"The Scrip"

MANY INVESTORS; ONE VOICE

NZSA New Zealand Shareholders Association Inc.

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Investor Pie in Wild South

When we ran a member survey some time ago, conflicts of interest and related party transactions were two of the things you felt most strongly about. On that basis investors in Pyne Gould Corporation (PGC) which is based in Christchurch must be feeling pretty frustrated. Over the past few years PGC has been through the wringer and the share price has suffered massively. In 2009 a large capital raising was initiated to shore up the balance sheet which had come under stress, partly as a result of the companies finance arm (including Marac) being affected by the GFC plus fallout from other finance failures.

In 2011, PGC formed a joint venture with Canterbury Building Society and Southern Cross Building Society and this eventually resulted in a new company called Heartland listing. The stated aim of Heartland is to obtain a banking licence. As a result of these moves, PGC ended up with significant stake in Heartland to go with its long held minority stake in PG Wrightson. Both have since been sold down. During this process, investors became concerned at the cross directorships between the three companies which were perceived to compromise the independence of action. As a result, Bruce Irvine who was credited with being a major driver of the merger stood down from PGC and Bryan Mogridge resigned from Heartland and remains Chair of PGC. Irvine chairs Heartland and is a PGW director.

In 2009 George Kerr became a PGC director and later brought Torchlight Fund into PGC. He is reported to hold a significant stake in this approaching 8%. Chairman Bryan Mogridge also reportedly has a small holding of less than 0.2%. Within PGC, this holding is called Torchlight Investment

Group (TIG). It has two main arms, EPIC Fund and Torchlight Fund No 1. Very little is known of the other investors in Torchlight Fund No 1 which is described as a fund investing in non traditional, often counter cyclical opportunities, and is aimed at high net worth investors. Because of its structure Torchlight No 1 is not subject to the same disclosure rules as a listed company. Epic has had a chequered career with investors suffering large losses under the management overseen by PGC/TIG. Kerr has claimed to be the saviour of PGC as Torchlight took on the distressed assets of Marac and contributed capital to PGC. This view is disputed by others who believe the Marac rescue would have happened anyway, and point out that PGC remains exposed via TIG.

As well as TIG, PGC subsidiaries include a modest property group plus the well known Perpetual Group. This comprises Perpetual Trust, Perpetual Asset Management and Perpetual Portfolio Management. These provide a full range of wealth management services including financial advice, investment management and trustee services to mainstream and institutional clients. Perpetual manages separate Mortgage and Cash Funds.

In the writer's opinion, PGC can be characterised as both complex and structured in a way that limits disclosure around some of its major activity. Adding to this, the company and subsidiaries rarely have up to date information available on their websites.

Kerr angered many investors in 2011 when in conjunction with Australasian Equity Partners, he launched a takeover bid for the company at a large discount to the reported net asset backing of the shares. Although not completely successful, a controlling interest of 76% was obtained by March 2012.

On the 19th of February 2012, Kerr e-mailed asking the Perpetual Cash Fund to provide a loan to Torchlight No 1 of $18m by the next day. According to court papers, there were no supporting valuations of the property securities offered and the loan did not comply with PCF's policies which limited single advances to 5% of the book. The PGC Board held an urgent meeting on the 20th and approved the loan including a provision that valuations for the security must be available within 3 months. Four days later, Matt Lancaster of Perpetual advised that the loan was not permissible. Never-the-less it went ahead and by the 4th of March the total amount had increased to $28m, the extra amounts apparently having had additional board approval. This was approaching 50% of the total PCF value.

The trustee of Perpetual, Trustees Executors became alarmed and called in the FMA. On 26 April, MD John Duncan quit suddenly. He was replaced by (you guessed it) George Kerr. On 1 May, PGC's auditors KPMG resigned stating concern over "related party transactions, and also concerns over the adequacy of governance and management of financial reporting." This was the first investors knew that there were potentially problems of this nature. PWC have since been appointed auditors of PGC. They also audit Perpetual and Torchlight. While that may be convenient, it is not as independent as the previous arrangement in my view.

Finally in early July the story began to emerge when repeated legal attempts by PGC and Perpetual to keep matters confidential were dismissed in the Court of Appeal. Justice Heath was blunt in his assessment, and made orders for the early repayment of the loan to PCF. Naturally these revelations caused a run on funds and on 12 July, Perpetuals Mortgage Fund was placed in a moratorium meaning investors cannot redeem funds before the end of August at the earliest.

Torchlight has since repaid PCF in full. Perpetual argues that the deal provided a good return for PCF investors. Kerr told me that it was just "a matter of form over substance". Despite being asked, Mogridge has not explained to us why bank debt could not have been used. This would have avoided the whole issue and would not have disadvantaged PMF. Of course, any bank would have required proper security and processes to be followed. Maybe a case of form AND substance?

There has been further court action since. On 12 July, Justice Heath was sufficiently concerned that he appointed "observers" to make sure matters around the loan were handled properly. As recently as last Friday he continued the observer's role "to protect the interests of existing investors even though the loan has been replenished" (repaid). The FMA investigation continues.

The court also heard that a further loan of $3.3m to Mr Tinkler (a current director of PGC) appears to have been made around the same time as the Torchlight loan without authorisation. This is being investigated.

PGC has recently announced that it intends to sell Perpetual. This is interesting timing to say the least. The trust company side of Perpetual is currently operating on a temporary licence (as are all trust companies) pending the issuing of full licences by FMA in September. There is no certainty that all trust companies will be licenced. With Perpetual subject to court and FMA investigation, it would be a brave man who would bet on them obtaining a licence. If they don't the trust side will be forced to shut.

This may happen anyway due to loss of confidence. Goodman Property, one of their larger customers has already gone on record saying it is considering its position. The Mortgage fund is to be wound down and common sense would dictate that the Cash fund may go the same way as investors are unlikely to be flocking in with new funds.

The Chairman seemed unconcerned when I asked him about the licence issue and said the trust company side was only a small part of the business. That seemed to me to ignore the reputational damage that is occurring and may well spill over into the rest of Perpetual. Add to this the fact that Perpetual was trustee for a number of failed finance companies. It is only a matter of time before action is taken by aggrieved investors (probably using litigation funders) to recover some of their money. Insurance will no doubt meet most of this, but the impact on Perpetual in terms of management time and cost should not be underestimated. These hardly seem circumstances which will result in a top price for Perpetual and by extension the PGC shareholders.

PGC seems intent on walking away from its traditional business. Kerr has said "if all, or part, of Perpetual is divested, PGC intends to commit capital into Torchlight to invest in and manage distressed assets. The core business of PGC will then be Torchlight". It has said it is considering listing in Australia or further afield. None of this seems designed to improve governance and disclosure at PGC or its subsidiaries. In the meantime, the share price continues to languish around 28c, roughly 60% below the claimed asset backing in 2011.

What has happened and what the future offers does not seem particularly bright for average retail investors. They must surely feel that they are the filling in a pie that is fast being gobbled up. It's not called the Wild South for nothing!

John Hawkins

Chairman

Fair Dividend Tax Rate

For several years, members including Oliver Saint, and Allen Smith of Bay of Plenty have campaigned in The Scrip to have the FDR tax reviewed. The main problem has been a lack of information on the outcomes of this tax. The implementation was initially obscured by conflicting announcements, delayed information from IRD on Index and Non index companies, and the overarching objective by the government to sacrifice $140m of tax revenue to allow the PIEs (Fund managers) to have the same fair rate of tax as retail investors.

Most recently Allen Smith wrote to the Minister of Revenue requesting the following information under the Official Information Act.

1. How many tax payers have been liable for FDR tax over the past five years?
2. How many tax payers have paid FDR tax over the past five years?
3. How much money has been collected by the FDR tax over the past five years?

The answer came. IRD doesn't know, and no other department can help. Foreign investment income is not declared as a separate item but is aggregated with other overseas income.

We will not let the matter lie, but it is important to recognise that there have been a variety of comments from members.

The first is that if shares are held on capital account for the long term, the accounting costs are low because adjustments don't have to be made for shares bought and sold in the same year.

Secondly, for shareholders with a significant list of Australian investments an automated service like Sharesight will allow the correct decaration to made at the click of a button.

Thirdly, several members have paid less tax on Australian income as a result of FDR, because the fluctuations of the Australian market have provided a capital loss for non index shares in 3 of the past five years.

So in the absence of hard facts, it is probable that the government has done itself out of its planned income by implementing the complicated exemptions for non index shares. In the national interest, we still believe that the details of this tax could be improved.

Alan Best

External Reporting Board XRB

XRB is a government body formed to oversee the auditing profession and ensure that the appropriate standards are implemented in audit reports in New Zealand. As part of this process XRB has set up an advisory panel of stakeholders which will provide feedback from users and guide the formation of audit reports in future. NZSA is playing its part in supplying feedback, and Alan Best is representing the Association on this panel.

