"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc. NZSA
October 2011

Pieces of Eight

Members will have noted the manoeuvring around the Argosy Property Trust internalisation proposal. Making these changes is difficult as in most cases a 75% vote in favour is needed. The NZSA decided to have a real go over Argosy as we have a clear policy that property trusts should internalise their management and corporatise. This is because of better alignment of interests and much stronger takeovers protection.

There were complications of course. The ACC was trying the legal route. Basically they claimed that if they could get 50% of the vote, they could ask the Trustee under S19 of the Unit trust Act to remove the management company for nothing "in the interests of investors". Never mind that there was no compulsion and the Trustee announced early on that they would not do so. Never mind that some high-powered legal advice indicated this approach was doomed, or at the very least consigned to years of expensive court wrangling – paid for by the investors. ACC claimed they were acting in the interests of investors to get the best outcome at the lowest cost – lofty and worthy ideals indeed.

Another group, DNZ Property made a late proposal for a merger, but while this had some merit in principle, it lacked detail and never really gained much traction.

We wrote to all Argosy unit holders and received over 500 valid individual proxy appointments and north of 20m votes. This gave us the balance of responsibility with 7.6% of all votes cast. Ultimately the internalisation was passed with 80% of the votes. ACC and DNZ achieved only 20%.

Actually, Vital Healthcare Property Trust had been first cab off the rank over internalisation, but events with Argosy put it on the back burner. Both Vital and Argosy had the same management company, One Path, which is owned by ANZ. ACC was Vital's largest unit holder.

Vital also had three proposals on the table - the original independent directors bid which started at $14m, but later (after pressure from the NZSA amongst others) was revised to $6m, the ACC with the same S19 legal approach used at Argosy, and a third Section 18 option from Ascot Capital which basically offered a certainty of outcome, but with some concerns around the interim management process and the final cost.

In September the Vital independent directors also announced they would corporatise at the earliest opportunity, which made their option more attractive and had us thinking that a moderately higher purchase figure might be acceptable. With this deal on the table, Ascots proposal was no longer compelling.

One Path who had offered to sell for $8m was between a rock and a hard place. They could accept the $6m or try and negotiate up. They would have to sell at a lower fixed cost of around $3.5m if the Ascot proposal was accepted. Selling to anyone else at a higher price was dead in the water, as the purchaser could face the same investor actions. Keeping on with the management contract was also not very attractive as with Argosy gone, the benefit of some shared

In this Issue

ISSN 1179-4275

overheads also disappeared. The ACC proposal probably worried them as they could end up in court unable to sell at all for an extended period. And ACC was proving very reluctant to come to a commercial arrangement even at $6m, let alone negotiating a higher figure.

So what happened? One Path decided to purchase a blocking vote preventing either the independent directors or the Ascot proposals from getting to the 75% threshold. To do this they needed to acquire about 9% of the units to add to some others they control. Guess who sold them the majority of the units they needed to make internalisation and corporatisation virtually impossible? Why, the ACC of course! And why did they do that – because ANZ offered 5c a unit premium to them. That's right folks. For a measly $500.000 in "super" profit, the very group that had claimed to want to do the right thing for all investors, and save millions, sold them down the creek.

Now I am speculating here, but it would be reasonable to assume that there might be some sort of agreement that the ACC will withdraw their S19 proposal at the upcoming AGM. Even if they don't, there is no compulsion on them to vote their remaining shares in favour.

It gets worse. Now that One Path has their blocking vote, they potentially will be able to sell both this and the management rights to anyone they choose. Unit holders will have no say, and may end up with a manager they have no confidence in. And it gets worse still, because by the middle of 2012, the fixed value of the management contract will increase to approximately $7m as the fee income from the recent Australian purchases flows into the accounts.

So even if One Path decides eventually to offer to internalise the management by selling their rights to the unit holders, it will cost millions of dollars more.

What is most frustrating is that when AMP Office Trust corporatized (but at the same time more deeply entrenched their external management), the ACC were strident in their opposition. They complained bitterly that the owners of the management company held a blocking vote by virtue of their shareholding in AMP Office (now ANZO). The ACC was in effect taking a stand on principle rather than for monetary gain. Their investment division obviously has financial imperatives, but we were encouraged that it seemed there was a willingness to use their voting power to bring about better governance as well. The NZSA was encouraged by this and supported the ACC over ANZO.

In the case of Vital, the ACC had the perfect opportunity to partner with others and look after the long-term interests of all unit holders. However, after making noises about protecting value and putting the best governance process in place, they sold out for a few pieces of eight in a deal that was not available to most investors.

You might call it "Institutional piracy." I couldn't possibly comment!!

John Hawkins

Chairman

NEW ZEALAND SHAREHOLDERS ASSOCIATION INC

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

Website – www.nzshareholders.co.nz

Chairman & Regulatory	John Hawkins	jhawkins@internet.co.nz	
Secretary/Treasurer	Chris Curlett	chris.curlett@xtra.co.nz	21738032
Corporate Liaison	Des Hunt	desmondhunt@xtra.co.nz	(9) 521 6117
Newsletter and Branch Liaison	Alan Best	fleshnfruity@xtra.co.nz	(9) 524 0317
Proxy Co-ordination	Jacquie Staley	proxies@nzshareholders.co.nz	021 288 9990
Governance Issues	Grant Diggle	grant.diggle@gmail.com	
Marketing	Jacqui Bensemann	jmbnzsa@argusfire.co.nz	
Regulatory	Gayatri Jaduram	gayatri@cogswelljaduram.co.nz	
Regulatory	Lyn Lim	lyn@forestharrison.co.nz	
National Manager	Patrick Flynn	patrick.flynn@nzshareholders.co.nz	

ISSN 1179-4275

NZSA Conference Reports

Dr Alan Bollard: Dr Bollard spoke under Chatham House Rules, which Chairman Mathew Underwood explained, meant that we are not able to report any of his comments as coming from him. Fortunately Dr Bollard later released the overheads to his speech for publication on the members' section of our website under correspondence. In general terms, Dr Bollard traced the importance and structure of our banking system in New Zealand the improvements to oversight of liquidity under Basel 3 guidelines, and what improvements to our banking we might look for in future.

