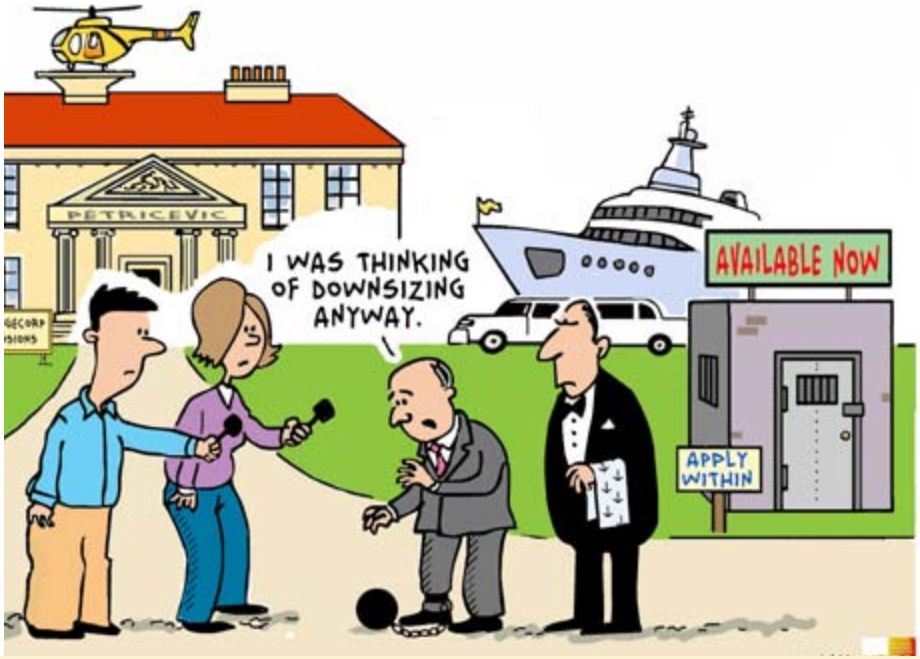
"The Scrip"
MANY INVESTORS, ONE VOICE
NZSA
ISSN 1179 -4275
April 2012

In this Issue

Chalk and Cheese

The problem with some kinds of cheese is that they smell terrible! Apparently though, according to some of my more masochistic friends who for some reason entirely lost on me, enjoy chomping thru small mountains of the mouldy stuff, it tastes pretty good. Unfortunately, in the case of Bridgecorp and its former directors, the smell around their boardroom table was simply one of governance gone rotten.



I am writing this just after it has been announced that Petricevic and Roest have been found guilty on 18 securities charges and Steigrad on 6. Essentially they knowingly and deliberately suppressed problems facing Bridgecorp, and lied in the prospectus when they said no interest payments had ever been missed. This wasn't a one off situation either, as evidence showed a pattern of deception over many months. Their callous disregard for the law has resulted in a great deal of distress for many fixed interest investors. Worse still, neither Petricevic nor Roest appear to have shown any remorse, attempting to blame everyone and anyone including each other. My advice to them would be that if they want to see the cause of their problems, go and find a mirror!

The Judge has indicated that substantial jail terms are inevitable for the main culprits - and that is how it should be in this case. The S.F.O. has also filed charges under the Crimes Act alleging misappropriation of company funds for personal use, so this story still has some way to run. Available penalties range from 5 years on the securities charges to 10 years on the criminal, plus large fines. We can only hope that restitution and civil action follows and that these commercial hazards are denied any future opportunity to rort the public.

Compared to Petricevic's smelly cheese, the Lombard situation was plain old chalk. Sir Douglas Graham and Bill Jefferies, both former Ministers of Justice found themselves on the receiving end of a criminal conviction, but the judge imposed community work sentences and restitution rather than jail. For Graham in particular this was a humiliating end to what has otherwise been a distinguished career. He was quoted as saying "it would be better if he had just dropped down dead." Doubtless many people who got shafted by the failure of Lombard Finance would agree. But in my view the press may have muddied the waters by carrying out their usual character assassination at the expense of reporting all the facts?

Graham and his fellow accused were convicted of making untrue statements in a prospectus issued by Lombard on 24 December 2007. This failed to disclose relevant information about increasing cash flow problems and concerns about the likely non-performance of five large loans. On 10 April 2008, the trustee, on behalf of debenture holders called in receivers. The total amount involved in the collapse of Lombard was about $127m. But only a small fraction of that was invested or rolled over in the period when the faulty documentation was in circulation and it was this very limited circumstance that the case revolved around. Investors who think the Lombard case was about "losing the lot" are mistaken. Like most finance companies, a combination of borrowing short and lending long, plus wholly inadequate commercial risk management was most likely Lombard's undoing.

The Lombard directors claimed they did make enquiries and should have been able to rely on management advice despite it having been unreliable or over enthusiastic previously. However, the Judge said that they failed to adequately question the information they were given. Their judgment may have also been coloured by concerns about the effect that full disclosure of the liquidity problems could have on the company - and by extension on existing investors. However, the judge was firm in his view that this could not be a consideration. He said: *"The statutory defence of reasonable belief in the truth of content is not a variable standard of reasonableness, depending on other pressures acknowledged by directors in forming the views that they do."*

The Judge went on to say, *" the directors' obligations in relation to the accuracy of content of offer documents are non-delegable"*. In simple terms, this means that directors must get involved with the business of the company, ensure that they question information presented to them and actively make decisions themselves rather than relying on others.

What has not been widely reported is that of the five respects in which the information was alleged to be untrue, the Judge found them guilty on only one and a small part of another. He acquitted them or dismissed the other charges. He specifically noted that there was no evidence that Graham or the other defendants deliberately set out to defraud investors. In contrast, Petricevic and Roest were found guilty on all 18 charges which involved deliberate deception.

The Judge also said that directors must properly disclose relevant information to let investors make an educated decision - the problem is that in both these cases, even if an investor did as the NZSA always advocate and looked closely at the available information, the omissions made the task meaningless. This seems to me to be a catch twenty two from the investors perspective. A reasonable argument could be made for the court

to have to consider the consequences of the director's actions in these situations, rather than just the motivation for them.

The Judge then observed that, *"The standard imposed by s 58 of the Act is absolute in the sense that criminal liability will follow from the issue of documents containing untrue statements or omissions."*

He decided that the Lombard directors made an honest mistake that inevitably led to a criminal conviction. There was no deliberate decision to deceive – although that may be cold comfort to the debenture holders that did suffer. The penalties he imposed were therefore at the lower end of the scale.

However, this is only the beginning for Graham and the other three. Their commercial careers are in tatters. Employment opportunities are effectively gone and both the receivers and the FMA are considering civil action on behalf of the affected investors. For Graham the impact has been huge. He was deputy chairman of the Guardians of the New Zealand Superannuation Fund, that's gone. He lost his own money in Lombard, and now has reparations to pay – despite evidence to the court that he actually has little in the way of assets. His perks as an ex Minister are gone and there is pressure on the Prime Minister to strip him of his title. For the other Lombard directors, the situation different. They have most of their assets tied up in trust funds and therefore most likely out of reach. That is frustrating to Lombard investors and the NZSA alike, but while most of our politicians continue to utilise trusts themselves, the cynic in me sees little likelihood of change.

So, what are the lessons here? Firstly deliberate lies will land directors in big trouble. This will remain the same under the new Financial Markets Conduct Act. Secondly, there is no place around the board table for seat warmers, rubber stampers or high profile but unskilled directors. The courts have now made it crystal clear that being a director is a serious and relatively demanding job which requires active and considered input. Thirdly, honest mistakes or omissions are not considered by the courts to be as serious as deliberate acts, even if substantial money is lost as a result. In fact, under the new FMC law, the Lombard directors would not have been convicted of a criminal offense although the monetary penalties are now higher.

