"The Scrip"

MANY INVESTORS; ONE VOICE

New Zealand Shareholders Association Inc
NZSA

April 2014

In this Issue

The Sheriff has a new gun

On April the first, the first stage of the new Financial Markets Conduct Act came into force. For the bad guys, this was certainly no laughing matter. This new Act is a complete rewrite of existing securities law and rolls the old Securities Act 1978, Securities Markets Act 1988 and other investment related Acts into one.

There are many changes that will be progressively introduced through to December. Some of the most visible will include a completely new process to replace prospectuses with much shorter and more concise documentation. At long last you can also expect to see easily comparable information for Kiwisaver and other managed funds, particularly around fees, returns and relative risk. Anyone trying to navigate proposals from different funds will know that the old adage of lies, damn lies and statistics was probably coined to describe this particular minefield, and the changes cannot come soon enough. There is a two year lead-in window for existing issuers, though we would hope most will do much better than this. New issuers will have to comply from December 2014.

Regulations to support these and many other matters are still being developed. Your association remains deeply involved in the consultation process, as we have been during the development of the new laws. This is the first time that there has been a real voice for the buy side of the market and although the activity is not high profile or "sexy", it is probably some of the

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most important activity we have undertaken on members behalf since our inception. Other than facilitating the process, politicians have largely managed to keep their noses out of developments. This has resulted in very little political interference, something which often seems to derail decent outcomes. The new law may not be perfect and undoubtedly a few unintended consequences will require minor changes, but that should not detract from the cooperative efforts of all involved.

There are two really important changes from an investor's point of view that I wanted to highlight.

The first is a dramatic simplification to the way equity and debt can be raised. Put simply, if shares or bonds are of the same class as those already on issue, companies will be able to issue more without the need for a long and complicated prospectus. They will effectively only need to produce a "cleansing statement" that shows continuous disclosure is up to date immediately before the offer is open, and a simple one or two page explanation of the offer. In the case of bonds, this may be quite similar to a bank term deposit rate sheet. In practise, we expect most issuers will do this shortly after their annual or half year results are available which will mean you have plenty of detail to help you decide. There are of course some restrictions and a lot more detail than I can cover here.

The important thing for retail investors is that this will be a much quicker and very much less expensive process. We also think it removes most of the barriers to doing a full tradable rights issue. Timeliness (in particular,) and cost for issues under $20m have frequently been used to justify the current placement/SPP processes, which in our view are often quite unfair to retail investors. Companies that continue with this unfair practise can expect the NZSA to raise blunt and very public questions about their motives, and how such action correspond with a requirement to do things in the best interests of the company, and by extension, all shareholders. We will have to re-write our policy statement on fund raising but for once this will be a pleasurable activity knowing that in all likelihood investors concerns are potentially satisfied by this change.

Having said that, as investors you still have the responsibility to look carefully at what is on offer before committing to any transaction. We recently warned about the foolish behaviour surrounding the proposed TRS backdoor listing. We could have just as easily pointed out that the same thing happened in the Veritas (Mad Butcher) backdoor listing. In that case, those that speculated at the peak are still staring at a 55% drop in the value compared to the price they paid.

The other really important matter is the sheriff's new gun – or more accurately the FMA's new powers around "fair dealing". For a very long time investors have complained that regulators have no overarching ability to intervene when a) things smell upfront or b) before unsatisfactory governance or financial activities have resulted in disaster. For example, many of the finance companies were known to be in trouble, but we are told virtually nothing could be done until they had failed.

The fair dealing rules are effectively a new fence at the top of the cliff. FMA has been given extensive powers to deal with deceptive or misleading conduct by issuers or other market participants. Later in the year this will extend to the making of unsubstantiated representations. Whilst not every situation is included (examples being matters that are the responsibility of the Commerce Commission and some things already included in the Companies Act), FMA will now have the power to make stop orders. In many circumstances these can even be issued before future action has occurred. In urgent situations, interim orders can be made for up to 30 days without prior reference to the company or individual. FMA can also issue direction orders requiring compliance or additional disclosure. These are powerful tools indeed made more so by the fact that they do not require the courts to be involved to get them in place. There is an ability to seek a judicial review, but we think that might be an unattractive option to most individuals or companies who are caught under the new rules!

Moreover, this new law is no toothless tiger. Depending on the matter, civil penalties can range up to $1m for an individual and $5m for a corporate or other body, and could be much higher in some circumstances if compensation orders are made via the courts. There are however, no criminal penalties available under this part of the law.

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So, for those of you who have often said to me “it isn’t right, surely they can do something to stop this”, the answer that finally, in many cases something can indeed be done. However, I have to caution that these quite draconian provisions are unlikely to be used for minor infringements. A sledgehammer to crack a nut approach would have a chilling effect on the markets, and that would not be in shareholders’ or managed fund investors’ best interests. In my view, minor matters will still be easily dealt with. After all, with Sheriff FMA’s gun pointing at them, how many sharp operators will risk the possibility of his pulling the trigger!!

John Hawkins

Capital Efficiency - Equity - The Weighted Average Cost of Capital

NZSA recently put out a Member Pulse on the Auckland International Airport (AIA) proposal to return some capital to shareholders. NZSA supported the move and overall it wasn’t too controversial. Of the votes cast, 99.34% were voted in favour.

But one or two members had their doubts and did raise some questions on the AIA capital return decision. So what were some of the factors that the AIA Board took into account when deciding to make a capital return, and the NZSA Board considered in coming to its “proxy voting intentions” decision?

Funding for businesses comes from a variety of sources. It can be provided by shareholders (equity), lenders (debt) and creditors (payables). Generally, the first two are by far the most significant. A business with strong and predictable cash flows will be able to service more debt than a company with highly variable cash flows. Many agricultural companies are examples of the “highly variable cash flow” type of company. Agricultural companies are frequently subject to the vagaries of commodity prices, as well as weather and currency risks. AIA on the other hand, whilst not totally immune to cyclical factors, has fairly stable cash flows through property rental streams and a wide range of airport service charges.

The Board of AIA considered the performance, growth plans and stability of returns for the AIA business and came to the conclusion that a reduction in shareholder capital and an increase in debt would lead to greater “capital efficiency”. Sounds good but what does it actually mean?

Increasing “capital efficiency” requires consideration of the potential funding sources for the business, the cost of each type of funding and then setting the appropriate funding mix. As mentioned earlier the two principal funding sources are equity and debt. The cost of debt is clear – it is the interest that must be paid to service that debt. Equity too has a cost because without the prospect of return shareholders would not be prepared to invest in the business.

Returns to shareholders come from two sources – dividend yield and capital growth. The cost of equity is the level of return that shareholders will expect on each $ of equity they invest in the business. As it is not really practical to survey shareholders each time, a range of assumptions are used to determine cost of equity. The more risky an equity investment is believed to be, the greater the expected return shareholders will require (higher cost of equity) in order for them to invest in the business.

In recent analysis carried out by Craigs Investment Partners, the cost of equity for AIA was estimated to be around 9.5%. In other words, on average and at that point in time, it was estimated that investors required a minimum annual return of around 9.5% (made up of dividend yield and capital growth) in order to remain invested in AIA.

Note that the current dividend yield for AIA is around 3.1% and the earnings yield (earnings per share divided by the share price) is similar given that AIA has a high earnings payout ratio. Whilst AIA is certainly not a high risk business in the broader scheme of things, an investment in AIA is still seen as more risky than a NZ Government bond investment or a term deposit in one of the larger NZ banks. So if the expected return from AIA was simply the dividend or earnings yield of around 3.1% investors would vote with their feet, because they could receive a similar or greater return elsewhere for a lower level of risk. Investors continue to support AIA at these dividend and earnings yield levels because additional returns are expected to come from capital growth.

Looking at the AIA 2013 annual report we see that the cost of debt is around 6.2% (approx. 4.5% after tax, since interest is a tax deductible expense). The cost of equity at 9.5% is higher than the cost of debt. A key point here is that the cost of equity will always be higher than the cost of debt because shareholders assume a higher level of risk when they invest equity in a business than lenders do when they provide debt. The reason for this is that lenders rank ahead of equity holders in the event that the company strikes problems and/or is wound up.

Now we have the cost of equity and the cost of debt, there is one additional thing that we require to calculate the Weighted Average Cost of Capital (WACC) and that is the proportion of funding that is provided as equity and as debt.