Dr Rick Boven. Rick's background as a corporate strategist, rather than economist or historian, came to the fore in his stimulating address on the glaring gaps in our business achievement. Surveys of 133 countries have revealed that our productivity (output per hour) is not good. The OECV average is $60/hour, while New Zealand's tourist industry settles at $40/hour, and Agriculture, fisheries and mining are still below average at $55/hour. Rick claimed that productivity improvements require

- Innovation, stimulated by R&D, and specific incentives
- talent, or upskilling the unskilled, and stopping the brain drain
- investment, or savings directed into productive areas.

Instead of learning our lessons empirically as we go, we need to train not for local domestic jobs, but for international business, so that our predominantly small business environment can grow beyond its current scope. We also need a more sceptical approach to the "level playing field" theory so that our growth companies can bulk up, under a simplified tax regime and careful marketing into international market segments. So New Zealand investor orientation needs to shift from this year's dividend payout, to strategic growth in investment and returns, signposted by entrepreneurial development in areas of known risk, increased productivity, and specialised marketing – not a small task if we are to treble exports in 15 years.

Simon Botherway:

Simon's view of the current investment climate was the most depressing of all the speakers. He pointed out that the USA's federal debt at $670.000 per family cannot be fixed solely by deliberate debasement of the currency and surges in government spending. The refusal of the Federal Reserve to apply normal conservative accounting principles to it balance sheet, means that many companies will have a better credit rating than the central bank. European banks still reporting Greek debt at face value fly in the face of reality, and the crisis is spreading beyond the PIGS to Italy and Belgium. Restrictions on devaluation by individual countries under the common European currency is locking in the spendthrift nations to lower wages as their only solution.

While inflation of the money supply has driven interest down to zero, investors have deserted equities, preferring the safe haven of gold or the banks to relatively low geared and inexpensive stocks.

In answer to a series of questions, Simon predicted that Greece would default and some European nations would be forced to leave the common currency, that Carbon taxes and global warming have become a sideshow to the protective concerns of the major economies, and that imported inflation in China would cause a progressive tightening of that economy. It will continue to be an uncertain and difficult time for investors.

Carmel Fisher.

Carmel knew she had been chosen to give a practical investors view of the above climate racked with economic problems, doubt and volatility. She said, "investors are seeing light on the horizon, but the horizon keeps moving away." The big picture had changed. The Average hold was down to 36 days, global volatility, technology, and investor psychology were all moving. So the good advice says

- Understand your circle of competence. Risk is magnified when you don't know what you are doing.
- Think strategically. Stocks win over 20 years – not 3.

 ISSN 1179-4275

- Account your mistakes. 4/10 means 60% success.
- Keep the market in perspective. Don't ignore your information.
- Maintain a buffer between market price and value. Where the economy and the market diverge there is opportunity.
- Ensure you have adequate cash to take advantage of opportunities.

The catalysts for a revival of stocks in the a lower growth environment, will be Kiwisaver, an improvement in financial literacy, increased listings giving investors more choice, and increased private savings.

Although we have not done justice to the clever papers delivered at the 2011 NZSA conference, it was a great day, beautifully hosted by the Bay of Plenty Branch, and a highlight for those investors who attended.

Alan Best

Special Offer to Members

At the 2011 NZSA AGM we indicated that we would be offering a very limited number of carefully selected commercial promotions to add value to your membership.

The board is pleased to announce that we have secured a one month subscription to the McEwen Investment Report - absolutely free and without obligation! This is available to all members, either by email, or if required, in hard copy.

The newsletter is produced by David McEwen, one of New Zealand's best known share market analysts and commentators. Now in its 14th year, the weekly report offers a unique perspective on the New Zealand and Australian share markets and has an excellent track record of market outperformance.

Its concise format keeps clients up to date with the ever-changing share market while striving to make market-beating recommendations based on David's nine Key Criteria of Company Excellence and a unique combination of investment strategies. David's strategy is to recommend high quality stocks when they are significantly undervalued by the market; minimising risk while aiming to maximise returns.

Valued at $54, this offer by itself covers nearly half the annual subscription to the NZSA. To obtain your one month free subscription, please email info@mcewen.co.nz with your name and telephone number and use the reference 'NZSA'. Alternatively, you may call Dave's office on 0800 438 647.

This offer is strictly limited and expires on the 21 October, so take advantage today.

The NZSA provides special promotional opportunities to its members in good faith, and by doing so should not be seen as endorsing any particular product or service. Members should make their own enquiries to satisfy themselves about the suitability of the product or service taking into account their own circumstances.

Board Report for October

The Chairman's monthly board report reveals a huge number of meetings on shareholders' and bondholders' behalf. In September there was contact with the independent directors of Blue Star, Argosy, One Path, Trans Tasman Directors, Telecom, and Financial Market Authority, while in October, Deutsche Bank, Vital Healthcare, Rakon, Vector, Brian Gaynor, Joan Withers, Sue Sheldon all feature.

Anyone who has written an article for The Scrip will know the labour that is required, the checking of the figures, the spelling of the names, and the organisation of the ideas. So it is a great credit to the board that it has been able to publish so many press releases, and letters of guidance to shareholders on subjects as diverse as Blue Star Bonds, and the Telecom Share split. The Telecom summary in particular involved reading through, and taking notes on, over 500 pages of analysis before drafting and screening the NZSA view.

The revitalised website according to Google's research is attracting over 300 visits from over 21 countries, and over 1300 individual page viewings. Although there is still work to be done to update our new Company Key Points Data for members, we do recommend that members use the site to check on our recent correspondence, what we said in The Scrip about last years company meetings, our position statements on various aspects of corporate governance, and of course to enrol new members.

Alan Best

 ISSN 1179-4275

Feltex-Centro-Nathans Judgements. What do they mean for Directors

Chapman Tripp have advised the Institute of Directors on the implication of recent judgements, and the Institute has circulated its members. We think it is important that shareholders appreciate that these decisions have been taken seriously, and so we have summarised the conclusions:

- Governance is different from management, but this does not mean that directors should concentrate only on the strategic view.
- Directors must bring their own detailed knowledge to bear on all public disclosures from the company.
- Directors must read disclosures and question them objectively before publication so that all board members “own” the statements.
- Directors must educate themselves and not rely purely on the advice of management, external advisers, or more proficient associates on a board.
- Directors must understand the key drivers and risks of their company, including the level of financial knowledge that is appropriate, or resign.
- Being wrong is not necessarily a breach of duty, but failure to question, relying solely on the advice of others, or failing to upskill, is.
- Courts have found that directors cannot delegate the job of ensuring that a prospectus is compliant.