Bridgecorp, however, was a deliberate, ongoing and systematic deception and would have resulted in criminal convictions under the new law . The miserable outcomes for investors may have been much the same, but the causes for the court cases and the results for the directors really were chalk and cheese.

John Hawkins

Chairman

Notice of Annual General Meeting

The Conference and AGM of the NZSA is planned to be held on Saturday 28th July at the Alexandra Park Convention Centre in Auckland. The programme is still being finalised and we will advise further details shortly. Nominations for Board positions and Notices of Motion must be received by the Secretary at PO Box 42-139 Orakei, Auckland no later than 44 days prior to the AGM. If you wish to nominate any member to the Board of the NZSA or submit a Notice of Motion, the forms to do so may be obtained from Chris Curlett by emailing him at **secretary-treasurer@ nzshareholders.co.nz**

In Search of Fair Effective Transparent Financial Markets

Introduction

NZSA has, for some time, been heavily involved in the "once-in-generation rewrite of securities law" (as was described by the then Minister of Commerce Simon Power).

Being the only New Zealand organisation representing the "buy side" of retail investors, it was obviously important that NZSA got involved at an early stage as a "stakeholder". During the rewrite period, NZSA has had a number of meetings with various regulatory authorities. NZSA believes it has made a significant contribution to the rewrite.

This rewrite is a significant step in the process of restoring and enhancing retail investor confidence in the NZ capital markets.

The first step to the rewrite began with the Ministry of Economic Development (MED) discussion paper in June 2010 titled "Review of Securities law." This called for interested groups to make comments on a range of existing provisions and proposed changes to be incorporated into a new Securities law regime. NZSA made a substantial submission on this in August 2010. You can view a copy of our submission and MED discussion paper on: **www.nzshareholders.co.nz**, under What We Do" then click "Submissions".

NZSA made a number of further submissions during 2011. These were:

- June 2011, submission on the Commentary on the Securities Act Review as detailed in the 2011 Cabinet Economic Growth and Infrastructure papers.

- September 2011, submission on the draft Financial Market Conduct Bill.

- November 2011, submission on the Financial Market Conduct (Regulators and Kiwisaver) Bill.

So far, 2012 has been just as busy on the reforms.

Financial Markets Authority on effective disclosure in offer documents

In March 2012, NZSA made a substantive submission on Financial Markets Authority's (FMA) draft guidance note on effective disclosure. As you will appreciate effective disclosure is fundamental to fair, efficient and transparent financial markets.

FMA met more than 30 stakeholders (including NZSA) and received over 60 submissions on its consultation paper.

Sean Hughes (FMA CEO) commented on the quality and depth of the submissions and acknowledged the "considerable care and time commitment undertaken by market participants and consumer groups involved in the consultation process".

Thanks to our members who responded to our email questionnaire on this issue. Your contribution was very useful and used for NZSA's submission.

You can view a copy of our submission and FMA's draft guidance note on: **www.nzshareholders.co.nz**, under What We Do" then click "Submissions".

FMA issues revised draft guidance note on effective disclosure

As a result of the submissions on the draft guidance note on effective disclosure, FMA recently published a revised draft of the guidance note and invites further submissions by 1 May. NZSA is currently considering the revised draft. The final guidance note is expected by the end of May.

Financial Markets Conduct Bill – select committee deadline

The Financial Markets Conduct Bill ("FMCB") had its 1st reading in March and has been referred to the Commerce Select Committee. The deadline for submissions is 26 April and NZSA will be putting in a submission.

MED's last consultation process on the FMCB exposure draft focussed on the technical details. However the Committee review of the FMCB will also now involve matters of policy. NZSA understands that the likely focus for the Committee relates to the movement from criminal liability to civil liability and the change in focus for primary liability for disclosure failings from the directors to the issue.

NZX on Board Diversity

At the time of writing NZX were about to release a document for public consultation. The significant change will be the proposals on board diversity. There will also be a number of other changes, to address some of the issues concerning the Rules, for example, removing inconsistencies and clarifying some aspects of the Rules.
Submitters will have five weeks to provide a submission to NZX. After considering submissions, NZX would finalise the amendments and obtain FMA approval.

In a similar vein.....NZSA on Board Composition

Late last year NZSA released its position on "board composition". See **www.nzshareholders.co.nz** under "**Research**" then "**policy statements"**.

Gayatri Jaduram

A Tap on the Shoulder?

At last the establishment is confirming what we have been saying for the past few years.

When will a friendly tap on the shoulder stop being the main means of recruitment?

In the latest Institute of Directors magazine there is a good article about the lack of diversity on our listed companies as well as the need for directors to understand the businesses they represent. A recent survey by Harvard Business School's Professor Groysberg and Deborah Bell found local boards lacking in global expertise. Some 40 per cent of the Australia and NZ directors surveyed said they lack the skills on their board. Forty percent of those surveyed in Australia and NZ admit they lack industry knowledge on their boards. When we challenge companies with the same questions the majority will deny this is the case. The key question is what needs to be done to change this attitude.

Firstly we should review each company to see how their directors rate as far as diversity and knowledge of their industry.

The next step is to raise this with those companies where we believe this is an issue. Do they acknowledge the problem?

We could then ask, why are there no younger directors when a huge demographic change is taking place in the makeup of society?

Where we see the company lacks industry knowledge, global expertise, younger directors etc, we should ask what are they doing to address the problem?

Changes are likely to occur if we take a professional approach, which shows companies who have diversity, global expertise, younger directors on their boards are out performing those who do not.

Des Hunt

Membership Fees

The NZSA board has approved a $5 increase in membership fee for 2012.

General membership which includes Branch membership is now $120.00

Student membership which also includes entitlement to branch meetings $25.00

NZSA with all its news, advocacy, and research is run by volunteers, but we do incur costs and we would appreciate your prompt payment when you receive your invoice.

A Cuppa with Alison

Alison Paterson has recently stepped down from the Chair of Abano. This is another milestone in an exceptional career in governance, which has included directorates with Apple and Pear Marketing Board, Landcorp Farms, PGG Wrightson, Waitemata Health, The Reserve Bank, Massey University, Metrowater, Vector, and NZX's surveillance panel. Members have continually nominated her for the NZSA beacon award, and such was her support, that we thought it time we met and asked Alison about her views on a range of topics.

Q. What prompted you to become a successful public company director?

A. Peoples career paths happen in different ways – some plan their careers well and execute that plan conscientiously. Others take an opportunity and run with it, and that was me: I caught a wave and rode it rather like a surfer!

I was running a sole accounting practice in Taumarunui when Jim Bolger was the MP for our electorate. Jim recommended me as a board member to the Apple and Pear Marketing board, and I was the first women to be appointed to a Producer Board. My farm accounting practice was large and I had operated at industry level, with a high profile in the agriculture sector. If you are given the opportunity and you perform well you then are offered other opportunities, and for me that came with other board appointments to the extent that eventually I became a professional company director.

Q. Was there a particular mentor who helped you, and do you think it is it important for directors to have a mentor in their early days? Why? How do they help?

A. In my early working days, I was mentored by an accountant, Tom Caskey, but I was also greatly assisted early on by working in the company of experienced, intelligent fellow directors, such as Sir Rod Weir and Sir Ron Trotter, who were generous in their guidance and help. If an aspiring director has the opportunity to serve on the board of a large organisation in the company of senior directors they would find this valuable.