The two main subjects are: How useful is the current audit report to investors, and how will the current international developments help to improve reporting in New Zealand.

Initial consultations raised the following questions:

1. Do users understand the purpose of the audit report?
2. Does the report supply the information they need?
3. Is there too much technical language in the audit report?
4. Is the report helpful to users – especially since the GFC?
5. Does the audit report influence investment decisions?
6. What additional information should be included?
7. What information is now superfluous?

Four Subcommittees were then set up - Insights, Going concern, Other Clarifications, and Building blocks.

The recommendations from these subcommittees are paraphrased as follows:

A. That auditor comment should be included for listed entities and "public interest" entities. Questions remain over the depth of comment involving the process of the audit, and the discussion with the board of directors.

B. That auditors should alert users to potential issues that may affect the entity's ability to continue as a going concern. Questions remain over the type of information, and whether entities outside of the NZX listings should be included. This would normally be "Emphasis of Matter" in the audit report.

C. That auditors certificates should include Chairman's, CEO's report, and Governance reports to certify that there are not inconsistencies in the different parts of the annual report. Questions remain over the different responsibilities of board, management, and auditor, and there is still disagreement over this issue.

D. That the audit should clarify technical terms, and disclose the engagement partner's name, and affiliates, to provide maximum transparency to the audit. Questions remain over which technical terms need clarification, statements of ethical standards, and disclosure of names and affiliates names.

E. That we should consider a less static format with the auditor opinion at the beginning, and more flexible blocks of information according to the users priorities. The questions here concern what is the key information required by the users, and whether other comments could be collected outside the certicate in other areas of the annual report.

NZSA has spent very little time on these issues, either in branch meetings or The Scrip, and Alan would appreciate any input from members so that he can act as a conduit for feedback to the XRB from those seek the assurance of an independent and ethical auditor.

Alan Best

The Beacon and the Glob 2012

Howard Zingel has again agreed to co-ordinate your nominations for the 2012 awards. “Beacon and the Glob awards are really worthwhile events in the NZSA calendar,” he says.

The criteria appear on our awards and bear repeating in summary:

- Leadership in corporate practice
- Bravery in taking a stand on corporate governance
- Ignoring self-interest - recognising the concerns of all stakeholders
- Treating small shareholders with the respect due to business owners
- Working within the rules to ensure fair outcomes for stakeholders
- Taking actions that warrant special recognition from shareholders.

Remembering that we do not include politicians and government officials in our selection, but rather practising directors and chief executives and advocates, that’s still a pretty wide net to cast!

In the past we have recognised

- Brian Gaynor for his clear voice and analysis which have informed and assisted small investors
- Bruce Plested whose example shows how a small team with a powerful ethic and culture can become a global player
- Michael Hill whose leadership in commerce, the arts, sport and his book show how business people can become benefactors in the community
- Rob Fyfe for his humane leadership at a time of crisis and marketing flair.
- Simon Challies. His consistent focus on good service to Ryman Healthcare residents has year after year grown shareholder value.

There is a strong element of altruism, zeal, and commitment as well as hard-nosed common sense to these winners. So we urge members to take a look at their share portfolio, and pick out those who might qualify. Send these, and any supporting information to Howard.

Don’t forget the GLOB. It is simply the opposite of the Beacon. I have heard there are still some baddies around.

Contact howardz@xtra.co.nz , or phone 07 5525320

Howard Zingel

Board Report for July and August

Apart from organising the conference, and finding great replacement speakers at the last minute, your chairman has had his usual busy time. Engagements with Canterbury Branch, and Wellington Branch, and the Securities Law Conference, were fitted around meetings with NZX, Metlife Care, Institute of Directors, Infratil, Colmar Brunton, Air New Zealand, Abano, Ministry of Economic Development, Rakon and Pyne Gould Corporation. The publicity for NZSA was intensive including statements on Metlife Care, Telecom’s new CEO, Blue Star Bonds, GPG, Abano Directors Scheme, Pyne Gould Corporation, and of course, the SOE share floats. Each of these statement has required research by people not always associated as shareholders of the companies involved.

Behind the scenes there has been an active corporate liaison campaign, and submissions on Financial Markets Conduct Bill, marketing committee work, and the continuing effort of administration and website maintenance. Several projects have not yet seen the light of day, but we are confident that members will benefit.

Alan Best

Print Age Electronic Communications don't cut the mustard

Changes to the Companies Act, currently waiting for a pro forma third reading in parliament, will allow companies to conduct much of their shareholder business and communications electronically. This will include holding company meetings and voting electronically - electronic delivery of the cup of tea and sausage roll might be a step too far.

Already we are regularly encouraged to receive our company communications electronically. Who could fail to see the logic in the statement that it keeps costs down, delivery is faster and it is better for the environment? What a pity that companies have, almost without exception, failed to embrace the digital age in the preparation of their annual and interim reports. In this digital age, their efforts are second rate.

Many companies use their annual reports as a major pubic relations/communications exercise. Glossy, with double page spreads, eye-catching graphics and fancy fonts, they are a joy to read - in a hard copy portrait layout format. And that is probably the only way company executives, institutional analysts and academics ever see them. For those of us who receive them electronically they are a reading disaster.

How do you find it? Are you like me? Reading a company report on either my IPad or 17" notebook is a frustrating exercise. In a full-page view, I can not read the type. Sure, I can zoom in and out at will but in doing so lose context.

Digital publications are best laid out in landscape - like our computer screens - with larger font sizes. Digital also offers unlimited opportunities for enriched communication through hyperlinks and embedded videos. Print media who also produce digital versions have seen the light and offer a computer friendly experience. Any extra costs are far less than printing and postage alternatives.

The Financial Reporting Act sets out what companies must report. Rightly, it is silent on how companies should report. What a great opportunity for innovation - that word which appears so often in company credos and mission statements. An IPad app would be wonderful but probably, at this stage, a step too far.

Companies I have approached suggesting a change in report formats have all responded positively. Whether that turns in to action only time will tell. Will you help to promote change? Download and read the next company report you receive. If it does not meet your expectations, e-mail the company and tell them so.

Bruce Parkes

Some Alternate Stock Market Terms

Bull Market	A random market movement causing an investor to mistake himself for a financial genius.
Bear Market	A 6 to 18 month period when the kids get no allow ance, the wife gets no jewelry, and the hus band gets no sex.
Value Investing	The art of buying low and selling lower.
P/E Ratio	The percentage of investors wetting their pants as the market keeps crashing.
Broker	What my broker has made me.
Standard and Poor	Your life in a nutshell.
Stock Analyst	Idiot who just downgraded your stock.
Stock Split	When your ex-wife and her lawyer split your assets equally between themselves.
Market Correction	The day after you buy stocks.
Cash Flow	The movement your money makes as it disappears down the gurgler.
Profit	An archaic word no longer in use.

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. Run your curser over the report heading for a link to the company website

Windflow Technology SGM 4th July - Down but not out

Many years ago when I belonged to the Elmwood tennis club in Christchurch, I sometimes played with another young chap who used to frequently bend my ear about the virtues of wind power. His name was Geoff Henderson and he has since put his money, and seemingly much of his life, where his mouth was. He designed a wind turbine, and launched a company, Windflow Technology, to manufacture it. Windflow makes wind turbines which, at 500 kilowatts, are towards the small end of the spectrum.

The company has had its ups and downs. The 2011 annual report states:

"The past year has seen the successful completion of Windflow's two major long-standing objectives:

In September 2010, Lloyds Register issued its Type Approval Certificate for the Windflow 500, ...

In June 2011, Te Rere Hau wind farm was completed with 97 turbines installed and operating. .....

However Windflow as a company has not yet achieved commercial success and is at a major decision point regarding its future. .....

During 2010 an important opportunity arose for Windflow ..... A significant market for 500 kW turbines was created by the UK government's April 2010 decision to introduce a Feed-in Tariff (FIT) scheme for small and mid-size renewable energy projects. ..... initial orders have yet to be achieved for reasons discussed in detail below. Foremost among these reasons is the UK government's February 2011 decision to review the FIT ahead of the planned review date of March 2013."

So things have been hard for Windflow recently. Manufacturing ceased and staff were laid off. But now there are stirrings of life again. Windflow might be down but it is not out. The UK government has completed its review and the Feed in Tariff is still generous, even if not quite as generous as it was going to be.

Windflow saw opportunities in the UK but didn't have the capital to take advantage of them. There were three projects in Scotland which Windflow wanted to develop. A major shareholder had agreed to loan money to the company at an effective annual interest rate of 22%. Hence on 4 July the company held a special meeting to get shareholders' permission to take up the loan and launch these projects.