In the case of a company with the same costs of equity and debt as AIA, we can look at different scenarios. If the company was:

100% funded by equity (i.e. no debt) then the WACC would be 9.5% (the cost of equity).

50% funded by equity and 50% by debt then the WACC would be (9.5% x 0.5) + (4.5% x 0.5) which equals 7%.

From this we can see that introducing debt into the funding mix reduces the cost of capital (WACC) because less (higher cost) equity is required. Within limits, capital efficiency is enhanced. Why within limits? Well – because, as mentioned earlier, the level of debt needs to be no more than is appropriate to the circumstances of the business, otherwise the capital structure will expose shareholders to excessive risk. The "appropriate" level of debt will always be a subjective call. Good boards will work to ensure they avoid having a "lazy" balance sheet (under geared) on the one hand but will also avoid having a "stretched" balance sheet (over geared) on the other. In the case of AIA the directors appear to have made a carefully considered assessment, and on that basis decided to adjust the funding mix, by increasing debt and returning some capital to shareholders.

Many shareholders are used to companies making share buybacks and declaring that earnings per share will increase as a result. An interesting aspect of the AIA buyback is that it was not earnings per share accretive. Some of you may have noted that no claims were made regarding earnings per share in the explanatory information sent to shareholders. The reason for this is that the earnings yield (earnings per share) at the buyback price of $3.43 was approx. 3.4% whereas the cost of the debt, that replaced the repaid capital, was around 4.5% after tax. This difference meant that following the buyback there was a modest reduction in earnings per remaining AIA share (from around 11.6 cents to approx. 11.2 cents per share).

So why did NZSA support the buyback proposal when it resulted in a small decrease in earnings per share? The key thing to remember here is that, as the buyback was compulsory and pro-rata, each shareholder's proportionate interest in AIA was unchanged after the buyback. This means that each shareholder's proportionate share of any future capital growth for the business was the same.

So what was foregone?

Earnings per share before the buyback were 11.6 cents.

One in every ten shares held was bought back @ $3.43 per share.

Foregone earnings were therefore 11.6 cents on the bought back share + 3.8 cents (0.4

cents per share earnings reduction for each of the remaining 9 shares held). This totals foregone earnings of 15.2 cents.

Now $0.152 divided by the buyback price of $3.43 equates to a foregone after tax return of 4.4%.

The AIA board came to the view that investors were likely to be able to use the capital repayment for alternative investments that would produce either a return greater than 4.4% for the level of risk assumed, or a similar return for a lower level of risk. Given that AIA shareholders cost of equity is around 9.5% this is an entirely reasonable assumption and one that NZSA was comfortable in supporting.

Martin Watson

Annual Conference 2014

After a very successful 2013 event in Christchurch, NZSA annual conference will this year be held in Auckland in accordance to our bi-annual pattern of Auckland Conferences,

Auckland Branch will be hosting the event on Saturday September 6th 2014. Watch this space for further details, and come to Auckland for "the big day in."

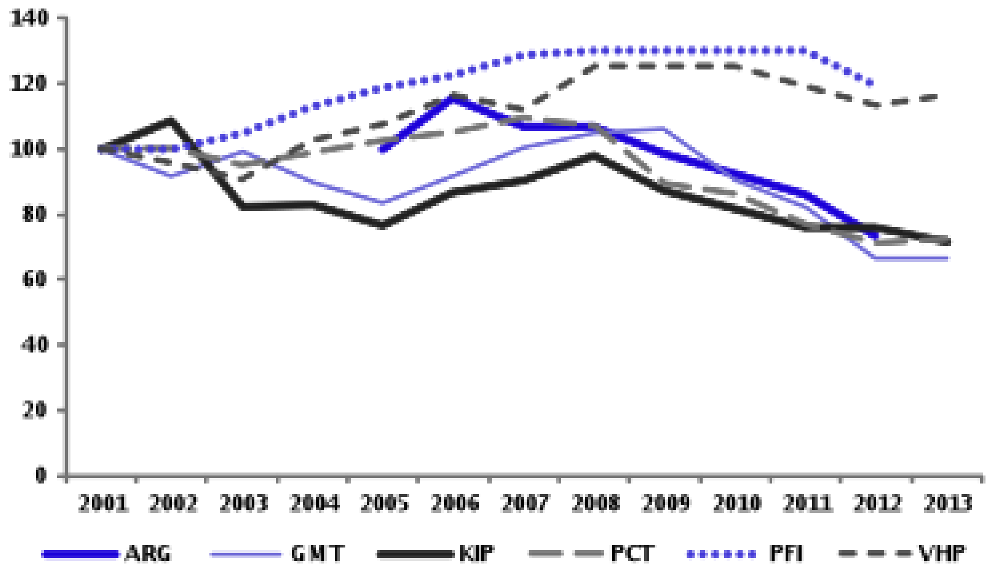
Listed Property Vehicles - A Summary

Ever since its inception, NZSA has advocated a company structure rather than a trust structure for property listings. Articles by John Hawkins in June and October 2011, and the editor's in October 2013, as well as our reports of the annual unit holders' meetings have kept readers up to date with the cityscape of Listed Property Vehicles (LPVs)

However, recent research by Chris Byrne Research Analyst of Craigs Investment Partners, has given a much clearer focus to the governance and return problems which have plagued the New Zealand listed property sector. It is a report that every member of an LPV would do well to read. Chris's tables and charts give a factual basis to shareholder concerns.

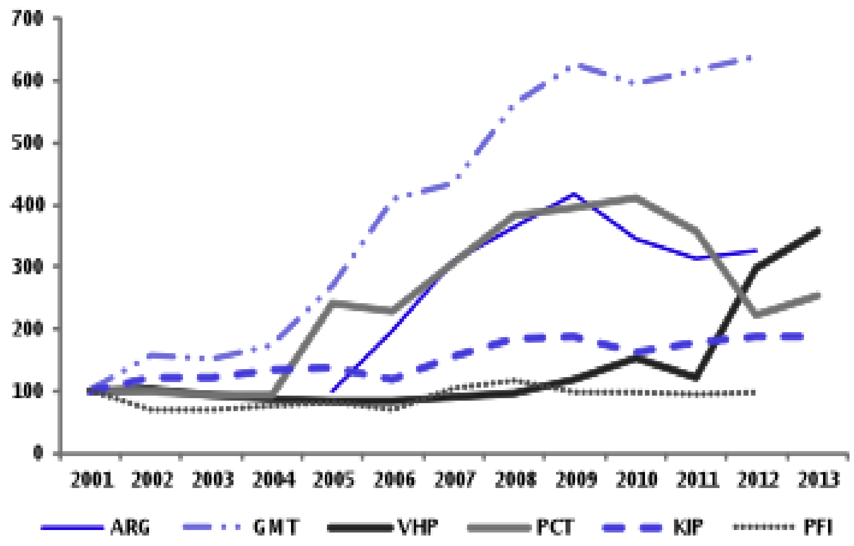
The opening sets the tone. LPVs fell short as an income class, with dividends per unit falling by 1.7% over the past 13 years, even though domestic and commercial property has seen steady growth.

Dividends per unit declined while the market grew.



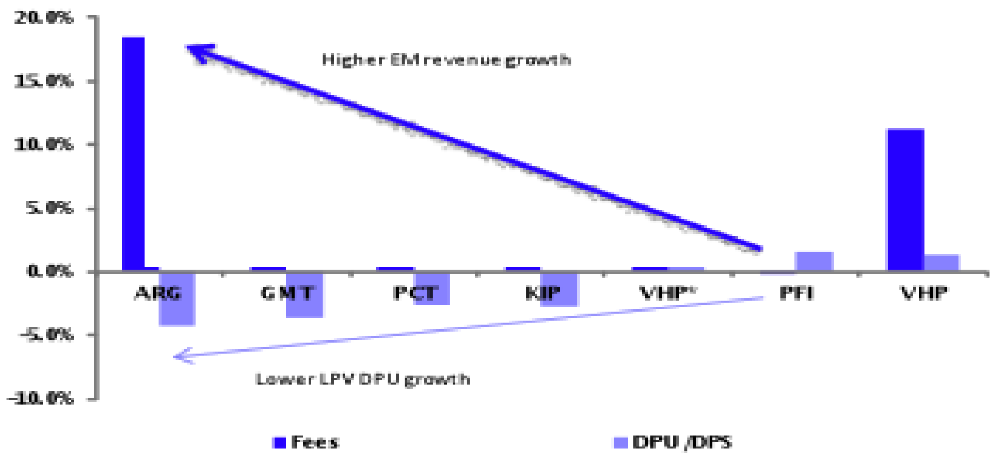
However, while sector dividends have declined, external mangers have received strong returns. Why? Byrne concludes that pursuing growth,(incentivised in the external management contracts,) led to capital raising, and high debt levels. These are essentially poor capital management decisions by LPVs, made while the well managed companies, often their very tenants, were controlling debt levels and generating growth internally.