Q. Is the pathway for an aspiring woman director different from that of a man?

A. No, the pathway is no different for men and women but career interruptions to have children can impact on progress towards this as a goal for women Discrimination can work for women in a positive way as men are often willing to help and assist if they believe a female director is up to it. However, I think that some women aspire to directorships as evidence of success. There are other ways of

measuring success, e.g. attaining financial independence. For those who aspire to a directorship they must have a clear view of the value they can add to the board of that organisation.

Q. In choosing fellow board directors, do you think a range of skills is important for a board, or is it more important that they simply have the required objectivity and ability to question?

A. Industry experience is a given as a vital skill to bring to a board, and then particular career acquired skill sets. It is essential also to understand how an organisation works. In some instances a smaller listed company that wished to grow would need important skills in acquisitions, mergers, takeovers and financing at board and management level.

Q. To what extent do you think board diversity important – is this more important than the specialised skill relating to that company?

A. In choosing directors a balanced board is vital. The task of the board is the selection of the right CEO, who with their senior leadership team, together with the board, will develop the vision, strategy, budget and business plan for the company. The Board's continuing role is to review, debate, challenge and monitor management's performance. Diversity is important and not just gender diversity – and I do think that women add a different perspective to board debate.

Q. Shareholders have had higher hopes of performance by many independent directors than has been delivered over recent years – how do you think the environment has changed during your time on boards?

A. The standard of governance is immensely higher than in the 70/80s and that is very positive. In those days there were several directors who had too many board appointments to adequately perform. Four recent court decisions have emphasised the risks for directors who fail to comply and fail to take "all reasonable and proper steps". The judgement that "ineptness" can result in a criminal conviction is very alarming for directors.

Q. Do you have any view of the suggestion that 'apprentice' directors join boards, to provide a further pathway for those willing and able to become directors?

A. Why do we need apprentices – a board is only as good as its weakest link. It is quality not quantity that counts. I believe that a better way is for aspiring directors to come up through the company environment: e.g.: James Miller in his former working environment at Craigs worked with many boards, and as a result he made a successful transition to professional director with Vector, AIA, NZX and the FMA.

Q. Shareholders agree that executive pay has risen out of proportion to average pay. Is it possible to reverse the trend?

A. Senior executives in large companies carry a heavy load, and I believe they more than earn their financial recognition. The test is the ability to compete with Australia and other companies. If you are losing staff you need to ensure that there is pay parity and a better career path with commensurate salary and conditions.

Q. Shareholders have high hopes for an improved early warning system under the FMA. What should we look out for in the new regulations?

A. FMA and Sean Hughes have been proactive in their new guidelines with, for example, an emphasis on investor communications. Companies must now ensure clarity in their communications with their shareholders.

Q. Shareholders have been uneasy about the implementation of IFRS rules. Do you think we can improve our reporting to shareholders?

A. Even accountants struggle with IFRS! I think that individual shareholders investing in companies do not need to fully understand the underlying accounts. What is important is continuous disclosure to an informed market, where the share price is valued daily based on growth in asset value and interest return. A listed issuer offers an income return (dividends) and some protection for growth – if there is no growth the company usually will pay a higher dividend. Investors can get fuller commentary from the broking community and advisers, and company websites are now very informative. Care by the board and CEO is needed as to what to say when reconciling earnings with reported earnings – so that they do not talk up the share price. My advice would be that shareholders should not invest in a company if that company does not disclosure fully, accurately and with transparency.

Jacquie Hagberg

Small Code Companies and the Takeover Code

The Takeovers Panel recently published Code Word Number 30, which provides guidance and advice on how the Takeovers Code applies to smaller, non-listed companies caught by the Code. This article is a summary of that guidance and advice. A full version of the guidance can be found at www.takeovers.govt.nz/publications/code-word/30-0212/.

Introduction

1. It is not unusual for arrangements between shareholders of companies that sit near the fringe of the definition of "Code company" to result in inadvertent breaches of the Code.

2. This article sets out the Panel's experiences with breaches involving smaller Code companies, what these companies can do to mitigate these issues and what the Panel is doing, or can do, to assist these companies.

Code companies

3. The Code applies only to "Code companies". A company is a Code company if it is (or was recently) listed on a registered exchange or if it has 50 or more shareholders, whether or not the company is listed.

Why do small Code companies run into difficulty with the Code?

4. Shareholders in a smaller Code company are often involved in the activities and operations of the company, or are connected to the history of the company in some way. The shareholders may be family members, existing or former employees, or persons with whom the company has a significant trading connection.

5. Also, shareholders in many smaller companies choose to protect their investment position through instruments like shareholders' agreements, or insist on mechanisms like pre-emptive rights to ensure some control over the shareholder profile of the company.

6. The relationships between the shareholders in these companies, and the instruments and mechanisms used to protect their investment position, have the potential to trigger the "associate" provisions of the Code.

Associates

7. The term "associate" is defined in rule 4 of the Code. Under this rule, a person is an associate of another person if, for example:

(a) the persons are acting jointly or in concert; or

(b) the first person acts, or is accustomed to act, in accordance with the wishes of the other person; or

(c) the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates.

8. Shareholders in smaller Code companies are more likely to have such a business, personal, or ownership relationships with other shareholders than shareholders in larger or listed Code companies.

9. Associated shareholders are not necessarily a problem provided that the fundamental rule of the Code is adhered to (i.e., no person, together with that person's associates, increases their shareholding over 20%) and the compliance options in rule 7 of the Code are followed (i.e., takeover offers are made to all shareholders or by obtaining shareholder approval for an increase in shareholding).

10. However, if all or a majority of shareholders are associates then they will not be able to buy or transfer shares between themselves (because each shareholder, together with its associates would together hold or control more than 20% of the voting rights in the company), and if shareholder approval is sought for any acquisition or allotment of shares the acquirer, the disposer, the allottee and their respective associates would be excluded from voting on the question and then there is no one to vote on the resolutions required by rule 7 to approve a proposed transaction.

Shareholders' agreements

11. A shareholders' agreement sets out rules and procedures for shareholders on matters relating to a company and would typically address entry and exit rights, appointment of directors and governance of the company.

12. The Panel has in the past found that shareholders may be associates of one another if they are parties to a shareholders' agreement. Each situation is different and the Panel will consider each case on its particular set of facts, but if the shareholders are associated by virtue of the shareholders' agreement, then in the absence of an exemption from the Code, shareholders may not be able to increase their percentage of shares in the company or vote on resolutions to approve proposed acquisitions or allotments by other shareholders.

What are we doing about it?

Exemptions

13. In June 2011, the Panel granted an exemption to all the minority shareholders in Ormiston Surgical & Endoscopy Limited ("Ormiston") (Takeovers Code (Ormiston Surgical & Endoscopy Limited) Exemption Notice 2011).

14. Ormiston was proposing to issue voting securities to Southern Cross Hospitals Limited ("Southern Cross"). As Southern Cross already held and controlled more than 20% of the voting rights in Ormiston, it could increase its voting control in Ormiston only if shareholders first approved the proposed allotment by an ordinary resolution.

15. However, the Panel considered that Ormiston's shareholders may all have been associates of Southern Cross as they were all parties to a shareholders' agreement, which contained provisions concerning voting on board representation and pre-emptive rights. The shareholders of Ormiston therefore needed an exemption from compliance with rule 17(2) of the Code to enable them to vote on the resolution to approve the proposed allotment to Southern Cross.

16. The Panel granted the exemption to the shareholders on the understanding that they would unwind the shareholders' agreement and that they would vote on the resolution in any manner they thought fit. In other words, that they would "dis-associate" themselves from the requirements of the shareholders' agreement.