For example, one of these projects is The Westray Project in the Orkney Islands which has been fully consented and is projected to cost £1,115,000. Gross revenue is expected to be approximately £345,000 in its first year, increasing in line with the United Kingdom's consumer price index for the remainder of the 20 year contract period in accordance with the Feed-in-Tariff legislation. It is hoped that once revenue from the projects starts coming in, Windflow will be able to re-finance at a lower interest rate.

Further details of these projects can be found in Notice of Meeting.

Windflow has 70 possible customers lined up. Geoff Henderson said that to breakeven manufacturing for New Zealand the company has to manufacture 45 turbines per year but for the UK they need to manufacture only 12 per year because of the Feed in Tariff.

Windflow has another iron in the fire. In February, Windflow and General Dynamics, an S&P 500 company, signed an agreement (Windflow and GD Agreement) for the joint development, manufacture and sale of the Windflow 500 lightweight, two-bladed 500 kW wind- turbine technology.

Windflow turbines are unusual in having only two blades. Geoff Henderson believes two-blades is best because with two blades it is possible to make the blades teeter which reduces stress on the blades. It gives him some satisfaction that General Dynamics have accepted his argument.

At the meeting shareholders, who seemed very supportive, unanimously passed motions approving the three projects in Scotland. In so doing they authorised Windflow to borrow up to £2.83m.

Peter Heffernan

Methven AGM 19th August

Phil Lough, Chairman, started the meeting by saying the last twelve months was one of the toughest years the company had experienced. Even under these trading conditions they still improved their cash flow and NPAT. The company's debt level was reduced by 38%, while net profit was up 39%. The UK returned a positive contribution with increased market share, even though a major distributor went into liquidation.

Trading conditions in NZ and Australia remained flat and this trend is likely to continue for the coming 12 months. One bright spot was China where the demand for their products is growing steadily. The chairman went on to say plans are in place to deliver future growth across all market segments.

We then heard from Rick Fala, the Managing Director. Group sales dropped from $122 million to $106 million. How ever the major improvement came from reducing sales / marketing and distributing cost by some $8 million or around 26%. This was the result of a major restructuring program of how they serviced their markets. From Rick's comments they are now better set up to take advantage of any upturn when markets improve as well a targeting any new opportunities.

During the year two major distributors were lost, one going into receivership and the other into liquidation.

In the past twelve months some 60 new products were launched which now enables the company to compete in the tap wear and shower market across upper and lower price ranges. He claimed the company was "bursting with new ideas" for development.

One new priority for 2012 -2013 is to implement a new computer system on time and within budget. This will achieve further cost reductions and improved operation performance. With cash flow under control shareholders can expect regular increased dividends. At the same time cash will also be available for any potential acquisitions. A further 25 new products will be introduced in the coming months which will include water and energy efficiency showers. One market segment being targeted is the tap market in Australia. Another is growing their business in China where they achieve their highest gross margins. Growth in NZ and Australia will be through the introduction of new products. The market is flat in the UK as the economic climate is difficult. However, the target is still NPAT growth. Looking further out both the Chairman and Managing Director were very confident about the future prospects.

Finally Rick stated the policy of the company was to attract and retain good employees.

With that in mind, it was good to see Alison Taylor's election to the board confirmed, as she has a strong international marketing background especially in new channel development.

The only resolution providing any question was the increase in total directors' fee pool, which had been static since 2008. Although Brian Gaynor questioned the graphs in the meeting, NZSA was particularly pleased to see the move to performance based fees, which breaks new ground in aligning positive outcomes for shareholders with increases for independent directors. John Hawkins' letter to the company can be viewed on our website.

Des Hunt

Renaissance AGM 6th July

NZSA proxies – 120,356 shares

Not many companies in New Zealand have been clear sighted enough to change their business when the old activity has met real road blocks. If shareholders were asked 3 years ago what business Renaissance was in they would have answered "agent for Apple, the most successful computer company in the world." However having a famous principal is not sufficient reason to live with Apple's direct selling to retailers like JB HiFi, and Dick Smith, or their reductions in credit for stock, or squeezing of distributor margins in an already small and tight market, or introducing a competing distributor, Ingram Micro, as they did in 2010. So the decision to sell the hardware agency business was made in August 2011. Two clear strategies made the decision possible – firstly, establishing the new YooBee branded, Apple computer stores, which will have built to 10 stores by the end of 2012, each with a fully mobile service support operation,

- and secondly, buying and developing the Yoobee design schools, (formerly Natcoll) now employing 120 staff, and serving 850 students, many of them from overseas.

Under the sales agreement Renaissance transfers to Exceed Ltd, (already a distributor for HP products,) the distributorships for Apple, Fuji, Cygnet, Belkin, and Ozaki computer products. The sales process was supported by Apple, and Bank of New Zealand, and resulted in a price of $2.3m goodwill, plus $570k fixed assets, plus stock at cost less provisions – a total of over $5.3m. This is clearly explained by the announcements on the company's website - www.renaissance.co.nz

This Special Meeting was treated not only to the reasons for the sale from Colin Giffney (Chair) and Shaun Rendall (CEO), but also presentations by Steve McLean (GM Retail,) and Ruth Cooper (GM Education.) The meeting ratified the decision to sell the hardware distribution business to Exceed Ltd, and shareholders were relieved to be out of the hands of a steam-rolling global business which has little knowledge of, or patience with this small New Zealand market. The cash realised will make the company debt free, with cash of over $1m which can be redeployed into the remaining two businesses both of which have significant growth potential, and are capable of generating regular dividends. Further cash will be provided from Christchurch insurance claims, and the company should emerge cashed up with approximately $2.5m in the bank.

Alan Best

Restaurant Brands AGM 29th June

The Chairman Ted Van Arkel, in this 15th AGM of the company declared that of the 96m shares, directors held 41m proxies with 36m of these in favour of the resolutions. Unsurprisingly, NZSA held only 11000, for the agenda was uncontroversial, and expectation muted. In spite of a fall in revenue and profit the Chairman claimed 23% compound growth in earnings since 2007.

With continuing strong cashflows, Restaurant Brands has been seeking a further franchise, tracking but holding back on TacoBell, but settling now on Carl Jr. Growth potential is apparently large based on the restaurant visits per consumer, per annum – 195 in USA, and only 53 in New Zealand. Russel Creedy, CEO, spoke of the strategies around each franchise – continuing renovations in KFC, sales of Pizza Huts to local franchisees, new stores and recovery from Christchurch in Starbucks, and 4 new stores for Carl Jr. Nevertheless, the issues raised by shareholders were more about stomach than strategy – chicken pies, double-down burgers, discounts for Goldcard holders, healthier foods, and a new KFC in Queen Street, please! Still, it was interesting to hear of the Brands franchise system including a negotiated up front fee for each new store plus a royalty on sales, monitored by mystery shopper feedback direct to the franchiser,

and ultimately, the big advantage of these food businesses – no debtors, almost no stock because of the supplies contracted out, and the resultant negative working capital.

Danny Diab the Australian director, was elected unopposed.

Alan Best

Widespread Portfolios and Chatham Rock Phosphate Combined AGM 29th July

A combined AGM of Widespread Portfolios (WID: NZX) and Chatham Rock Phosphate (CRP:NZAX) was held on 29 July.

Four directors and approximately 50 shareholders were in attendance. The formal resolutions were passed unanimously and were supported almost unanimously by proxies.

Widespread Portfolios

There have been significant changes since WID was last reported on in Scrip (August 2010). In March 2011 there was an asset swap between WID and Widespread Energy (now CRP) so the latter owned the Chatham project (particularly the exploration licence) only. CRP now accounts for 79% of the value of WID making it the outstanding star of WID's investment portfolio.

Chris Castle a director who is also contracted by WID reported on activities during the last 12 months. This followed his CRP presentation which dominated the meeting so WID activities attracted little comment.

Asian Mineral Resources (listed on the Toronto Ventures Exchange) represents 9% of WID's value and is involved with a nickel development project in Vietnam. It has had varying fortunes in the last few years – in particular the project was hit hard (and put on hold) following the 2007-8 Global Financial Crisis and the imposition of a nickel tariff by the Vietnam Government. Following a private buy-in / merger organised by a Swiss vulture fund taking advantage of its weak share price, a development plan towards commercial mining (and resolution of the tariff issue) is underway.

King Solomon Mines (KSO) is a New Zealand company listed on ASX with gold and copper exploration interests in Mongolia and represents 3% of WID's value. Its 2011 drilling season did not yield the positive results hoped for resulting in a collapse of KSO's share price. The results were however sufficiently encouraging as to warrant further appraisal of a small gold discovery. KSO's AGM is being reported on in this or October's issue of Scrip.

