximum effort on advocacy for retail shareholders.

***Alan Best***

After the Inter-branch meeting there was time for a meeting of minds

# NZSA Policy on Independent Directors

***Editor***:

Methven has recently appointed its retiring CEO Rick Falla as independent director. New Zealand companies have a history of doing this because they are reluctant to lose the experience and expertise built up with senior executives over a long period. NZSA Board has considered the title and function of an independent director and published its policies on the **website**

**Background**:

NZSA has long advocated for the independence of a majority of directors from the management and substantial share-holders of listed companies. Although the outcomes of this policy have varied according to the ability and acumen of the people appointed by a general meeting of share-holders, NZSA still contends that the rule is a fundamental protection for minority and retail investors.

The current NZX listing rules (rule 1.6) define an independent director as one who is not an executive officer of the issuer and has no disqualifying relationship. A disqualifying relationship is a direct or indirect relationship which could influence decisions in a material way. The definition goes on to focus on direct or indirect relationships with a substantial security holder, or a significant (10%) earning relationship with the substantial security holder.

It is reasonable to infer that independence to NZX means independence from the influence of a substantial security holder, who could act in a way that is not in the interests of smaller retail investors. In Rule 3.3.1 NZX stipulates that the minimum number of independent directors is 2, or if the board is 8 or more, 3 independents. Boards are expected to make the status of independent directors clear within 10 days of an election. The rules also specify that the audit committee be at least 3 members with a majority of independent directors.

However recent Board Policy Statements, like that of Heartland NZ Ltd, have more specific rules for the qualification of Independent Director. These policies read: Non executive directors will be considered to be independent provided that they:

- Do not hold more than 5% of the company's listed voting shares
- Have not been employed in an executive capacity by the company in the last 3 years
- Are not a principals or employees of a professional adviser to the company, whose billing exceeds 10% of its total revenues
- Are not significant suppliers or customers of the company, (whose billings exceed 10% of their total revenues,)
- Have no "material" contractual relationship with the company
- Have no other interest or relationship that could interfere with their ability to act in the best interests of the company, and independently of management
- Are not members of the management of the company or its subsidiaries
- The board determines that the directors are independent in character and judgement

**NZSA position:**

1. NZSA will exercise its judgement over the election of independent directors in line with its policy statement on Non Executive Directors (outlined separately in our Policy Statements). This will include an objective assessment of the nature of the company, the skills of the applicant, and the time commitment required to perform the function well. Independence of mind is the primary qualification for any director.
2. NZSA sees independence as being not only independence from a substantial security holder, but also independence from a close association with the staff, large customer or supplier, of the issuer. This will better enable the independent director to monitor and evaluate the performance and proposals of the management team. It includes the concept that the CEO (whether titled Managing Director or General Manager) is responsible to the board including the independent directors.
3. NZSA recognises that executive directors may on resignation, become valu-

able board members by virtue of their industry and company knowledge. However they should not immediately qualify as independent directors, because of their close association with the key management personnel. The gap between resignation and qualifying as independent should be at least 5 years.

4 NZSA recognises that the pool of successful ex managers is small in New Zealand and that it is important retain industry and executive experience within companies, and so the retention of such candidates on boards is vital to the financial markets.

5 NZSA believes that the reclassification of a non-independent director to independent director (or vice versa) is a material matter and should be part of the continuous disclosure regime..

**Voting intentions:**

NZSA recognises that the definition of independent director is the prerogative of the board. Each case will be judged in line with the guidance above. NZSA will make its view known at the time of the election of directors at AGMs of listed companies.

***Alan Best***

# Book Review or Gripping Story - Michael Woodford

I was fortunate to attend a talk by Michael Woodford, author of the best selling business book of 2012, and the famous whistle blower who exposed the hidden bullying and lies behind some Japanese Corporations.

The sponsor, CFA Institute, is of interest to shareholders. It is the guardian of standards and codes governing the behaviour of Financial Advisers. Attendees were all issued with a statement of investor rights at the hands of a professional adviser. It covers the honesty, fairness, clarity, and objectivity of confidential financial advice coming from members of the institute. For further information visit the website www.cfainstitute.org.

I have not read "Exposure," but if it is anything like Michael Woodford's talk it will read like a thriller. Michael came from a modest background in Liverpool and joined Olympus as a medical equipment salesman. In clipped BBC English, he explained that though well known as a camera company, it was endoscopes and medical equipment that made the profit. After rising through the ranks, and working from London as Chief of European operations, Michael was offered the job as CEO in Japan. At almost the same time he became aware of a report indicating that Olympus had purchased 3 non core, loss companies registered in the Cayman Islands, costing over 1bGBP, and paying huge consultancy fees.

Amazingly, although the board was aware of the report, it was never mentioned in his first board meeting. His enquiries met with confusion and silence. As a result of refusing to ignore the issue, he was fired by an unconstitutional board meeting after only two weeks, and this as he worked through the turmoil of the 2010 earthquake and tsunami. Nevertheless he fought back, and won a UK court settlement of GBP10m. Sadly, we were given too little time for questions, but the obvious one, "Why on earth, did Olympus appoint him?" was answered. By internal reorganisation he was to release such profit, that it would hide the scandalous losses and cover-ups that had dogged Olympus in the past.

The implied warning to shareholders is that investing in other cultures exposes them to wider cultural risks than may be apparent at first sight, and that specialised funds with local expertise may be an important hedge against these risks. We need to read Exposure because it reveals the dangers of hiding losses and failures, and keeping overvalued assets on the books. It is clear that Japan still has a problem with this, with all its cultural, authoritarian, and cowardly dimensions, and that it may well be a hidden cause of the stagnation that has dogged Japan's economy since the end of the 20th Century. Transparency is still the best disinfectant.

***Alan Best***

# Company Meetings

New Zealand listed companies now usually post AGM presentations by the chair and CEO, on their website. Our commentaries therefore concentrate on the flavour of the meeting and the questions raised by shareholders. We encourage members to use the company website, before attending the general meeting, to see what has been said previously, and to familiarise themselves with the latest news. Comments are those of the attendee, who will often be a shareholder in the company, and are not necessarily NZSA policy. ***Run your cursor over the report heading for a link to the company website***

## Summerset AGM 30th April

The first thing that struck me as I sat down was that this must be the only NZX listed company where, assuming all director election resolutions were passed, female directors would outnumber the male directors.  All resolutions were passed and yes Summerset is the only listed company with a majority of female directors.