Regulatory Reform Bill 2010

17. As stated, the Code currently defines a Code company as, inter alia, a company that has "50 or more shareholders". When the Regulatory Reform Bill is passed, it will narrow the scope of the definition of Code company in two ways:

(a) a Code company will be defined as a company that has "50 or more shareholders and 50 or more share parcels"; and

(b) the definition of shareholder will be defined as "a shareholder holding a security that confers a voting right".

What can shareholders do about it?

18. Shareholders of companies that are subject to the Code should consider whether a shareholders' agreement is necessary in the context of their company. If shareholders decide that such an agreement is necessary they must be aware that the agreement may result in an "association" between shareholders, which could mean that shareholders are restricted from increasing their voting control in the company.

19. For a company that is close to the 50 shareholder definition of a Code company, the Panel is not averse to shareholders deciding that they want to restructure the company's shareholding to avoid being or becoming a Code company (provided, of course, that Code companies restructure in compliance with the Code).

The Panel executive is here to help

20. If you are wondering whether the Takeovers Code has implications for a company of which you are a shareholder, director or an adviser, please feel free to contact the Panel executive. We are here to help and can explain the implications of the Code and whether an exemption might be necessary.

Takeovers Panel

Level 3, Solnet House, 70 The Terrace

PO Box 1171, Wellington 6011

Email: takeovers.panel@takeovers.govt.nz

Chief Executive, Margaret Bearsley, +4 815 8453

General Counsel, Andrew Hudson +4 815 8452

Lauren Donnellan, Lawyer

The FDR Tax and the Outcomes

At the time of introducing the FDR tax regime by the then Labour administration - in haste - there was considerable discussion protesting its implementation. Several members of The New Zealand Shareholders Association presented submissions to the Finance Select Committee when it sat in Auckland. Their efforts were somewhat thwarted as a few days prior to making their submissions the rules were changed and the government of the day had made up its mind without following due process.

The publicity indicated this new tax would raise anything from $25 - 45 million dollars. In fact Brian Gaynor on the 15th April 2006 indicated the figure could be around $40 million.

A strong selling point for Michael Cullen and Peter Dunn was that because of CER, returns from Australian shares would not be subjected to FDR tax. As it turned out this was not true as Listed Investment Companies such as Australian Foundation Investment Co, Djerriwarrh Investments, Argo Investments and numerous others became non exempt entities. At the time Australian Foundation Investment Co, the largest LIC had over 8,000 New Zealand shareholders. However, before the end of the financial year this anomaly was changed with Standard and Poors Australia providing a special LIC Index. These companies then became exempt entities and not subject to FDR tax. This about face through no effort of the NZ Tax authorities or the government provided relief from the FDR tax. A number of large shareholders in these LIC listings did not have to pay FDR tax for that one year - it was an unexpected windfall.

Since its inception specific enquiries have been directed to Peter Dunn, Bill English and Phil Goff in an endeavour to ascertain precisely how much FDR tax has been raised over each of the past four years. Not one of the three was able to provide a dollar figure to these enquiries.

Perhaps very little tax has been raised as our New Zealand dollar has been appreciating over recent years.

To illustrate what has happened the table below shows the returns of two individual taxpayers with diverse portfolios in the US market, both exceeding the $50,000 threshold.

Table One. Returns of respective portfolios show - gain /(loss) and expressed in $NZ.

Tax Year.	Taxpayer A.	Taxpayer B.	Exchange Rate.
2006 / 2007	NA	NA	0.7141
2007 / 2008	(12.00%)	(14.9%)	0.8139
2008 / 2009	(20.93%)	+ 10.99%	0.5606
2009 / 2010	+ 53.60%	(1.54%)	0.7015
2010 / 2011	(2.19%)	+ 14.73%	0.7318
2011 / 2012	(4.94%)	(5.48%)	0.8060

Exchange rate sourced from IRD web site - mi d month tables.

Table Two. Gross dividend yields - percentage on the combined portfolios over the years.

Expressed in $US.

Tax Year.	Percentage.	Tax Year.	Percentage.
2000 / 2001	3.73	2007 / 2008	5.50
2008 / 2009	5.40	2009 / 2010	4.67
2010 / 2011	4.67	2011 / 2012	5.11

Discussion.

A. As can be seen from table one FDR tax has only been payable once in five years for Taxpayer A. Tax payer B has paid FDR tax only twice in the same Period, because neither paid when the value of the total portfolio declined.

B. The global financial crisis has played a part, especially in 2009 when stock prices declined appreciably and entities such as Citigroup fell through the floor. Also dividends declined across the board. and have only commenced making a recovery in the 2011 / 12 year.

C. The greatest single factor has been our volatile exchange rate. Fluctuations of our New Zealand dollar has had an adverse upon portfolio values. Consequently taxes paid to Inland Revenue have been minimal for the FDR component.

D. Compliance costs for those involved in adjusting to the new FDR tax regime has been quite stressful and onerous. When assistance was sought from Professionals, members were informed that small accounts are not worth dealing with.

Questions Still Deserving Of An Answer.

A. What level of tax in dollar terms has this really raised for the nation?

B Interestingly during the run up to the past election Labour spoke strongly about the introduction of a new capital gains tax. If introduced what happens to FDR? Both taxes are leveraged off the same base, but you cannot trust a government to remove a tax, simply because it has introduced another.

Allen Smith.

The E-Mail Pulse

Over the past 2 months, we have been using our version of "continuous disclosure" to explain, update and comment on the latest news and NZSA views – the email pulse.

They are all recorded on our website under **What we Do - Correspondence.**

We are sorry, but the timing, cost and relevance of these, means that members without email facilities miss out. It is a sign of the times, and we hope that more and more members will follow the large majority and get themselves email capable. Fortunately New Zealand has seen one of the world's largest adoptions of internet and email by retirees and older citizens, and this is reflected in the positive response that our pulsing has generated. #

Company Meetings

New Zealand listed companies now usually post AGM presentations by the chair and CEO, on their web-site. 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.

Tower Corporation AGM

Please look at the Tower Limited web-site for the Chairman and CEO reports and the financials on the Tower website. In a difficult year for the insurance industry with the impact of the Christchurch earthquakes the company has survived with a profit and maintains a strong balance sheet.

The major concerns raised at the meeting were the intentions of major shareholder (35%) GPG Limited. The 2 GPG appointed directors (Mike Allen and Mike Jeffries) may have a conflict of interest to other shareholders because GPG Limited Directors were given a clear mandate to realise the maximum value for GPG shareholders by liquidating GPG assets. GPG holds 35% of Tower shares, which is sufficient voting strength to control the outcome of any formal vote.

Your Association would prefer to see that any reduction of shares by GPG should not come at the expense of Tower shareholders by doing a breakup.

I asked the Chairman, Bill Falconer, to address the issue of conflict of interest and he naturally confirmed that the 2 GPG directors acted in the interest of all shareholders – but I pressed that we hear from the Chairman of GPG, Rob Campbell, who was at the meeting. Rob said it was a legitimate question and described the Tower shareholding as an overhang but a significant asset for GPG. He said that while they wished to sell their holding they were in no hurry to do so, and their focus was improving the discount in the share price to the inherent value of the company – i.e. they were active participant in raising Tower's value.

Brian Gaynor asked a number of important and relevant questions:

1. Tower has a business strategy of integrating the various divisions – has GPG recommended selling any one individual division which would be contrary to the overall business strategy? The Chairman confirmed that they had. How can this conflict be resolved amongst the board members (answer: by discussion and consensus) and did GPG agree to this integration policy at the time it was implemented? Yes.