Revenue growth of External Managers



It became clear in the comparisons between the dividends and the external mangers, that the Trust structure had created significant conflicts of interests. The board was not accountable to unit holders, and the Trustees offered little protection to investors apart from fraud or negligence.

External Managers grew while dividends fell



It is the improvements in governance that give shareholders hope for a better outlook, and Chris Byrne has compared the administration of the LPVs with international best practice.

Corporate governance scorecard - 2005-2008 versus current

	2005 - 2008	Current
Corporatised	17%	71%
Internally Managed	0%	43%
LPVs whose Investors vote for Directors	17%	86%
Majority independent Directors for Mgr or LPV	50%	100%
Directors of Mge or LPV with shares/units	38%	70%
Non-Relative performance fee (lower is better)	83%	29%

Although we believe along with Chris Byrne that 100% corporatised, internally managed structures would be better than the current proportions, the trend looks positive for shareholder interests. The entrenched external managers have compounded the problems of agency, unaligned interests, inadequate board committees, lack of accountability, and fees that bear little relationship to performance against others in the sector. Well done Craigs! The market needs more similar broad research to expose shareholder concerns.

Alan Best

Low ball offers

FMA has reported that since the new rules came into play in December 212, Kiwi investors missed out on $290,000 by accepting direct offers below the market value of their shares.

NZSA contributed to the formation of these regulations, and as expected, the largest number of sellers accepted the offers with an average loss of $45, ie below the level of an average full-service broking charge. However over 500 investors undersold by over $200 well above normal brokerage. We think the new rules are doing their job, and that the front-page disclosures on price and terms mean that buyers like Washington Securities and Zero Commission can no longer make excessive profits from this activity.

Gift those small parcels of shares

SHARES FOR GOOD has been established to provide a charitable home for unwanted shares, and a place for those wanting to donate shares to benefit charities in New Zealand. Shares for Good is a pro-bono collaboration between JBWere, NZX, Computershare and Link Market Services. 100% of proceeds from the donation go directly to the recipient charity. The charity chosen for 2014 is Crimestoppers. Currently fielding about 50 phone calls per day, Crimestoppers provides a simple anonymous channel by which the police receive tip-offs, which can be investigated professionally, to protect the vulnerable or catch up with the criminal.

If you are a shareholder and you wish to donate, simply go to sharesforgood.com and complete the donation form. . The form represents an authorisation to sell the shares and direct the sale proceeds to Shares for Good. Shares for Good facilitates the execution of the sales via JBWere (NZ) Pty Ltd who transacts free of brokerage.

Alan Best

Terra 'Firmer' in Fonterra!

We have come to expect that Fonterra will feature strongly in our headlines. Several comments in the past month have refreshed our interest in the company.

First there was the survey of 3134 respondents by Fish and Game of attitudes to streams and rivers. 92% thought that they should be safe for swimming, fishing and food gathering. 70% want farmers to implement the accord (fence the streams) within 5 years. Should this affect Fonterra? We think enforcement of our environmental regulations should be aimed directly at the entity concerned. If it be a Fonterra plant, let the Regional Council pursue Fonterra, but if it be a company, trust or partnership which owns a farm, then that is the entity which should be pursued by the local authority. These Councils are always capable of policing the minutiae of swimming pool regulations, but the have often been deficient in monitoring streams and rivers only a few kilometres outside a town boundary. We are pleased to see that 82% of farmer respondents said that the polluter must pay for restoration. An NZSA survey some years ago showed that shareholders are interested in the environmental footprint of their companies, and dairying is the issue of the day.

The second comment appeared in Rural News on 5th March. Jeff Smith has noted that competition for milk supplies is making the cost of wet shares unattractive and has resulted in a surplus of dry shares which can be sold on the Trading Amongst Farmers (TAF) market. To understand this we have to go back to the primary requirement by Fonterra of farmer-suppliers – that for each kilo of milk solids, they buy one share. These are the "wet" shares and entitle the farmer to vote. Farmers can sell up to 20% of their wet shares once they have complied with their customer's (Fonterra's) requirement.

Shares which are not production backed are "dry" shares and it is these shares which are most frequently traded on the TAF market. Often, when a farm is sold, the buyer excludes the expensive wet shares from the contract of sale, and the surplus shares become "dry." They are also bought by the custodian of the Shareholders Fund and are the asset backing for the units which are traded on the NZX. The custodian is the core shareholder, while the unit holders share in the dividends but are not entitled to vote.

Farmers converting to dairying find the cost of wet shares a hurdle and demand easier terms, or simply sell their output to other processors. In sharemilking agreements the land owner usually holds the shares while the milker takes 50% of the income. Fortunately there has been strong demand for units in the Shareholders Fund, which ranges in size between 7 and 12% of the total shareholders fund, and the price of these has risen in parallel to the wet shares traded in TAF. The initial forecast dividend of 32c/unit was met, but a reduction in dividend for 2014 to 10c has just been announced.

This brings me to the third commentary by Keith Woodford, written in response to the news that the dividend in the Fonterra Shareholders Fund would be reduced, while the farm gate price is at record levels. It is a problem when a large manufacturer has to set his prices without knowing the eventual cost of his raw material. Fonterra sets the farm gate price. Once before the season as a forecast and then later in the season when the world prices are known. It is set according to the milk price manual on the hypothetical basis that all supplies are converted into dry solids or bulk by-products.

If the manual were followed Fonterra should have distributed 70c more per kgms to its suppliers, or about $1b more from its assets, but that would have left it short of the $10m required for dividends, and working capital for those value-added but short dated supermarket products. Shareholders and unit holders will get a dividend and would expect the gain in assets to be reflected in the shareprice. Sharemilkers will benefit only from the high farm gate price. Does Fonterra need a change in the terms of the manual? This has always been a fear of its supplier-shareholders and a stumbling block to raising capital via NZX.

Finally, we turn to the repercussions of the reduced dividend payout. The market clearly forecast the news which was confirmed in March. Fonterra Fund's unit price dropped in 3 months, from $8.10 to $5.60 with a sudden decline in December 2013. A complaint was laid by a Canadian fund manager with NZX, and Damian OConnor claimed in parliament that the "wild west, insider trading" had returned to New Zealand. A terse reply from NZX, did little to allay the fears of investors. At least the NZX reply was prompt, but there are two outstanding questions. Shouldn't a potentially criminal investigation be conducted by the FMA, and not merely the NZX? And shouldn't a significant charge like this be explained publicly in more depth? The FMA says that the software to track the daily movements in share prices is provided only by NZX, who will provide the information in the first instance. Nevertheless, an insider trading charge should always be the business of the FMA. This does reflect again on our international reputation, and our ability to raise capital. It is not only our justice that is at issue, but our perception of this. Daylight is still the best disinfectant.

Alan Best

Preliminary Feedback on a Prospectus

The public offering of shares in large companies has presented an opportunity to NZSA. The Association has been approached on several occasions to give preliminary feedback on a prospectus before its publication, and it has accepted the assignments. The reviews we do are limited to the readability, clarity and understandability of the offer document from the perspective of a prudent but non-expert investor. It specifically does not include any assessment of the financial statements. Our review looks not only at the wording itself, but also the overall design of the document - including the devices used, colour-coding, graphs, photographs, use of white space – i.e. how user-friendly is it. As the subject matter is likely to be complex, we provide a view as to how clearly this has been dealt with, and suggestions on how it could be improved, if applicable.

The review does not concern itself with the substance of the document, but only the style.

The agreement, between NZSA and the issuer, covering this activity provides for a strict confidentiality agreement, an indemnity for NZSA involvement and it also for the remuneration of the individuals concerned. It is an exacting task often involving over 100 pages of descriptive information. NZSA receives a negotiated sum for organising the service. The conference call coordinating the feedback can be long and detailed, and the adoption of any suggestions is entirely at the discretion of the issuer. In all board discussions on a proposed assignment, any conflicts of interest are declared, and care is taken that the aims of the NZSA are not compromised.

