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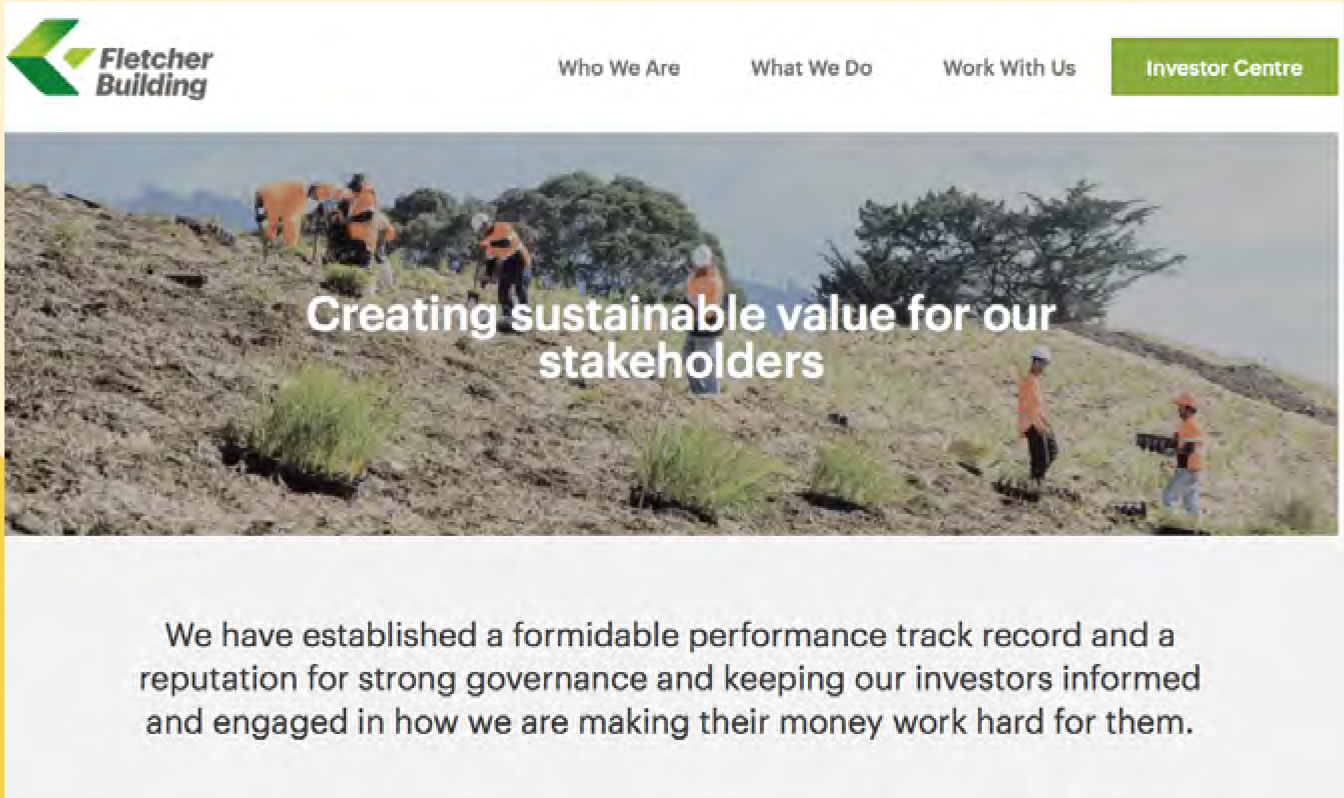
"The Scrip"

MANY INVESTORS; ONE VOICE

NZSA

August 2017

A company's spin



Read our view in the **Sound of Silence** >>>> page 3

A VOICE FOR RETAIL INVESTORS

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We need a person to set up our stories

As Bruce Parkes has signalled his intention to retire, we are looking for a volunteer to organise the layup of our newsletter. Ideally, the person would either have regular access to a publishing programme, or own or be prepared to install one on his/her home computer. While previous desktop publishing experience would be an advantage, training or mentoring can be offered to a person with a good eye for the details of presentation. This is an excellent opportunity to increase your knowledge.

As communications with the editor are usually by email, location outside Auckland is not an issue. The Scrip is currently published in 2 versions - an interactive landscape format for screen viewing and a print edition in portrait format. Currently, the job involves arranging the edited content for 6 issues between the deadline at the end of every second month and publication early in the month following. Please send expressions of interest to Alan Best, email ***fleshnfruity@xtra.co.nz*** or to our administration ***ea@nzshareholders.co.nz***.

The sound of silence

Trust is a fragile thing. It is hard earned and can be swept away in an instant. Ronald Reagan described this tension rather succinctly when he said "trust, but verify". Regrettably, in the case of Fletcher Building, the only verification shareholders received over the past couple of months was definitely of the unwelcome kind. Little wonder then that trust in the former CEO, senior management and the board of directors has all but evaporated.

Most of us understand that sometimes commercial decisions go pear-shaped. That risk is one of the reasons why returns on share investing are generally greater than many other forms of investment. Retail shareholders usually forgive the odd misstep, but a second massive profit write down in their construction division shortly after we were told by Fletchers that the bad news was fully disclosed is hard to swallow.

How can a construction division lose money across the vast majority of its workload while the country is in the midst of a huge building boom? The basic answer is that they bid too low, it appears partly because now fired CEO, Mark Adamson, was pressuring staff to ensure large contracts were secured. We understand that some prices were dramatically lower than competitors. Once underpriced contracts were entered into, the dice were cast for the construction division – the public face of Fletchers.

Almost every contract Fletchers signed was fixed-price – a recipe for disaster in an environment where a shortage of skills and other resources invariably puts pressure on costs. Fletchers also no longer have a solid core of in-house capability, and rely heavily on sub-contractors to do the actual work. This has resulted in some quality issues and increased the on-site complexity. Worse, we understand that many with skills essential to accurately bidding on work (such as experienced quantity surveyors) have become disillusioned and left.

As early as May 2015, we told Chairman Ralph Norris that we were concerned at the large numbers of experienced people that had left. Morale in the construction division was apparently dismal. We repeated this message several times at various levels, yet right up until the second major downgrade, management and the Chairman assured us that things were improving "following a period of necessary change". We were told "new systems had been put in place" and of course we got the usual cry of "before my time". Well, I guess 5 years was too short for the CEO who personally signed some of the problem contracts. The Chair held faith for 2 years from his appointment, while problems began to compound.

Clearly there have been failures of governance. Whether this was top down or whether information coming up was "filtered" by management may never be fully revealed, although shareholders deserve that explanation. It seems that staff, competitors and customers all knew there were problems, but the board apparently did not. Or if it did, it raises questions about just how intensively it investigated and what additional safeguards were introduced. I hasten to add that NZSA is on record as saying we do not believe the board failed in its obligation to disclose legally "material" information. Once the latest information did reach it (while Mr Adamson was on bereavement leave overseas), it released it immediately and finally acted to remove him.

The failure to have a seasoned commercial construction expert on the board who could challenge management undoubtedly contributed. Why information about problems that were circulating in the industry for more than a year was not thoroughly investigated remains a mystery. These profit downgrades will not cripple Fletchers as a company, but shareholders have a right to some answers about how the situation arose and how it has been addressed. Why has the Chairman had nothing to say outside of the last profit downgrade disclosure? Does he not think shareholders deserve a frank assessment and an explanation of what has and is being done to address the situation? In the words of Paul Simon, "silence like a cancer grows".

The issues run deeper though. Once again, Fletchers has failed to deliver consistent results. The company has raised $825m and bought assets costing $2.3B over the past 10 years, yet the profit now is actually less in dollar terms, and the share price is substantially lower than it was in 2007. Much of the blame for getting into this position can be laid at the feet of previous management and directors, but the current board must also share responsibility for not sorting things out. Fletchers has now made two successive poor choices around the CEO position. Like all companies, the key to success lies with the people involved. The function of leadership is to produce more leaders, not more followers. Good leaders are good communicators. Good leaders set the tone and culture of an organisation. Good leaders inspire staff to be better, not more afraid.