2. A courtesy letter was sent to GPG to seek their approval on the re-appointment of directors but no other letter was sent to any other institutional shareholder, i.e. GPG only ones to get this letter which creates the impression that the Board holds GPG in a special status – or perhaps canvassing their opinion. The Chairman confirmed that it was a practical solution as it would be embarrassing not to know how a major shareholder was intending to vote.

3. The purchase of AMI Insurance was an important opportunity for Tower to grow its business and its foot print – it was a game breaker for Tower. The Chairman confirmed that the purchase did not go ahead as GPG did not support the purchase of AMI as, amongst other things, additional capital would have been required. The Chairman said that in hindsight the board had been too conservative and too tame on this transaction.

Denis Wood, the very independent director, withdrew his re-election candidacy at the last minute as it was clear that he would not be supported by GPG. He will be a great loss to the Board and to Tower.

Neither Mike Allen nor Mike Jeffries spoke to the meeting during their election/re-election vote which was disappointing.

Jacquie Hagberg

Cavotex Special Meeting 13th March

This special shareholders' meeting was held at the Clearwater Resort, Christchurch to advise NZ shareholders of the company's progress since it's de-listing from NZX last September. Although Cavotec dropped from the NZX many of it's existing NZ shareholders retained their holdings, which were transferred to the Stockholm Nasdaq in October 2011. Link services now have an arrangement with Cavotec to facilitate share trading.

Cavotec MSL is an international engineering company with its headquarters in Switzerland concentrating on mining, aviation and shipping. Many of its NZ shareholders came from the Moor Master company which was taken over by Cavotec several years ago.

The Chairman, Mr. Stefan Widegren, gave a detailed presentation of the company's performance with special emphasis on their progress over the past two years, which have seen a recovery from the effects of the global financial crisis. He gave an optimistic view of their order books and prospects for the coming year. The company's website (www.cavotec.com) presents this information in full. Of particular interest to shareholders was his announcement of a dividend of 0.02 Swiss Francs (payment 11th July) and the stellar performance of their shares that have risen 60% this year.

The Chairman answered a number of shareholders questions:

- Is Cavotec vulnerable to exchange rate changes affecting its price competitiveness? Cavotec's manufacture is carried out in sites spanning several continents so they have considerable flexibility over their choice of manufacturing locations to respond to relative costs.
- Has there been a sell down by NZ investors? There have been some institutional investors selling; partly, it is felt, because of constraints on their international portfolio holdings. Many NZ investors have stayed.
- What are the prospects for the Moor Master system? There have been notable recent successes with sales into Western Australia. Cavotec is very optimistic about the prospects for future sales.
- After installation, do your contracts cover on-going maintenance? Cavotec has not usually entered into maintenance agreements because it would not be economic. However, the acquisition of INET has offered servicing agreements and found them to be worthwhile. Cavotec does see some prospects in the future for offering on-going servicing provisions

The shares last traded on the NZX in September 2011 at $2.60 down from $3.30 at the beginning of that year. Their recent trading on the Stockholm Nasdaq has been in the range 22 to 24 Swedish Krona, up from 14 SEK at the start of 2012 (today 1SEK = 0.18NZ$).

Robin Harrison

TeamTalk SGM 30th January

The purpose of this meeting was to approve the increase of the credit facility with Westpac up to $35m involving also the consolidation of the formerly separate credit lines of Citylink and Teamtalk.

There were around 13 of us there in total. It took 24 minutes by the time all the questions from the floor had been asked. There was some speculation at what resources the company had available to invest in further opportunities within the existing bank facilities, and with bank facilities extended as far as the resolution allowed, but there is no current plan to utilise all of the headroom.

The special resolution passed unanimously.

Martin Dowse

NZ Oil and Gas SGM 20th February

The purpose of the meeting was to authorise the Board to issue 3 million partly paid shares to Andrew Knight the recently appointed Managing Director. Although the issue appears somewhat generous, his base salary of $510,000 is among the lowest for a top 50 NZX company. The meeting was necessary to satisfy ASX listing requirements. Three directors, some NZOG employees and approximately 14 shareholders attended and the meeting was chaired by Peter Griffiths in the absence of the Board Chairman.

Peter briefly outlined the proposal and took questions. One concerned the circumstances surrounding the resignation of David Salisbury the former Managing Director. Peter explained he had resigned on his own volition and the resignation was a surprise. He concurred with a suggestion that the stresses related to Pike River may have been a contributing factor. Since Andrew Knight had been a Board member since 2008 before accepting the MD role I asked what steps were taken to avoid any perceived conflicts of interest. Peter explained that as soon as Andrew made his interest in the position known, he stood down from the Executive Appointment and Remuneration Committee and withdrew from any Board discussions concerning the appointment. The Board mounted a full international search for a replacement MD and Andrew was the successful candidate. A few other questions related to historic performance and were not really relevant to the resolution. Peter then took a ballot with votes and proxies received and counted by Computershare staff in attendance. There were 93.8M votes 'for', 23.5M 'against' and 2.8M abstentions. The Association held 5923 proxy votes 'for', 33520 'against' and 786,466 discretionary which I exercised in favour as directed by the Association. Formal business took 25 minutes.

Andrew Knight then gave a presentation on NZOG's activities a copy of which is on NZOG's web site. He outlined the status of various projects and the regulatory regimes in Tunisia (similar to New Zealand) and Indonesia. The latter requires 'Joint Study Agreements' in conjunction with an Indonesian university to help ensure study results remain available in Indonesia. The few questions asked mostly related to Pike River. NZOG's share price is currently (at time of writing) 74 cents compared with 162 cents in mid 2010 the drop being the market effects of the Pike River disaster.

Peter Milne

Argosy SGM 21st February

At Eden Park, around 120 shareholders and company/trustee representatives heard a brief presentation from Argosy Trust Chairman Mike Smith.

He described the proposal as a logical final step following the internalisation of management last year. Members will recall that the NZSA supported that process and had obtained an undertaking from Argosy that they would bring a corporatisation proposal to unit holders by the next AGM at the latest. Smith acknowledged the role and support of the Association and reiterated the key reasons for making the change – lower costs, better shareholder control and most importantly, giving investors the protections afforded by the takeovers Code. He also announced that Director Philip Burdon was stepping down effective at the end of the month. We see this as a good opportunity to begin rejuvenating the Argosy board that will initially comprise the same directors as the Trust.

If anyone was in doubt that the legal route to internalisation proposed by ACC last year would have been expensive, the Chairman's announcement that the direct costs for the corporatisation were $850,000 makes it clear that unit holders took the right decision when they rejected this.

There were no questions from the floor and the two motions required were decided by poll. The NZSA had well over 4m proxies with only 0.3% opposed. This closely matched the final outcome of 99.4% in favour.

This vote signals a new beginning for Argosy and the NZSA expects the company to achieve a worthwhile lift in performance and returns to investors with a lower cost structure and better alignment of management and investors goals.

John Hawkins

Chatham Rock Phosphate SGM 3rd April

NZX- coded CRP, without any apparent dissent, passed two resolutions allowing a USA company Subsea Investments II LLC to be issued ordinary shares and options in CRP to enable exploration work to be continued. All four directors and about 16 shareholders attended. The mood was one of optimism and there was no apparent dissatisfaction with progress. Questions from the floor from various aspects of the project were satisfactorily answered.