The words are ours because we were asked not to quote the passage verbatim, but the meaning is clear, and the task exacting.

Alan Best

Financial Literacy Workshop

This Wellington workshop was run by the newly renamed Commission for Financial Literacy and Retirement Income. The keynote speaker was Flore-Anne Messy, Principal Administrator in the secretariat of the International Network on Financial Education, which is part of the OECD Financial Afairs Division.

It was an interesting perspective from a public sector point of view. Flore-Anne talked about National Strategies and implementation of strategies.

I found the presentation entertaining considering some of us in the industry have been providing financial literacy education as a product of our professional roles and in my case as a tutor for Wellington’s Adult Education Community for more than a decade. However it does show that the OECD is taking the GFC seriously and is seeking to protect members of the public from being financially illiterate.

There are a number of countries that recognise that financial literacy needs to be a life skill in order to provide consumer protection and should probably start in schools. The OECD is expected to look at building capacity in this area and will look to have a Global Clearing House to speak on Financial Education. At the moment the work taking place is data collection and policy recommendations the big job of building capacity is yet to take place.

Obviously there are a number of barriers to this work taking place as policy makers often have a short term view and this is a long term project (i.e. young people don’t care much about their retirement).

Some of the positives that the presenter brought up was that surveys show the general populace has low levels of current knowledge. She saw this as good news because it means the audience is teachable. She called the present time as a teachable moment. This provides an opportunity to promote efficient resources and try to avoid duplication. Prudent regulation won’t be enough to implement as the individuals responsible for the education will need to display responsible behaviours having the right attitudes, knowledge and skills. The presenter did indicate that conflicts of interest will be difficult to manage and will need to meet a regulatory process.

Practitioners, policy makers and academics will need to collaborate. The financial education should be easily available at each life stage, crisis, retirement etc. A diversity of channels could be used to promote financial education from advertising to workshops, with the latter possibly being offered in the work place, rather than in silo, and tools should be provided which are efficient resources.

A pilot programme has taken place and the data from this will be on the website in late October. www.financial-education.org

Anne Hare
Investment Adviser
Authorised Financial Adviser / NZX Adviser

 ISSN 1179-4275

COMPANY MEETINGS

Air New Zealand

The Board must be congratulated for the respect shown to their shareholders.

Each of the 4 Board members who were up for election/ re-election gave comprehensive backgrounds as to why they had been chosen to be on Air NZ's board and what strengths they could bring to the company.

Your Association expects this level of personal presentation for the election of Directors of the Board and it was refreshing that AIR NZ took this approach seriously (unlike a couple of our larger companies who do not consider It important for their Directors to present publicly their credentials and strengths).

The Board and management should also be congratulated for adapting the business to minimise the adverse conditions facing the company. The short haul environment had been good – but the performance on long haul needs improvement. Both John Palmer and Rob Fyfe stressed the need for financial flexibility in the current difficult economic and market conditions, and Air NZ is working on operational productivity and efficiency gains from new and efficient aircraft, and managing the exiting of older aircraft.

A day before the AGM Air NZ announced the purchase of additional Virgin Australia shares, via an equity derivative that takes their shareholding position up to l9.99%.

A question from the floor on the purchase of Virgin Australia shares – as to the projected return on investment – initiated a full response as to the underlying reasons for the purchase of shares, namely:

- Averaging the entry cost of the purchase of these shares (ie second tranche at a lower price)
- Defensive holding
- Strategic move in that Air NZ currently only operates in New Zealand and on the Trans-Tasman route, but not in Australia. Whereas their chief competitor Qantas operates in Australia, on the Trans-Tasman route and in New Zealand via Jetstar. It therefore makes sense to secure a position with Virgin Australia, in the Australian market.

Overall I came away with the feeling that the Board and management had covered all the operational and risk issues with careful thoughtful and action.

For those of you who want to know what changes have been introduced to your flying experience, you should read the Annual Report on the Air NZ web-site.

All resolutions were passed. John Palmer as Chairman signalled that this term would be his last on the Board of Air New Zealand.

Jacquie Staley

Telecom Demerger Bond Holders Meeting – 39th September

Although not receiving a great deal of media attention, this was a critical meeting. Without approval by bond holders, the Telecom demerger plan would be dead in the water. A quorum of 50% of all bonds (276m) was required with a 75% vote in favour. Given the usual very low voting turnout by bond holders, this was potentially a very steep hurdle.

The meeting was held at Telecom in Auckland on September 30th. Only about 30 bond holders attended, meaning we each had 19 sausage rolls to eat! This was probably the shortest meeting in history taking only five minutes.

The Chair announced early on that some 435 million proxies were being held (80% of available votes). There were no questions and a short time later the result was announced, being 99.999% in favour. In fact only 3000 votes were against the motion – surely the most lopsided result in recent corporate history.

> The vote was 99.9% in favour – surely the most lopsided in recent corporate history

This was a clear indication that the bondholders understood how favourable the proposal was to them in terms of increased security, the potential for a higher return if the credit rating fell and their ability to require early repayment in some circumstances. The small cash bribe offered probably also helped!

John Hawkins

 ISSN 1179-4275

Cavotec MSL SGM 1st September

NZSA held proxies for just over 18,000 votes.

Cavotec MSL is an international engineering company with its headquarters in Switzerland concentrating on mining, aviation and shipping. It entered the NZX five years ago in a reverse takeover of the NZX listed Mooring Systems Ltd.

The only resolution before shareholders was the Board's proposal to de-list from the NZX and re-list on the Stockholm Nasdaq. At April's AGM the company gained shareholder approval to proceed with this re-listing proposal involving NZ High Court approval and the requirements of the NZX and Stockholm Nasdaq exchanges. Although the resolution required at least 75% shareholder approval, with the company management controlling over 70% of the shares there was never any real doubt the resolution would be passed. In the event it received 92% approval with only one significant but un-named large holder of 7% voting to reject.