It is against this background that NZSA has called on the Fletchers board to seek a new mandate at the October AGM. This is no soft option. What it means is that every director would be up for re-election. Each would have to explain their vision for Fletchers, and what specific skills they bring to the table. We can then measure their performance against these statements.

The logic of this approach is that it puts the onus on the directors to explain why they should be allowed to stay in the role. Let's see who will actually acknowledge some responsibility for the debacle. If some are not up for this challenge, then let them move on. If others fail to impress or are seen as more culpable, then let shareholders determine their fate.

John Hawkins

NZSA AGM and Annual Conference

Saturday 19th August 2017,

James Cook Grand Chancellor Hotel, 147 The Terrace, Wellington

Our Theme: A World of Change in a Changing World
Doors open 8.30, starts 9.30am ends 4pm

You will be excited by this year's speakers – CEO NZX, CEO Spark, ANZ Chief Economist, CEO Abano
Directors and change agents.

Details are on the NZSA website. If you haven't registered, you had better be quick!

We are almost at our catering limit.

XRB Survey and new audit reports

The new style audit reports are a feature of all recently released financial year end reports. Don't forget to look out for them. The "Key Audit Matters" section is a very interesting read, particularly for those companies that have been problematic performers.

Thanks to those NZSA members who took the time to complete the XRB survey on "alternative profit measures". A report on the survey results can be found at:

https://www.xrb.govt.nz/information-hub/current-research-reports/

Martin Watson

Participants required for qualitative research

Colmar Brunton is conducting some research on behalf of the Financial Markets Authority (FMA) about what information investors find most helpful to make informed decisions about particular investments. This will help the FMA improve product disclosure documents to make them more useful for investors. Colmar Brunton is looking for people to take part in paid research interviews at their Wellington and Auckland offices

Colmar Brunton would like to talk to you if you have invested, or seriously considered investing, in any of the following recent opportunities:

- Oceania Healthcare Limited initial public offering of ordinary shares
- Summerset offer of fixed rate 6 year bonds
- Augusta, 33 Broadway Trust

You don't have to know anything special to take part; Colmar Brunton is just interested in your opinions and experiences

Your privacy and confidentiality will be protected

Your contact details and the feedback you provide in interviews will not be used for any other purpose. Your responses will be completely anonymised when Colmar Brunton report the results so you can never be identified.

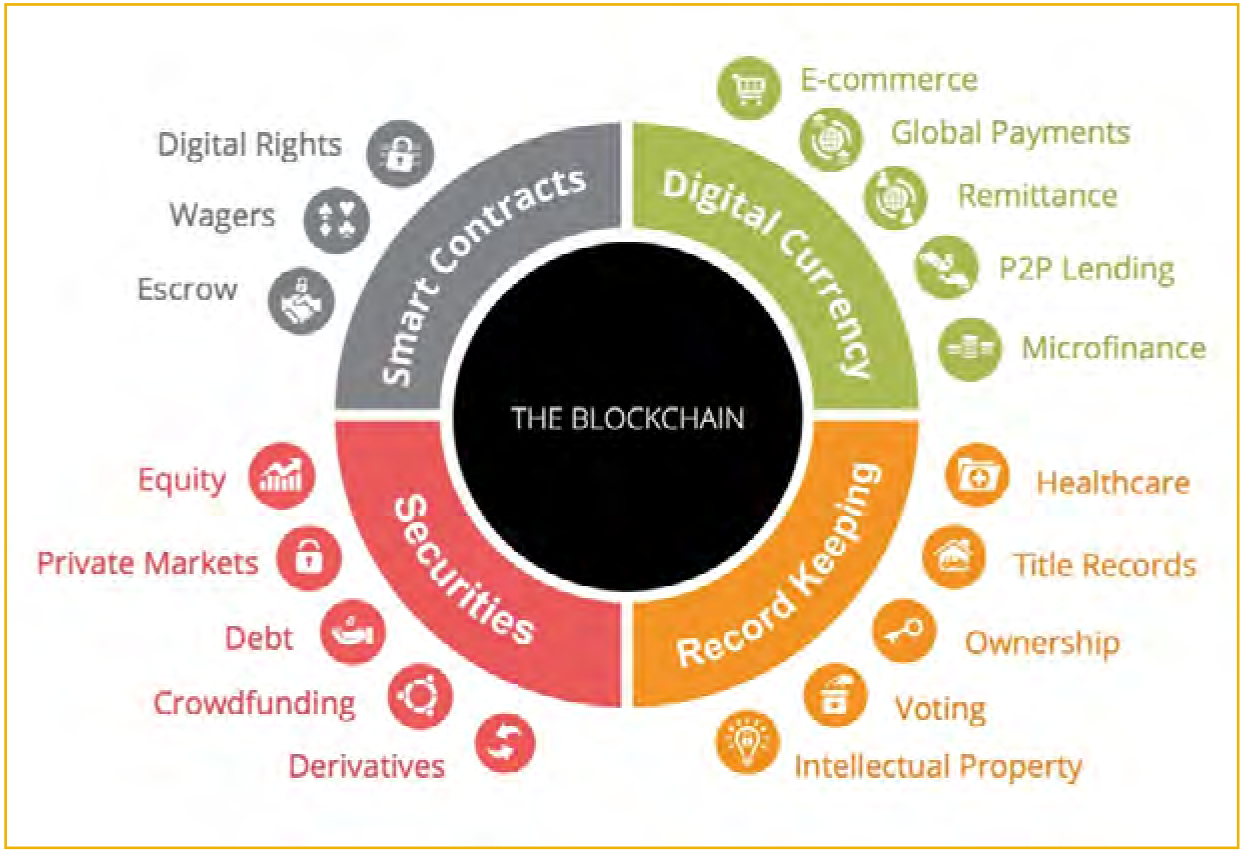
If you are interested in taking part, please email ***ali.ajmal@colmarbrunton.co.nz*** with your contact details including a phone number by Friday 12 August.

Blockchain - Beyond the banking system

A couple of years ago my son was explaining to me how his friends could never be caught viewing copyrighted movies, because, once they belonged and were coded into their film network, the movie downloads were conveyed in such small bites from such a variety of international sources in the network, that no one consumer could be held accountable. Although I didn't know it then, he was describing a block chain. It was a digital encryption which infallibly recorded transactions identifying (or not) both parties and the amount paid, as a completely reconciled, balanced and incorruptible ledger, but encoding the supplier, product and customer so that they cannot be identified by a reporter or a hacker. In a blockchain a group of transactions is collected into a block, there is a race to break the codes amongst node "miners" with high-speed computing power, and the winner validates the block after which it is stored as part of a chain.

These blocks of information are stored in sections as "nodes." The distribution is world-wide and apparently random, so that the hacking of one node does not compromise other parts of the network. The incentives for each code-breaker participant are said to be "mining" but this is a misnomer because node winners are usually rewarded by bonus currency or product. In a successful block chain we genuinely own the data that properly belongs to us.

The blockchain has sprung to prominence because of its use in cryptocurrencies like Bitcoin and Ethereum – an international medium of exchange which bypasses central and trading banks, and regulators. From a small start by an unknown developer using the pseudonym Satoshi Nakamoto, Bitcoin has ushered in a deluge of other cryptocurrencies said now to be numbering over 800. They compete behind the scenes as international currency avoiding regulated trade agreements and bank charges. They fill the same criteria as money – media of exchange, stores of value, (less subject to inflation,) and units of account, but they are less desirable as a standard of deferred payment or legal tender, because Central Banks wish to preserve



Source: BTCS.com

their control of national currencies and credit.

The agreement last week amongst miners and developers to increase the capacity of the Bitcoin network instead of subdividing into a number of currencies involves streamlining the blocks (segwit) removing non-essential data, and in future increasing the size of the block (1 to 2 MgB.) This will remove the potential log jams, as shown up by the comparison between bitcoin's 7 transactions per second and Visa credit card's processing thousands per second. Nevertheless, there is doubt about the longer term issues – should it be small and secure or huge and widespread like the pound? Who should decide – the miners or the developers? Should there be a central control or simply allow need (market forces) to set the direction? What should be the competitive response to Ethereum and others, now almost the equal of Bitcoin? Are the miners essential in the process?