Ashley Chan's report on Widespread Energy Ltd's (WEN) 2010 AGM (Scrip August 2010 p10) includes background information on the phosphate venture, which is to dredge phosphate bearing material from the sea floor at a 400m depth. He indicated the risks the project faced including possible lack of market, project delays through lack of funding, possible Government ban on ocean bed mining and fall in world phosphate prices.

In March 2011 shareholders of WEN and its associate NZX listed company agreed to an assets swap and re-naming of WEN to CRP so CRP's sole venture was the phosphate project. In June 2011 94% of the CRP 10 cent options (inherited from WEN) were taken up and the remainder placed with 'qualified' investors.

The Toronto IPO planned for mid 2011 to raise $30 - $40M did not proceed because of the continuing recession. CRP is instead raising smaller sums to maintain project momentum including environmental and other studies and these are progressively lowering project risks and hence making it more attractive to prospective investors prior to another IPO attempt.

Other risks relate to extraction (considered quite feasible), validity of samples – quality and quantity, and environmental. Ideally, a sufficient trial quantity needs to be extracted for assessment by the fertiliser industry, but further surveys and relatively small samples are all that is currently possible. Much of the current exploration work is assessment of environmental matters, which is a pre-requisite for a mining licence and related environmental consents. This includes fostering good relationships with environmental organisations. Major project risks at present would be inability to raise funds and environmental consents being declined.

Another concern for investors in ventures of this sort is the dilution of shares especially through the issue of options. For example, small exploration companies are limited by remuneration that can be offered to expert staff or contractors and so offer a potentially significant number of options as a performance incentive. CRP has been quite transparent about the options on issue. CRP's key concern when seeking extra investment is to minimise dilution. CPR considers that less dilution has occurred with current funding arrangements than if the 2011 IPO was successful. Dilution can only be avoided if existing shareholders of such companies progressively take up share offers and options to meet continuing exploration funds. In CRP's case, the limited uptake of the share offer in January by existing shareholders indicated they tended to tolerate dilution rather than invest further in CRP.

CRP shares currently trade in the 23-24c range compared with 13-16c a year ago, but lack of liquidity means larger parcels are unlikely to be traded at this price.

While those associated with the company are optimistic as to its prospects, others have a more sceptical view and there is little excitement in the market despite the potential benefits to New Zealand if the venture succeeds. Investment in CRP is not for the faint hearted or those who cannot afford to lose their money.

Peter Milne

If at first you don't succeed?. Destroy all evidence that you ever tried.
The road to success is always under construction.
Since light travels faster than Sound, people appear brighter before you hear them speak.

Kirkcaldie and Stains AGM 12th March

The meeting was fairly benign and very few questions were asked by shareholders.

The Board reported that year-to-date retail sales were +3% and that work on an online website/store by the end of the calendar year is progressing well. In terms of potential takeover activity, the Board stated that there had been no major interest shown in acquiring Kirks by any of the major Australian retailers.

There are 10.25 million shares on issue, and the largest shareholders are LQ Investments (19.4%), H & G Limited (17.1%), Nessock Custodians (5.8%) and ACC (4.7%). LQ Investments represents a group of Wellington property investors which bought into Kirks in 2006. The shareholders of H & G Limited are Sir Selwyn Cushing and other family members such as his son David. Nessock Custodians is the investment entity of Sir Ron Brierley.

Kirks has two businesses - property and retail. Most of the value can be attributed to the property side while image and name recognition is associated with the retail side.

The Harbour City Centre property was recently valued by Bayleys to be $48.65 million – up from the CB Richard Ellis $42.2 million valuation in August 2009. This increase reflects the significant debt-funded investment in earthquake strengthening and refurbishment that has occurred since then. Kirks say the property has strategic value as it is one of the few remaining sites in Wellington which has not sold the airspace above to property development companies.

Bank debt (secured against the property) has also increased from $12 million two years ago to circa $18 million now post-refurbishment. So the net asset value of the property business remains at around $30 million or $3.00 per share – although leverage (gearing) has increased from around 28% to 37% over the same period.

On the retail asset side inventories, receivables and cash amount to over $13 million, while payables are $6 million. Net working capital is thus around $7 million or $0.70 per share, assuming inventories can be sold at book value.

Fixtures & fittings are around $3 million or $0.30 per share.

The retail business seems to be profitable on a cash basis, but runs at a loss when taking into account depreciation in fixtures & fittings of just under $1 million a year. (Presumably, there needs to be ongoing investment in fixtures & fittings in order to maintain a sustainable retail business, therefore the cost of this should be taken into account via depreciation.)

Unallocated costs are about $1 million (taken to be the “Intersegment Revenue” line item in Note 6 Segmental Information of the 2011 Annual Report). The (negative) value of capitalising these costs in perpetuity works out to be roughly $6 million after-tax or negative ($0.60) per share.

Ashley Chan and Cheryl Barber.

Caught on the Net

Why the last chocolate tastes the best

The last chocolate tastes the best because knowing something is set to end makes people enjoy it more, a study has found. **www.telegraph.co.uk/science/science-news/9073612/Why-the-last-chocolate-tastes-the-best.html**

"Granny Tax" introduced in the UK

One of the most often-spouted prejudices about old people is that they are miserable sods and misers, forever moaning about what easy lives young people have. Yet when the UK chancellor of the exchequer, George Osborne, unveiled his 'granny tax' last month, it became clear that it is the young and the middle-aged who are the true miserabilists of our times, and that they now hate the old for having easy lives. **www.spiked-online.com/index.php/site/article/12286/**

If you feel O.K., Maybe you are O.K.

Early diagnosis has become one of the most fundamental precepts of modern medicine. But is looking hard for things to be wrong a good way to promote health? In a NY Times opinion piece, Gilbert Welch, a Professor of Medicine, suggests we would all be better off if the medical system got back to its original mission of helping sick patients and letting the healthy be. **www.nytimes.com/2012/02/28/opinion/overdiagnosis-as-a-flaw-in-health-care.html?_r=2&emc=tnt&tntemail1=y**

The future of the Company

The business landscape is changing fast, with many past assumptions consigned to the dust bin. What does the future hold, and what does it mean for the corporations of tomorrow? The Financial Times pulls relevant articles together at **www.ft.com/intl/reports/future-of-the-company**

The myth of the eight-hour sleep

We often worry about lying awake in the middle of the night - but it could be good for you. A growing body of evidence from both science and history suggests that the eight-hour sleep may be unnatural. **www.bbc.co.uk/news/magazine-16964783**

Humans are 'naturally nice'.

Despite the claims of some pundits, we do not live in a world of 'dog eat dog'. New research shows that there is a biological basis for co-operation and empathetic behaviour **www.aljazeera.com/news/americas/2012/02/201222023301844664.html**

To Wikipedia, the sky is green

We are regularly warned to be skeptical about what we read on the web. Timothy Messer-Kruse, in a Chronicle of Higher Education article, reports on a battle to correct a Wikipedia posting for an event for which he is a published authority. **http://chronicle.com/article/The-Undue-Weight-of-Truth-on/130704/**

It's All Connected: A Graphical Overview of the Euro Crisis

Are you having trouble understanding the ins and outs of the Euro financial crisis? Here is a visual guide that makes the crisis much easier to understand. **www.nytimes.com/interactive/2011/10/23/sunday-review/an-overview-of-the-euro-crisis.html**

Are you in the cross hairs for creditor claims?