The Chairman, Mr Stefan Widegren, told the SGM that the company had come through the recession, which had seen revenues decline by 12% in 2009 but had recovered to new record levels in 2010. The company was in a strong position to achieve further growth that needed greater financial support. He saw the move as overcoming the company's declining share price, improving its illiquid trading and raising the required capital from a much broader base of investors. In mid-August they announced the acquisition of California based INET Airport Systems, which will complement their existing operations. He envisioned future growth arising both organically and through further acquisitions with several companies in prospect.

The CEO, Mr Popesco gave a presentation of the detailed financial results for the first half of 2011, which indicated significant improvements across the board over the previous year and with significant increases in the current order book. Expansion was in progress with 80 additional staff and the establishment of a new credit line of EUR€80m for the next five years.

There were a number of questions coming from shareholders that were answered by the Chairman:

- Is Cavotec vulnerable to competition from cheap labour companies in China and India? No because their main competitors are from France and Germany with similar costs structures to them. Labour costs are not so important to the company as their work requires high engineering skills.
- Will the recent financial troubles in Italy undermine their growth plans? No, because the major European economies are still growing and their levels of government debt at 80 to 100% of GDP are manageable compared with say Japan at 200%.
- Are bad debts a problem? No; late payments and defaults had been very minor despite the GFC. Cavotec had a strict policy requiring letters-of-credit or guarantees. Typically their clients were big companies able to accept these conditions.
- What are the levels of debt? Currently debt stands at EUR€29m although it is usually about EUR€20m; this increase is necessary to cover the increase in the order book.
- In what currency will Cavotec report? Their accounts will be in EUR€ but their shares will be in Swedish Kroner.
- After installation do your contracts cover on-going maintenance? Cavotec does not usually enter into maintenance agreements but INET has offered servicing agreements that they have found worthwhile. Cavotec does see prospects in the future for offering on-going servicing provisions.
- How will shareholders trade their Nasdaq shares in the future? Brokers should be able to undertake these trades and they are investigating possibilities to facilitate trading through a trading bank.

Cavotec dropped from the NZX on Monday 26th September. Existing shareholders will be notified on about 7th October confirming their holding which will be transferred to the Stockholm Nasdaq and trading will start on 19th October.

For NZ shareholders the prospect of retaining their holding into this offshore move is, in my opinion, not very attractive, given the tax implications which can be burdensome and only worthwhile if the company achieves future share price increases and high dividends, but these have eluded it throughout its NZ existence.

The shares last traded at $2.45 down from $3.30 at the time of the February announcement of the proposal for relisting.

For those continuing to hold shares in Cavotec and moving to the new Stockholm based Nasdaq then the Information Memorandum of 1st August 2011 (available on Cavotec's website) will be of special interest. Firstly, there is the report by PWC, which includes information on the tax implications of the new listing. Secondly, the report by Vinge, a Swedish law firm, outlines the implications of Cavotec complying with the Swedish Code of Corporate Governance "through by which shareholders directly or indirectly govern the company". There are some interesting deviations from the NZX rules:

- Not more than one of the directors may be on the executive management of the company. (So Swedish listed companies are generally composed

ISSN 1179-4275

entirely or predominantly of non-executive directors.)

- Furthermore, at least two board members must be independent of the company's major shareholders.
- Guidelines for remuneration of executive management and current remuneration structures are established by the Annual General Meeting.

Finally, there is a report by Bar & Karrer, a Swiss legal firm, providing their assessment of the relisting proposals which includes this interesting item that under Swiss law:

- "..any share issue is subject to the prior approval of the shareholder' meeting. Shareholders have a pre-emptive right to subscribe for new issues of shares….in proportion to the nominal amount of shares held".

So the regulations are tighter, but it is still attractive to move way from NZX.

Robin Harrison

Infratil AGM 15th August

Around 150 members were treated to the company's usual forward-looking overview of operations. Readers can find a summary of this under presentations on the Infratil website.

Infratil is now working to a long range 15 year plan of bond issues which have proved successful in diversifying away from banks, so that it now uses $600m of senior bank debt out of a facility of $1.6 billion. This gives it headroom to take advantage of investment opportunities.

Each operation was reviewed in the context of its market scope – electricity, fuel and convenience retailing, public transport, air travel and payment services – good sectors for investment and growth.

Infratil is considering the importation of bus chassis to be built up in NZ.. however, it would sell Prestwick/Kent airports if had a buyer.

There was a question around the management fees .Answer was a clear line between Infratil and Morrisons.

Resolutions were all approved on a show of hands

Humphry Rolleston and Duncan Saville were re elected

the Bond programme will be continued for 2011-12

Directors fee increase of 3% was approved

HRL Morrison and Co purchase 15m shares was ratified

Allotment of 14m shares by exercising warrants to HRL Morrison Group was approved

Buyback of up to 50m shares was approved

Grant Diggle

Rakon AGM 6th September

Despite disappointing results and a gloomy profit warning being issued recently, only about 70 shareholders attended this meeting. However, although the attendance was small, the questions and comments were of high quality and left the board in no doubt that shareholders are not pleased.

Chairman Bryan Mogridge dusted off the same speech notes from last year and proceeded to tell the audience how well the company had done and that all the issues really related to the high NZ dollar and the loss-leading sales tactics of some competitors. MD Brent Robinson covered the company's product range and generally reinforced Mogridge's claims. Notably absent this time around was the perennial claim that Rakon are two years ahead of the competition technically.

The Association kicked things off by pointing out that between 2008 and 2011 sales had risen only 4% ($7m), EBITDA was slightly lower and profit after tax had slumped 20%. In the same period, the asset base had increased $111m via both equity and debt raising. As a consequence earnings per share are now 4.6c compared to 8.4c in 2008. In regard to the currency issue, we pointed out that Rakon's main Japanese competitors had faced exactly the same issue and to a similar extent.

Q . The Company is presented to investors as a high tech growth story. Isn't the reality that despite the hype, the vast majority of its products are commodity electronic components? As a consequence isn't the company really a price taker rather than a price maker? What strategy does the company have in place to deal with this reality and achieve better margins?

A. Essentially, the offshore manufacturing strategy was the big hope going forward. The new Chinese facility

 ISSN 1179-4275

coming in on time and on budget may allow higher margins on low cost products. More emphasis is being placed on specialised high value communications infrastructure products as these already have higher margins and are less sensitive to consumer sentiment. A better exchange rate would also help the NZ dollar results.