The general development of blockchains has of course stimulated a wide range of interests. All the major banks and central banks, notoriously conservative, are watching closely recognising the potential for disruption in their industry. Equally large international share brokers or registries could adopt block chains bypassing the stock exchange platforms, and pick the eyes out of volume trades at low margin. Blockchain technology cuts out platforms and middlemen, preserving anonymity from governments and interlopers, but equally they can be a government's friend verifying a supply chain, certifying that products are being sourced, certified and exported or imported legally, or that devices controlled remotely are authorised by the right individual, clearing almost instantaneously intermediaries, auditors and custodians, and removing them if desired from the process. The applications are enormous – distributed ledgers, peer to peer payments, elections and polling, file storage, high volume markets including futures and derivatives, intellectual property, identity management and security, anti-money laundering, land titles and registries. It is really important that legislators and authorities like the FMA are up with the play on block chain technology, because like all innovation it will be up to no good, just as easily as it is employed for the benefit of the honest citizen.

Alan Best

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***

Ryman Healthcare AGM 27th July

Almost 200 attendees dispelled the notion that AGM's have to be in central inner city locations, and confirms the view that people will attend AGM's in outlying venues. Rangiora is 30/45 minutes north of Christchurch depending where you live. Dreary the day may have been at Charles Upham village, but the news delivered by Chairman Dr David Kerr and new CEO Gordon McLeod most certainly was not. This is a company that has shown consistent development and regular dividend increases for fifteen years. They are currently building five new villages across New Zealand and Australia with another eleven in the planning stages. Ryman impresses with the quality of its senior management, the way they communicate, and the clear understanding they have that ensures they operate as a team. They believe long term growth will continue for thirty years and Rymans will double again in five years. The demand bulge from 75 year olds, (those born in 1937 - 47) will extend for another twenty years. In addition, the economic maturity for an average village is ten years from when the first residents move in, and for over half of the Ryman villages there is still five years to go before they contribute to their maximum level. Heady stuff! Dividends have increased and will continue to increase in line with underlying profit, - for the current year $0.178c per share - not imputed.

David Kerr confirmed the company would not resort to digital-only AGM's but continue with physical AGM's, with a live video link for those who wanted to participate beyond the meeting venue.

The company has a plan to build four new villages every year, two in Melbourne and two in New Zealand with additional villages planed elsewhere in Australia. Rymans have identified that the aged care industry in Australia has not performed well and that has left a large gap in the market which they are filling. The villages in Australia are selling ahead of completion and the demand is huge. The weight of sales for the new financial year will impact in the second half of the year due to construction timing, and continued scope for growth remains assured with the developments in Melbourne and Auckland.

New CEO Gordon McLeod has taken the reigns from Simon Challis to whom he paid a genuine tribute. He introduced his replacement, David Bennet who has been his under study as CFO for four years. The internal education programme is being extended to cover the requirements in skilled management and aged care givers that the ongoing rapid expansion will demand.

Questions were few but included;

Q. "The introduction of the IFRS regulations in January 2019 that will require the inclusion of the full term liability of long term leases will have an impact on the company's balance sheet. Has the company considered how to handle this"?

A. "Yes. They have already incorporated this requirement into their accounting procedure and it will be part of the 2018 annual report".

Q. "The continually rising cost and thus the price of housing particularly in the Auckland market raises the question of whether this will create a problem for Rymans if and when the demand starts to ease and prices follow suit"?

A. "We are very much aware of this potential problem but can advise we have not noticed any onset of this problem. We have a cushion between what our prices are and the property market and believe we have an affordability margin that insulates our position. The decision to move into an aged care village is a needs based decision not a commercial one and is therefore not necessarily influenced by domestic real estate prices".

Q. "The Australian reputation for aged care facilities is far from enviable, some horror stories have been circulated; are Rymans aware of this and has it been a problem when selling units"?

A. We are aware of this problem and we have adapted accordingly. We have upped the standard and set the benchmark. We have introduced the New Zealand concept of life style, limited care ranging to high standard hospital care, a concept all but unknown in Australia. In addition, assurances to residents that they can stay in the same village when their needs change has been ground breaking in Australia. The result has been instantaneous with a response level to our advertising that has been quite amazing"?

Q. "the bank debt has increased by $293 million which is OK but is it a secure arrangement"?

A. "We have a relationship with all the leading banks and they continue to be supportive. Our core debt is very small and our borrowings are for development projects only and are repaid in relatively short time. Thus we recycle debt as we pay down debt at individual sights. Debt is for building, and our land bank is not leveraged"?

Q. "According to the accounts about a third of the care fees are paid by the government. What is the position in Australia where the government does pay some fees but do they to the same extent as here in NZ and if not does that mean that the resident will have to pay"?

A. "The situation in Australia is very similar but there are differences in that the Australian system divides the support programme into three separate buckets. Firstly, there is a rental for the room that can be paid for by a bond or a rental, second there is a basic daily fee set at 85% of the total rental of the room, and thirdly a subsidy to cover any specific care needs. This is an assessment of each individual and their needs and depending upon how that works out will determine what if any the resident has to pay".

Q. "You have a goal of doubling in five years. What do you see as the main impediment to achieving that goal and how will you address it"?

A. "As we expand our target of 15% growth gets harder as the base on which the 15% is calculated gets bigger. This raised the bar every year. The consenting process for various councils differs and the decision to buy land for our land bank is sometimes complicated by these processes and compounds the problem even further. The other main problem is the construction pressures which can be difficult particularly in Auckland. We can move our trade and construction people around to utilise our resources to the best advantage".

The resolutions including the re-election of Claire Higgins were carried by poll.

Max Smith.

Mainfreight AGM 27th July

Chairman Bruce Plested, hit us between the eyes with the vital statistics of the year's achievements including the $100m+ net profit, the 43m paid in company tax, the $19m in discretionary bonuses paid to staff, and the compounding growth over 21 years of NZX listing – 21.6% pa. His speech and that of CEO Don Braid can be read on the NZX announcements. He was particularly impressed by his study tour of Switzerland with other business leaders, a country 1/6 the area of NZ with almost double the population. Shareholders are always impressed by the outward looking comparisons Bruce makes with the way we organise (or fail to organise) things in NZ.

Don Braid's address though apparently informal, analysed each region of the business in turn, expressing pride, disappointment and action plans where they were due, (Asia and USA.) His overheads shown in the NZX release give a bold summary of the more concise material in the annual report. He sees the Mainfreight culture as the essential ingredient of the board's strategy. It was interesting to note that board meetings increased to 11, each held in a different location. Although not giving a full year forecast, the company is tracking ahead of last year, and the prospect of medium term growth is still strong.

During the resolutions, NZSA took the opportunity to congratulate the board on its results, the two excellent women, Kate Parsons and Sue Tindal for election, and we elicited comments from the auditors EY on their new audit report. We opposed the election of Brian Mogridge, not for his performance in Mainfreight, but for his Chairmanship of PGC and Rakon. It was clear that the increase of the board to eight, the increases in global responsibilities, and the increase in meetings did justify the increased in the directors' fee pool, and all motions were carried without dissent.

Alan Best

Argosy Property AGM 25th July

From his lectern, positioned just below the Americas Cup glinting in the afternoon sun, Chair, Mike Smith expressed satisfaction with the diversity of Argosy's properties located mainly in the Auckland and Wellington commercial markets, now targeting a portfolio mix of 40-50% industrial, 30-40% office, and 15-25% retail. He explained that the dividend payout would in future be based on AFFO calculation – Adjusted Funds from Operations, the adjustments to include maintenance costs of maintaining the buildings to increasing market standards. However, he was confident that Argosy would maintain its dividend flow during the period of transition and beyond. The capital management framework includes a debt to total assets ratio of 35-40%, and this is shown clearly on our balance sheet charts in the CKPD section of the members' web pages.