In October 2013 cornerstone shareholder Quadrant Private Equity sold the last of its shares in Summerset and its two directors on the Summerset board stood down. They were subsequently replaced by independent directors Dr Marie Bismark and Anne Urlwin. The other two independent directors are James Odgen and Chair Rob Campbell.  Add in retiring CEO Norah Barlow and that makes up the five member board. Interestingly Anne is also a board member of Steel and Tube limited, another Wellington company board where gender diversity is not an issue (three of each).

The second thing I noted was that Oliver Saint was in the audience and so I would need to make sure I was accurate in my write up. For those that don't know Oliver, he was the former research director of NZSA.

Chair Rob Campbell and recently appointed CEO Julian Cook addressed the meeting. It has been another good year for Summerset, net profit after tax up 131%, dividend up 30%, a build rate of 250 units per year increasing to 300 units per year by 2015 and a land bank sufficient for seven years at the 300 units per year.

Summerset is the 3rd largest retirement operator in New Zealand (after Ryman and Metlife Care) and the 2nd largest developer (after Ryman). Last year Summerset was named Best Retirement Village Operator in Australia and New Zealand for the fourth year in a row.

Question time – first up Oliver Saint asked chair Rob Campbell if he was happy with the number of directorships he held, not too many? Rob replied that he is busy, but now that he no longer chairs GPG he has a lot more time.

I spoke next and thanked Norah for her efforts and for remaining on the board. I also noted (as pointed out to me by another NZSA member) that in the Annual Report both Rod Campbell and Norah Barlow in their reports state that Norah will remain a member of the Board.  This is also restated in the compensation notes in the Notice of Meeting. A minor point but we shareholders do get to vote. Rob agreed it was not appropriate to assume this before the AGM.

These two questions kick started the audience and for the next 20 minutes or so questions were flowing freely, the more interesting ones were:

1. Q. Any constraints on growth and any plans for Australia? A. We don't want to stretch the organisation too far (development is all in house now) and we have no plans for Australia in the foreseeable future, there is plenty to do in New Zealand.
2. Q. Any guidance on profit for the next year or two. A. No formal guidance but hopefully higher not lower.
3. Q. Are you considering increasing the level of dementia and hospital care beds as this is where the growth is? A. Cautious and incremental approach to dementia, looking

to do as much hospital care as possible.

4. Q. Have you considered dividend policy and debt levels (property values have increased a lot)? A. Summerset is a growth company and while it has decided to pay a dividend, it isn't a strong dividend and this is unlikely to change. It is based on a percentage of underlying profit after stripping out unrealised gains on property. Debt is used to fund the development of villages until the units are sold.

All directors up for election were elected, auditor's remuneration is safe, and the director's pool will be increased. There were a couple of hands raised against increasing the directors pool but most shareholders were happy it was justified as a) the Quadrant directors had been taking a below market fee, b) Norah Barlow wasn't taking a fee while she was CEO, and c) there is enough in the pool to appoint an additional director.

On the way out I chatted to Rob Campbell and noted that Summerset is like a mini Ryman – he didn't disagree.

***Martin Dowse***

# Briscoe Group AGM 15th May

Amongst the AGMs of listed retailers, Briscoe Group stands out for its balanced board and deliberate governance, its strong and experienced management, and its unpretentious but methodical style. No Powerpoint – just careful, staged summaries by a variety of speakers to maintain our interest.

Investors can refer to the Briscoe webpage for copies of the addresses and the last 2 years of annual reports. We hope Briscoe will extend the library of reports to cover at least 5 years as one questioner requested. But NZSA members can see five years of graphs including the very low geared balance sheet and shareholder returns on our CKPD graphs in the members section of the NZSA website.

In a period of tough competition and low growth Briscoe has increased its sales and profit, confirming the advantages of "single stream "retail against broad spectrum department stores. Single stream it may be, but it holds a broad stream of brands within the flows of homeware, sporting goods and giftware. Specialised commentary was offered on internet shopping which is turning out to be more complex and segmented than most consumers realise, but still a positive area of growth. Grant Diggle asked whether there would be a breakpoint where bricks and mortar was not justified against the inroads of online shopping. However MD, Rod Duke, felt that well-spread and positioned group stores, where management and staff could be combined on one site would form the basis of an interaction between internet and in-store experience. He could see a possible 10 further sites, specialised kiosk developments in store, backed by digital growth.

Short presentations from CFO Geoff Sowcroft on defining the group's financial hedging, and speedy inwards goods scanning, and also Chief operating officer, Peter Burilin on brands and business centre management, complemented the overview from chair, Roseanne Meo, and Rod Duke. The elections of Mary Devine, who has an ideal background for this group, and ex staffer and now investor, Alaister Wall were carried unanimously. This business would meet the Buffet criteria, "easy to understand, well governed and led," but, on a p/e of 15, NTA of 64c, price of $2.50, and yield of 5%, I leave you to assess whether it is "priced well in relation to future prospects."

***Alan Best***

# NZX AGM 16th May

After negotiating Westpac's security, that would not be out of place at Fort Knox, a small group of around 40 shareholders and 15 or so NZX staff settled in for what was a low key meeting. This was probably understandable with NZX having had a solid if unspectacular year. Sales at $63m were 12.5% up and net profit grew by 20% to $12m. Unfortunately the share price does not reflect this growth as earnings per share, EBIT margin and dividend have tracked sideways over the last three years. This has led to a stagnant share price compared to a significant uplift in the NZX50. The company is predicting high single digit growth in the medium term.

Chairman Andrew Harmos started by covering the 2013 highlights – Most IPO's and capital raised in a decade, the volume and value of trades up dramatically and more than 100,000 new shareholder CSN's issued. He acknowledged that outside factors such as the growth of KiwiSaver were a big help. He then went on to say that the board expects to grow the company by continued focus on new issues and the listing pipeline, launch of a new growth market, launch of equities derivatives markets and further development of the passive funds business. In terms of new listings, he pointed out that NZX has 160 companies listed out of over 1700 in NZ with over 100 staff. Clearly opportunity is there.

Dairy derivatives, the clear grain operation and Agri Information are all operations where the board sees opportunities. He highlighted some progress around gender diversity with recent listings and claimed progress in the regulatory and governance areas.

CEO Tim Bennett outlined each of the business's main areas in greater detail starting with the proposed "new" market. This will allow smaller firms a more economical way to list. They will also have a less rigorous disclosure regime, greater liquidity than the NZAX, and guaranteed research. All this should make listing more attractive for smaller companies. Launch is anticipated in the next 3 months. Dairy derivatives and the grain exchange have received a boost with CFTC approval allowing direct participation of US players. The Agri information business is moving rapidly from print to online, with the intention is to purchase small bolt on acquisitions to this information division.