Q. The NZSA has concerns about the number of executives and non-independent directors on the board **(*Ed. Note. 3 are Robinson family members and only 2 are completely independent).* Since the task of the board is to set strategy and make close enquiry of executive decisions, is this really possible in Rakon's case? Perhaps it is time to reconstitute the board with a clear majority of independents?

A. The board are all committed and hard working. The Chairman also undertook to consider the board composition before Christmas, but there was no indication changes would happen any time soon.. Meaningless answer really!

Q. Was there any intention to move the company domicile away from NZ?

A. No. The company retains a significant production base here as well as a large R and D facility and was committed to continuing to do so.

Q. The inventory level has increased substantially over the last 12 months. What is the reason for this?

A. Many suppliers are now requiring stock to be provided on a modified consignment basis. Stock is not returnable as such, but is only paid for when used or when a certain time allowance expires. This is not ideal but is a commercial reality if Rakon is to retain business. There have been no significant bad debt issues with this arrangement. (Ed note: Impairments were only $27,000 for the full year).

Unfortunately, despite its undoubted expertise in a niche high technology area, Rakon seems to have real problems translating improved manufacturing and technical advances into better margins. Some of this can be attributed to the exchange rate and the impact of the GFC, but as pointed out at the meeting, other NZ companies with mostly offshore sales (such as Nuplex) are making a much better fist of things. The company has been already manufacturing in both Europe and Asia for some years so whether the Chinese operation proves to be a panacea remains to be proven. It seems to this writer that Rakon needs to look very hard at aspects of it operations starting at the top. For example - having the Sales Manager as a director is just dumb governance. There is a distinct "mates and family' look to this board which does not auger well for its ability to look after the interests of all shareholders.

In the meantime, Rakon is neither a growth stock nor a dividend play (it doesn't pay dividends and has no capacity to do so at present). Its share price reflects the reality of this situation.

John Hawkins

Ryman Healthcare AGM 2nd August

Chairman David Kerr warmly welcomed the assembled some 120 shareholders and then introduced the directors. Simon Challis (11 years service) new Managing Director from May 2010, Kevin Hickman co-founder, Jo Appleyard partner with Chapman Tripp, Warren Bell chairman of many companies and experienced in the auditing field, appointed during the year as an independent non-executive director, Sidney Ashton, experienced accountant, and Andrew Clements unfortunately absent this afternoon because of leg injuries. Proxies held by the director totalled 118 million shares held by 259 proxy voters another 981 000 shares held by 47 shareholders were directed to other proxy holders.

There followed reports from David Kerr and Simon Challis.

David reported that the growth and profits both exceeded their expectations and consequently the dividend grew this year to 7.2 c/share, the first dividend in 1999 was 0.5 cents/share. Bank debt stands at 157 million at end of the financial year. The company's cash flows are increasing and the company is maintaining good relations with its bank. At present three quarters of the profits are coming from the existing homes with the remainder from new buildings. Over two years has been spent investigating the rest home market in Australia. The board is conscious that research is important and are not about to expand there recklessly. The integrated model of facility is not common in Australia. It is possible that a site may be bought some time this year. A new advisory committee was formed committed to on-going training of staff. The earthquake damage to The Claredon Towers meant a move to temporary premises. The company maintains its peace of mind guarantee, which means no increase of fees for the entire stay for a person in one of their facilities. David expressed sadness the directors felt at the death of director Mike Cashin.

ISSN 1179-4275

Simon Challis thanked the assembled crowd for their attendance and also to the staff who stepped up during the earthquakes. The company also checked staff houses and arranged free holidays for those who had suffered in some way. Because of the growing demand for their units or beds, Ryman has increased the build rate to 550 units per annum. He then outlined the building programme under way throughout New Zealand. The latest acquisitions included a 3.5 ha site in Howick and another site in Waikanae. In total the present land bank has room for a further 2100 units or beds. Statistics show that the over 75 population continues to rise and Government research has shown that the industry is under-funded with low returns. Is this a preliminary warning that fees are about to escalate? At present there are twenty-four completed villages, employing 2600 people.

Questions:

The NSHA proxy Max Smith asked the following questions:

The drop in cashflow from the 2009 year to 2010 although not significant was apparent why was this?

Answer: Gordon McLeod the CFO answered that there had been a significant release of debtors from 2009 in the 2010 year and that a number of units were built and unconditionally sold in 2009 but not settled until 2010.

Do the auditors Deloittes, act for Rymans in any other capacity?

Answer; No they do not.

Why not rotate the auditing company rather than internal staff?

The answer, provided by the chairman, declared that the lead audit partner was rotated every five years and thus offered continuity similar to that of the Board; which in the boards view provided sufficient protection as fresh eyes were always present.

This point was questioned by Max Smith who emphasised that changing auditors did remove any doubts about integrity.

At the conclusion of the meeting and at the social gathering that followed the Chairman Dr. David Kerr raised the matter with Max Smith and agreed that we had a point and that it was duly noted.

Deloitte's were elected unopposed as the auditors, The two retiring directors, David Kerr and Jo Appleyard gave brief resumes of their careers and involvement in the company and were unanimously re-elected.

Warren Bell who was recently appointed to the board and seeking shareholder approval then spoke and was duly elected as a Director.

Warren Bells value to the board was seen in his experience with regard to the Australian market, which was well known to be the graveyard of many New Zealand companies and required the knowledge and experience of some who had experience in this arena.

Pam Hurst, Max Smith, Louisa Bangma.

Goodman Property Trust AGM 2nd August

Possibly conscious of the move supported by NZSA towards internalised management, GMT confirmed that it would maintain a majority of independent directors on its board.

The company has refinanced debt to a broader range of securities with 3 – 4 years maturity – mix of bank and secured bonds (BBB rating). However, the newer terms were at a higher interest cost.

Distributable earnings were to be reduced for greater retention of earnings and the change in taxation of depreciation.

Outlook – demand was increasing and renewal of leases and new developments.

The Board has carefully considered internalisation of the management by NZ property trusts and the directors felt the current structure was best for the company. It was noted that the Goodman Group held 17% interest and was supportive of its manager and assisted in the development of Highbrook, and with international customers.

Question from the floor

Christchurch insurance costs – approx $1m and passed on to tenants.

Reduction in distributions and effect on the share price was questioned.