CEO Peter Mence's presentation is summarised well in the overheads and charts now available on the Argosy website. He foresees yield growth for the next 2 years and lease terms causing no concern for at least another 3 years. NZSA members questioned him about the post-earthquake write downs and insurance claims in the NZ Post building, Wellington. It was explained broadly that NZ Post is about 25% of the total Wellington exposure, and that the claim which has only just been lodged involves $50m of work, including a $26m write down, and repairs floor by floor each taking about 9 months to fit out. Noel Thompson sought clarification of the vacant Pandora site in Napier, and was assured it had been sold. He was also assured that Argosy sought fixed price contracts over all building work to avoid cost escalations. Some shareholders were sceptical of the increased dividend payout at 1.6% when the dividend reinvestment plan was no longer discounted.

Although the elections passed by poll without debate, there was discussion over the increase in directors' fees, and I was able to use the well prepared voting intention as a basis for NZSA comments, particularly the ratchet effect of using the KPMG survey as a guide to setting fee levels, and the need for very minimal increases in future unless the business increases in complexity or scale. The chairman agreed that he would check with KPMG to see if they would release the survey to NZSA, and pointed to the replacement of two senior directors in the coming year to emphasise the need for an increase. Despite the symbolic positioning of the AGM, this company is no America's cup bolter, but it is conservatively geared and managed to secure a sound income stream and valuation gains.

Alan Best

Pushpay Holdings AGM 18th July

The meeting began with a brief video and then the first speaker, who turned out to be the Chair, Bruce Gordon, introduced the directors who all remained seated at floor level at the side of the podium. The chair noted that the very recently appointed American director Daniel Steinman, was not present. The CEO, Chris Heaslip, made a further presentation and details are on the company's website. However, Pushpay now has 10 of the top 20 largest United States churches using its software and Annualised Committed Monthly Revenue increased by over 120% to US$62 million in year to 30.6.17."

Questions were then asked for, and a couple of people made comments on their reservations about the recent capital raising which had been done by way of placement. Following the questions from the floor on line questions were read out without naming the questioners, and with no opportunity given for any follow up questions.

Some questions were answered by the seated directors and some by officers of the company who did stand to answer but could not be seen clearly in the low light levels which had been in place from before the initial video screening.

The Chair then announced "the dry part" of the meeting, the resolutions, which he read out in order beginning with that for his own re-election and without stopping. After the fourth resolution he said, without pause, that while voting took place another video would play, and it soon did.

Your proxy holder stood and after some moments was able to attract the Chair's attention, and note that there had not yet been an opportunity for discussion on the Resolutions. The Chair responded that he would answer questions. I asked if there was a reason why the only just appointed US Director was not present, particularly given that his appointment was so recent, that there was not even a picture of him in the materials provided for the meeting. The reply was to the effect that the Board had decided that it was not necessary for him to travel here.

I observed that while the candidate was described as having been largely engaged in "customer-facing roles" it seemed that did not extend to being "shareholder-facing." That was the end of the meeting. The conduct of this meeting was below standard even if only for the chair proposing his own re-election rather than vacating the chair for that resolution.

Michael Midgley

Arvida AGM 7th July

Attended by almost a hundred shareholders the meeting was held in an excellent facility at "The Piano" a new function facility in the centre of a rapid, albeit chaotic, city rebuild. There was an ambience of goodwill among those who attended, generated by an excellent result, that saw a supportive shareholding approve without dissent all the resolutions presented for decision.

Chairman Peter Wilson gave a brief address that suggested a cautious but steady continuance of Arvida's very good performance to date. They have achieved their IPO objectives and the acquisitions of five new villages in in the past twelve months, taking total acquisitions to eight since the IPO, have also achieved the desired results. The NPAT profit is now at $52.5 million with under lying profit at $23.3 million which supports a steadily increasing dividend now at $0.0445 per share and this is sustainable into the foreseeable future. The success to date is attributed to their focus on elderly care which they see as a point of difference, and one they will further invest in. In an innovative move, Arvida have introduced crèches for the grandchildren of residents while their parents visit their parents. (If that makes sense)

CEO Bill McDonald was clearly a happy man as he reported positively on the company's development over the past twelve months. Their decision to buy the Aria villages proved to be the right one, along with the village management structure, which empowers all managers to operate with a small but highly trained and efficient team without interference from the board.

CEO Bill Wilson went on to advise that total valuation of the company was now $795 million which includes $215 million on new investment property in the past financial year. This brings the number of residents to over 3000 in a total of 26 villages. New developments are under way and all are using innovative construction technology that ensures proper thermal insulation, structural strength and designs compatible for the aged. Future growth is considered to be well within the existing capability, although the possibility of calling on shareholders for additional funding has not been discounted in the future.

The recent capital raising by way of a pro-rata rights issue was both popular and successful. The NZSA proxy representative congratulated the board on this choice making the point that this was the NZSA's preferred option.

As advised, all resolutions were passed and Michael Ambrose and Paul Ridley Smith were re-elected to the board. The third resolution on the distribution of director's fees was not without some discussion. The NZSA representative made the point that the board has chosen the lower end of the benchmark recommendation, had been transparent in its choice and were asking for shareholder approval when it was under no obligation to do so. These points had not gone unnoticed and the proxy representative commended them for their openness.

The question was asked as to why they chose the IOD for their recommendation as this organisation did have a vested interest in maintaining director's fees at a higher level. Paul Ridley Smith answered that in the board's opinion the IOD had by far the greater experience in this field, had better resources to research the matter and the very best data base to call on. Director's fees will not be reviewed for at least another two years.

Questions asked covered the low public profile of the company and why was this as it potentially could limit the share price. Why this may be the case is difficult to know, but the board had kept in touch with broking houses and kept them well informed. In addition, the new developments under way which should show the innovative design and specific building techniques being used to good effect should have a positive impact that it was hoped would bring the company to greater attention.

The question of recent wage increases and the impact this would have on the company's performance was answered by the chairman who advised that "the value of their staff was already being recognised, and a further increase would be off-set by subsidies paid by the government, and the result would be cost neutral. In addition, the increase in recent publicity was specific for care-givers only and did not involve other staffing, who were being monitored with regard to parity".

From the several question asked about future performance and sustainability of profit and dividends, shareholders were assured that the board believes future performance will be positive, current dividend levels will be maintained, and will be reviewed on a regular basis.

With regard to maintaining physical AGM's an assurance was received that these were their preferred option, and although having a hybrid version was a possibility, this was not planned for the immediate future.

Max Smith

Restaurant Brands AGM 23rd June

Chairman, Ted Van Arkle opened this 20th AGM by explaining why the normal rotation of meeting around the main centres had been broken. Forty percent of the shareholders lived in Auckland and the expansion of the past year suggested that the maximum number of shareholders be given the opportunity to attend.

Restaurant Brands' first quarter sales are up 67% following Australian and Hawaiian acquisitions. Total sales during the first quarter of the financial year (12 weeks ended 22 May 2017) were $161.2 million, an increase of 66.9% or $64.6 million on the equivalent period last year.

New Zealand operations generated sales of $94.8 million, up 7.1%, with an additional $21.6 million from the 47 KFC outlets in Australia (majority acquired in April 2016), and $36.7 million from the 37 Taco Bell and 45 Pizza Hut outlets in Hawaii, Guam and Saipan (acquired in March 2017). Group same store sales for the quarter were up 7.2% with KFC New Zealand up 7.1%, Pizza Hut New Zealand up 11.3%, Starbucks Coffee up 9.8%, Carl's Jr. slightly down at -0.3% and KFC Australia up 8.6%.

Total company store numbers were up 83 on the equivalent period last year to 298 mainly because of the Hawaiian acquisition of 82 stores and the purchase of an additional five Australian KFC outlets in March 2017. NPAT for the 19016 to 2017 was up by 7.8% but would have been up by 26% if it weren't for the one off costs relating to the acquisitions.

CEO, Russel Creedy went through each of the company's brands and key developments. The company has restructured into three main profit regions- NZ, Australia and Hawaii. Each with its own CEO and CFO. Projected sales for the coming financial year will be around NZ$700 million.

KFC store numbers in NZ were 92. They own 34 Pizza Hutt stores with another 59 stores operated by independent franchisees. There are 24 Starbuck Coffee shops and 19 Carl Jr stores.