NZX's Fonterra markets while steady, have limited upside, as do 4 electricity service provider contracts. These will be re-tendered in 2016. The CEO sounded confident NZX was well positioned to retain them.

It seems NZX considers "other" businesses it runs (44% of revenue) have greater potential than the main market facing operation (56% of revenue). Let's hope they also reinvest where most income is derived.

One shareholder commented that the NZX Kiwisaver product is poor and needs a revamp. The chair indicated this was being addressed. Another question related to an overseas company that was initially going to dual list, now only listing on the ASX. The CEO said despite NZX's best efforts, this decision was made by the company's Scandinavian head office. NZX's primary focus will remain on local listings.

The NZSA had 3 comments. While we applauded the establishment of a board Regulatory Governance subcommittee, we expressed reservations about the NZX chairman also heading this subcommittee, given the concentration of influence that might result. We also stated again our view that black letter separation of NZ regulation from NZX Operations was preferable to the current protocols based process. We pointed out that protocols are easily changed, whereas law or regulations are not. Also the outcomes for breaching regulations are more onerous which would be a useful reinforcement. In NZSA's views, a change would increase market confidence in regulatory independence by dealing to the current less favourable perception. We also suggested that NZX update its voting form to a more user friendly version. All comments were received in the right spirit.

Resolutions to re-elect Andrew Harmos and Alison Geary were carried without dissent.

***John Hawkins***

# Renaissance Corporation AGM 11th April

There were several issues running around in my head as I attended what will probably be the last AGM of Renaissance Corporation. What will be the final payout? When will it happen? What is effect of investing in a failed company as part of a diversified portfolio.

To take the last question first: if we are fully invested in shares we expect some losses. Although shorting is available to the trader, the only real hedge we have available in long term investing, is to diversify our portfolio. So for a portfolio of $10,000, 10 shares are better than 5. Yes, the good picks like Mainfreight and Ebos which multiply our initial investment by 10, completely outweigh the occasional 100% failure of one stock. This is the message for our children and grandchildren who must become investors if New Zealand is to prosper.

In the case of Renaissance, bought in the early 1990s for over $0.80 per share, after dividends (50c+,) the cash loss will be over 20% against the buying price, but that ignores the opportunity cost of 20 years, which at 5%pa, would have increased the amount invested by over 250%. Renaissance was bought with an expectation of growth with the Apple franchise, and now it is being liquidated. It is a solvent liquidation, made prudently, by experienced independent directors.

Two years ago, after the sale of the distribution business the shareprice was 13c and the net assets (shareholders funds) were $8.9m (20c/share) including over $400k goodwill. Last year's September accounts showed Net Assets of $ 10.9m (23c/share) after a trading loss of over $10m. In this year's AGM we were advised that the Net Assets are currently $7.2m (16c/share.) However the earn-out provisions in the successful sale of Yoobee Education "might" add up to $1m (2c/share) to the total. It was clear that shareholders must expect payment in at least 2 stages, the first of which could not occur before June

The questions therefore concentrated on gaining a clearer understanding of the circumstances and risks around those calculations. The staff of Renaissance is now down to 2 people, (including the secretary contracted till end May,) plus 3 part time directors, whose fees are being reviewed. Cash from the sale of Yoobee School of Design should be received late April, but the contingent asset in the earnout provisions will not be known until after the end of the financial year (September). The assignment of retail leases in Newmarket, Hamilton and Wellington, does leave a contingent liability with Renaissance, but this is not expected to present a problem. The software asset Conduit for developing apps, is free of liabilities. Some service contracts represent a small contingent liability. Retail consignment stock does exist but there are incentives for the retailer to sell this at above cost. Chairman Colin Giffney confirmed that there is little value in a shell company after liquidation, and that we should not hope for a backdoor listing to the benefit of existing shareholders.

When the question of the earnout rights in the education business was raised, it was evident from the poor trend in overseas enrolments, that Yoobee education is unlikely to achieve the $1m target, but the sliding scale of payments could be triggered. Renaissance has no inspection rights, but the education staff is highly motivated to achieve profit and cost budgets, and the relationship with the buyer is good.

Another questioner suggested that the directors should continue with the windup at their own cost. This is an important issue in liquidations. My position is that shareholders need experienced professionals more than ever, to protect shareholders, and that they deserve payment for performing the task. This was emphasised when further questions revealed that quotations had been received from liquidators, of which the highest was $100,000.

It was clear that none of the 3 directors was in the job for the money. Richard Ebbett (independent) was accordingly relected, and Deloittes were reappointed auditors. We hope that the auditors will not overcharge for checking on the cashed up remains.

***Alan Best***

## Turner's Auctions AGM 11th April

Year to 31 December 2013 sales of $89m (up 14%), NPAT of $4.8m (up 14%) and dividend of 16 cents per share (up 7%).

The AGM was held at the company's Penrose Showrooms. This location is something of a Turners campus, as quite a number of the company's businesses are located in proximity.

Turners Auctions has performed well over recent years and shareholders have been rewarded with both strong dividend returns and solid growth in the market value of their shares.

Turners has undergone significant change over the past two years as the company has focussed more on retail sales of vehicles and supporting products like finance and insurance. To help facilitate this, the company has developed a new Turners website with greater functionality for customers and a new operating platform for the whole business. Whilst any change in strategy involves risk, in a rapidly changing marketplace standing still would be far riskier.

Two important elements of the retail facing Turners business are "CashNow" and "BuyNow". CashNow allows sellers of vehicles to get cash upfront by making a direct sale to Turners, rather than go through a longer and less certain process of selling at physical auction. BuyNow offers purchases direct from Turners, at a fixed price, rather than bidding by auction. A greater proportion of retail sales gives an opportunity for improved margins, and apparently twice as many customers take up finance through "BuyNow" than from auction purchases.

While TradeMe is having a big impact on how used cars are sold, Turners has developed a mutually beneficial commercial relationship with TradeMe. Turners has a growing vehicle listing presence on TradeMe, and has a site link which allows purchases to be made using either website. Sales to date through TradeMe have not been high, but this channel is seen by Turners' management as having significant potential for growth.

Turners announced at the meeting that it would be making adjustments to its brand.