Oil and gas interests make up 6% of WID's value. Akura has exploration interests in Fiji with background gas shows near Nadi airport possible indicative of shallow oil in the subsurface. Kotuku is a WID oil exploration project near Lake Brunner. A ground resistivity exercise has recently been completed and results when analysed will determine the next stage.

The low share price of 11-14 cents compared with a "Directors' Asset Value" of 41 cents per share has been of concern to the Directors. We note that the Net Asset Value per share based on the higher of market traded value or cost (excluding exploration cost) is circa 19 cents.

The share price generally followed Directors' Asset Value until the shares were consolidated several years ago and since then has significantly diverged. The shares will be split 20:1 on 8 August and Directors are hoping this will bring the share price closer to their assessment of asset value. The writer finds this surprising since the unit share price as such would not be relevant. However it could be argued that the investment community seems to be fickle in this regard if one were to believe that some investors are being put off buying a WID share because 20 cents is 'too expensive'. It will indeed be interesting to see if the 20:1 split actually helps close the gap between share price and asset value.

WID's options recently expired well 'out of the money' at an exercise price of $1.49 per share. Following the passing of a special resolution at a brief SGM in June, option holders were given the opportunity to extend them until July 2017 by paying 1 cent per option.

Keith Hindle who chaired the Board recently resigned and WID had to seek a NZX waiver pending the appointment of a new independent director who would be expected to play an active role in the company.

WID is a speculative investment (based on its underlying investments in CRP, Asian Mineral Resources, KSO, Akura) and anyone contemplating investment in WID should be aware that it is quite possible the investment could be lost.

Chatham Rock Phosphate

The principal purpose of CRP is to mine rock phosphate from undersea deposits in the Chatham Rise area. Deposits were identified in the 1950's and delineated in the 1970s and

1980s (although mining then was considered to be uneconomic), and Widespread Investment Portfolios reviewed this several years ago and considered it potentially economic because of significantly higher world phosphate prices and advances in deep sea dredging techniques. Exploration licences were granted in 2010 and exploration has continued at an ever increasing momentum until the present.). In March 2011 there was an asset swap between WID and CRP (formerly known as Widespread Energy) so the latter owned the Chatham project (particularly the exploration licence) only.

There are five significant project risks – resource, technological, fund raising, product marketing, and regulatory (especially environmental). Regulatory and environmental hurdles were stated as being the most significant. Chris Castle gave a detailed presentation on the project and how these risks were being addressed.

A year ago CRP had completed initial environmental studies, chosen Dutch dredging company Boskalis as a technology partner and provided samples to local fertiliser companies. Funding a research cruise was then a 'dream' but the proposed IPO on the Canadian market was not practicable because of the current economic climate (the project risks were also probably unacceptably high).

Significant achievements during the last year included capital raising from private investors, appointment of a phosphate marketing expert, active stakeholder consultation particularly with environmental groups and iwi (the Taranaki and Moriori tribes on the Chatham Islands and Ngai Tahu), and positive PR profile.

The recent Boskalis investment was very significant, being the first time in the world that one of the major marine dredging companies has taken a significant equity position in a mining company.

A year ago it was envisaged that CRP following a Canadian IPO would be a Canadian domiciled company with a predominantly Canadian shareholding. However with recent investments, the shareholding (assuming completion of some transactions) is Subsea Investments (North American investor) 29.4%, Boskalis 20%, Widespread ~11%, Odyssey (operator of the research vessel used) 7.4% and approximately 230 other shareholders ~32%. A Toronto ventures dual listing is being applied for to improve liquidity and to pave the way for a Toronto IPO.

There remains no interest from NZ funds for CRP shares and investment advisers are unable to recommend them because of a lack of research. To help resolve this CRP has commissioned Edison Investment Research, a "leading international investment research company", to research and report on CRP, the first report being due soon and it will be published even if it contains adverse comments.

Significant work has been done on the environmental aspects of the project. A complicating factor is an environmental application will be governed by the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Bill when enacted, and the CRP application will be one of the first to proceed under the new regime. It is hoped that environmental approval will be forthcoming in late 2013/early 2014.

Failure to obtain approval or delays with this is probably the biggest risk to the project at present. So far, various environmental advantages (e.g. reduced shipping distances and allegedly poor environmental practices at the Morocco mine site) of Chatham phosphate have been identified, while adverse environmental effects of any Chatham Rise operation appears to be minimal. In particular there does not appear to be risk to any rare marine life or fish breeding grounds.

The business plan can be summarised as follows:

- Obtain resource consent
- Obtain marine consent and other environmental & regulatory approvals
- Raise US$10 million in funding
- Boskalis to build, own and operate the dredging ship and shore base / export port (Shakespeare Bay, Marlborough is a viable location; Chatham Islands is possible, but may be too expensive for Boskalis to maintain regular supply)
- Production commences with 1.5 million tonnes per annum target (1.0 million tonnes pa exported to Australia/Asia and 0.5 million tonnes pa supplied to the New Zealand domestic market) – with phosphate grade of circa 22% P_2O_5.

Various questions were asked during the presentation and were satisfactorily answered. Someone suggested that following Boskalis taking an equity stake, Fonterra (Sir Henry van der Heyden) and NZ dairy farmers (especially those of Dutch) origin should be approached for investment. Someone asked if more shares would be offered to existing NZ shareholders, but Chris Castle replied that he feels there is little appetite among them for further shares. CRP would however consider accepting investments from 'habitual' investors (where prospectus requirements are waived). There were a few environmental questions that were covered in the presentation.

One gets the impression that there is an eclectic and enthusiastic team that has been working hard over the last several months to bring the project together. If successful the project would have significant economic benefits to NZ.

In the light of that presentation it would be useful to comment on project risks as they currently stand.

1. CRP is fairly confident that the resource and grade is there – based on the $70-odd million dollars spent in the 1970s and 1980s delineating the resource, together with the recent investment in surveying and bulk sampling since 2010.
2. The Boskalis buy-in can be construed to mean that technological risk can be successfully managed and operated. Boskalis is one of the world's largest dredging companies and recent projects include dredging Port Phillip Bay in Melbourne and helping to build a new port in Abu Dhabi. It views the CRP project as a way to gain experience through the entire value chain in subsea phosphate mining – which it can then apply to other potential projects down the track (e.g. offshore Namibia).
3. Recent investments in CRP also strongly indicate that the company can raise the remaining finance needed to commence mining and hence fundraising risk has now been reduced. Efforts to raise the remaining US$10 million required to develop the project to production remain ongoing.
4. Marketing risks are stated by CRP to be significantly reduced as a) fertiliser companies are on the lookout for "safer" and more "secure" sources of supply given the events of the Arab Spring and the fact that the world's number one supply source Morocco is a monarchy with poor environmental and labour standards; b) fertiliser companies have found CRP samples and grade acceptable; and c) CRP phosphate is low in cadmium (and relatively higher in magnesium and potassium) which makes it a suitable blend for the standard high cadmium Moroccan phosphate. The company has recently appointed a former executive from OCP – the world's largest producer of rock phosphate to assist with marketing efforts and contacts.
5. The regulatory risk is of most concern to the directors. While no difficulty is anticipated in obtaining a mining licence because of the work done to date, there is concern that the issue of environmental consent could be denied or delayed, if not initially then because of legal action.

Keith Hindle recently resigned as a CRP director. There will be significant changes to the Board in the near future with the appointment of a Boskalis representative and an independent Canadian director (when listed in Canada).

The share price has edged up to 24-25c compared with 23-24c in April and 13-16c last year. The recent move to obtain offshore prospecting licences in Namibia could provide a second string to CRP's bow in the longer term.

In summary, the probability of the main New Zealand project proceeding is significantly higher than 12 months ago. However CRP must continue to be regarded as a speculative investment as despite the potentially exciting future of the phosphate venture, there remain significant risks to the project especially in the 'environmental' area.

Peter Milne and Ashley Chan

King Solomons Mines AGM 1st August

King Solomon Mines (www.kingsolomon-mines.com) is a New Zealand junior gold and copper explorer, listed on the ASX (stock code: KSO), and hunting for gold and copper deposits in Inner Mongolia – an autonomous province of mainland China. The 2011 AGM was reported on extensively in the Scrip August 2011 page 14.

The 2012 AGM at Turnbull House, Wellington was attended by four directors and 14 shareholders. John Quinn presented his chairman's address in which he outlined the current global economic situation which made raising money for speculative activities such as mining ventures extremely difficult. This in turn puts at risk shareholders' current investment in KSO.