The time frame for a review is usually short, often only 3 or 4 days. The board has therefore delegated the task to members who have the capacity and capability of completing the assessment within a short time frame. The contractual arrangements and methods have now settled into a system. Although the work is very intermittent, it has always been the intention to expand the panel to include qualified members with some understanding of a prospectus and appropriate skills. Any member who is interested in joining the panel should write to the Chairman outlining details of their experience as an informed investor and any relevant background that they believe equips them for the task. Any applications will be treated confidentially.

John Hawkins

NZSA Website Security

Over the past ten years we have continuously upgraded our website and its use. About 80% of our members now accept The Scrip, and our frequent pulses on voting intentions by email. Members are able to research correspondence and back issues and view Branch meeting schedules.

Memberships can be renewed via the website. Credit card details are not retained in our system, and the transaction is conducted on a secure banking site. With new Member Access Codes (MAC), we believe our security systems are robust.

However, we do advise members to use a unique password incorporating upper case, lower case and numeric characters. Please do not use your banking password.

Chris Curlett

Company Meetings

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

Tower Ltd AGM 5th February

Tower has been through a period of considerable change, as they reshaped and resized the operations and are now focused general insurance business. Brian Gaynor asked why this divestment programme was necessary, which we know was driven by major shareholder GPG.

Over the year Tower sold three businesses (Health, Investments and the majority of the Life business) realising a total of $370 million and delivering significant cash returns to shareholders. Shares on issue reduced by 23% as a result of the initial $120 million capital return and have reduced by a further 14% as a result of the recent voluntary share buyback.

Tower advised that they would retain the remaining smaller Tower Life (NZ) Limited, after completing a formal process with a number of interested parties, and determining that greater shareholder value would be realised by retaining the business, but still keeping an open mind to any future approaches.

Tower paid a non-imputed dividend of 6 cents per share in February for the six months to September 2013, bringing the annual dividend to a non-imputed 11 cents per share. They confirmed a future dividend payout ratio target of 90% to 100% of NPAT.

Financial summary

For the full year ended 30 September 2013, Tower reported NPAT of $34.4 million (down from $55.8 million last year). The full year result was impacted by a number of abnormal items related to its divestment programme, but on the other hand the sale proceeds have strengthened their balance sheet and allowed a significant return of capital to shareholders.

After tax profit in 2013 in the General Insurance business was $19 million, before abnormal items. Earnings in this business declined in 2013, due to weather events in New Zealand and the Pacific, exchange rates and tax. However the Board stressed that premium growth provided encouragement that their remaining core business has a positive outlook.

The Board was proactive in requesting NZSA questions prior to the meeting, and the Chairman commented as follows:

"At 30 September 2013 Tower held $156.9 million of cash and investments, in addition to the strong solvency requirements for insurance businesses. These funds have been used for the recently completed capital return and will be used for debt repayment in the coming months, with the balance being used as part of Tower's working capital."

"Last year we provided earnings and dividends guidance for the current business. Whilst it is early in our financial year, we remain focused on delivering to these targets, adjusted for the current capital and debt position of the company. "

"A number of shareholders enquired about selling their small parcel of shares. The Board is committed to providing an opportunity to assist those who wish to divest their small shareholdings and this is actively being planned."

"We have also been asked about the key performance indicators of the CEO; these are focused on delivering growth and total shareholder returns. The KPIs are:

Financial Performance measured by NPAT, capital adequacy which is linked to maintaining regulated capital positions, development of our people, delivering on our target operating model, and importantly customer satisfaction, measured by our net promoter score. "

"An additional focus of the leadership team is given to gross written premium retention and staff engagement levels. And a long term focus on total shareholder return" Your proxy holder is rather pleased about this last point!

Further questions from Brian Gaynor asked why the number of directors was only going down by one, when the assets of the company have been shrunk by half, and there was now only one division rather than in the past 4 divisions, and therefore the size of the directors' fees should be reducing.

The answer given was that Tower was not intending to take more fees, and did feel it was a valid question. Stiassny gave an undertaking that whilst he is Chair he would ensure there would be no increase and they would use the existing pool of fees....but Brian asked why there would not be a drop in overall fees. John Spencer pointed out that there had not been an increase in fees for the last 7-8 years, and that this should be taken into account.

Jacquie Hagberg

Kirkaldie and Stains Ltd AGM 19th February

Share price: $2.40, NTA $3.53, EPS 1.6 cents – what's the problem?

Background

K&S are an up market department store in Wellington and have been in their current prime location on Lambton Quay since 1868.

In 1985 Renouf Corporation (now Hellaby Holdings) bought K&S, redeveloped the valuable site K&S owned including adding an office tower, leased back a portion to K&S on a long term lease at premium rates, and in 1995 floated K&S on the NZX (KRK). By 1999 Hellaby had exited KRK completely and the twin towers housing K&S passed into the ownership of AMP Capital Property, then in 2012 were purchased by Robert Jones.

K&S is closely tied to its position in Wellington and to give it some options (call it an insurance policy) when it came time to renegotiate its lease K&S purchased the Harbour City Centre (HCC) on the next block on Lambton Quay, and moved some of its departments into the HCC.

Over the last couple of years K&S has renovated and earthquake strengthened HCC, replaced a myriad of small tenants with a large anchor tenant, Contact Energy, which has invested in the renovation, and moved all K&S operations out of HCC back to the main leased building.

In 2012 K&S attempted to sell HCC but the sale fell through.

AGM

This AGM promised to be a bit more interesting than in previous years with a lot of discussion around would/should K&S sell HCC. There had been various news articles prior to the AGM giving an estimated value of $50 million for the HCC (including a smaller earthquake prone building behind it) and Chris Swasbrook from Elevation Capital (holder of 179,000 KRK shares) had been nominated to the board, but not by the board, no doubt to push for the sale of HCC and return of $ to shareholders. The notice of annual meeting had this to say "The board has taken the view that whether Mr Swasbrook is elected is a matter for shareholders, and is not expressing a view on his candidacy."

However in the end it was a bit of non event, K&S announce a week before the AGM that, subject to shareholder approval at a later date, they intended to sell HCC by tender on 14 April 2014 by tender and use the funds to recapitalise the retail operations, returning the surplus to shareholders. At the AGM Chair Falcon Clouston opened by saying he had received late notice that Chris Swasbrook was withdrawing his nomination. No surprise in that – job done.

K&S has been struggling for a number of years now. With just the one store in Wellington catering for the upper end of the market it lacks scale and it has been hard to make any profit out of the retail operations at all. Rental income from the HCC has been subsidising the store.

The results in brief – a pre tax loss of $2.38 million ($1.08 million loss 2012) but this turned into a $168,000 after tax profit as the HCC as a result of the change in use of the HCC – now an investment property. It was another tough year for retail with no light at the end of the tunnel. Investment is being made in the online store and refining the business model, and K&S may open a dedicated furniture store somewhere on the city fringe where rent is more reasonable.

The property operations also made a small pre-tax loss due to loss of rent during the refurbishment process – this is complete now.

There were no questions on the financials but a number of questions from shareholders during the general questions part of the meeting.

When will a dividend be declared? The HCC is generating $3.5 million per year so even if it isn't sold there should be funds available for a dividend.

How are retails sales tracking? Sales down, no change in profit.

The location of the cosmetics section is a barrier to shoppers entering (they have to traverse the section to get to the rest of the store)? This is by design; cosmetics are 25% of sales and profitable. The real problem is the store is too small.

If the sale of HCC goes through will you tell us what you will do with the funds? Shareholders will get to vote on this. The board would like to pay down all debt (approx $23.5 million), leave some funds in the retail operations, and pay the rest back to shareholders.

What is the value of the smaller earthquake prone building being sold with HCC? Land value – between 5 and 7 million dollars.

After the meeting we spoke with chair Falcon Clouston and Managing Director John Milford over a glass of wine. They are both keen to proceed with the sale so they can use the funds to recapitalise the retail operation – what does "recapitalise" mean? Pay off the $23.5 million debt and leave some money in the business. How much and why? No real answer to that but if you read the annual report and take the numbers in small print on note 25 and do the math, the lease probably has 15 - 16 years to run with a total commitment of $61 million. The landlord is Robert Jones, a canny property investor known to extract top dollar rent from his tenants. So perhaps money left in K&S will ease the rent burden.