Given that Turners has moved to a multichannel, more retail driven model, the company carried out market research to test its brand positioning. The results indicated that the brand "Turners Auctions" was not connecting, in particular, with women and younger people, who are likely to be an increasing part of the customer base. With this in mind, the intention is to drop the word "Auctions" and make some adjustments to brand layout. The new "Turners" brand and logo will be in place from June 2014. Interestingly, it was this change that lead to more questions from those shareholders present than any other issue. Hopefully, shareholders were reassured by the responses they got, as a lot of work had evidently gone into this and the thesis appears to make sense.

Todd Hunter, Turners former Chief Operating Officer and then interim CEO, was appointed to the role of CEO in August 2013. Mr Hunter appears to have settled in very well and has lead the company's major repositioning. The Chairman, Michael Dosser commented that morale was strong amongst the Turners team, and employees were excited by the momentum created in the business. This view was supported by informal comments made by employees after the meeting.

I asked a question around the relationship with 20% shareholder Dorchester Pacific. Paul Byrnes is the Dorchester representative on the board. Dorchester has a major interest, outside of Turners, in vehicle finance and insurance. Whilst this shared interest could be of benefit to both companies, potential conflicts of interest will need to be managed. Mr Byrnes indicated there was some prospect of the companies working together on insurance offerings but things had not gone beyond that at this stage. He also indicated, as would be expected given Turners recent performance, that Dorchester was very happy with its investment.

This AGM was the last for director Grant Graham, who had chosen to retire after 11 years service on the board. Victoria Carter was nominated as a board replacement. Ms Carter has a background in communications, public relations and digital marketing, which should make her a valuable addition to the board given the direction the company is taking. Her election was strongly supported by shareholders at the meeting.

At the end of the financial year Turners continued to have a strong net cash position. Apparently a couple of potential acquisitions had been looked at during the year but had not progressed. A comment made by Denham Shale, who stood for re-election to the board, suggested that the company still has an active eye out for opportunities to acquire compatible businesses.

Evidently Turners, at the time of the AGM, had made a good start to the new financial year. The company has targeted earnings growth of greater than 10% for 2014.

On behalf of shareholders, I congratulated the board, management and staff on the excellent performance of the company during 2013.

For details of the AGM speeches and presentation see the company **website**.

***Martin Watson***

## NZ Refining Ltd AGM 15th May

Refining New Zealand (as it likes to be known) was the subject of pre and post AGM analysis by Brian Gaynor in his NZ Herald opinion pieces of May 10 and May 17th.

Over capacity and a drop in demand has created headwinds for oil refineries internationally and Refining New Zealand has been pushed backwards. At the 2013 meeting chairman David Jackson and then new CEO Sjoerd Post had promised an increased profit for the year ahead. The reality was a $5 million after tax loss and no final dividend. A 2 cents per share interim had been paid earlier. Further, shareholdings were diluted through the issue of 32.5 million extra shares, which raised raised $54.7 milion in capital to reduce gearing.

In their addresses to the meeting both Messrs Jackson and Post posited that the company's major difficulties could be attributed to a difficult external environment. Streamlining of internal costs (including wage freezes) had trimmed costs by $6million. When the Te Mahi Hou expansion comes on stream (in late 2015) it is expected to generate operating cash flows of $60 million annually. Shareholders will be keeping their fingers crossed for the brighter future forecast.

There were four resolutions for discussion at the meeting.

Two, the reappointment of auditors and the adoption of a new (updated) constitution were quickly dealt with.

Five Directors: Mark Tume, Tim Wall, Andrew Warrell, Vanessa Stoddart, and Dean Gilbert spoke on their candidature and were re-elected with 98%+ of the votes cast. Independent Ms Stoddart achieving 99.87% support.

One shareholder spoke against the number of non independent Directors as being an excessive cost. At previous AGMs NZSA has questioned, to no avail, both the number of non independent oil company Directors and the rotational nature of their appointments. In his column Mr Gaynor noted that this company has had 44 different directors over the past decade.

Finally, a resolution by shareholder Mr Bryan Halliwell of "no confidence" in the Board and CEO., Mr Halliwell, in various resolutions, has been pressing his case since 2010. In brief, his argument is that through improper or illegal discounts the shareholding oil companies have gained a material advantage over other shareholders.

Although Mr Halliwell is sincere, his presentation to the meeting was again not persuasive and rebutted by Mr Post in his reply. One shareholder voiced support for Mr Halliwell, and 5.49% of the votes cast supported his resolution – a marked increase on the 0.61% support he gained last year. I voted discretionary proxies against the resolution. I suspect Mr Halliwell will continue his increasingly bitter crusade.

With this resolution taking over an hour to complete and with the meeting into its third hour there was little appetite for discussion in general business. However, I did speak to Mr Jackson post meeting and received an assurance that none of the company's $153,000 donations went to political parties or candidates; and that subsidiary IPL (lab for testing petroleum products) was tracking well and had some scope for expansion of business in Taranaki.

***Bruce Parkes***

## Geneva Finance Group SGM 29th April

This meeting was called to consider a rights issue of 202m shares at 3c/share. "We have history with Geneva," I was told as I went to vote the NZSA proxies. I remembered NZSA contesting a moratorium in 2007, when the company owed $41.8m to its bankers and $84m to its debenture investors. However after 2 meetings with Directors we made a tactful u-turn and supported the moratorium, which created many new small shareholders. We had only just agreed to this when the financial crisis hit and made things worse.

Nevertheless while 30 others failed, Geneva has repaid its creditors with interest, though without dividends on the 15% which was converted to ordinary shares. The company has trimmed down, with assets of $41m and liabilities of $29m, leaving only $12m of equity. It now needs more capital if it is to grow, and must shed the yoke of old loans (now 7 years beyond their due date,) which are isolated in the subsidiary Stella Collections. Former Chair Peter Francis has now been replaced as a cornerstone by Federal Pacific Group (FedPac) which deals in foreign exchange for travellers.

Current chair, David Smale, caught in the moratorium, is happy with his new partner Fedpac. He and David O'Connell explained why investors should support the resolution. They claimed the turnaround is now complete, and new loans are profitable, but the interest bill from Westpac (7% rising to 12% after in house administration costs,) is a significant handicap. They said that the rights issue was fair to shareholders, not compulsory, fully underwritten by Fedpac. Questioners learned of the changes in WINZ which stopped the government from clearing small amounts of arrears, and the use of "attachment orders" yielding only a few dollars per month on old outstanding loans, as well as the emigration of 341 debtors to Australia in the past year. It was clear that, as debt collections in the difficult rump became harder, the company was watching the costs closely. Shareholders approved the issue, which is one of the first under the new regulations on securities issued in the same class. I felt that while new lending is well spread and controlled, the investment is still high risk. Perhaps some were speculating that Fedpac might takeover once the legacies had been well and truly buried.