On the 27th April 2016 Restaurant Brands acquired 42 KFC stores in New South Wales. During the first quarter the company acquired another 5 independent KFC franchise stores. Franchisor, Yum is progressively selling down its 60 franchises in Australia. On the 7th March 2017 Restaurant Brands acquired 37 Taco Bell and 45 Pizza Hutt stores in Hawaii, Guam and Saipan., Capital raised for the USA acquisition came mainly from existing shareholders

Questions included healthy food options, (RBD has reduced sodium, sugar and fat and eliminated palm oil from frying, while chickens are not fed antibiotics except in cases of individual sickness.) Wage settlement appears near with the 3% offer, while RBD has staff on fixed shifts, contracted minimum hours per week, and safe conditions. The chairman in response to a question, reiterated RBD's support for and development of the Carls Jr franchise, and cooled speculation over the introduction of Taco Bell into NZ. RBD must first be successful in its handling of Taco Bell in Hawaii.

Des Hunt

AWFMadison AGM 26th July

Chairman Ross Keenan began this meeting by reminiscing on the company's peripatetic AGM journey to illustrate the growth and changes in the company since listing. From providing temporary low skilled manual labour to a group in 3 divisions providing skilled blue collar, white collar and IT services. A video of his and CEO, Simon Bennett's, presentation is provided on the company website. Addresses by directors Simon Hull and Wynnis Armour standing for re-election are included, but not the question and answers at General Business.

Mr Keenan spoke of a year of growth and consolidation; the acquisition of Absolute IT; increased EBITDA and dividends and a reduction in debt post the Absolute IT purchase. He said the group was maturing with a lift in all standards. Despite a 51% shareholder, there are now over 600 shareholders on the company registry.

Simon Bennett spoke of the success in reducing and cleaning up bad debt. Some of our biggest companies are adopting the classic ploy of "living off their contractors by dragging out payment of invoices. The payment function often being sourced out of India or the Philippines!! The leverage ratio (net bank debt/EBITDA), which rose to 3x at the time of the Absolute IT acquisition, was down to 2.4x after 5 months. The board would prefer to see this down to 1.5x – the Bank is comfortable with 3x

He showed and discussed the diverse business mix and drivers across the group (at 24 minutes on the video). While AWF is almost a completely temp business, Madison has a high percentage of permanent appointment supply. Much more labour intensive and difficult to drive gross margin from. Despite an aggressive growth strategy Madison fell $1m below target results. Staff had been reduced and results were now satisfactory. Across the group, over 5000 people are deployed daily.

The group was well positioned to take advantage of a MIBE forecast that the top areas for employment growth were in business support, trades and ICT roles. With this comes an opportunity to become the country's first contingent MSP (multi service provider) employment provider for all of government contracts. To date, the company has drawn on overseas experience to prepare itself for this role but intends to develop its in-house capability. Madison is leading the way with its biggest project to recruit and train some 3,000 temps for Census 2018. Not just "tick the paper" temps. Now they have to be "tablet savvy".

All resolutions were passed on a show of hands. Simon Hull and Wynnis Armour were re-elected as (non-independent) directors. Authority was given to fix auditor's fees and approval given to increase the Director fee pool to $450,000. There will be new directors appointed during the year. Ted Van Arkel has indicated he will not stand again and Ross Keenan strongly suggested that this might also be his last term at the helm. When speaking to his re-election Simon Hull hinted that his family trust might reduce its holding sometime in the future, which would increase share liquidity. Wynnis Armour noted that she bought more shares at every window open to directors.

During general business we were told that:

- Mr Keenan would not give guidance for the current year but did say the company was meeting its targets.
- The income of labour imported by the company was above the level the government regulations were intending to restrict so there should be no impact on the company's access to this resource
- The Board has now looked at IFRS 9, 15, and 16 – due for implementation in January 2018 – and do not see an adverse effect for the company.
- The Board is more focussed on reducing debt gearing than looking for new acquisitions.
- The Group's new CRM data base is hosted in the cloud by Amazon
- One "non internet user" shareholder complained that he had significant difficulty in getting hard copy shareholder notices from the Link Registry. (Question for members – is this a wide spread issue?)

Bruce Parkes

T & G Global AGM 20th June

John Wilson, Director took over as acting Chairman for the meeting at the request of Chairman, Prof. Klaus Lutz. Turners & Growers changed its name to the present name 3 years ago in recognition of the 74% major shareholder BayWa of Germany The other major shareholder Wo Yang Ltd has 19.9% leaving only 6% with the other 600 minority shareholders. NZX has granted a waiver under its listing rules for the quoted securities.

T&G Global trades more than 100 different fruit and vegetables in over 60 countries. Major products are Jazz, Envy and Pacific Rose apples grown in NZ, with royalties and distribution rights from licenced growers in other countries.

Profitability has improved this year benefiting from the substantial capital expenditure in the business as well as overseas acquisitions. Due to the growth of the company profits have been retained in the business with an annual dividend of 6c compared with earnings per share of 25.1c.

Mr Steven Turner (5th largest shareholder) spoke on behalf of the 600 small shareholders about the very poor return of (1.7%) from the 6c dividend and asked that the independent directors address this in future now that the business was on a more sound footing. The response was that continued capital reinvestment was necessary to achieve the forecast profitability, and expand the export targets.

The share price at $3.60 was rarely traded and was a difficult investment for small shareholders which is a pity as this is a strong business with a good future.

Noel Thompson

PFI (Property for Industry) AGM 22nd June

Potentially, there was the opportunity for vigorous debate at this meeting where the main item on the agenda was a resolution to internalise the management contract. An initiative that the NZSA has long championed. As it turned out, almost all media comment before and after the meeting and the discussion in the meeting was generated by our NZSA pulse/media release.

Our view, expressed by John Hawkins at the meeting, is that this was perhaps the only opportunity for PFI to take control of its management; McDougal Reidy, who owned the management rights, have "made hay" on the sale; but there will not be an opportunity to internalise when the price might be lower; and the result will be earnings accretive.

Operationally, little has changed by this internalisation. The same people and processes will operate and while sitting inside PFI, they will have the capacity to carry on with activity outside PFI. Some shareholders voiced concern over how the newly contracted senior management would be monitored. Audit committee chairman, Anthony Beverley, stated clearly that this was his role.

In opening, chairman, Peter Masfen, gave an overview of growth in the company over the past five years. His presentation was spoiled by the background colour in his slides which made the positive growth lines on graphs difficult to distinguish. General Manager, Simon Woodhams, offered us a case study on how PFI had dealt with and made a handsome return on the company's Sistema portfolio. He told me that there were no major changes planned in the current year – "just business as usual."

Independent directors Humphry Rolleston (who was not at the meeting) and Anthony Beverley were re-elected and the directors authorised to fix the auditor's fees. These three votes were over 99% in favour. The resolution to ratify the internalisation of the management contract was also confirmed with 94.4% of the votes cast being in favour.

Looking ahead, we can expect board refreshment in the next year. Peter Masfen told me he will likely pass the chair to Anthony Beverley. Also, well a new director will be appointed to replace John Waller who died in September 2016

Bruce Parkes

NZX AGM 30th June

On arrival there was coffee and a "how can we improve our AGM" feedback form to complete. There were around 30 shareholders, five NZSA representatives, and 20 NZX staff.

This year the AGM was held in NZX's offices in Cable Street overlooking the waterfront – as it was the last time I attended an NZX AGM in 2007. That AGM was when Mark Weldon was CEO, Simon Allen was Chair, and Brian Gaynor roundly roasted the board for their handling of Mark Weldon's generous remuneration package.

This year Brian wasn't there but his presence was felt again as the points he made in a recent NZ Herald article regarding NZX's lacklustre performance were similar to the concerns of aspiring NZX director Tony Falkenstein.

Chair James Millar opened the AGM by introducing the board and apprentice director/future director Anna Molloy. It has been another poor year with earnings down but the dividend has been maintained and FY 2017 is looking better. Now the distraction of the Ralec litigation is resolved the board can focus on sorting out NZX.

New CEO Mark Peterson then spoke, his job is to consolidate, keep costs under control and look for new business. He mentioned that the review of equity markets underway is likely to end up with a single board – given there have now been three attempts at a junior board in NZ and none have succeeded then this is probably the sensible result.