Martin Dowse

BurgerFuel Worldwide SGM 26th February

A very different meeting because:

- Spunky venue in Fort Lane
- Spunky young shareholders (who obviously accepted shares instead of potato chips with their burger prior to listing!)
- No cardboard cutout of founder Chris Mason, who had flown in from Dubai
- Spunky, unusual and ultimately positive exchange of shares between the founders and Milford Asset Management.

The first resolution being put the meeting was the purchase of shares by Franchise Brands (FB), a company owned by the founders of Subway. FB is the largest franchise company in the world. The purchase of shares was from Mason Roberts, the holding company at a set price of $1.35 over the next 8 years..... It is a great coup for Burgerfuel, providing enormous potential and injecting $9-10 million of cash.

The second resolution was the sale of 600 million shares by Milford Asset Management (via their custodian TEA Custodians Limited) to the company Mason Roberts Holding Company MR at the same price of $1.35. In effect this transaction mitigated the loss of shares in the sale to FB for the founders Chris Mason and Joseph Roberts. Joseph spoke highly of his regard for Brian Gaynor who had been a mentor to him in the early stages of the business, and particularly after listing when the GFC occurred.

Brian himself spoke about the sale of the shares to MR – explaining that at $1.35 this was a good increase on the original price of the shares, and they wanted the founders with good skin in the game.

And the potential that FB brings to the business would increase the value of Milford's remaining shares which are held in their Kiwisaver fund. This has proved to be the case as the share price on the day of the meeting was $2.60.

We were supportive of both resolutions as neither were dilutory on non-Milford shareholders.

Full information on the resolutions can be found on the Burgerfuel website.

I would also comment that there were two "spunky," grey haired Directors on the Board – The Chairman, Peter Brook, and Alan Dunn. I am sure that the early appointments of these independent directors have meant that governance and leadership from this Board has been sound, and is something that the NZSA applauds.

Jacquie Staley

Two Meetings - Two problems - Hallenstein Glasson and Postie Plus

Hallenstein Glasson– 12th December 2013

Net profit was down by 11.18% compared to the previous year. The chairman, Warren Bell, said that both the Haldensteins and Storm brands performed to expectations, but Glassons, which sells women's' wear, felt the brunt of a record mild winter, in both New Zealand and Australia. However the balance sheet remains strong and the group remains debt free.

Mr. Bell said that the company had moved into Queensland, there being a lot of Kiwis in Queensland, quite a lot of whom come into the stores.

The CEO, Graeme Popplewell, said that they believe that the retail experience is a critical part of their offer, and that they put that theory into practice by opening their biggest store yet on Lambton Quay, Wellington where, he said, the results had been impressive

Mr. Popplewell made some interesting observations about ways in which the internet is changing commerce. He described e-commerce as a double edged sword, saying that Haldensteins had grown their own sales on the web to almost 5% of turnover but could not accurately measure how much of that business had been gained at the expense of their own stores. However they see evidence that customers carry out research on the company's web site before coming into a store to try on and buy. He said that they can't measure how much business they are losing to international brands and to pure-play websites but think it would be naïve to suggest there is no impact. ……

It used to be that a suburban shopping mall provided an experience and convenience for shoppers. That's why malls grew and prospered. Now, however, more convenience can be found on your phone, Ipad, or computer. 24 hours a day, 7 days a week. You can comparison shop, hunt for the latest trend, and have your purchase delivered to your door. You don't have to hunt for a park or jostle with crowds. But, you don't get much of an experience. …

I don't want this to sound like sour grapes, but we are competing with an e-commerce world where profit margins are low or non-existent, and competition for market share is the name of the game. Here is a quote from the New York Times on 24th October 2013 about the world's largest e-tailer:

> "Amazon's third quarter followed a familiar script: it sold vast quantities of things, lost money while doing so, and investors were delighted. Revenue was $17.09 billion, the company said on Thursday, up 24 percent and about $400 million more than analysts predicted. But all that volume

> could not yield a profit. Amazon lost 9 cents a share, or $41 million, just as it had anticipated. Investors broke out the Champagne. In after-hours trading, the stock was up $29, or 8 percent, to $361. The stock is up nearly tenfold since 2008."

Mr. Popplewell said that that the failure of the tax system in both New Zealand and Australia to collect GST from sales made by international web sites puts Hallenstein Glasson at a clear disadvantage.

In discussing the fall in profit I asked Mr. Popplewell what was wrong and he replied that they didn't know. He said "If we knew what was wrong we'd fix it." He said that they have many small unlisted competitors, and that every week someone offers a storewide discount. He said that Christmas moves forward every year. He also said that in selecting stock they ask what can we sell that for in volume, quickly. He also said that advertising has moved from newspapers to digital.

Postie Plus 20th December 2013

Postie Plus received approval from shareholders to sell its school uniform business, Schoolltex. (We now know the sale to The Warehouse Group for $9m was completed at the end of February.) The Chairman, Richard Punter, said that they were reluctant sellers, and were selling in order to reduce bank debt. He said that the company's bankers continued to reserve their rights in respect to covenant breaches by the company, and that the net proceeds of the transaction will be used to reducing the bank debt. (In 2012 the company had sold its Babycity chain shortly before it was announced that the company had breached its banking covenants.)

Mr. Punter said that things had not gone as planned for the company during the year, and that the net loss attributable to shareholders in 2013 was $13.17 million, compared to $0.18 million in 2012. The company had shifted its head office and its distribution centre to Auckland. It had also planned to launch a new health and beauty retail brand, POGO. Mr. Punter said that the shift of the head office to Auckland had been successful. However the distribution centre (DC) had not initially functioned well. He attributed the company's poor performance to these problems and said that the company was seeking compensation from the logistics company.

Mr. Punter said "In addition, the DC is now functioning adequately and our DC provider is still a vital part of the Postie operation. It is therefore not in the Company's interests for me to talk freely about our current relationship with our third party provider, or about our plans for the future of the DC. For the same reasons, I want to stick to our previous position of not publicly naming the provider." I wonder if retaining the ability to name and shame the logistics company gives Postie a stick to use to get adequate compensation. One shareholder told me after the meeting that he had warned Postie Plus against using this logistics company on the grounds that their experience in New Zealand was not relevant enough.

The launch of the new brand, POGO had been put on hold.

Both Mr. Punter and the CEO, Richard Binns, were optimistic about the company's future.

When I have previously represented the Shareholders Association at Postie Plus and Hallenstein Glasson meetings I have suggested that they move from voice votes to poll votes. I represented the association at the AGMs of each company this year. Hallenstein Glasson had moved to poll voting but Postie Plus retained voice voting except for the vote on the sale of Schooltex.

Barbara Duff

Cavotec Investors Meeting 19th March

Cavotec's annual investor presentation was held at Clearwater, and attended by about 60 shareholders. Cavotec de-listed from the NZX in 2011 and is now listed on the Stockholm Nasdaq. Link Market Services has an arrangement with Cavotec to facilitate information and dividend dissemination. About 650 New Zealanders remain on their share register and the Christchurch design office of Cavotec employs about 30 staff.

The meeting was address by the Chairman, Mr Stefan Widegren, who gave a 40 minute presentation on the overall company's performance. He explained that the financials for 2013Q4 were disappointing with a drop off in both short term and the larger long term activities although these had followed record levels in 2012. However, there is now evidence of a substantial upturn in larger long term contracts which will show through in the financials by late 2014. The most notable advances recently had been three large orders, totalling €28m, for the MoorMaster automated mooring system including the largest ever order to date from the St Lawrence Seaway Authority.

Mr Widegren went on to explain that progress with the litigation claim for $12m in the USA was continuing but with the other party using delaying tactics. The case was now scheduled to be heard in October and Cavotec's legal representatives were confident of the outcome.

The dividend will be held at 0.05 Swiss francs to be paid in early July but directors have announced their plan to raise the dividend ratio in the future above the previous ratio of 25% of net profits into the range 25% to 40%.

Cavotec shares were valued at $2.45 when finally traded on the NZX in September 2011 but are currently trading on the Stockholm NASDAQ at the equivalent of $5.50

Robin Harrison

Caught on the Net

What drives your risk appetite?

The willingness to run risks varies enormously among individuals and over time. John Maynard Keynes put these differences down to "animal spirits." The Economist looked at recent research into the determinants of risk appetite and found a wide range of causes. ***More***

Always invest in what scares you

Chuck Jaffe, in Market Watch, argues that the more confusing the market seems to get, the more investors need to develop their voice of reason and remind themselves of their long-term plans. ***More***

Downtonomics: A fictional estate's troubles echo in the modern world.