Further questions on the cost savings and merits of internalisation were queried.

Noel Thompson

Smiths City AGM 23rd August

90 year old Smith City Group with its furnishing stores, Powerstores, Alectra, LV Martin, finance company, and property development, had to change its venue to Riccarton Racecourse from the ruins of central Christchurch.MD Richard Hellings stated that the company has had a 15% improvement in profit, mainly through careful buying price and stock control. Larger competitors have reduced margins and shareholders have to accept that this is going to be the new norm. Company growth will continue through an increased

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footprint in the North Island. This year will see the introduction of an on-line selling site.

October-November should see the company returning to its Christchurch central city site. As an aside, Richard Hellings described how the company executives were supposed to meet their insurers on site after the February earthquake. For various reasons access to the site was not allowed.

one of the company employees and a few of his friends who had been given the day off popped into the store and sold about $177,000 worth of stock to earthquake victims wanting sleeping bags, torches, stoves, batteries and other equipment.

Meanwhile one of the company employees and a few of his friends who had been given the day off popped into the store and sold about $177,000 worth of stock to earthquake victims wanting sleeping bags, torches, stoves, batteries and other equipment.

Had the executive/insurer meeting taken place, Smiths executives would have found out about the sales activity and would have been forced to stop it! Despite the loss of several Smiths City retail outlets in Christchurch, disruption to competitors from the same earthquakes led to higher sales.

At time of writing Smiths City shares traded at 37 cents.

At one stage shareholders with fewer than 500 shares had to consolidate or sell them. Currently there are around 750 shareholders with fewer than 1000 shares and the company may have to repeat the share consolidation process again. Traditionally, Smiths City pays out about 50% of its profit as dividend, that is 2 cents per share. Most shareholders (about 800 of them) own between 1000 and 5000 shares (2 million shares, approx 3.7% total holdings) and about 795 of them do not appear to be NZSA members! The NZSA held proxy votes for 31,200 shares.

Sue Sheldon retired as director. New directors are Gary Rohloff and Sarah Ottrey.

Tim Kerr

Fisher and Paykel Healthcare AGM 19th August

Gary Paykel – Chairman, indicated he was retiring as Chairman at the next AGM in 2012 and would be replaced by Tony Carter ex Foodstuffs group who also has an engineering background.

The exchange rate was a big challenge for the company where 99% of sales were outside NZ – a large portion in US dollars. To help offset this production is being expanded at the new Mexico plant and sales were being expanded in currencies other than US$.

Sales growth increased in the 4th quarter with the new flow generators showing good gains.

Increased automation of the manufacturing plants to reduce costs was signalled.

The outlook for 2012 was for a full year profit after tax of between $60 to $ at current exchange rates being a slight increase on 2011.

Questions from the floor

Mexico – quality of labour to keep up with the standards required for health products.

Hedging profits – the company had over $100m in forward cover in place.

Growth in Asia - an expanding market with a growing middle class.

Net profits for the last 3 years have been static v much larger increases in overhead costs. This was due to expansion of sales and R & D worldwide.

The board was mindful that there was no female director and would consider if suitably qualified.

Green environmental standards were in place for manufacturing and the buildings. Consumable devices used in hospitals were required to be incinerated.

Expertise in marketing at Board level was also questioned.

Noel Thompson

EPIC Infrastructure Co No 1 AGM 26th September

This infrastructure company is managed by EPAM a subsidiary of Perpetual Trustees, which is part of the Pyne Gould Corporation. Max Smith sent the NZSA's questions to Chair, Margaret Devlin in advance. She said the company's GBP 23.8m loss was caused by cancellation of dividend from Moto Holdings, the strength of the NZ$ against the Pound. Debt of GBP44m included $14m to PGC, which was subordinated to NAB's charge. The board have to realize assets by April 2012, and had determined that Moto Holdings had the greater potential, so that liquidating most of the Thames Water holding, plus Aquiva, Wales and West Water was preferred.

 ISSN 1179-4275

Initially the association sought some explanation of the management structure of Epic, which appears multilayered. The contract with EPAM was explained and the point made that Epic had its own board of directors and was independent of PGC.

Q: "Is Epic in a situation where they are in a hopeless position and being forced to sell".

A: No it is not hopeless at all. The company can conduct an orderly realization of assets and use these to address the debt issue.

Q: Does the board have any indication when Moto might resume paying dividends?

A: No we don't. We have not been advised of any time line.

Q: What is Epic actually selling? It holds shares in Kemble Water Holdings International, which in turn hold shares in Kemble Water Ltd, which is the owner of Thames Water are they not selling shares in Kemble Water rather than Thames Water?

A: Yes we are. Epic owns shares in Kemble Water International Holdings Ltd and it is these that are on offer. Epic owns 2.5% of Kemble Water International Holdings.

Q: Because Macquaries and others have pre-emptive rights to buy any shares that may be offered does Epic have any real choices

A: Epic offer their shares at a price to all existing shareholders of Kemble Water International of which Macquaries are the largest and these shareholders have the first right of refusal. If they do not want them Epic is free to sell to any prospective buyers. Macquarie is not a major shareholder in either Kemble or Moto Holdings and could not disadvantage Epic shareholders.

One of the more controversial decisions by the Epic board was to borrow funds to buy a rights issue offered by Moto Holdings Ltd.

This created a debt with Torchlight fund No1 represented in the form of 12,719,165 convertible notes at $1.00 that can be converted into Epic shares $0.90 per share.

Q: Would the proceeds from the sale of Thames Water shares also provide for the redemption of the Torchlight Fund convertible notes?

A: If the proceeds from the sale of the Thames Water investment are sufficient to cover the repayment of these convertible notes then yes they would be repaid.

Q: If Thames Water is sold what is the likely result?

A: Bank debt would be repaid, a release of excess capital and a possible share buy back may be possible.

Q: NZSA quizzed the board about the fees paid to EPAM, Perpetual, and PGC.

A: the Chair undertook to provide a report on the management contract, and promised to review the arrangement when possible.

Q: Why does Epic own its Bermuda subsidiary.

A: Because Moto Holdings is registered in the Bahamas and has needed a convenient adjacent recipient for dividends.

There was considerable dissatisfaction over the lack of forex hedging, and past management. However both Margaret Devlin and Brian Harrison were elected, in spite of opposition.