***Alan Best***

# Caught on the Net

**What kills you and your Investments**
Barry Ritholtz, in Bloomberg, says it is because you don't understand risk and focus on big things that are rare and ignore the little things that are likely to do damage over the long term. **More**

**The best Traders in the world miss trades**
Andrew Thrasher analyses market traders' tweets and blogs to determine trading style. He found that no one trading style can catch every market move - the best traders in the world will miss trades and so will you. **More**

**Can a nation save?**
Rumplestatskin, in a Macrobusiness blog says yes. But first he notes that economists usually equate saving and investment when they shouldn't. He finds it easier to think of savings as not consuming today in order to consume in the future, whereas investment is the production of some new capital good today, say a building, machine, vehicle, that will facilitate greater production in the future.
He says a nation can save only by buying more foreign assets than foreigners are buying of their assets. **More**

**NZ Shell companies still being used by dodgy International operators**.
New York based blog site Naked Capitalism has a long standing crusade against dodgy international operators using New Zealand registered shell companies to wreak their magic. Lots of different company names but the same principals. There are four posts in the current blog series. They ask, "what will the NZ Registrar of Companies make of it all. Perhaps he'll conclude that the existence of a local director means that these companies in New Zealand all totally, totally, totally legit That, too, would be unimaginably stupid; as is further delay to the new Companies Act, which has been languishing since its second reading, this time last year." **More**

**Why the average investor's investment return is so low**
In a Forbes article, Sean Hanlon looks at "Behavioural Finance," the emotional phenomenon that stops investors from being rational and maximising their wealth through objective, non emotional investment decisions. **More**

**How to divide the cake**
How do you fairly divide up an asset or assets when the interested parties place different values on those assets? A common problem after divorce, death or partnership breakups. Albert Sun, in the New York Times, suggests using Sperner's lemma, a mathematical proposition discovered in 1928 by German mathematician Emanual Sperner. Sun's article has a graphical illustration of how Sperner's lemma can be used to divide rent and offers a link to a website Spliddit, which is about to provide an online method of utilising Sperner **More**

**Capitalism doomed if ethics vanish**

Capitalism is at risk of destroying itself unless bankers realise they have an obligation to create a fairer society says Bank of England governor Mark Carney. He said bankers had operated a "heads-I-win-tails-you-lose" system.

He questioned whether traders met ethical standards and said that those who failed to meet high professional standards should face ostracism. **More**

**An astonishing record of complete failure**

Tim Harford (the Undercover Economist) writes in his Financial Times column of the complete failure by economists to predict recesiions. **More**

**How to find a trading style that suits your personality**

Jon Boorman, blogging in See It Market, emphasises the need for traders to adopt a methodology that reflects their own beliefs and talents. **More**

**Privatisation and Government debt**

Simon Wren-Lewis, an economics professor at Oxford University, writes that possibly the worse arguement for privatising part of the public sector is a supposd need to reduce public sector debt - an arguement that is repeatedly ignored by politicians. **More**

**Warren Buffett: These were my biggest early mistakes**

This is taken from his 1989 shareholder letter but is still relevant today. Investing 101 never changes **More**

**Are you too busy? How to know your limits**

A friend you admire just asked you to head a fundraiser. You have a full-time job, and this sounds like a lot of work. But look at her: a working mom who is active in the school PTA, just ran her first marathon, does Suzuki violin with her daughter and even carries on an active social life. Why can't you do as much as she can? And just how do you tell when you have taken on enough? WSJ's Sue Shellenbarger and training coach Amy Ruppert discuss. **More**

**How do hedge fund managers get away with it? Eight theories**

Jon Cassidy, in the New Yorker, asks why do investors in hedge funds - the people whose money is at risk - continue to allow the managers of the funds to dictate onerous terms to them. He puts up and thenknocks down the eight most common theories for this seemingly market failure. **More**

**The Trade of the Century: When George Soros broke the British Pound**

This was one time when a hedge fund made the killing of the 20th century and made fortunes for its investors. Priceonomics goes over the details of this gory story. **More**

***Bruce Parkes***

# Thomas Piketty – 2014 Economic Rock Star

In the past three months Piketty has gone from a relatively unknown Professor at the Paris School of Economics to being the most quoted or misquoted economist in the world. A Google search produced 12,300,000 hits. It all stems from the publication of the English edition of his book Capital in the 21st Century – a 696 page tome that ruffled few feathers when published in France but one that touched a raw nerve with the United States establishment. In May the book reached No 1 on the New York Times hardcover non-fiction list. The New York Times was so bold as to compare it with Adam Smith's Wealth of Nations and John Maynard Keynes General Theory

Piketty's research focus is on long-term economic inequalities. He and his fellow researchers identified a growing concentration of wealth in the top 1% and that this growing wealth disparity will bring a return to 19th century circumstances in which the most affluent people got there through inheritance.

The central theme of his book is that inequality is not an accident but rather a feature of capitalism that can only be reversed through state intervention. Piketty argues that unless capitalism is reformed the very democratic order will be threatened. His solution – a wealth tax.

Now there is a reason for all the fuss and seemingly, almost every economic and political blogger and or commentator has weighed in for or against Piketty.

> *Enough has already been said and written about a book bought by many, read by few and understood by even fewer. I am guilty on all three charges. I suspect never, in the field of human endeavour, has so simple a line chart done so much to fuel the debate among so many, not just in the salons of Paris but in the Starbucks of London and New York. (Andrew Haldane, Bank of England Executive Director)*

To get a feel for Piketty and the arguments against him, dip your toes into:

A HBR blog **Piketty's Capital in a lot less than 696 pages**;

The Economist's **Thomas Piketty's Capital summarised in four paragraphs**;

**Is the Piketty Enthusiasm Bubble Subsiding**?

and **Be skeptical of both Piketty and his skeptics** (sorry about the American spelling)

***Bruce Parkes***

# Branch Reports

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*We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of those presenting. 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.*

## Auckland

### Sky Network TV – Technology bringing about Change

Jason Hollingsworth CFO presented an overview of current issues to the April Auckland Br. Meeting.

Sky previously had 43% of its share register locked up by News Corp and since the sell down had a wider shareholder base and has also listed on the ASX 200 resulting in more active share trading.

The retail business was still growing (857,000 subscribers – approx. 50% of households of which 55% with My Sky). Churn the measure of subscriber cancellations was consistent with previous periods. Wholesale business to Telecom/ Vodafone etc. was also growing. New viewing channels were progressively being introduced.