Directors up for election/re-election – all spoke but the two who stood out were retiring director Neil Paviour-Smith and Tony Falkenstein. Both spoke very well. As was expected Tony didn't succeed in being elected, but he did succeed in getting his point across that NZX needed to lift its game and get more entrepreneurship at the board level. His finished by saying that even if he wasn't elected he hoped his job was done.

Voting was by poll. Resolutions 1 – 4 were passed, resolution 5 to elect Tony Falkenstein as a Director of NZX Limited was not passed.

Resolution	Votes For	Against	Abstain	Total
1	114,501,026	10,000	283,528	114,794,554
2	103,506,651	13,727,709	145,000	117,379,360
3	99,022,506	16,914,896	585,872	116,523,274
4	101,985,181	14,261,519	1,132,660	117,379,360
5	20,125,048	96,789,605	464,707	117,379,360

NZX Chair James Millar replied "I would like to thank Tony for the observations he has made about NZX over recent months, which demonstrate a clear enthusiasm for New Zealand's capital markets and our smallest listed companies. These observations have not gone unnoticed and will be considered as part of NZX's strategic review.

There were a lot of questions asked, too many to list here, but many talked about NZX's poor performance and the need for board renewal.

Martin Dowse

The avalanche of information, today, tends to obscure the true purpose of investing, "saving for the future." Investing is the process of trusting in a company, and industry, or a region, and giving your money time to produce results. And that process works best, with patience, sobriety, and a long term view. Lawrence Fink, President Black Rock

Kiwi Property Group AGM 28th July

Held in Christchurch for the first time in six years on a wet day, only fifty people attended and some of them were local Kiwi Property staff.

Chairman Mark Ford enlightened those present with the company's Vision, Objectives and Strategy. As a property investor and manager their main investment base has been and will continue to be shopping malls that are hubs for retail outlets with office accommodation alongside as a complimentary income stream. Their vision is to provide the best work and retail workplace and office accommodation in their chosen centre. Their objective is achieve greater than 9% growth per annum underpinned with pre-tax funds from operations of per share growth of greater than 2%. The strategy is to build and provide high quality retail premises that will consistently out- perform by attracting high level tenant demand. To create a premium for their mall sites.

They target "Golden Triangle" regions outside of Auckland such as Hamilton and Christchurch, but have strong bias to Auckland and Wellington because of Government lease opportunities. A secondary target market is managing properties that are owned elsewhere or owned in partnership.

Chris Gudgeon the CEO who retires in twelve months' time emphasised the effectiveness of their strategy which had paid off handsomely particularly in Wellington, and the internalisation of their management during the past year. Sylvia Park is their cornerstone investment and significant expansion plans are underway to grow this site substantially. High profile shops, strategically placed and designed office space, 600 new carparks and an outdoor dining and entertainment area that will enhance the retail experience. Of potentially greater importance will be Drury where they have a 51 hectare site that will be developed over the next twenty years. This is a unique location with enormous growth prospects generated by Auckland's growing population, the need for a logistical centre in South Auckland and the close proximity of the motorway which will be a major part of the infrastructure that will drive this area forward. Auckland is currently 61% of their total investment portfolio. Hamilton increasingly features as an important geographical area as it is in a growth corridor that can only become even more important.

A total investment package of $1.7 billion is planned with growth budgeted to be 5.8% inclusive of supermarkets and 8.1% with the supermarkets excluded.

As at March 2017 rental occupancy was at 98.8% guaranteed for 5.6 years weighted average lease years. KPG has over $3 billion in assets and growing and rental growth was 17%.

The threat of online competition is recognised and is being contested by offering attractive "go to" experiences including entertainment, advanced retail offerings (H&M) and high quality restaurants. All of this made easy by better managed and ample car parking.

Both the Chair and the CEO had a clear vision forward for 2018 which they were confident would be positive and indicated a small increase in the 2018 dividend.

All resolutions were passed without issue including the re-election of Richard Didsbury and Mark Ford.

Several Questions were asked of the board;

Q. "Over 50 % of malls in the USA have closed in recent years for a variety of reasons; will KPG be confronted with the same issues and if so what can be done about it"?

A. "The board is well aware of the situation in the USA and have long known that America was over shopped: some 4X that of New Zealand. Being aware of this the company is being careful not to make the same mistake. Online shopping is one of the reasons the malls in the USA have gone into decline and this is being combated as noted above.

Q. "Climate change is an ever present fact as is population increase along with the associated increase in consumption. Has the company recognised this and what is it doing about it"?

A. "Projections are that New Zealand population will continue to grow and it needs to be managed in a balanced way. Power production and the distribution is an example of one of the things that will require specific attention. The use of water, its disposal as waste, its management and availability is another. KPG have installed solar panels in all of it new malls to provide a source for some of its power requirements.

Further question concerned car parking and investment on Auckland's North Shore, which is being kept under review.

Max Smith and Tim Kerr

Green Cross Health AGM 1st August

The backbone of GXH is the 291 Unichem and 63 Life pharmacies of which only 90 are equity controlled. So it is a franchise business which has recently developed into the adjacent primary health provision by 39 doctors' medical centres (80% with equity holding,) and Access (home support) employing 166 community nurses and 3500 support workers. The three divisions interact with each to deliver complete home service for the aged, disabled and recovering patients – over 200,000 of them.

The summaries at the beginning of the financial statements are a model which more companies should emulate. They present the accounts in a plain English version which any shareholder could understand.

The summaries at the beginning of the financial statements are a model which more companies should emulate, presenting the accounts in a plain English version which any shareholder could understand. Chairman, Peter Merton outlined the highlights for the year with operating cashflow up 62.4% and return on capital now up to 23%. He confirmed the opportunity areas in the medical centres, and community health. He handed over to Grant Bai CEO Pharmacy and Medical, who explained how the pharmacies and the Doctors centres acted as hubs for patients who only have to "tell their stories once" to their primary health providers in the group, and who earn rewards as they consult or buy. He also emphasised Greencross online training in pharmaceuticals, merchandising, leadership, and for consumers, the Teachme portals.

Then Simon Lipscombe told us how the Wellington Health Board contract had given the newly Branded Access division scale to drive roster efficiencies, promotion and client numbers. He was supportive of pay equity, in providing greater staff retention, keen to develop district nursing and serious injury cases with ACC, will pursue cross selling with Doctors and the pharmacies, and will invest in IT solutions to improve efficient patient service. It seemed from the presentation that the company had overcome a stuttering start with the Access service through professional management. This was confirmed in the growth figures presented by CFO Steve Browning.

Martin Watson, NZSA proxy holder asked about the future investment and technical challenges in developing the Medical centres, and the company seemed prepared for this. Another questioner asked which was better for the company, franchising pharmacies or taking them over. Franchising was the history and probably the future because the price of existing businesses had escalated particularly in Auckland. In conversation later we learned that the target of about 400 pharmacies in the network (just over a third of the NZ total,) was achievable and it was not considered advisable to push much beyond that. The threat (suggested by a questioner,) of Australian Chemist Warehouse was being defended by the linkages outlined above and the buying capacity of the existing chain. Milford asked about the changes in the Medicines Act, and the possible deregulation of corporate ownership, and it was clear that Green Cross was involved in the submissions to government and that there was no clear path forward yet. Another shareholder asked about the large increase in staff paid over $100,000, and was assured that the increase in Doctors and other highly qualified staff would mean that this figure would keep growing. The election of board members was passed without dissent and new face Carolyn Steele spoke convincingly. The board was diverse, as suits the business, and the professional management presented strongly.

Alan Best

"Stock prices will always be far more volatile than cash-equivalent holdings. Over the long term, however, currency-denominated instruments are riskier investments – far riskier investments – than widely diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions." Warren Buffet

Z Energy AGM 15th June

Voting was by poll, the Chair and directors held 110,000 proxies and NZSA held 277,000 proxies. All resolutions were passed.