After the meeting, it was gratifying to be approached by shareholders who thanked the speaker for representing their interests.

Max Smith and Bruce Parkes

Caught on the Net

The Hourglass Economy

The shrinking of America's middle class and the rise of a two-class society has been widely documented. Now, there is further compelling evidence from the consumer market. Among other companies, Proctor & Gamble is adopting an "hourglass" marketing strategy with products aimed at high and low end consumers, but not much in the middle. P&G has at least one product in 98% of US households. Where it goes, others will follow. Citigroup has created an index of 25 stocks designed to profit from this hourglass theme. Aaron Task comments on the Daily Ticker http://finance.yahoo.com/blogs/daily-ticker/america-middle-class-shrinks-p-g-adopts-hourglass-145429009.html

Light is not fast enough for high speed stock trading

Trading speed for retail investors can often be measured in hours, days or even weeks. But for traders relying on computerised algorithms to beat the market, milliseconds can be important. Jeff Hecht in the New Scientist discusses plans for a new cable planned to cut 6 milliseconds off transatlantic traffic. www.newscientist.com/article/mg21128324.700-light-is-not-fast-enough-for-highspeed-stock-trading.html

Bruce Parkes

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Branch Reports

WAIKATO

A number of members travelled to Tauranga for the National AGM. It was good to hear John Hawkins address such a large and appreciative gathering. It shows our growing support. It was a chance also for us to put faces to the names of the newer members of the national team. Not everyone knows what a lot of work goes on behind the scenes and I would personally like to thank them for the tireless work they do on our behalf. It is good to see greater recognition now of the NZSA through their work.

Waikato branch is functioning well with a small lift in membership with plans to increase further. Two speaker meetings have been held, in August Michael Stiassny of Vector addressed us and in September Methven's Rick Fala and his CFO gave us an insight into "the worlds best shower operations.

The after meeting socializing is popular over a light meal, though we are now forced to find a new venue with the closing of the old Hamilton Club.

Roger Jennings

AUCKLAND

This was a very enlightening but rather depressing meeting. Bill Jamieson gave a first class summary of types of debt issue and some of the problems associated with them. Then Carmel Fisher answered a number of prepared questions from Auckland members.

Fixed interest securities – Bill Jamieson

The increased volatility of markets has made debt instruments more important to investors. Investors need certainty over the term of the issue, the actual rate of interest, and the full repayment of the debt on maturity. However governments, banks and corporate issuers have created a series of instruments which have confused the clear presentation of each of these points.

Bill's practical comments on simply depositing on term with the local bank indicated that we must always go armed with competitor rates and prepared to negotiate. He explained PIEs probably designed for Trust and Fund issuers but immediately taken up by banks to become the preferred vehicle for cash investors.

He then explained the ranking of debenture securities and the prior charges of wages, tax etc that would take precedence over secured creditors in the event of a receivership or liquidation. The definition of first and second ranking, secured and unsecured, unsubordinated and subordinated suggest that investors need to check the quality of the assets grouped and the charging entity to feel confident that the note will be redeemed on maturity. Bill then moved on to Hybrid securities - redeemable preference shares, and perpetual resettable preference shares, using the examples of Rabobank, Origin Energy, and Infratil, to show that these instruments promoted while the OCR (cash rate) was high, have penalised investors after resetting on a lower swop rate plus margin. Brokers promoting these while earning a commission from the issuer have done their clients a disservice, while there is every incentive for the issuing company to maintain the notes into perpetuity, and enjoy the benefits of diversified, lower financing costs. The Rabo issue with its promoted AAA rating was oversold, even though within the prospectus it disclosed that it would not be permitted to pay interest if one of the 188 small European cooperative banks in the group defaulted on its debt. The Origin prospectus took until the 59th page to disclose the reset rate, and disclosed that the issuer could cease interest payments at any time at the discretion of the directors. The trend has been to load the terms in favour of the issuers, with the only protection being the need for the issuer to protect its reputation in the market place.

In this complex and over documented situation, Bill's advice was don't try to read the unreadable. Instead, ask the following questions:

- What is the nature of the business?
- What is the type, structure and maturity date of the security
- What is the interest rate? How is it calculated? When will it be paid? How can it be varied? Under what circumstances will it not be paid?
- How will I be repaid on maturity? Has the issuer the right to do it in other than cash?
- Can the issuer repay before maturity and on what terms?
- Where will my investment rank amongst other debt? What are the amounts of those ranking higher and what are the restrictions on further borrowing?
- What comprises the charging group and who decides how it is made up?
- What covenants (restrictions) are placed on the issuer in terms of funding cost cover and company gearing?
- What is the credit rating? If none, why not?
- Is the risk of all this reflected in the interest rate?

Bill's wide range of examples from the NZDX made this a highly informative presentation.

 ISSN 1179-4275

Members' discussion: After Bill's presentation Carmel Fisher chaired a discussion, answering members' questions. As a majority of the audience had not been present in Tauranga many of Carmel's comments were similar to those she had made in Tauranga.

In many countries crown debt is too great for any political party or bank to underwrite or repay quickly. Confidence is therefore low and will be for some time. If you move to gold for safety remember that precious metals like all other sectors can experience bubbles which can burst unexpectedly. The glimmers of hope occur in possible blue chip floats of Government assets, the Trade-me float as a minority shareholding in a profitable business, and bargains for those with cash on the inevitable days of panic.

Alan Best

Company visits*:*

Wednesday, 5th October, 11am, APN – at present fully booked, but you can waitlist.

Tuesday, 6th December, 10am Vector – places still available, contact Uli Sperber by email : uksper@gmail.com

Uli Sperber

BAY OF PLENTY

The past two months have been quite active for the branch with a variety of flavours to entice our membership.

During August Mr. Sam Coxhead from Direct FX spoke about the ramifications of foreign currency and dealing that retail investors need to know when purchasing stock for their portfolios. The average kiwi investor unless they had large portfolios with significant off shore content are generally oblivious of foreign exchange dealing, preferring their broker to do the complete transaction. Sam went of to explain that there were a number of alternatives that could usefully be used that may save some money on some these aspects. For such a small country we have been until quite recently the tenth largest traded currency on the world's currency markets.

The strength of our dollar is perhaps associated with the strong demand for our dairy exports. Our NZ dollar on this basis could continue to strengthen to levels greater than 78sUS.