He noted that the 2012 field season now underway (climatic conditions limit exploration work to the summer period) would be of critical importance to the company. Drilling for the Bu Dun Hua Project has not produced positive results and technical data is to be analysed to determine if further work can be justified. Attention has now been turned to the Mud-house gold project with the objectives of increasing the assessed gold quantity and being able to upgrade the area's classification (in ASX's terms) from 'mineralisation' to 'resource'. This requires drilling more infill holes for analysis. Very recently some interesting gold veining has been identified at Naogaoshandu which warrants follow-up.

Stephen McPhail (Managing Director) and Bruce Bell (Executive Director and mining 'competent person') gave a presentation which generally elaborated on the Chairman's address. The company's immediate concern is to raise further equity since present funds are only several hundred thousand dollars. The proposal is to issue a further 25 million shares (166 million currently on issue) at 1.7 cents each being 80% of current market value so exploration work as indicated above can continue. This is not really satisfactory for current shareholders but there seems little choice.

Interestingly, no questions were asked regarding the Chairman's report or the subsequent presentation. While there is no doubt disappointment at the results during the last year, no concerns were raised during the meeting.

Mr Quinn handed the chair to Mr Castle while Mr Quinn's re-election by rotation was proceeded with – this was virtually unanimous.

A resolution regarding equity raising as indicated above was also considered. In response to a question Mr McPhail indicated that the extra equity raising would be pitched at 'sophisticated' investors in Australia and 'habitual' investors in NZ presumably to avoid the heavy overhead of prospectus preparation (while the writer recognises that such legislation is required for the protection of unsophisticated investors it does have the perverse effect of denying investment opportunities to experienced investors who do not meet the criteria of 'sophisticated' or 'habitual' investors). This was passed (proxies 6.4M for, 1.7M against, 10K abstain).

In the last year the share price gas dropped from ≈$A0.07 to ≈$A0.021 which would principally be attributed to the lack of market appetite for investments of this sort and this would not have been helped by the lack of any significant recent exploration successes.

There is some optimism that further exploration will yield positive results but this is dependent on successful capital raising in the immediate future. If there are no satisfactory results in the 2012 and 2013 exploration seasons, the outlook for KSO appears grim.

The usual warning applies for KSO. It is a speculative investment and those who cannot afford to risk losing their money should not invest in KSO.

Peter Milne

Vital Healthcare Investor Road Show

Two escalators and a set of stairs up to Level 3 for 40-50 shareholders to a morning meeting with presenters CEO Stuart Harrison and CFO David Carr. A snappy power point presentation:

- Metrics and Performance
- Financial Review
- Health Sector
- Portfolio Overview
- Summary and Outlook

1. VHC is performing well, highest interest returns of all the indices, largest premium share price to NTA of all NZ property companies, Weighted Average Lease Term (WALT) the longest of all other NZ properties companies at 11 years, Occupancy presently at 98.4%. Half-year profit before tax of $5.87 million.
2. Due to some properties being sold, capital work done in the first half of 2011 and rent reviews taking place later in the year, the income returns in the second half are typically higher than in the first half. In Australia the company tax had been held at 7% but this is now set at 15%. Although this will have an effect it is still better than the typical 30% rate for Australian companies. The company locks in currency rates every quarter in order to bring certainty to the profit returns to NZ shareholders. Debt with banks is around 40%. North West Value Partners now has a 20% interest in VHP and three independent directors have been appointed. This company, based in Canada, has interests in Canada, Germany and Brazil.
3. VHP is one of five property companies now in the IPD (Investment Property Databank) index with a value just under one billion. Thinking of the business in divisions ie hospital care, healthcare and land and property, shows that the Hospital return is the most consistent over time while healthcare assets are less volatile in comparison to the property assets, a 0.75% spread versus 1.25% in property.
4. St George, 20km south of Sydney's CBD is the latest acquisition costing A12.3million, yielding 10% and with 20 year leases in place. In Nov 2011, Mayo Private Hospital in Taree, North of Sydney was purchased for A13 million and having a 20 year lease with Healthe Care. Capital work is being undertaken at Lingard Private Hospital 1705km from Newcastle CBD. This will make it the premier hospital in the district.
5. In total NZ 547.7 million has been invested in property, highly diversified with high risk grades of A and B. Only one facility in Napier has a lower grading for earthquake. 75% of the company is in hospitals, the rest is leased to specialist and medical centres. In the current year 91% have had rent reviews with an average 3.4% increase in rent.
6. In 2015 there will be 29 tenants having lease retirements but with a high probability (80%) of renewal, (6% of total income), 2018 and 2019 will also bring a bunch of lease retirements but discussions already indicate that renewals with follow. A59m has been committed for capital expenditure, most of which will be completed by the end of 2012.
7. The bottom line: 7.7cpu will be paid FY12. One risk that was mentioned is that there are moves in Australia to means test insurance rebates. Maybe this could affect the use of Private Hospitals. Quoting from VHP's report:

"In New Zealand, there has been a decline in health insurance coverage over the last three years. It is a vastly different picture in Australia, which has had a clear increase in membership levels for the last three years. Australia now has 45.7% of its population with hospital treatment insurance, compared to New Zealand's 31.5%. Membership in Australia has increased for six consecutive years (as shown in the graph below), supported by a very attractive 30% rebate for members since 1999. However, this rebate is likely to be means-tested from mid-2012. The market is divided on the potential impact that means-testing will have on health insurance levels in Australia. The Australian Treasury is forecasting a small impact, while health insurers and hospital operators suggest the impact may be more significant. We will continue to monitor the situation and will update you with any developments."

Some very pertinent questions followed especially regarding the management structure and fees. These are between 3.5 and 4 million at present which is 0.75% of assets under management. This does not compare very favourably with 0.65% paid by other property companies. However, these other companies pay extra fees when rent reviews and lease reviews are done. So although it seems higher relative to peer companies, there are no other hidden costs. Is in-house management a dead duck? Not known, the board may re-look at this issue but it was apparent it is not high on their list of priorities.

North West is a global company and is seen as a long term investor. It brings added experience to the board. With softening of property values in Australia this may be a good time for acquisitions there. Also VHP has no presence in Wellington or the whole of the South Island.

The company is not adverse to further expansion, perhaps in Christchurch, but it requires a willing seller and there is the question of scale. There does not appear to be any pressure to list on the ASX at present. The company is 20% owned by the Canadians, 20% by NZ institutions, 1% by Australian investors and the rest by New Zealanders.

The board is looking at 50% ± 5% but will try to get it down to 40%. They consider it to have a very defensive portfolio and consider the valuations to be more stable than other more general property companies.

Tea, coffee and scones, with a pleasant north facing view over the raceway, ended the proceedings.

Pam Hurst

Mainfreight AGM 26th July

The cover of the Annual Report encapsulates the thinking of this company:

One Team

One Passion

One Hundred Years

We congratulate the Board and management for stating to themselves, their global team and to their shareholders their forward targets and achievements out to 2016 and publishing them in their annual report. I encourage all of you to go on line to the Mainfreight site and have a look at these goals on page 58 of the annual report. It would be of value to shareholders if all NZ companies had the courage to state 5 year goals and publish them annually. Alan Best asked about the relationship between these and the company's budgets. The targets are grand but the performance inevitably falls short. There were broad smiles around the board table as the CEO explained, "We don't budget." By relieving branch managers of the responsibility of annual strategic plans and budgets, they are focused on the key things that make the business tick, customer service, gaining new customers, and making a profit every week. The weekly profit result for each branch is distributed to each board member on the Tuesday following the weekend. Now that is keeping the finger on the pulse, and it is one of the things that marks the Mainfreight culture as different.

Mainfreight should be congratulated on yet another strong year of growth and development of their global business. Sales revenue increased 35% to $1.81 billion, with a record net profit before abnormal of $65.75 million. They recognise that they could improve their operations in Europe and in Asia and are completely focussed on strategies to achieve this. Richard Prebble commented to us later that they travel to the branches around the world, and that the visits are very revealing. Branches often do not tell directors the most obvious thing: for example that a branch is all female, or that staff travel an average of two hours to get to work. Factoring these observations into the management scheme is beneficial to local management and corporate governance.

The main issue for the NZSA was the re-election of Bryan Mogridge as a Director. Bryan briefly raised the issued of related party lending in Pyne Gould Corporation, and its subsidiaries, over which the auditors had resigned. He insisted that as the funds had been repaid and no-one had lost any money, he had disclosed the facts to the Mainfreight Board and confirmed they were comfortable with his nomination.

Most shareholders voted for his re-election, although several individual voters and the NZSA voted all their shares against .NZSA questions his judgement and the governance issues surrounding the PGC transactions, as well as his failure to change the governance of Rakon which has disappointed shareholders for a number of years.

The Chairman also advised shareholders that because of short term market volatility that was expected to continue as "the new normal," updates would be announced every 6 months instead of quarterly as in the past.