A new season of Downton Abbey will soon be with us. Writing in the Washington Post, Steven Mutson sees the economic travails at Downton being repeated today. ***More***

The best investment strategy? Getting out of our own way

Carl Richards quotes Warren Buffet, "benign neglect, bordering on sloth, remains the hallmark of our investment process" in a New York Times article where he admonishes (American) readers for buying high and selling low. Of course we are smarter, aren't we? ***More***

Five Compelling reasons never to retire

Retirement isn't a natural state for human beings claims Brian Lund in a Daily Finance newsletter. He points the blame stick at an overweight German, Otto von Bismarck, who way back in 1883 set the age of retirement (with a pension) at 65. He lists five reasons to continue working as long as possible. ***More***

Why are markets inefficient and what can be done about it?

John Authers, in the Financial Times, argues that the modern driver of market bubbles is the institutionalism of investments with fund managers trying to outperform the market. Trading momentum, divorced from real world fundamentals, leads eventually to bubbles and mispricing. He offers some solutions but even he doubts they would succeed. ***More***

Bank of England layperson friendly videos about the nature of money.

And you thought you understood how money was created. Filmed in the Bank's gold vault, these videos explain how commercial banks create money and don't simply lend out savings. The amount of money created in the economy is ultimately dependent on the demand for credit. ***More*** And for the 13 page Bulletin explaining all this is detail ***See Here***

Funds can also be 'to big to fail'

Andy Haldane, incoming Bank of England Chief Economist, in a speech to the London Business School's Asset Management Conference, said that the size of some mega Asset Managers means that distress at an asset manager could aggravate frictions in financial markets, for example, through forced asset sales. He sees such firms as the next frontier for macro-prudential policy, such as credit and capital requirements now being imposed on banks. ***More***

(US) Stock Market rigged, says Michael Lewis in New Book

'Flash Boys': A Wall Street Revolt, a new book by Michael Lewis about High Frequency Trading has been creating considerable controversy. The book has been described as a 'page-turner that reads like a novel and succeeds in making complex topics accessible to non-experts. Matthew Philips opines in Bloomberg Businessweek on what Lewis got right and wrong. ***More***

High Frequency Trading: Threat or Menace?

Staying with the HFT theme, Justin Fox blogs on the HBR Blog Network that his sense is that:

> In the big picture, financial middlemen exist to enable the glories of capitalism, but day-to-day they're mainly out to separate customers from their money.

and

> While the stock market is rigged, it's always been rigged, and that hasn't prevented it from delivering pretty impressive returns to long-run investors.

Of course none of that applies here. ***More***

CSR: The dangers of 'doing the right thing'

In the first of a two part essay for Spiked, Phil Mullen examines how the decline of profitability and investment has caused corporations to lose faith in their social role, leading them to embrace the idea of corporate social responsibility - at the expense of democratic accountability. ***More***

Why CSR is socially irresponsible

Phil Mullen goes on to argue that CSR is actually inhibiting the very real contribution, in terms of both innovation and economic progress that business ought to be making to society. ***More***

The Global Market Winners and Losers of Q1 2014

From the Business Insider Australia. It will come as no surprise that agricultural commodities were clear winners. ***More***

Londoners priced out of housing blame foreigners

This Bloomberg report is just another reminder that the issue of housing affordability and availability seems to be universal. ***More***

House of Cards producers try, fail to bribe politicians

The Warner Bros tax breaks here were no 'one off'. The practice is well established in many countries. Sometimes, the studios meet resistance. ***More***

How fees and expenses affect your investment portfolio

While this is fairly basic stuff, a (US) Securities and Exchange Commission bulletin illustrates the effect of fees and expenses on investment returns. ***More***

Worsening US divorce rate points to improving economy

When times are tough, couples can not afford to separate. Bloomberg sees an increased divorce rate as an indicator that the economy is on the improve. ***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 those presenting. The work of these professionals who give their time is appreciated by all who attend. Members are encouraged to refer to the individual company websites for the latest news and disclosures.

Auckland

Fonterra Brands:- visit to Fonterra plant, Takanini, 3 March 2014

Fonterra Brands is the division of the Fonterra Co-operative Group charged with adding value above the milk price paid to farmers by manufacturing and marketing more advanced goods on local and world markets. The returns to farmers are reflected in the milk price, while the returns to shareholders in Fonterra are in the form of this added value as shown in the financial accounts of the Co-op. The milk used in further processing is a major cost factor, so the return to shareholders can vary in inverse ratio to the return to farmers as the milk price goes up and down.

The meeting was addressed by Craig Irwin, Director of Marketing. The opportunities available to Brands were shown by the increases in revenue available by further processing of milk. Whereas 10 litres of milk could produce revenue of $12 in the form of powder, yoghurt could produce $27, cheese $23, and 80 sticks of ice cream $275.

Attitudes towards dairy products had changed in the company's favour in recent years, with increased acceptance of their health benefits, and this was being stressed in marketing efforts. As an example, Symbio yoghurt now had 80% of the digestive "Pro balance' market and 12% of total yoghurt sales. This followed the use of catch phrases such as "Every Day Nutrition" and "3+Dairy a Day" and the general approach that "dairy is good for us".

The introduction of light-proof milk and cream bottles was a means of differentiating products as well as was promoting the health angle. This gave continued support to the iconic brands such as Anchor and Mainland.

The Takanini operation processed about 240 million litres of milk annually. At other plants, Palmerston North took in 60 million litres, Kapiti Coast 6 million, Tip Top 28 million and 50 million litres were processed through a contract arrangement with Goodman Fielder in Christchurch. About 5% of the total national milk supply is consumed in New Zealand, with Fonterra Brands taking about half of that. About 30% of Brands production is exported, mainly to the Pacific region.

The milk price paid to farmers has a major effect on Brands' (and the Co-op's) profitability. This payout has risen from $3.25 in 1990 to $8.65 in 2014. However, no financial information was given on the Co-op's current and projected operations and hence the total added value being achieved.

Mr Irwin's address was followed by a plant tour which, as is usual with liquid products being piped in vast quantities to highly automated production lines, was a little hard to follow.

A sample tasting of Fonterra's excellent products before and after the tour was much appreciated by those attending.

Bill Jamieson

Future Auckland Branch Meetings

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

Wednesday 8th April
Jason Hollingworth, CFO Sky TV
Albeert Brantley, CEO, and
Andrew Donaldson CFO,Genesis Energy

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

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

Wednesday 19th November, Speakers to be advised

Future Company Visits

Wednesday 14th May
Chorus, Newmarket - presented by CEO Mark Radcliffe. Plus, viewing of a Fibre Exchange and Fibre Networks

Register with Uli Sperber

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

Bay of Plenty

Discussion Group Meeting 28 February.

Our guest speaker, Russell Garland from Forsyth Barr, spoke on the year ahead. Forsyth Barr was founded in Dunedin in 1930s and now has 100 Advisers – all FMA accredited.
Russell said the outlook for 2014 is positive with good economic fundamentals but there are some negatives such as political, regulatory risk and interest rates. Global investment is where growth will really be. 30% of a portfolio should be overseas.

March meeting

This "After 5" meeting drew 79 attendees of which 22 were non members. Our Guest Speaker was David Pilkington, Chairman Port of Tauranga. He strongly believes that New Zealand was done a big favour when UK entered the EU. POT is 13th largest company on NZX. It is NZ largest port by volume – 19.1 million tonnes and by far the largest port exports/imports combined. The Port's strategy looks at the whole of NZ as its hinterland. In March 2013 consent was granted to dredge the shipping channel so it can take much bigger ships with drafts up to 14.5 m. There is also a need to ensure consolidation of cargo hence investment of 50% in Timaru with dairy export increasing greatly.
David strongly believes that Directors of companies should be good commercial people who have been out there to be Board Members.
He also touched on the kiwifruit market and believes the market model is an outstanding success because of the high standards Zespri has set.

Friday, 28 March the Branch paid a visit to Trustpower Head Office.

Our AGM will be held on 8 May @ 6 pm. Our Guest speaker will be Tony Carter, Chairman, Fisher & Paykel Healthcare. This is another "After 5" opportunity for non members (no voting rights) and working members also to attend.