The interim result to Dec.2013 was 22% ahead of the previous comparable period with a 2% increased interim dividend. Refer to Sky website for detail.

New technology and competition was bringing about new developments in the pay television space.

Subscribers with Tablets and Mobile devices will be able to view Sky TV programs via these devices. Subscribers with My Sky to view "on demand" programs via the internet. Introduction of "Pop Up" channels e.g. – Golf Masters. New Sports events and Sky Arena – concerts and events.

Buying rights to overseas content channels and programs was changing. UK Premier League sport via the internet was an example via an annual subscription.

Telecom recently cancelled contract re partner arrangement and possibly teaming up with Netflix of the USA for Library service for pay content.

Q & A.

Decoders/My Sky equipment was written off over 4 years and new capex for change in technology was not considered an issue.

The internet will bring about change and some areas it will be difficult to protect rights and it was noted that Netflix had 30.000 NZ viewers purchasing content legally from USA with credit card payment.

Foxtel held similar geographical rights for Australia to Sky in NZ via the Murdock relationship and it was difficult to expand beyond the NZ area.

Prime channel was a strategic content free to air outlet for Sky with a 5% share of TV viewing with sports rights.

Author's note – Sky is a solid business with good cash flow and keeping up with the inevitable change from the introduction UFB and internet developments.

***Noel Thompson***

### Vist to Chorus Display Centre, Grafton 14th May

Chorus resulted from the split of the present copper network from Telecom in 2011. Its brief is to maintain the copper network known as Unbundled Bitstream Access (UBA) and also install the major part of a new Ultra Fast Broadband (UFB) fibre network giving vastly increased upload and download speeds.

The display centre has a mock-up of part of the UFB network which will eventually have 32,000 km of fibre connecting through 602 exchanges and local cabinets to the outside wall of premises and houses. Chorus is thus responsible for the initial installation of the network to the exterior wall, and its ongoing costs once operational. These costs are then charged by Chorus to Retail Service Providers (RSPs) such as Telecom, Vodaphone and Slingshot who in turn pass them on to their customers as part of a bundled service.

The RSPs also arrange connections from the outside wall to jackpoints within a house using Local Fibre Companies (LFCs). Customers may be charged a lump sum for this also, although it is commonly waived if a 12 month contract is entered into. Chorus thus acts as wholesaler to the RSPs who in turn act as the retailer to Internet users.

Another display was a model living room with connections between a computer and a Wi-fi modem to a smart TV set. This envisages the downloading of TV programmes and other data at speeds that allow for TV on demand, possibly replacing to some extent the present fixed programme format.

In a slide presentation, CEO Mark Ratcliffe said that so far, $1,100 million had been spent on the UFB network in a Private Public Partnership (PPP) with the Government company Crown Fibre Holdings. The street network now passes 228,000 premises and houses, with a target of 830,000 by 2020 at the rate of 100,000 per year.

Mr Ratcliffe said that the half year accounts to 31 December 31 showed revenue of $535 million and net earnings of $78 million. Both were comparable to the same period in the previous year. However, all of this was overshadowed by a recent decision of the Commerce Commission acting as regulator of the industry.

The price that Chorus can charge RSPs for the UBA network connection from December 2014 has been slashed from $44.93 per month to $34.44 based on comparisons with some other countries. Chorus estimates that this could reduce its net profit on the UBA network by $142 million per year, and a by total of $650 million across the UFB build period.

The Commission has announced that its decision will be reviewed, with a draft available by 1 December 2014 and a final decision by April 1 2015. This means that Chorus profit could be affected for at least four months until the review is completed. As a spokesperson for the company has said:

"Uncertainty increases for everyone today. Unpredictability on process and outcomes remains a challenge for Chorus and our Retail Service Provider (RSP) customers".

The visit was a fascinating insight into a public company involved in a large project dependent on Government for both part-financing and ultimate profitability.

***Bill Jamieson***

In a modern exchange all is so neat and tidy

**Future Auckland Branch Meetings**

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

Wednesday 18th June,
David Hisco, CEO (NZ) ANZ Bank
David Darling, CEO, Pacific Edge

Wednesday 17th September,
John Penno, MD, Synlait Milk

Wednesday 19th November,
To be advised

**Future Company Visits**

Tuesday 22nd July 2014,
Sanford Ltd at the Fishery Headquarters with new CEO Volker Kuntzsch

Register with Uli Sperber

**uksper@gmail.com** and you will receive final details by email 7-10 days prior to the visit.

# Bay of Plenty.

Our AGM was held at 6 pm May 8. Our Guest Speaker was Mr Tony Carter, Chairman Fisher & Paykel Healthcare, Air New Zealand, the Blues. We had 80 attendees – a record!

Tony said it was great to be able to meet shareholders face to face as there were relatively few opportunities for Directors to engage with them. He spoke on what makes a good director – intelligence, integrity, diligence and commercial common sense. For good Boards, the most important aspect is diversity of thought, that they be collegial and open.

At our first Committee Meeting following the AGM Jane Lyndon was re elected as Chair, Ian Greaves as Treasurer, Neil Parker & Dave Higson as Convenors for our monthly Friday afternoon Discussion Group Meetings and Helen McDonald agreed to again run our annual "Pick 5" competition. Again we have a record number of participants.

Friday, 30 May we had our monthly Discussion Group Meeting. We had two guest speakers – Carl Jones from New Zealand Venture Investment Fund, Wellington and Bill Murphy from Angel Investments, Tauranga.

NZ Venture Investment uses private equity and venture capital and does around 80 transactions per annum. In 2013, $456 million dollars across 82 deals. They are fully funded by Government and operate through Private & public partnerships for NZ companies only from seed to expansion stage. So far they have invested in 160 companies.

Angel Investment comprises of high net worth individuals and who are willing to invest in the market and often get involved in the company. 1st April 2014 the government passed legislation to allow "crowd funding".

Enterprise Angels was established in 2008 and Tauranga is the largest Angel group in NZ.

It is a "not for profit" incorporated society, is self funded with Priority One support providing small amount of capital. It also has a number of corporate members to assist with investing.

We have also introduced a "Tech Slot" at our Discussion Group Meetings to help members learn how to research information etc

***Jane Lyndon***

# Waikato

Our April Event guest speaker was Gordon MacLeod (Deputy Chief Executive / CFO) of Ryman Healthcare Limited

Gordon gave an excellent presentation covering the operation of Ryman and the various areas of care facilities they provide. They do cater for an older age group with average age entering a village around 75 years. With 26 villages in NZ and units beds over tripling since 2003, unit growth is increasing, and residents are now in the new Wheelers Hill village in Melbourne.