Jacquie Hagberg

Ryman Healthcare AGM 1st August

The medium term target for the company for some years has been to achieve growth in the underlying profit of 15% per annum. In the year just gone underlying profits grew by 17% to $84M for the year.

The Chairman's acknowledged that many people had produced the results. He said he would like the staff present at the AGM and across the rest of the country to know how much the directors appreciated the efforts they have made to achieve these results.

The company's profit has grown at an average compounded rate of 23% per annum in the 12 years since listing.

The overall reported profit (which includes a positive valuation gain) lifted 17% to a total of $121M for the year to the end of march 2012.

In the year now reporting the build rate was a very impressive 700 units. The company believes this a sustainable number now and for the foreseeable future.

There is continuing increasing demand for facilities, with the Ryman care centres almost fully occupied and only 19 retirement village units available for sale at year end. The demographics are for this demand to increase.

The company has recently opened a new village in Tauranga, and a new village in Gisborne.

The most recent purchase is a development site in Petone, Lower Hutt. A 3.3ha site overlooks the Hutt River, surrounded by reserves on three sides.

Australia

The company has purchased in Melbourne a greenfields site measuring some 2.2ha Plans have been completed and have progressed through the planning approval process very satisfactorily with local council support. Expect to start building very shortly. This village in Australia is very much part of a learning process, and Ryman have now spent nearly 3 years researching the Australian environment.

The company sees huge potential in Australia, and will seek more growth opportunities.

The future

In NZ the company is committed to building at the rate of 700 units and beds a year, and is currently building across seven sites.

The population aged 75+ has been growing at the rate of roughly 5,000 per annum for the past 15 years. This growth rate is expected to lift dramatically.

Investment in aged care has also been changing in response to the increase in demand for hospital and dementia level care relative to rest home care

The Board met before the meeting to review the first quarter of the current year's results. They are pleased to advise that the company is trading well, and ahead of last year.

Kerry Drum *(from presentations by David Kerr and Simon Challies)*

AWF Group AGM 26th July

Shareholders were in a positive mood to see revenue break through $100m hurdle and underlying earnings lift by 26.8%, not only by acquisition of Tradeforce from Skilled Engineering of Australia, but also by organic growth.

Ross Keenan Chairman, explained that although there had been a significant increase in debt to fund the purchase of Mourant, Panacea, and Tradeforce, the group was expecting to be geared at below 20% by 2013. He also explained the use of "underlying earnings" as compared with the earnings reported under IFRS. When labour services with few tangible assets are purchased the goodwill element is high. If Names like Quin, Mourant and Tradeforce are subsequently dropped in favour of the acquirer's brand, then a substantial writedown will be triggered. Management will argue that the goodwill of the business is still there while the auditors will claim that the goodwill attaching to the brand name must be severely impaired. In the "mark to market" environment there is no market, and so the conservative approach is to write down the asset. There is little justification for this when the business is experiencing organic growth, and the services are intact. However there are tax benefits to shareholders, and a strong case for management to be judged on the "operating or underlying earnings," rather than the taxable earnings under IFRS.

Mike Huddlestone, MD, took us through the reporting divisions – now controlling 33 branches in New Zealand: AWF Trades, AWF Labour, AWF Manufacturing and Logistics, the new Tradeforce, and Panacea Healthcare. Opportunities exist in all sectors including road works, sea food, seasonal fruit, trade immigration for Christchurch, and the growing health services.

The resolutions confirming an 8 cent dividend, the reelection of Ross Keenan, and the appointment of Deloitte were passed without dissent.

Alan Best

As for economists, there are those who don't know, and those who don't know they don't know.   John Kenneth Galbraith

XERO AGM 26th July

The Xero AGM was well attended with around 200 shareholders present, making it one of the biggest AGMS in to be held in Wellington for a while.

This was the first Xero AGM for Sam Knowles as chair and it was all about growth. There was a real sense of excitement –even urgency – of a company going and growing at maximum speed:

- Xero now has 100,000 paying customers (78,000 at 31 March 2012 and 36,000 at March 2011). The first 50,000 took five years, the second 50,000 took 10 months.
- Revenue for 2012 was 19.37 million (9.34 million 2011). More significantly annualised committed monthly revenue was $35.5 million as at AGM date ($25.5 million at 31 March 2012). The annualised revenue is a measure of forward revenue based on current customer subscription numbers.
- Over 57% of revenue is coming from offshore now with Australian growth really taking off in the last six months. As at the AGM date there were 26,000 customers in Australia, up from 16,000 at 31 March 2012.
- Employee numbers doubled to 260, revenue per employee is still increasing.
- Average revenue per user per month (RPU) increased slightly to around $28.

Looking forward:

- Xero is now a global company originating from New Zealand but more than a New Zealand company. Xero has offices in New Zealand, Australia, the UK and the US. Two new directors are being recruited this year, one US based and one Australian based. Next year a UK director may be added.
- Growth is still accelerating, Rod Drury has set a target of 1 million customers and expects to hit this in five years (plus or minus two years).
- There are no capital constraints – Xero is well funded and will have no difficulty raising additional capital if required.
- Xero plans to dual list on the ASX, this primarily to raise its profile in Australia and provide a way for its customers there to invest in the company.

There wasn't much talk about the competition (MYOB in NZ and Australia, Intuit in USA, Sage in UK). While MYOB is the incumbent in NZ and Australia, it lacks a credible online strategy and seems to be losing a lot of business to Xero in New Zealand. The impression I got was that Xero feels that it is only a matter of time before it displaces MYOB as the incumbent in NZ and Australia, and that the real challenge is taking on Intuit in the US.

There wasn't much talk about profitably or when break even would occur either – Xero is targeting customer and revenue growth for the next few years.

The resolution to raise the pool of director's fees passed unanimously and at general question time there were a number of questions directed at finding out if the current share price (trading in the range $5.20 to $5.80) was justified and how a company like Xero could be valued. The share price question elicited a very reasonable reply along the lines of "it isn't up to the directors to justify the share price - it is the job of the purchasers to do that".

There was no real answer on the valuation question from the directors, just talk about growth and revenue projections. I'll attempt to answer the valuation question a bit better in a future article.

Martin Dowse

Caught on the Net

"Today might prove to have been a golden age for pensions and pensioners.
The problem with pensions is that they are easy to promise but hard to fund says The Economist. Politicians have in the past offered fat benefits and low retirement ages to voters. Bosses have offered similar goodies to workers. The full cost of those promises does not become clear for decades, by which time the politicians and bosses are long gone. Now the bill is coming due, as the new Pensions Outlook from the OECD, an international think-tank, shows ***More***

Man jailed for collecting rainwater on his property
At a time when the debate on water rights is on our front pages, in the USA (where else) an Oregan man has been sentenced to jail for collecting rainwater and snow melt falling on his land. ***More***

Getting the Jump on high frequency trading
Robert Gottliebsen comments in the Business Spectator that the legalised "insider trading" network, which now dominates share trading in Australian and American stock exchanges, has been caught dangerously extending its activities in New York. And the precedent is likely to apply in Australia. ***More***

Still more on HFT and "Dark Pools"

High Frequency Trading and off market dark pools. Are exchanges innovativing themselves to death? ***More***

The Short Long
Bank of England Director Andrew Haldane, in a speech given at the Universitaire Europeene de Recherches Financiers Colloquium, posits that we are in an age of "quarterly capitalism" where corporations go for lower short term gain rather than higher returns over a longer period. ***More***

New Zealand Reserve Bank 'gesticulates' at Pseudobanks run by offshore Directors
For some time Naked Capitalism has been digging at the ease at which bogus companies are set up in New Zealand by off shore scammers and money launderers. NZ authorities are aware of the problem but are doing little about it. ***More***

Libor - The rotten heart of Finance
There has been lots written about the "Libor rort". The Economist - sometimes seen as the voice of the City - sets out the damming evidence. ***More***

The Spreading Scourge of Corporate Corruption
The New York Times says that American's trust in big business is declining with 62% believing corruption is widespread across corporate America. And three is four believe corruption is increasing. Capitalism can not function without trust and confidence in the probity of markets. ***More***

Your E Book is reading you

In the past, publishers and authors had no way of knowing what happens when a reader sits down with a book. Now, on-line tracking is providing a glimpse into the story behind the sales figures, revealing not only how many people buy particular books, but how intensely they read them. ***More***

Farm prices are on upward trend in the next decade

Good news for farmers. The OECD and the UN's Food and Agriculture Organisation report that, fueled by demand, food prices are expected to move upward ***More***

The Eurozone as a Modern Day 'Merchant of Venice'

Classical literature is often offered as an allegory of modern life. Now Marshall Auerback uses Shylock's quandry to illustrate the dilemma facing Germany. ***More***

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 the presenter. Members are encouraged to refer to the individual company websites for the latest news and disclosures. The work of these professionals who give their time is appreciated by all who attend.