Jane Lyndon

Waikato

27th February 2014 Meeting The Big Questions for 2014"–

Mark Lister – Head of Research "Craigs Investment Partners"

1. Has the rally run out of steam?

2013 performance; NZX up 16%, ASX 19% & US Markets 30%

NZ Dollar has plateaued against most currencies

Share values are increasing with corporate profits

Most markets offer Fair Value, with current PEs below long term average

Better value found offshore, and so diversity is still recommended

Equities still better value than other Assets Classes

2. Is the Global economy recovering?

Worlds problems are not fixed, but things are improving.

Most regions in expansion (via PMI measures)

Global growth predicted to improve solidly in 2014

(NZ 2.5% this year and 2.9% expected 2015)

Australia and China have short term challenges

Mark's Prediction: 7-8% lift in markets over 2014

3. Will the US end the Money printing spree?

The taper has now started

The outcome of reduced 'QE' to be determined by how the Fed and new Chief manage it.

4 Rising Interest Rates & the Election are two big themes in 2014?

Expect OCR increase to 3.5% in 2014, and 4.5% in 2015

Looking back, over the last five interest rate cycles, the NZX still increased

5. What to buy in this environment?

Good balance of growth vs. dividend yielding stocks

Election appears too close to call

The energy sector in holding pattern due to Labour proposal risks

Ultimately whatever election result, it shouldn't derail the recovery

6. What should an investor buy in 2014?

"Diversification is still the only free lunch"

Still get share market 'ups and downs' but less dividend variability

Inflation should be a risk by now, but it hasn't happened yet

Craig's Top Ten Portfolio, back tested, shows dividends provide a 'return on investment' over ten year period

Australia thoughts:

- Resource sector can only really rebound

- Housing and Construction cycle

New Zealand thoughts:

- Excellent outlook despite RBNZ's controls & election risks

- Focus on quality companies with clear earnings growth

Tony Begbie

March 25, John Williamson, Managing Director of Hellaby Holdings (HBY).

If you are interested in the HBY story and the ongoing development of the company, a good place to start would be with the presentation made to Waikato Branch that HBY has also lodged with NZX. It can be reviewed using the following link:
https://www.nzx.com/files/attachments/191609.pdf

John gave us an overview of where HBY has come from since a business turnaround commenced in 2007, how the business divisions are now structured and the plans in place to further grow the company from here. Over the six years to June 2013 HBY generated $200 m of free cash flow.

The vision for HBY is to be seen as "a leading Australasian investor" through "building better businesses". The intention is to move towards having 3 or 4 large divisions that each generate $20 EBITDA or greater. Currently there are two divisions operating at around this level – automotive and oil and gas services. Over time any non core businesses will be divested.

John emphasised the rigorous process that is applied to reviewing and analysing potential acquisitions. HBY has a number of businesses under review at any one time. An approach may be made to a company even if it is not on the market. There are business owners that the HBY team has been talking to for a number of years. Most of course won't lead to a deal, but HBY works hard to identify and keep in touch with strong prospects. It is careful not to let any "lemons" through.

Growth in the medium term is likely to come mostly through acquisitions and organic growth from the newly acquired businesses. The purchase of Contract Resources (oil and gas services) in early 2013 has been the most significant purchase to date. Contract Resources (CR) has been performing well. Not only has in allowed HBY to enter a new business area but it has also given the company offshore exposure as 90% of CR's business is outside New Zealand.

In September 2013, HBY also made a "bolt on" acquisition for the automotive division when it acquired Federal Batteries, an Australian battery distribution business.

On an annualised basis, the oil and gas division and the automotive division will now contribute around 70% of HBY's EBITDA.

HBY also operates a range of equipment (AB

Equipment and Eurolift), packaging (Elldex) and retail footwear businesses (Hannahs and No 1 Shoe Warehouse) businesses. These businesses will either be grown or divested as opportunities arise.

One of the things that John is particularly proud of is the calibre of the Hellaby's people. Currently there are around 3000 employees across the range of businesses. HBY has also been able to identify, develop and retain a very capable senior management team.

After a period of strong performance in terms of Total Shareholder Return (TSR) from 2009 through to 2012, John commented that HBY has underperformed the NZX 50 Gross Index over the past 12 to 18 months. He is keen to address this and is focused on building the core business divisions and proving the acquisition strategy is well targeted.

John pointed out that HBY is unique among the companies listed on the NZX Main Board. It offers "access to sectors shareholders could not otherwise invest in".

As one of perhaps a dozen or so HBY shareholders out of the 65 listeners, I paid particular attention to what John had to say. I have held HBY on and off since 2009; recently I have been "off" and this month I bought back in again.

With Gordon MacLeod from Ryman Healthcare speaking in April and Martin Hawes speaking in May, Waikato Branch NZSA continues to offer plenty to interest members and guests.

As "NZ's most popular financial author" with 16 books to his credit, Martin Hawes will speak about investments, with particular coverage of shares. Plans are in place to promote the Martin Hawes evening to the wider public. The presentation will form part of a membership drive that Waikato Branch is undertaking.

John Davies

Comments to the Meeting from Martin Watson

Martin covered the issues that NZSA has with the form of the recent capital raisings by The Warehouse Group, Wynyard and Heartland. The preferred NZSA approach is for companies to use pro-rata, renounceable rights issues to raise new capital, as this leads to the fairest treatment for all shareholders, small and large.

In the case of The Warehouse Group and Wynyard, the size of the raising and the lack of urgency around the use of funds meant that a rights issue to all shareholders would have been quite feasible.

In the case of Heartland, the "available" part of the raising was smaller, at $20 m, and the company was in the process of making an acquisition which was due to complete at the end of March.

NZSA makes a point of communicating the Association's views to companies that fail to adequately consider the rights of all of their shareholders when they raise capital.

Joe Carson

Upcoming Events

For more information go to Branch section of NZSA website

2014

April 9	Auckland Branch meeting
April 10	Canterbury Branch meeting
April 22	Waikato Branch meeting
May 8	Bay of Plenty Branch meeting
May 13	Wellington Branch meeting
May 13	Canterbury Branch meeting
May 27	Waikato Branch meeting
June 10	Wellington Branch meeting
June 18	Auckland Branch meeting
July 8	Wellington Branch meeting
September 6	NZSA Annual Conference

Wellington

We have about 130 current branch members of which between 20 and 40 come to our monthly branch meetings. We provide light refreshments at the meetings.

This year we plan to hold 9 meeting keeping the same schedule as in previous years, i.e. our meetings are held at the Royal Society rooms 11 Turnbull Street, Thorndon on the second Tuesday March to November from 7:30pm to 9:00pm. We have found that meetings in February and December are poorly attended so no longer run these.

Our members have expressed interest in hearing more about "real investors talking about investing" so for our April meeting we have five or six investors talking for 7 minutes each about one or more of the topics:

- how they got started
- how they invest (strategies/styles)
- their rules of thumb
- investing stories (good or bad)

See you there!

Martin Dowse

Canterbury

We have three events lined up for the next couple of months: firstly we are organising a visit to PGG Wrightson's seeds division "Kimihia" and their farm at Lincoln on Tuesday 8th April. Numbers are limited so prior booking has been essential.

Our second function will be a Discussion Evening on 10th April titled "Managed Funds verses Index-linked or Direct Investment" This will include a directed discussion with introductory videos. It is to be held in the Fendalton Croquet Club with Peter Heffernan presenting some interesting video clips. Members are invited to join with the branch committee to discuss the pros and cons of these different investment strategies…including KiwiSaver.

Our third event will be at 7:00 pm on Tuesday, 13th May at the Russley Golf Club when Brian Gaynor will be speaking about portfolio management. The event will be open to members and non-members and will include an introductory promotion to be delivered by Board member Max Smith.

The branch committee continues to maintain contact with members through its monthly Branch Newsletter edited by committee member Tim Kerr.

Robin Harrison

Members' Issues

Computershare - Another "New" website

After the build-up to the launch of the new website, together with the improvements as claimed below, the experiences to date with this site have been underwhelming to say the least. The new site was said to be:

Streamlined – to help you pinpoint crucial information quickly

Smarter – with essential functions grouped to make navigation simpler

Easier – with fewer clicks required to perform share management function

To begin with, the registration process was somewhat of a marathon with all the extra steps around security to sort through. It was disappointing at this stage to realise that Computershare had not taken the initiative to allow one access point for multiple CSNs (Common Shareholder Number) etc. but required a journey through the registration process for each individual identity. Unfortunately, most of this registration process was far removed from the three objectives above.