Gordon shared with us that demand in Melbourne in the 75+ age group for aged care is greater than in NZ, and that other states in Australia would be similar. Their graph shows demand peaking 2031-2036. I note Ryman have since confirmed the purchase of another parcel of land in Melbourne for a second village.

Underlining profit has gone from $10m to $100m since 2002 to 2013

Ryman raised $25m at IPO in 1999, has invested $1.3bn in portfolio since with no fresh capital required from shareholders, has paid Dividends of $318m since float (includes interim dividend paid Dec 2013) so has self funded growth and has conservative bank debt

In summary Ryman has 30 years of exceptional demographic growth in front of them, has made a significant investment in care, a strong NZ landbank for future development, and as they complete their first village in Melbourne have confirmed purchase of land for a second Melbourne village

**A great NZ story**

May Event guest speaker was Martin Hawes, financial author, seminar presenter and an Authorised Financial Adviser.

Martin addressed 130 members and guests at our May event. We are grateful to Martin for travelling up from Queenstown to share his Guiding Principles with us

Martin, who currently writes a weekly column for the Sunday Star Times, is an expert on making accessible in plain English, the complex issues of finance and investment, taxation and trusts.

He delivered an excellent presentation that was enjoyed and appreciated by all attending

I attach a brief summary of what Martin covered - these can be viewed in detail on his **website:**

**The Financial Guiding Principles are**:

1. Money's purpose is to resource the life that you want – it is not an end in itself

2. Goal setting works – you need to know what you want for yourself and then for your money

3. Pay off debt first

4. The savings rate beats the investment rate

5. Prediction is difficult – nothing in the future is certain

6. Insure risks you could not cope with

7. There are ages and stages – we are all different

8. Timing is difficult – but you can take advantage of the big trends

9. Being a tax payer is good – it means you are making money

10. Nothing happens if you do not take a risk

**Investment Guiding Principles**

1. Know what you are trying to achieve

2. Don't lose money: Buffett- "Don't lose capital; don't lose capital"

3. Profit from the popular

4. Buy and sell on fundamentals: The four investments are shares, property, bonds and cash.

5. Consider your aptitude and personality

**The biggest losers**

The things that are most likely to lead to losses are:

1. Irrational exuberance

2. Advice from your uncle

3. Forced selling

4. Emotional attachment to an investment

5. Over-ambitious asset allocation

6. The belief that something is a "sure thing"

7. Scams

**Coming Events:**

We have a full monthly programme confirmed for the rest of 2014, view on our **Waikato Branch page of NZ Shareholders Assn website**

***John Davies***

## Wellington

When it comes time to write my branch update I sometimes look to what I wrote in previous years for inspiration. This time I chanced upon our March 2008 branch update – it makes interesting reading ...

***Wellington Branch Update from March 2008***

*Our first meeting for the year was hosted by Xero where CEO Rod Drury gave a comprehensive overview of the company, the rationale behind the product, progress to date and a demo of Xero.*

*It's a very good product, probably the slickest online accounting service anywhere. The challenge they face is selling into a relatively entrenched market - although having said that most people seem to dislike their existing accounting systems so it may not be such a hard sell after all. The main selling points of the product/service are:*

- No software for the end user to install, maintain or backup – you can get to it from any internet connected PC or Mac.
- Automatic daily bank statement downloads into Xero with a smart transaction matching facility.
- Online support included in the monthly subscription.

*Xero are still in the development stage with new functionality being added almost weekly. They have only just started to market the product directly to the public, aiming for 1300 users by 1 April (break even is approximately 10,000 users). Work on developing the UK then Australia markets is also underway. The UK is most attractive and will be launched first due to size and the similarity of tax system.*

*The shares are very thinly traded so you can't read anything much into the price – especially at the moment.*

*Today, after six years, Xero has gone from less than 1300 subscribers to 300,000+, has become the leading accounting software provider in New Zealand and the leading online accounting provider in Australia and in the UK. Xero has also entered the US market where it is probably at same stage there now as it was in New Zealand in 2008 – just a blip on the market share charts.*

*Then there is the share price, at the time I wrote the 2008 update XRO was trading post IPO at 75c. Today Xero shares are around $32.50 (no splits or consolidations since IPO) with a 52 week high of $45.99, and consequently Xero is one of the largest companies by market cap on the NZX.*

*You still can't read anything into the share price, and break even still remains in the future, but what an extraordinary and sustained effort over the last six years, with plenty more to come.*

Back to earth now, and we had one of our biggest turnouts for our last branch meeting which I attribute solely to the popularity of our guest speaker for the night – John Hawkins. Thank you John!

For our June meeting we have economist Brian Easton as our guest – Brian has suggested the topic "Is New Zealand a bubble economy?" – it should be an interesting evening.

***Martin Dowse***

## Canterbury

The Canterbury Branch held its most successful event on Tuesday, 13th May when more than 180 people attended the talk by Brian Gaynor. We had booked the Russley Golf Club to cope with a larger than normal attendance but numbers exceeded our expectations and the room was barely adequate! Brian gave a very perceptive overview of the NZ market and voiced strong support for the work of the NZSA urging all to join the Association. Brian's talk was preceded by an introduction given by NZSA director Max Smith outlining the role of the NZSA. Some 17 new members have joined up since the evening's presentations.

Our next meeting will be our branch AGM in the Fendalton Croquet Club to be held on Tuesday, 24th June and will be followed by some video clip presentations and discussions.

We have scheduled the Hon Ruth Richardson to address the branch on 8th August. A larger venue is being sought for this event as we are expecting another big turnout

***Robin Harrison***

# Members' Issues

## Dilution at  Heartland and the future of the rights issue

I often wonder who are classified as institutional investors. Although originating from a Sydenham Money Club shareholding in the 70's I have taken up and retained every issue to the maximum as we traversed into SMC Building Society, then merging with Ashburton Building Society, absorbing Loan & Building, Canterbury, into Heartland from these other finance companies.

Having accumulated 50,000 shares from the numerous bonuses at little or no cost I would seem to be qualified as an Institutional investor.  My question of the price Institutions paid is caused by the large number traded after the issue.

These would have been caused by Institutions taking a quick gain. Another factor supporting NZSA policy demanding pro rata rights issues. Direct placements not only dilute but they seem to have caused an unnatural lowering of the share price when Heartland is obtaining added business from the successful takeover that the share issue funded.