Auckland

Auckland Branch meeting Wed.20th June

In Defence of Directors.

Mike Allen, with over 25 years experience in investment banking and general management, holds directorships in 7 large companies including chairman of Coates PLC & PGG Wrightson Finance. Mike addressed the Branch on a wide range of issues affecting directors today.

Governance - There has been major concern with the quality of governance in NZ with new regulators Financial Market Authority setting new tougher standards and guidelines, which have been too light in the past. The Finance Company collapses, were a good example of low accountability, boards of mixed ability experience and standards, related party transactions, and were complicated by the introduction of the Government Guarantee scheme. There were several where liquidity was running out and directors opted to manage through the lack of cash flow, rather than to tell shareholders and the market, with disastrous results.

He said that with his experience at GPG, he now realises that NZ still lags behind international standards, where as in UK rules are very complex, and where in Australia regulations are tougher.

The rise in activism by NZSA and institutions was a good sign and Boards were now increasing dialogue with these groups.

Good management by the Reserve Bank has been a major strength for NZ, especially since the global financial crisis in 2008.

Boards – Directors responsibilities were increasing, there needed to be more rotation of directors on boards, and wider individual skill sets - some with narrow specialist knowledge and others with a wider business overview. Communication and trust amongst board members was essential.

Best Boards – show good chairmanship in management of board affairs, good CEO, good governance, a blend of older and younger directors, diversity of directors experience (not necessarily gender based,) and clarity about what board members do, with a 2 yearly review of directors' performance.

Why be a director? – good companies with great dynamics can be rewarding and interesting to be a director of. Some good directors can find themselves in difficult situations on some boards. All companies are different, and some require more time of directors and this also applies to chairmanship.

Remuneration – Benchmarking based on consultant remuneration reports was an issue with shareholders, but was needed as a guide and most boards would adopt the average rate for increases and not above.

Noel Thompson

NZ Super Investment – Fiona Mackenzie

Fiona joined the NZ Superannuation Fund team in September 2011 as Head of Investments after a little over a year with NZX as Head of Markets, having returned to New Zealand from a decade or so in the USA finally with Morgan Stanley's institutional equities division. Quoted in the press as vibrant, vivacious and by a former colleague as "exceptional" Fiona was certainly no disappointment on this evening. The presentation began with Fiona delivering a brief outline of the NZ Super Fund and an expression of pleasure in hearing positive commentary regarding the importance of corporate governance from the previous speaker, Mike Allen. She then commented that the overall policy and resulting investment strategy of the Fund was not that which would be suitable for retail investors in that this mission is a long term one with withdrawals not planned for at least twenty years from now. The presentation was accompanied by a number of PowerPoint slides outlining a range of background information about the Fund as Fiona explained the details. The core of the investment management is a reference portfolio with a strong emphasis on future growth:

Global equities	70%
NZ Equities	5%
Global listed property	5%
Fixed interest	20%

This fund, with approximately $19 billion under management (I think that's $19,000,000,000.00 with all the zeros included!!), shares the top position in size with the ACC fund, both by far the two largest funds in New Zealand but still small in global terms. However, Fiona emphasised that the two funds are quite different in intent as the ACC fund is working for today with constant investments and withdrawals but, in contrast, the NZ Super fund was fundamentally planned to deliver growth over the long term.

Fiona outlined the Fund's overall philosophy as, wherever possible, being socially responsible, striving to avoid investment in any questionable activities such as arms and munitions. She also observed that diversification whilst not always easy, was an important aspect of the overall policy and that there is a team of about seventy managing the Fund's investments with a core goal of achieving maximum return without undue risk. They are always looking for opportunities for direct investment or co-investment with peer organisations and, to this end, in New Zealand, have a significant stake in the timber, dairy and other primarily industries.

The talk was followed by a wide range of questions from the audience, which she answered in detail, indicating the interest that had been generated by this thoroughly professional presentation.

It is interesting to reflect that this presentation was not quite the usual in that it brought some light to a completely different aspect of the investment industry. It was not from a company that someone may or may not consider investing in nor was it from one of the many organisations that, for a clip of the ticket on the way past, would be glad to make investments on behalf of individuals. The NZ Superannuation Fund is an institutional investor acting on behalf of all New Zealanders as the Guardians of New Zealand Superannuation.

It is worth visiting the NZ Superannuation Fund website at www.nzsuperfund.co.nz to learn more about this organisation, it's values, it's goals and how it operates.

Robert Johnston

Next Auckland Branch Meetings – note these Dates

Wednesday 19th September – Alexandra Park from 7pm

Don Braid CEO Mainfreight, and Carmel Fisher on the current outlook

Wednesday 21st November – Alexandra Park from 7pm

Featuring Telecom and Xero

Next Auckland company visit:

For various reasons, company visits this year have been the most difficult to organise and consequently notices for these visits have been shorter.

Wednesday, 5 September 2012, am (instead of last week August): Turners Auctions (vehicles), Penrose - max participants: 25

Tursday October 18th: Methven, Rosebank Road, Avondale - max participants: 30

Both visits will be hosted by respective CEOs & senior management in the usual format.

As usual, members who register with Uli Sperber, via uksper@gmail.com, can consider themselves confirmed (unless immediately advised otherwise) & will receive final visit details by email approx. 1 week prior.

Company Visit: **Hallenstein Glasson**
We were addressed by Graeme Popplewell (CEO HLG), Diane Humphries (Man. Dir Glassons) and the CFO.

Corporate

They have a balance of male and female executives with the males working for Hallensteins and the females for Glassons. Their major reasons for being represented in Australia is because of the opportunities it presents and the intelligence it provides re changes in the fashion industry. There are 118 shops in NZ and 9 under the brand Storm. There are 28 shops in Australia which have approximately half the shop space of their NZ equivalent. An Office and Distribution Centre are located in Sydney. Rent and wages each represent 10% of sale turnover in NZ while those costs are 20% of the sale turnover in Australia. Westfield's domination of the Australian Mall Market is identified as one of the major causes in the disparity. Asian manufacturers are expected to supply within 2 weeks of the order. The Distribution centre for Hallenstein is East Tamaki and Glasson has one in Christchurch. They have a flat corporate structure with 31 staff at head office and 400 at the retail level. Altogether 1300 people are employed. The main issue with staff retention is poaching by competitors. Staff training is ongoing and there are incentives. Staff now expect to talk about their career development on a monthly basis and there is a need for constant communication. Foreign exchange is forward covered: 60 – 90 days. Production and merchandising (store displays) are planned and directed from Head Office. There is no debt on the company's balance sheet.

Retail

Forty-five to fifty new stock lines are introduced each week and store window displays are changed every 4 weeks. Their marketing strategy is based on story telling not discounting. Keeping in touch with the market to keep up with fashion trends is a critical factor. The executive are expected to travel to the northern hemisphere every 4 – 6 weeks. Their brand is targeted at 18 – 26 year olds. Sixty percent of the time the company follows the trends and forth percent of the time they set the trend. The company experiences a 1% shrinkage rate which they attribute to tight stock control and personally greeting customers when they enter the store.

Technology

The internet is having a significant impact and the company started to merchandise in this area just over 12 months ago. It now represents 3% of their sales and it is believed that that will double in the next 12 months. Sales are computer tracked which allows them to identify their best selling lines quickly. This allows them to adjust their supply line accordingly. The company operates a blog as part of the website. They believe that it is critical to their market demographic that relationships are built in this way. All their stores offer free WIFI.

Distribution Centre

At this Centre we met the Manager, Anne-Marie Slater. The Distribution centre is completely computerised. Their IT department consists of 2 only and engage third parties to develop customised software. The company owns the building.

Distribution is done via NZ Post and an order received by 1400 is in the appropriate store by 0800 next day, irrespective of where that store is located in NZ. Like the rest of the company the distribution centre is flexible. It operates 8 hours each weekday during the off season and then built towards Xmas when turnover quadruples to a 7 day a week 14 hour a day operation. Part timers are employed, particularly students, to meet the fluctuations. As the operation is so computerised, there is minimal training required for casual staff to make a meaningful contribution. This was demonstrated when one of our number was put in charge of dispatching 3 parcels. After being taken through the process once he was able to operate the computer which weighed the parcel and produced the address label.

Conclusion

This was an excellent company visit where management gave us an in depth insight into their industry. The company demonstrated that it has a nimbleness and the long experience to operate profitably in a volatile industry.

Mark Leys

Addition by Uli Sperber: whilst over the last few years we had many excellent visits, this one stands out with top executives serving personally a delicious morning tea, the board room having been cleared & turned into an auditorium for our 22 members, a coach having been hired for transport between Newmarket – East Tamaki & back, and CEO, Graeme Popplewell, personally running the show for 3 hours.