This was Z's fourth AGM as a listed company and it was almost going to be a virtual AGM without a physical meeting. Only 12 shareholders turned up to the 2016 AGM Z so when it came time to plan the 2017 AGM Z decided to make the 2017 meeting online and teleconference only. That drew a largely negative response from media, shareholders and NZSA, and after a few quiet words from NZSA to the director's Z relented and made the 2017 meeting a hybrid meeting, physical (at the Z Shed) plus webcast plus teleconference.

It turns out that it was good decision to have a real meeting as this year there were 50 plus shareholders attending the meeting in person, and much smaller number watching via webcast and listening via telephone. There were a quite a few questions asked by shareholders present, no questions were asked by those attending virtually and as far as I can tell when it came to voting no votes were cast by our virtual attendees (someone correct me if I'm wrong).

The AGM was well run by chair Peter Griffiths and CEO Mike Bennetts. It has been a good year for Z. The Caltex/Chevron deal has been digested, revenues and earnings are above guidance, synergies are better than expected and Z is now a much larger company. The next year is all about business as usual and making the most of new opportunities the larger scale provides and paying down debt ahead of schedule with Z's abundant cash flow.

Questions asked included:

Q. Why was Z employing immigrant workers and giving them assistant manager titles helping them game the points system? (from a comment Trevor Mallard made on The Backbencher). A. Z does not; it expects its independent retailors not to do this either, and will take action if there is poor behavior.

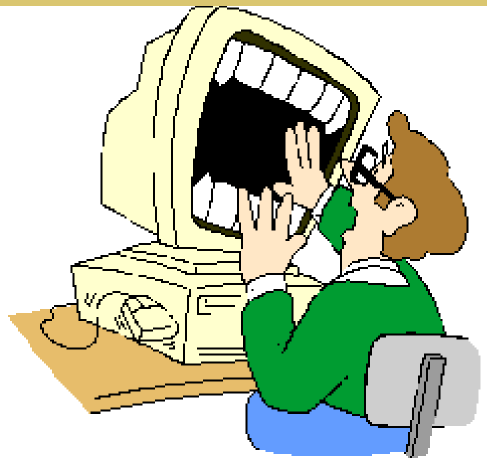
Q. Do national elections affect business? A. That used to be the case but less so now.

Q. Why does the board feel it needs to get consultants in to tell them how much to pay themselves? If they are doing a good job and employees and shareholders are being paid more, then it is reasonable for the board to be paid more. A. Need the information on board pay rates but then the board decides, not the consultants.

The AGM wrapped up at 4pm with shareholders invited to join the directors for a cup of tea and scone in the staff cafeteria. No tea or scones were consumed with directors by those attending virtually. So there you are – the good old traditional AGM isn't dead yet.

Martin Dowse

Being a CEO is awful for four reasons. First people think you are in control, but you are not. All organisations are dysfunctional, and even if you have right idea of what you want to do, doing it is practically impossible. Second, everything is always your fault, even when you had nothing to do with it. Third, it is very lonely. Noone tells you the truth, and you cannot tell anyone else the truth either. Finally, you spend your life in two of the most depressing spaces on earth – meeting rooms and aeroplanes.
Lucy Kellaway - Financial Times - Business Life



A focus on goals rather than behaviour is creating workplace monsters

Given the recent travails of our major construction company this research by three psychology academics has a certain resonance. Rather than putting the time and effort into promoting self-control, many organisations continue to favour focusing on goals, irrespective of how they are achieved. The general obsession by some organisations with outputs, reports, and metrics, signals to employees that performance is paramount, whatever the cost. More

The paradox of passive - beware of feedback loops

The rise of passive investing over the last decade has been remarkable, and the "active v passive" debate hasn't abated, but the debate tends to focus on how much of the market is passively managed and less so on the capital flows i.e. who is buying the stock of companies and why? When stocks are being purchased without any thought to the underlying fundamentals of the company, this could create a risk to how markets operate. More

Saying there is a bubble in ETFs makes little sense

Another ETF view. This time expressed by Ben Carlson in Bloomberg. The shift to low-cost investment funds represents an enormous wealth transfer to investors in the form of lower fees. This is a huge win for the investor class he says. More

Doors to open to equity crowd-funding in Australia

Laura Daquino blogs on the opportunities and risks opening up for retail investors in Australia. While the detail of her comment is Australian specific, her cautionary tale is a relevant reminder to all investors. More

Paying CEOs with stock options does not drive their business strategy

Research by University of Adelaide academics shows that compensating US executives through stock options does not lead to a higher pay out in dividends to shareholders. Similarly, Long Term Incentives provide a reward for good performance but do not penalise CEOs for bad performance. More

Decade's best fund manager loses 89% of wealth because of one small mistake

Bruce Berkowitz was adjudged Morningstar's fund manager of the decade in 2010. However, his fund has lost nearly 89 per cent of its assets in the last six years because Berkowitz did not adhere to the basic rule of investment - diversification - says an article in Financial Express. More

The forward guidance paradox

In textbook models of monetary policy, a promise to hold interest rates lower in the future has very powerful effects on economic activity and inflation today. This result relies on: a) a strong link between expected future policy rates and current activity; b) a belief that the policymaker will make good on the promise. There is a tension between (a) and (b) that creates a paradox: the stronger the expectations channel, the less likely it is that people will believe the promise in the first place. More

How economics became a religion

From the Guardian. Over time, successive economists slid into the role we had removed from the churchmen: giving us guidance on how to reach a promised land of material abundance and endless contentment. For a long time, they seemed to deliver on that promise, succeeding in a way few other religions had ever done, our incomes rising thousands of times over and delivering a cornucopia bursting with new inventions, cures and delights. But, like all religions, beware of priestly hubris. More

Six core ingredients for the perfect investment

When it comes to investing in today's market, a strong underlying foundation is vital to forming the core of success. Stephen Glass from Pengana International Equities fund offers his 6-point checklist that separates the good from the bad, allowing him to invest with confidence in an overly noisy environment. More

Foreign Trusts, the Panama Papers and the Shewan Report

A paper from Michael Littlewood from Auckland University. In April 2016 the publicity given to the so-called Panama Papers attracted attention to the New Zealand tax system and foreign trusts. A government commissioned Shewan report recommended that the law be changed. This article explains how the foreign trust rules work, and how the amending legislation is designed to preclude this form of abuse. More

The Flight Centre and the importance of culture

Using the Flight Centre as a best practice case study, this paper examines the positive correlation between corporate culture and fiscal performance and quotes Harvard Business School research showing shares in companies "with performance-enhancing cultures" increased an average of 901 per cent, while shares in companies "without performance-enhancing cultures" rose just 74 per cent over the same period. In this paper, Uber is the bad example. You might like to substitute Fletchers. More

The battle between the banks and the disrupters is just beginning

By Chris Skinner in American Banking. Institutions want to get to the nirvana of new technologies, but they are stuck in a bowl of spaghetti of old systems. Some call these systems legacy, others call them handcuffs. Whatever the nickname, the antiquated core systems are challenging banks' ability to progress in a digital banking world — a big weakness that fintech startups believe they can exploit. It is almost like banking in a mobile app store: Hundreds of companies are offering thousands of services that are simple and easy for sending and receiving money. More

Pension fund deficit risk

Currently, UK defined benefit pension funds' liabilities exceed their assets. That is, they are in deficit. This matters because the volatility of pension deficits can affect pension fund investment decisions. Given their size, changes in pension fund asset allocation can materially affect asset prices. More

How big is bitcoin really?

Perhaps a bit like asking "how long is a piece of string?" Certainly $41 billion and growing. That's less than half Bill Gates' estimated net worth. This article has a chart which puts the world's money into perspective. More

(Australian) Profit warnings and profit upgrades in 2017

This is one for the chartists. Richard Coppleson from Bell Potter looks at 47 profit warnings. His key findings: the further a stock fell on day 1 after the warning, the higher it bounced back and those that rose, continued to rise. His conclusion is that short selling drives the market price rather than underlying business fundamentals. More

The five countries that are conduits for the world's biggest tax havens

First there were the Panama Papers then the Bahama Leaks. Journalists and commentators had a field day and there is a continued public outcry against reputed tax havens, including New Zealand. Now a new study has uncovered all the world's corporate tax havens and, for the first time, revealed the intermediary countries that companies use to funnel their money into these places. And no, New Zealand is not among them. More

From barter to blockchain: A history of money

Money has been around for 7000 years and before that there was barter. This Techcrunch blog reviews the history of exchange and concludes - With crypto-currencies, power and authority might change hands, but this will not change how society functions as a whole. The earlier you become part of the crypto-currencies, the more you'll have. Kings will fall, Kings will rise, but the money, money survives. More

If everyone is a robo-advisor, then no one is a robo-advisor.