***Michael J Mellon***

***Editor:  Two questions here.***

- How big do you have to be to be an insto? To give you an idea, Fisher Funds manages several funds including some Kiwisavers, unlisted funds, and the listed Kingfish whose net assets total about \$130m. Of this, Delegats a small holding at 2% of the Fund, would value at about \$2.6m or 650000 shares. Kingfish is not a big fund, and many fund managers could place several times that amount across a number of funds if the offer was attractive enough. In fact when the Government offered part of Meridian for sale overseas, the complaint was that that the parcels available were too small to interest the funds. So 50,000 shares at 90c each is definitely not an institutional quantity.
- In the case of Heartland's capital raising, the price of \$87m for the purchase of Home Equity Release was funded by the issue of 43m shares at \$0.90 each to the Vendor, plus a placement of 17m shares at \$0.88 each to institutions (1.15% discount to the closing price,) and the Share Purchase Plan of 15m shares at 2.5% below the closing price. However after posting a 56% increase in half year profit, the Directors decided that they needed only \$5m of additional equity under the SPP, and they achieved this at a price of \$0.8541/share, but with subscriptions exceeding the target by 309%. The price was advantageous to retail shareholders but the allocation was not. It would not have been in the interests of funds to unload the shares they so recently purchased at \$0.88 each.

Now, under the new regulations described in the April Scrip, this will probably not happen in future, because companies can more easily, issue equities in the same class as their exisitng ordinary shares without a prospectus. We hope that Heartland will take advantage of this. The game has changed again

## How to Settle

Up to this time the main methods available to retail holders to make a payment for shares or bonds etc under an IPO (Initial Public Offering), SPP (Share Purchase Plan) a Rights or similar issue have usually been limited to sending a cheque or authorising a DD (Direct Debit) to be made by the issuer against the holder's bank account. There are some quite significant limitations here that impact directly on both the purchaser and the issuer and also indirectly on the Registry (usually Computershare or Link Market Services in NZ) managing the issue on behalf of the issuer.

What are the points to think about?

- Fairness to both parties. The purchaser (you and me) would normally wish to keep cash in an interest bearing account as long as possible before settling for any issues. The impact of this is that the purchaser will tend to leave their commitment and payment, be it by cheque or DD, until the last practical date …good for the purchaser as their cash is collecting interest in the meantime.
- However, this may not so good for the issuer as there can be some concern over the take-up of the offer until the last moment when the purchasers send in their cheques or DD authorisations.
- In some Fixed Interest situations the issuer agrees to pay interest from the time the funds are received. This is a mid way solution …much better than no return but still not giving a definite date for the payment transaction to be enacted.

What are the options to improve on this situation?

- DD is a convenient method of payment but, at this time, the purchaser has no control over when the transaction will be processed, which leads to the last minute "rush". If the registry concerned and the issuer provided for the purchaser to nominate a date (On or after) for the DD to be transacted this would allow the purchaser to submit their application as soon as the issue opened but have control over when the payment was taken from their nominated account. The result of this is win-win. The issuer would get a much clearer indication of the uptake earlier in the allowable timeframe as the applications were received and the purchaser would be able to transfer their funds at or near the end of the timeframe when the DD is enacted on or after the nominated date. All this should need is the provision on the application form / screen to enter a date in addition to the DD account details.
- DC (Direct Credit) is another option that would also meet the interests of both the issuer and the purchaser. In this situation, purchasers submit their applications whenever they like but can make payment by DC (Bill Payment) at a chosen time within the allowable timeframe, when they wish to commit the funds. It has been suggested that the purchasers will not identify their payments correctly thus loading the registries with more tasks, but this is really just a case of giving full and simple instructions to follow. Most people who use Internet banking are well aware of how to setup and manage a DC. This option has been offered in recent times by some of the more enlightened issuers and it is understood it has worked with little or no difficulty

So, provide for a date to be nominated for a DD to be transacted on or after … Is this a matter to pursue? Some Australian companies already do this. Would purchasers prefer payment by DC? Are there any thoughts or suggestions?

***Robert Johnston***

## Unutilised balances in Dividend Reinvestment Plans (DRP)

Colin Notley has pointed out that in several cases the number shares calculated in a company's DRP, is rounded down, but that the cash balance is not carried forward into the next dividend payement. As a company grows this balance becomes worth preserving. Most larger Australian companies (like Westpac,) now carry the cash balances forward even though they have many more small shareholders. In the case of Ebos (at $10/share,) the amounts are worth having, and the DRP prospectus does say that the number of shares allotted will be rounded down. BUT nowhere does it say that the cash balance will be forfeited by a shareholder. "As far as I can see," says Colin, " both the registries in New Zealand have the software to carry forward residual cash balances. So why aren't they?"

***Editor***: This seems like a fair point to us. Any member who is disadvantaged by this should raise the matter with the company at its next AGM, or if unable to attend the meeting, send a note to our proxy coordinator Jacquie Hagberg, so that our proxy representative can follow up the matter on shareholders' behalf ***proxies@nzshareholders.co.nz***

## More on AIA share buyback

Martin Watson's excellent article on the weighted average cost of capital in Auckland International Airport prompted several comments.

Tony Knights was sceptical "...I do consider they could do a little better for the shareholders. The buyback figure was on the low side and I figure that boards that acquire a stash of money are employed to use such funds wisely in areas of potential growth to increase wealth and returns for the owners, not give it back to the share holders effectively saying, it is too complex for us you can do better elsewhere….."

Another reader agreed "As an AIA shareholder I did not want the money preferring to have the shares. Now if I want them back I have to pay more for them. The yield I was getting was second to none due to the early purchase date (2004). Now I am considering buying them back."

***Editor***: Aha! That is the great thing about a buyback. It gives the company the opportunity to stick to its knitting where it has real expertise, while giving the owners the opportunity to invest for higher return somewhere else. I'm happy to take the money!

# Upcoming Events

For more information go to Branch section of NZSA website

2014

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|---|---|
| June 10 | Wellington Branch meeting |
| June 18 | Auckland Branch meeting |
| June 24 | Waikato Branch meeting |
| June 24 | Canterbury Branch meeting |
| July 8 | Wellington Branch meeting |
| July 24 | Waikato Branch meeting |
| August 8 | Wellington Branch meeting |
| August 12 | Wellington Branch meeting |
| August 19 | Waikato Branch meeting |
| September 6 | NZSA Annual Conference |
| September 17 | Auckland Branch meeting |

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New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

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