Bay of Plenty

Our regular meeting held at the Gate Pa Bowling Club on the last Friday in June was attended by 40 members. The main topic was a presentation by Dave Higson titled “My Portfolio Activity” whereby he discussed all aspects of his Trust portfolio. By using the overhead projector members could easily follow the make up of the portfolio which was divided into equities, bonds and cash. Dave gave a very clear account of the New Zealand and Australian and the odd Overseas Investment Trust holdings and his reason for investing in them. The asset allocations were very sustainable, nothing was out of proportion as one of his policies is to take some profit and reinvest. Dave does a certain amount of research, but nothing too technical according to him, but he keeps in touch via various web sites and by having a certain amount of cash on hand can take up anything that takes his fancy. Members asked questions which included the use of online brokers and general items of policy. A good presentation and well done. We hope to carry on this subject at our regular meetings. Several have offered and we are looking forward to the various styles of presentation and the information they will provide.

Helen McDonald who is organizing the Share Pick competition gave an interesting “interim” report. Members were asked to pick 5 shares from the NZX valued at 1st April and the winner will be the person with the greatest increase or smallest loss at our November meeting. Quite a number of members will be hoping their picks will maintain their momentum, and a lot more will hope theirs will improve a lot!!

Jon West from the Investment Centre was our guest speaker at our July meeting. Jon has a banking and finance background, but hastened to point out that he was not an authorized financial advisor. His forte is technical analysis and the subject for the day could well be called “Boom or bust...where are we heading?” Looking at the global picture was not a pretty sight as mounting debt was the problem, and this was brought about in 1971 following the discontinuation of the gold standard. Inflation was rife and the sharemarket saw great fluctuations losing more than 50% in 1987 then rising through to 2007 then another low.

We all know of the prime mortgage fallout in the USA where many banks defaulted and others were bailed out by the government. Most European countries are in turmoil financially and Jon gave examples of well known banks defaulting, which was unsettling, as the general public did not believe this could happen.

The big question “how to make money” is a difficult one but could be rephrased to ”how not to lose your money”. Don’t play the market and be cashed up. According to Jon warning signs are P/E fluctuations. There have been highs of 70 and lows of 6.Investors should have an entry and an exit price. Be defensive and stand back, spread cash wisely. He predicts a further slide in the indices over the next 12 to 18 months. Of course what goes down must go up eventually, and there will be good opportunities for future investors. Quite a provocative and thought provoking presentation and well received by the 50 or so members present.

Neil Parker continued our theme “My Portfolio Activity” and entertained all by outlining his wise moves as well as not so wise ones Neil’s portfolio is spread through NZ USA and Australia. He tends towards the defensive and looks at high yields. The mix is USA 16% NZ 49% Aussie 35% and the allocation is Property 40%, Debt 42%, Other 15%, and Cash 3%.He is keen on property and indexed funds with other equities linked to them. An entertaining presentation with Neil answering questions with his usual pearls of wisdom!

If members are receiving the Script from NZSA headquarters but not from Kerry at our branch, or visa versa check your blocked messages in case your computer or service provider has treated the sender’s address as spam.

John Mainland

Waikato

Since I last reported in the April issue, numbers of Members have increased from 125 to 130. So we continue to grow at the rate of 20% annually, as reported then. There's more than one reason for numbers continuing to increase:

- the enthusiasm of our existing Members to bring their guests, some of whom then become Members,
- the quality of The Verandah where we hold our events
- the attraction of speakers of quality, relevance and variety, and
- the work of the Committee in making the events happen.

At the AGM of the Branch in June we had along one of our old favourites - Brian Gaynor. With his brain sharp as a tack he did not fail, making some trenchant observations on happenings in the NZ economy and among some of our listed companies. And of course, there was Brian's take on the MOM's - the Government's unloved word for what could be the biggest listing this year with Mighty River Power soon in the starting blocks. Along the way, he echoed John Hawkins' report on GPG on pages 16 and 17 of the June issue!

Last full week in July was John Fellet the CEO of Sky Television (SKT). With his accountant's eye he detailed the latest financials. All explained with a style of much dry humour which his audience warmed to. As you know John has been CEO since 2001 - a long time in the hot seat of what is practically the monopoly provider of pay TV in NZ. He came across as still believing in his business and the product, and with a vision to give value to us - his customers. (Customer satisfaction is vital to SKT, with 88% of its revenue from subscriptions)

By the time you read this the bulk of us will be in the middle of the biggest show ever put on by SKT. Those able to be at The Verandah to hear John learned something of the cost and management skills needed to put the show into our homes.

At the AGM John Davies our Chairman said our thanks to two long standing Members of the Committee - Helen Glyde and Roger Jennings. They have retired from the Committee, each in her or his own way having worked to take the Branch to where it is today.

Joe Carson

Wellington

At our June branch meeting we held our branch AGM. All existing committee members were re-elected.

Our branch committee had the pleasure of catching up with NZSA national board members Gayatri Jaduram and Jacqui Bensemann in Wellington recently. Gayatri and Jacquie briefed us on the activities at the national level, and we told them a bit more about life in the branches. They definitely have the harder job!

We have a reasonably full schedule mapped out for the rest of the year. For the next meeting our guest speakers are from Angel HQ. In September we have Trademe and in November we finish with our traditional film evening at Times Cinema in Lyall Bay. October is a work in progress.

Our next meeting will be Tuesday 14th August; details on our branch page at www.nzshareholders.co.nz.

Martin Dowse

Chairman

Canterbury

The Branch AGM was held on Thursday, 7th June at the Russley Golf Club. The scheduled 7pm start was delayed as the Club's gates had been inadvertently locked preventing entry! The problem was quickly resolved once recognized, and the meeting started 15 minutes late. Attendance was disappointingly low because of the atrocious weather and those deterred by the locked gates. At the meeting the branch officers presented their annual reports and the election of committee members returned all six of the current committee. Subsequently, the branch committee has reappointed each of the office holders to their previous positions.

The AGM was followed by a talk by John Hawkins. In his address John covered a wide range of issues pursued by the Association:

- Director and executive remuneration and performance.
- Improving understanding of the NZ investment market
- Listing a number of NZSA achievements.
- Legislative issues with the NZSA make many submissions relating to the FMA, NZX, company disclosures and diversity.

After the talk there was an opportunity for questions which extended into the time for light refreshments.

Our next branch meeting is scheduled for 7:30pm on Wednesday 22nd August at the Burnside Bowling Club when David McEwen will talk on "Australasian Equities: Threats and Opportunities". The branch committee members will also be busy attending several company AGMs scheduled in the region over the next few weeks.

Our Branch Newsletter continues as a regular feature thanks to Tim Kerr its editor. We distribute this newsletter to our members by email. Members' contributions are most welcome.

Robin Harrison

Chairman Canterbury Branch

John Hawkins in a "cup of tea" discussion with Revell Halliwell and Bruce Fraser at the Canterbury Branch AGM

Members' Issues

Directors Indemnity:

Warwick Smith has been concerned for some years that companies pay for directors' insurance. He feels that directors and employees should pay for their own insurance, and that where the company pays for a policy, the details including excess and exemptions should be included in the report to shareholders. Section 162 of the Companies Act allows for personal indemnity insurance of staff and directors to be provided under the constitution, for acts or omissions, occurring in the course of business, but it does not allow criminal acts. So the insurers do not cover dishonest, fraudulent, or malicious acts, and it is now clear from recent cases that negligent acts have more serious consequences.

Given the challenging nature of some our work in the NZSA, we do insure our branches and officers against personal liability and costs, for acts and omissions not including criminal acts or omissions.

Alan Best

Upcoming Events

See Branch pages of NZSA's website for more detail

August 11	NZSA Conference and AGM
August 14	Wellington Branch meeting, speaker Sue Reynolds, Angel Investments
August 21	Waikato Branch Meeting - speaker Grant Baker, the Business Factory
August 31	Bay of Plenty Branch Meeting
August 22	Canterbury Branch Meeting - speaker David McEwen on Australasian Equities - Threats and opportunities
September 11	Wellington Branch Meeting
September 19	Auckland Branch Meeting - speakers Don Braid, CEO of Mainfreight and Carmel Fisher
September 25	Waikato Branch Meeting - speaker Frank Jasper, Funds Manager - Australian Portfolio, Fisher Funds
October 9	Wellington Branch Meeting
October 25	Waikato Branch Meeting - speaker Philip King, Gen Manager, Investor Relations, Fletcher Building
November 13	Wellington Branch Meeting
November 21	Auckland Branch Meeting with speakers from Telecom and Xero
2013	
February 20	Auckland Branch Meeting
April 17	Auckland Branch Meeting

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Many Investors, One Voice

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Editor Alan Best

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