Once setup, logging onto the Computershare website is perhaps a little easier than before but, with the login name and password on separate screens, it needs both keystrokes and mouse or other pointing device movements to both start and complete the login. Not just keystrokes with TAB to move between the respective fields

The first task attempted was to register for a DRP (Dividend Reinvestment Plan) for a major NZ listed company. To begin with, the login process was slow and from completion of password entry took about 15 seconds before the main portfolio screen appear. - All up about 45 seconds or more to get to a starting point.

Now, how to register for a DRP? After searching through the screens accessible under the specific company it was time for a phone call to CS to ask how to do this. It took a little time to resolve the answer but, for whatever reason, DRP selection is hidden under the user's profile accessed by clicking on a button "My Profile" on the main screen. Even then the process is not that straight forward.

When trying to select the company concerned, the list presented included every investment held under the particular CSN regardless of whether that entity offered a DRP; and to make it worse, the list appeared to be in a random order - not alphabetical by Company Name or Ticker Code - or any other obvious logical sequence.

Having eventually resolved the DRP request, it was time to start to print out a table of current holdings in order to prepare for a 31st March valuation. Click on "Portfolio" and a table of holdings is presented in quite large fonts so that page 1 occupied about twice the screen height. It was necessary to then select page 2 and scroll again to see the whole portfolio.

But it gets worse! I wanted to get this info into a format that I could use in Excel There must be a way to export this to .CSV (Comma Separated Values - a format that has been more or less computer to computer Esperanto since the 1960's) or perhaps .XLS or .XLSX (Excel native formats) or similar? No, not at all! The only way to record this was to print the pages to .PDF (Adobe's Portable Document Format) and then only in landscape as the table would not even fit onto a portrait page without destroying the columns. It get worse; each of the 2 on-screen pages took 3 pages to print. Six pages in all for a report that should be able to be presented on a single page. And after all that, it still remains to manually transfer the data to Excel piece by piece. How this process could be in any way related to the promised "Streamlined" "Smarter" "Easier" would seem to defy any explanation.

The "Dividends & Payments" area seems to work a little better, but is still slow and uses a lot of screen space for what it presents. It has never heard of the New Zealand term "Imputation Credits," but prefers to call these "Tax Credits," no doubt derived from the website's Australian ancestry. Selecting the .PDF output of this data showed that a direct .PDF presentation of the payment data is no better.

When considering a company, such as Precinct Properties where a non-taxable payment has been made, the website does not make this at all clear but instead refers to a "Supplementary Dividend" again indicating that no thought has been given to delivering the information in a manner applicable to our New Zealand environment. However, by trying another route "Statements & Documents" a .PDF copy of the original Remittance Advice can be found that does deliver the data in a more familiar and usable format. However, there does not appear to be any way to even access let alone download payment details and history for a whole portfolio.

Overall, it sees to be aimed at "looking wonderful" but does not have the design depth or perhaps planning to represent a significant step forward. Yes, the login process appears to have been given some severe attention but what incident sparked that off? There is a rumour afoot that someone managed to manipulate the AMP share registry (also operated by CS) to perform some under-handed transactions, but the response may look like an overkill. Most bank websites are more user friendly to connect to than this and they are more tempting to the bad guys. Apart from this, the website is woefully short of useful information for any shareholder who is maintaining a moderate portfolio.

It is interesting to compare Computershare with the other major Registry's current website (Link Market Services - LMS) and, without going into too much depth, here are quite a few useful or perhaps essential features that are conspicuously absent from what ComputerShare has delivered to date:

- LMS allow multiple NZ CSNs and also even Australian SRNs (Security holder Reference Number) to be grouped together under a single login. The NZ CSNs can be viewed together or separately by user selection.

- LMS login process is considerably more streamlined. (takes about 3-4 seconds).
- LMS provide for printable or .CSV downloads to use in Excel of portfolio details and current valuation etc and retrieving .PDF copies of remittance advices etc seems much quicker and easier.
- LMS provides printable or downloadable .CSV files of all dividend and interest payments for a portfolio including details of Gross Payment, IC (Imputation Credits) RWT (Resident Withholding Tax) and Nett Payment that can be easily used in Excel for preparing EOY (End Of Year) returns.
- LMS offer TXT messages to your cellphone advising of any changes to holdings when a stock is bought or sold. This could be an effective thwart to any attempts to carry out illicit transactions.

Robert Johnston

Editor: We would appreciate further comments on the service of registries to investors, remembering that their primary customers are the listed companies, not the retail investor

There is little evidence that these overseas controlled entities actually consult user groups when they develop their systems.

The Feltex saga - In court again

It is over 10 years since NZSA questioned the experience and qualifications of directors in the first AGM of Feltex after its float. Since that time NZSA has been intimately involved with shareholders who suffered. At the outset NZSA's stated objectives were to recover as much as possible for shareholders, to ensure that directors do not have further opportunities to squander shareholder wealth, and to ensure that regulators restore market confidence.

Proceedings began with NZSA's successful petition to appoint a liquidator. Throughout, there have been problems. ANZ Bank stalled on releasing its documents to the liquidator, and shareholder activists complained (wrongly) that liquidator, McDonald Vague would not release documents to assist with their case. Of the 3 actions tabled, the first, a criminal action by the Companies Office failed when Judge Doogue found that the directors should have been able to rely on professional advice that they sought, and that there was no intention to mislead authorities, shareholders or potential investors. We doubt that this defense would be successful today. The second action brought by McDonald Vague alleging a failure act in the best interests of the company, failure to disclose the Hurst bid, and reckless trading, was settled out of court to save further costs.

This left only a slim hope for the claimants marshalled by Tony Gavigan via the lead claimant Eric Houghton who owned 11755 shares. In August 2011 1800 qualifying shareholders had joined the action, and by March 2014, when the case opened, the number had swollen to over 3600. The Scrip has kept members informed of these cases in a stream of articles and comments, which can be seen by using the search engine in the members' pages on our website.

So how have we fared with our original objectives. We opposed the relection of Mr Tim Saunders to the board of Contact Energy. He was initially re-elected but stood down a year later. Ms Joan Withers who did not own shares, resigned months before the receivership, and has gone on to chair successfully, Auckland International Airport, and Mighty River Power. She was not included in the action brought by the Companies Office. The other directors have all withdrawn from listed directorships. NZSA's greatest achievement has been to participate in the reform of legislation aimed at restoring market confidence. This covers a broad spectrum, - governance, financial advice, the FMA, financial reporting, codes of conduct, and capital raising.

So what is left of the objectives? The recovery of shareholders' money. Please don't hold your breath, but that will be decided by a claim in the Wellington High Court for $185m.

Alan Best

Dilution in Heartland's Capital Raising

I have on-going concerns about the dilution effects of companies' share purchase schemes such as the recent one by Heartland NZ which has been fairly typical.

Heartland has a market capitalisation of about $350m and sought to raise another $20m to assist with a recent company purchase. Some $15m was raised from institutional investors at a discount price with the remaining $5m then offered to existing shareholders also at a discount. Understandably, it was massively oversubscribed (by 4 to 1) despite a $15,000 cap per application. This arrangement disadvantaged existing shareholders and favoured the institutional investors who had been given the prior allocation.

I would like to see a clear NZSA policy statement on these capital raising schemes with strong guidelines to companies (through the NZX) which would protect the interests of existing and particularly the smaller investors.

Robin Harrison

Editor: From the 1st April, we have new rules under the Financial Markets Conduct Act. Read again the Chairman's powerful editorial in this issue. The NZSA's old position is set out on our website under Resources – Policy Statements. The NZSA Postion is clear. The question then becomes, what should we do when a company does not follow our policy? We usually follow the approach that we contact the company first, so that the factors such as urgency, state of the investor market, and costs of capital raising are fully understood. It is a fair criticism that this does not give us the publicity that we need, and a more prompt followup on behalf of members is desirable.

Pro rata Rights offer (an excerpt from our website, which will be updated soon.)

1. A renounceable pro rata rights offer should be the preferred starting option for any listed company seeking additional equity funding. This method allows the company to offer all shareholders additional equity in proportion to their current holding.

The benefits of this method are:

- All shareholders have the opportunity to share proportionally in any issue.
- All shareholders have the opportunity to avoid dilution of their shareholding.
- Where capital is required quickly, the company can accelerate the institutional component of the offer, using an accelerated rights issue

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Editor Alan Best

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