During the month Trevor Horncy kindly donated a number of books relating to investing to our library that members regularly use. Our librarian reports that demand is constant and this most recent donation strengthens our resource.

The branch during September ran a half-day seminar for members who are considering investing in Australia. Twenty two registered with several presentations being lead by experienced committee members who have been in the Australian market for many years. Topics covered included the reason for portfolio diversification, opportunities that do not exist in New Zealand, tax aspects, opening bank accounts, participating in dividend reinvestment programs etc. As it turned out most of those who attended were already involved in the Australian market so the sessions were really extended discussions with many prepared to pool their experiences. The nice thing was the branch, through the Australian Stock Exchange sourced quite a valuable thirty two page book entitled **"Getting Started in Shares – ASX – The Australian Sharemarket".** These are free on request, making the publication an interesting anchor for the day's presentations.

Some considerable time ago the committee took a poll of members to gauge their top ten holdings in New Zealand. At our September meeting four members volunteered to review the performance and present their impressions of the most recent annual accounts.

Martin van der Meys	covered	Nuplex
Howard Zingel	covered	Auckland International Airport
Ross Sheerin	covered	PGG Wrightson
Heather Pilkington	covered	TrustPower
Lloyd Christie	covered	Port of Tauranga

Each presentation varied in its content and showed that each presenter while going to considerable trouble had a different style of evaluating an annual report. This was a most useful exercise, utilizing our members varying resources. This is an exercise that could usefully be repeated again in the future.

During November we have the **Australian Foundation Investment Company** visiting Tauranga to provide both members and company shareholders a personal progress of their performance over the past year. Last time this company visited Tauranga over 130 attended the presentation, which was well received. This company has over 8,000 shareholders with a New Zealand address.

Allen Smith

WELLINGTON

Our programme of branch meetings is drawing to a close with Ray Jack presenting at our October 11th meeting, we always look forward to Ray's perceptive take on the global economy and for this meeting he will have plenty to talk about. We will also be holding our branch AGM at the meeting.

Our last meeting of 2011 will be our end of year function at Time Cinema on November 8th for the screening of Inside Job – the Matt Damon narrated documentary on the GFC.

One of the benefits of living in Wellington (apart from the sublime climate) is that we are asked to attend various Government hosted meetings and workshops on behalf of NZSA. In the last couple of months we have had representatives at the External Reporting Board (XRB) to be briefed on progress in standardising international reporting standards and a seminar hosted by the Retirement Commissioner on global approaches to financial literacy.

Martin Dowse

CANTERBURY

Members of the branch committee attended three company General Meetings recently: Smith City Markets (AGM), Cavotec MSL (Special GM) and Ryman Healthcare (AGM). Full reports on these are given elsewhere in the Scrip. We acted as proxy holders at each of these meetings. In addition, Robin Harrison attended the presentation on the de-merger proposals by NZ Telecom at the Russley Golf Course facility. At question time he drew attention to the NZSA website and the assessments of the de-merger proposals being made available to assist Telecom shareholders come to terms with the 500 page document currently being distributed. At the following refreshments function many shareholders and several Telecom managers came forward to complement the NZSA for taking an active role in assisting with understanding these complex proposals.

The Branch will be representing members at the forthcoming AGMs of EBOS and Heartland and hopefully carrying many proxy votes from NZSA members.

Robin Harrison

Members Issues

MORE ABOUT AUDIT.

Jacob Ploeg after reading our report on Andrew Dinsdale's address to Wellington Branch leapt to the defence of the smaller audit firms explaining:

- all audits of issuers have to conform with the minimum quality standards specified in NZ International Auditing Standards;
- the quality of an audit is more the result of the work done by the audit team, than a function of the firm's size.
- not all issuers are willing to pay higher fees to Big Four audit firms;
- a lower price does not indicate that the auditor has taken shortcuts - it may indicate other things (e.g. lower overheads,) but standards have to be met regardless of price.

Martin Dowse, our Wellington chair, added his explanation:

Andrew's point was "it is a case of horses for courses. Large and/or complex firms benefit from using a big four firm in several ways as the big four:

- have a deeper/larger pool of expertise to call on
- are experienced in auditing larger and more complicated firms
- have a name that is instantly recognized and trusted - this is especially relevant where the firm is listed - as a shareholder I like to see a name I recognize signing off the audit report
- have a reputation that stands or falls on each job (think of Enron and Arthur Andersen) - they can't afford to get it wrong the cost of failure for them is very high

The example Andrew gave was the auditor for South Canterbury finance, the firm and its dealings were too complicated for the auditor doing the job.

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THE PROXY FORM

Warwick Smith has drawn our attention to continuing deficiencies in the voting papers published for this year's round of AGMs. Some of these relate to the fact that companies, like GPG, are registered overseas. A few years ago NZSA ran a campaign which resulted in several major companies setting out voting papers so as to allow a proxy to make up his mind on a resolution in the light of the facts presented at the meeting, and to vote at his discretion when the motion was put.

The voting papers should allow votes FOR, or AGAINST, or ABSTAIN, or PROXY DISCRETION. Similarly the appointment of proxy should allow for the CHAIR, or OTHER PROXY, without favouring the chair. They should also allow an undirected proxy holder to vote as he sees fit. If you feel that these options have not been properly set out, please have a word with the Secretary of the company, so that members' wishes are met in future.

Alan Best

POSTING THE ANNUAL REPORT.

John Hannah expected that the most immediate answer to a shareholder enquiry should be the Company's website. However when he looked for the Hallenstein Glasson annual report on the website some 24 hours after the release it was still not posted. Further the Herald had reported a dividend of 17c per share while the Dominion reported 14. John's action: contact the company immediately, and stir them up.

Now that annual reports are not mailed as a matter of course, it is critical that they are posted on the website as soon as they are released to the press, and the NZX. Shareholders are entitled to expect the company's website to be the most authorative spot for current published information, and yet several companies are not yet on top of this. Check your companies out and let them know if you feel improvements are warranted.

Alan Best

Branch Contacts		
Auckland	Andrew Reding	andrewNZSA@gmail.com
Waikato	John Davies	cjdavies@xtra.co.nz
Bay of Plenty	Allen Smith	allen.smith@wave.co.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

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Photo Credits	
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