A Chapman Tripp advisory points out that recent decisions from the Courts have raised the legal risk for directors and underlined the exposure to third party liability for auditors, trustees and promoters **www.chapmantripp.com/publications/Pages/Are-you-in-the-cross-hairs-for-creditor-claims.aspx**

Australian Companies Information

Do you want to get access to Australian Companies information? A good web site to use is at **http://www.abr.business.gov.au/**

Having an easy-to-say name 'will help you get promoted

People with simple names enjoy quicker career advancement because hard-to-pronounce names inspire negative reactions from superiors, a study has found. **www.telegraph.co.uk/science/science-news/9071704/Having-an-easy-to-say-name-will-help-you-get-promoted.html**

Thanks to plants, we will never find a planet like Earth

Vegetation has been a key part of the earth's surface for about 450 million years and are a primary force in shaping the surface, both historically and today. A special edition of Nature Geoscience sets out how plants made our planet what it is today **www.nature.com/ngeo/focus/earth-plants/index.html**

The Netiquette of working life

Financial Times technology correspondent leads her discussion on net etiquette with a New Zealand case study **www.ft.com/intl/cms/s/0/94239bbe-4dae-11e1-b96c-00144feabdc0.html#axzz1lk3iM9nZ**

Bruce Parkes

Branch Reports

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

We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of the presenter, and 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

At our February meeting Tim Brown, always a popular presenter for his wide knowledge of funding and infrastructure updated us on Infratil, while Carmel Fisher fronted our regular question and answer session on New Zealand and Australian investments.

The shadow of Lloyd Morrison's early death was sensed as we remembered his values, so similar to those NZSA members cherish – positive, goal oriented investment in everyday New Zealand activities that we would all take a pride in owning.

Although infrastructure will carry a relatively high debt loading, Tim was pleased with the 40% debt/debt-equity ratio of Infratil. He explained the hurdles of returning to a 20% TSR growth from the recent patchy performance, by reference to the classic models of infrastructure – a high fixed cost point of entry and high rewards for increasing revenue above break-even. He also showed how this applied to the cheap entry point for the Shell/ Z Energy purchase in a market where all players were reducing distribution points, and pushing for increased margin. Infratil expects to realise potential in upgrading retail of Z Energy, utilising the generating capacity of Trust Power, and the Australian generators, expanding traffic through Wellington Airport, and growing NZ Bus.

Carmel Fisher set the international scene for the Year of the "long, water"Dragon, with New Zealand companies conservatively geared, profitable, and generally well managed in a low inflation, albeit a low-confidence market. She used as an example of prevailing uncertainty, the unsympathetic press received by Mainfreight when it disclosed an adjustment to its profit forecast although the 6 month result was its highest ever.

She also explained the Fisher buy-back targets aimed at the wide discount gap between share and asset value. Carmel's view of the current market always stimulates questions on both her own funds and market direction.

Future meetings

In the future, the Scrip will be used to advise Auckland Branch members without computers of when Branch meetings are being held, and who will be presenting at those meetings. We will also endeavour to use Scrip to advise of Company visits that are being organised and when they will take place.

Wednesday 18th April

Norah Barlow, Chief Executive, Summerset Group

Jon Macdonald, Chief executive, TradeMe

Wednesday 20th June

Carmel Fisher on current issues

2nd Presenter to be advised

Wednesday 19th September details to be advised

Wednesday 21st November details to be advised

Branch meetings take place at the Alexandra Park raceway conference centre, open with tea and coffee from 7pm with presentations starting at 7.30pm.

Company visit Cavalier Corporation Ltd 6 March 2012

Fifteen members were greeted by retiring CEO

Wayne Chung, and his successor Colin McKenzie.

Cavalier started operations in its present form in 1973, and has been listed on the NZ Stock Exchange since 1983. Its present market capitalisation is $150 million, which places it in the NZX 50. It acquired Bremworth Carpets in 1988, which was followed by a series of other acquisitions, the latest being a 97 % interest in the Australian carpet tiles operation of Ontera Modular Carpets. Cavalier has 5,300 shareholders with the Timpson and Biel family interests holding 26% of the total.

The Broadloom division produces carpet in rolls measuring 3.7 metres by 30 metres, using mainly New Zealand wool but with some synthetics. Production is vertically integrated throughout the process to ensure quality control, with no sales to other producers. Wool prices are not contracted ahead and there is no wool futures market. Wool supply has been affected by the reduction in sheep numbers from about 70 million in the 1980s, to about 30 million now. As Cavalier only uses about 30% of the wool clip, this has not affected availability but has had a marked effect on price. The broadloom market is split about 60% to residential and 40% to commercial. Cavalier's aim throughout is to produce a product "from farm gate to fabulous woollen carpet" and so regards itself as a world leader in the top end of the market.

Carpet tiles are made by Ontera in one size – 12 inches by 12 inches. There is great flexibility and advanced technology can produce any design. Tiles can be laid either seamless or in contrasting patterns. Sales have doubled since acquisition and now contribute 30% of earnings.

Elco Direct is Cavalier's wool buying company. The carpet divisions use 20% of its purchases with the remainder going to wool brokers and exporters. Cavalier in turn buys from brokers during the year in order to even out inventories.

The company owns 50% of wool scourer Cavalier Wool Holdings with the remainder owned by ACC and Direct Capital. They process 67% of the market, with Wool Scourers International handling the balance. Cavalier is applying to take over WSI, which would give it a local monopoly, on the grounds that WSI's business model is flawed and amalgamation would be in the best interests of the industry. Lanolin extracted during scouring used to be a contaminant to be disposed of, but is now seen as a useful by product for use in the cosmetic and skin care industries.

Cavalier acquired 75% of Christchurch company Radford Yarns in 2011. They produce felted yarns for use in high grade rugs and broadloom. There are good global prospects for marketing the technology involved.

Profits for the 2011/12 year have been affected by an 80% increase in wool prices which have forced increases in Cavalier's selling prices. This has reduced demand on a market already affected by global economic turmoil. In addition, adverse exchange rates have reduced export sales, while favouring synthetic carpet manufacturers with their reliance on imported raw materials. Cavalier's response is to continue to emphasise its position as producers of the highest quality carpets; to seek further increased sales of carpet tiles; and to market internationally the technical expertise acquired in recent acquisitions.

The visit concluded with a tour of the plant covering spinning, tufting, inspection, repairing trimming and warehousing operations. The degree of automation in scheduling and quality control was most impressive, and our thanks are due to the company for a clear, comprehensive and frank summary of their operations.

Bill Jamieson

Next Auckland company visit:

Tuesday, 15 May 2012 am

SKY TV; presentation by CEO John Fellet

Max. participation: 20

Registration with Uli Sperber, uksper@gmail.com

Bay of Plenty

Our year has commenced well with two guest speakers providing a differing discourse to our respective monthly meetings. Attendance numbers have been heartening and this gives the committee confidence that our educational activities are providing information pertinent to the wishes of our members.

John Murie from Craigs Investment Partners spoke convincingly about the market for the coming year. His four key markers to be mindful of were

1. The various markets will continue to show considerable volatility.

2. The second half of the year will provide improvements.

3. Interest rates will stay low for longer.

4. The NZ dollar will continue to remain high.

Equities at the present time provide an income advantage with the added advantage of containing imputation credits that can be claimed as a tax credit at the end of the financial year.

David McEwen from McEwen Consulting visited the branch from Auckland during March, providing a series of nine key factors that investors could usefully use when making their respective stock selections and additions to a portfolio.

It is notoriously difficult to predict the future. One needs to concentrate on performance parameters that can be measured. Look and seek out the best quality companies.

1. Look for companies that have market dominance. Rated 1st or 2nd in their sector.

2. Balance sheet strength. Shareholder funds more than 50% of total assets.

3. Positive cash flows - they need to be positive for 4 - 6 years.

4. Strong cash flows relative to dividend payments e.g. 50% greater than the dividend.

5. A rising trend in earnings growth.

6. Low levels of debt. Has the company the ability to pay long term debt from net operating profit in two years?

7. Higher levels of retained earnings. Look for companies with dividend payments that are less than 50% of net profit.

8. Inflation proof pricing. Are gross operating margins improving?

9. The company has a superior return on equity.

David then went on to speak about the need to diversify ones portfolio. His little gem for the day was “Invest in New Zealand for Income. Invest Overseas for Growth.” There is a real need for New Zealand investors to diversify and broaden their horizons.

Our fifty four members who attended this afternoon certainly gained an interesting insight in what to look for in stock selection and perhaps to take a longer term perspective when investing and consider investing outside Australasia.

Allen Smith

Wellington

Our 2012 programme is well underway. For our March meeting our guests were Sue Brown (head of Primary Regulatory Operations) and Elaine Campbell (head of Compliance Monitoring) from the Financial Markets Authority. Given how busy the FMA has been since its inception it is no surprise there was plenty to talk about and it ended up being quite difficult for Sue and Elaine to get out the door! The questions just kept coming.

Contact Energy will be presenting at our April 10 meeting. It is good timing as their half year results are just out so there will be an opportunity for shareholders to drill down these.

Martin Dowse

Waikato

Since the last The Scrip in February, Waikato has run two presentations at our new venue (www.theverandah.co.nz for those who haven't been and want a peep). Generally, members and guests approve the venue; the benefits are agreed to be more than the increased door fees. While some of the venue costs are met by those door fees, Craigs Investment Partners (CIP) have sponsored most of the balance of costs.

For what to expect later this year and into next, who better to have had at the first presentation than Mark Lister, Head of Private Wealth Research at CIP. As it turned out, with the flow of relevant questions from the floor we had time only to look at the proposed asset sales by the Government; the issues of the rest of the world were put briefly to one side!

From asset sales at between $5 and $7 billion by the Government we switched last month to an insight into the heart of NZ industry, our small to medium businesses (SME's). (According to www.med.govt.nz, in 2009 SME's contributed 40% of total NZ value-added output.) Ross George and Gavin Lonergan of Direct Capital clearly told how their Company has since 1994 raised and successfully invested more than $800 million in SME's. One of those successful companies is listed as RYM - Ryman Heathcare - with a market capital now of $1.52 billion.

We thank Martin Watson for his choice of speakers in February and March and persuasion to bring them to Hamilton. For further variety, Martin has enticed for April and May speakers from two very different listed companies.

Our numbers of members is a measure of where we are in the their eyes. Having the chance to meet new people as well as influential speakers, and in pleasant surroundings, can be a powerful part of an evening with us. At last month's presentation, two of our guests joined to make our membership 125; that's 20% more than a year ago.

An excellent survey of Members by Kane Ongley showed that of the 39 replies to the question, 15 do not come to presentations. Nearly half of the 15 gave distance from Hamilton as the reason. To all those Members, we have not forgotten you!

Joe Carson

Canterbury

This has been a quiet time of the year for company AGMs after the hectic record number the Branch Committee attended towards the end of last year. The only company meeting so far has been the special meeting by Cavotec for shareholders. Our report on the meeting is elsewhere in this edition of The Scrip.

As an experiment, the Branch held its first Film Night in February with a showing of the award winning Inside Job. The film was well received by the small group who attended. All chose to stay on for the light refreshments and informal discussions that followed. It was an informative and enjoyable evening which also showed we could run a cinema presentation!

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.

Our next meeting will be on Thursday, 12th April at 2:00pm in the Fendalton Croquet Club. Ms Louisa Bangma, a Master student at the University of Canterbury, will present some of her research findings on "the performance of financial advisors". Light refreshments and an opportunity for discussions will follow the talk.

In May, NZSA Board members Jacqui Bensemann and Gayatri Jaduram will be visiting our Branch from Auckland. Jacqui's responsibility on the Board is marketing and Gayatri's (in association with fellow lawyer and director Lyn Lim) is regulatory requirements. Further details and confirmation of venue and date will be notified the Branch members closer to the time.

Robin Harrison

Feltex – What Now?

In our June issue 2010, we reported on 3 actions against the directors of Feltex. The out comes of two are now well known.

Firstly, the action by the companies office against the Directors Judge Doogue found that the offense had occurred, but the Directors' technical defense of relying on expert advice from Ernst and Young, specifically commissioned for the purpose of complying with new IFRS rules, was upheld. Although other cases in New Zealand and Australia have maintained that Directors are ultimately liable for the accounts regardless of audit opinions, this was seen as a special case. At the time John Hawkins commented publicly "If directors can rely entirely on outside advisers, then it begs the question, why directors have to be paid so well for exercising their judgement." Subsequent decisions in both the FMA and the court have tended towards our view, that directors must be held accountable for a company's published information.

Secondly, the action by the receivers, McDonald Vague against the Directors for reckless actions was settled out of court to save either party further costs. The amount of the settlement was not published, but many believe it was a derisory amount when compared with the publicised $41m of the initial claim, and served only to clear the legal bills of the receivers.

There has however been some development in the third claim by shareholders totalling $145m. Wilson McKay now represent Eric Houghton and approximately 1800 shareholders in their suit against the directors and parties associated with the initial public offer. It is important to remember that only those shareholders who bought shares in the IPO qualify, but the court has decided that any shareholder, whether he has subscribed to Joint Action Funding Ltd or not, can join the action fronted by Eric Houghton. Although all of the initial subscription money has been used, the action is now being funded from London by Harbour Litigation Funding Ltd, and the terms are being supervised by the court so that the small shareholders do secure a "fair" deal. Members who are interested should visit the website of Wilson McKay which has the current information, and those who have not joined the action should contact Mr R D Cann of that partnership.

Alan Best

Most people get interested in stocks when everyone else is. The time to get interested is when nobody else is . You can't buy what is popular and do well.

Warren Buffett

Successful investing is anticipating the anticipations of others.

John Maynard Keynes

The Impact of a Dissenting Vote

Several times in the past two months NZSA's voice has again been heard as a minority vote, questioning or disagreeing with the directors' notice of motion or details of governance. After watching some uncomfortable seat shifting and paper rustling at Tower, Jacquie was moved to comment:

"What is still amazing is that our members who attend these meetings – still don't grasp that even if your vote is not going to be won, it is worth signalling to the Board your voting intention and/or disappointment in a resolution or director!

Editor Alan Best

Layout Bruce Parkes

NEW ZEALAND SHAREHOLDERS ASSOCIATION INC

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

Website – www.nzshareholders.co.nz

Chairman	John Hawkins	jhawkins@internet.co.nz	
Secretary/Treasurer	Chris Curlett	secretary-treasurer@nzshareholders.co.nz	021738032
Corporate Liaison	Des Hunt	desmondhunt@xtra.co.nz	(9) 521 6117
Newsletter and Branch Liaison	Alan Best	fleshnfruity@xtra.co.nz	(9) 524 0317
Proxy Co-ordination	Jacquie Hagberg	proxies@nzshareholders.co.nz	021 288 9990
Governance Issues	Grant Diggle	grant.diggle@gmail.com	
Marketing	Jacqui Bensemann	jmbnzsa@argusfire.co.nz	
Legal & Regulatory	Gayatri Jaduram	gayatri@cogswelljaduram.co.nz	
Legal & Regulatory	Lyn Lim	lyn@forestharrison.co.nz	

ISSN: The National Library has allocated the International Standard Serial Number 1179-4275 to The Scrip so that researchers will have access to our material.