Joshua Brown, in a Reformed Broker blog argues that the main robo-advisor firms are, behind the scenes, flush with human talent. Further, robo-advice firms are now starting to offer human advice for a higher fee. He sees the entire wealth management industry converging with the robo-advisory space in terms of both the degree of automation and the price. More

How investor learning affects company behaviour

Wharton accounting professor, Frank Zhou, in his latest research, "Disclosure Dynamics and Investor Learning," has examined the relationship between investor learning and earnings forecast decisions. He developed a structural model that illustrates the need for managers to understand where investor beliefs are when disclosing information. He found that investor's beliefs are sticky over time and that encourages companies to release more information. More

Bruce Parkes

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

Upcoming Auckland Branch Meetings

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

Dates for 2017:

Wednesday 20th September	Angela Burglass	CEO, Trilogy nzx
	Dean Anderson	NZX, SmartShares and ETFs
Wednesday 15th November	Green Cross Health - to be confirmed	

Please mark the dates in your diary and have your questions ready for the speakers

Company Visits

Fonterra	To be confirmed
Ryman	To be confirmed

Fiona is currently working on 3 other possible company visits for 2017

Numbers are severely restricted to comply with health and safety regulations. It is essential that members register with Fiona Gray – **grayfion@gmail.com**

Members should also check the latest information and special conditions on the NZSA website.

Auckland

Branch meetings continue to be a highlight of the Auckland calendar. The videos of the presentations available on the Members Web Pages, are well worth viewing as the speakers generally try to move beyond the material of an AGM and give a more rounded view of a company's activities. So it was on 21st June when both Todd Hunter of Turners and Grant Webster of Tourism holdings presented their companies.

Todd's presentation is available, and we include Noel Thompson's note prior to the release of the video.

Tourism holdings:

- Largest (RV)Rental Van Company in the world. Main operations are NZ, Australia, U.S.A with other regions in UK & Europe.
- Rental Van usage only represents 1% of world tourism. World tourism is expanding rapidly especially with the higher standard of wealth in 3rd world countries and the "RV market" stands to gain from international growth. Majority of RV customers are private retail customers.
- Expansion in USA by 2 large acquisitions Red Bear during last year and El Monte (2nd largest in USA) purchased in Dec. 2016.
- Rental Van operations is its primary operation and also owns the tourism business of Kiwi Experience and Waitomo Caves in NZ. A joint venture RV manufacturing business is in NZ.
- The successful and NZ business model is being adapted into the overseas operations.
- The announced ½ year NPAT.to 31 Dec. 16 was up 38% to $11.3m with the main growth in NZ which could have been better due to the Kaikoura earthquake. The forecast full year has been increased for the 2nd time on 21 June to $29.5m. 50% of NPAT is earned in NZ.
- The company has an ambitious goal of $50m NPAT by 2020.
- Net Debt has increased with the internally funded El Monte purchase with syndicated debt in overseas currencies.
- In response to questions from the floor, it was noted the driver enhancements were being introduced for foreign drivers in NZ to improve safety. Looking to the future, self-drive and electric proto type chassis' were under evaluation. China was a possible target market.
- The full year's results are due in August.

Noel Thompson

The branch visit to Milford Asset Management was a great chance to see the inner workings of NZ's leading fund manager. Brian Gaynor took us back to his start-up above an Indian Takeaway in Mount Eden. Typically he gave us a broad view of risk and return, and the attraction of NZ with no capital gains tax or death duties as a home for capital. He handed over to Sam Trethewey for a description of their assessment meetings which include top-down and bottom up analysis. Sam was followed by Mark Riggall, whose dealing in overseas funds, bonds and currencies gave him a global view of risk. The questions flowed and we all learned something from the contact. Milford's website sets out the choice of funds, updates on the performance of each, and Milford's focus on providing the best service for each investor. Even the tour of the office was a rare opportunity to sniff the collegial atmosphere of highly qualified teams all beavering away on their screens to grow and keep safe their customers' wealth.

Alan Best

Waikato

June

The guest speakers for the AGM dinner were Slade Robertson, Managing Director of Devon Funds Management, and Bernard Doyle, Head of the JBWere Investment Strategy Group.

Bernard showed us why there will not be a crash in the near future. Charts of Global Growth Expectations, Personal Consumption, and Disposable Personal Income all show growth. At the same time, there is deleveraged expansion, decrease in household debt, and decrease in financial sector indebtedness. Governments, firms, and people are not in an expenditure phase but are concentrating on reducing their debts.

In the USA, job growth is climbing, unemployment continues to fall, the quit rate of employees (those switching jobs) is up. These are measures of confidence. Mortgage delinquency, auto loan debt, and credit card debt are falling.

In Japan, debt is falling, Spanish housing debt is falling, and the US subprime has fallen. But in China there has been there has been a credit surge. This does not worry him greatly - their debt is internal; it is not money borrowed overseas.

Over the last five years, people have been hoping that Europe would not fall apart. Recently, their politics has settled down though earnings in Europe are lower than the US by about 55%. So the world is in pretty good shape, there are not big economic imbalances.

The first question was about imbalances in New Zealand. Though our debt is high, it is stable. It is not growing rapidly compared to our GDP. But what worries him is our low-quality growth because we are at full capacity and cannot grow any faster.

Another question was about Italy. That country has still to see the possible benefits of growth. It has a strong protest movement, there are bank problems, and elections are scheduled for May 2018. This is in contrast to Spain which has reformed with a now coherent government.

There was a question about Australia. There are three main components to its economy – banks, resources, and industry. Generally, Australia has stabilised from recent government attention and setbacks.

Slade Robertson then took over with discussion of active versus passive investment solutions. Devon currently manages over $2.2 billion in investments. They take a long-term view but acknowledging that 50% of global trades are programmed by computers. Economic and social issues and views come more into their discussions these days, and are addressed in regard to location and types of investments.

Since the GFC, active and passive investments have both gone up, and global equity managers have had the better returns. In the US, 70% of funds are in passive investments but they can destroy a market, by slowing the reallocation of capital into more profitable investment. In a rising market it is difficult for active investors to outperform passive funds.

Slade's view on fund management for some is the higher the fee, the bigger the drag on performances. The cost of passive investment is a concern – you are charged to enter, charged to manage, and then charged to withdraw.

The night finished with a question about a risk of firms such as Google, Microsoft, Apple, and Amazon collapsing. Slade's comment was that these firms always look out for threats – it is a symmetry of advantage, buy out those firms. The big firms would only lose out to those firms which are presently very small and nimble.

In summary, Bernard and Slade gave their views of their investment philosophies for their investments. It highlighted different global trends but at the same time their responses to our questions was very interesting. A mixture of complexity and straight forward overviews.

Cliff Thomas

July

Thanks to Infratil for the opportunity to open its Waikato Roadshow with an NZSA presentation on our objectives, advocacy actions, and branch activities.

Infratil's first speaker was Tim Brown, Capital Markets, Regulation, and Governance in Morrison & Co. Infratil aspires to have long-term buy and hold investments that create excess value. The tenets are Value – they avoid competitive bidding; they cannot outbid the giant super funds of the world; Trends – renewables, an aging population who need accommodation and care, middle-class expansion (expenditure such as increase in air travel), data storage, and technology; and Compounding - organic growth businesses, those that can invest in themselves to increase return (e.g. Wellington Airport with expenditure on new terminal facilities and a hotel providing growth in this asset).

The second speaker was Matt Ross, the Group Financial Controller, covering four Infratil subsidiaries.

They own 48% of the Canberra Data Centre (CDC). There is a huge demand for growth as the Australian government moves to digitise all their government functions. At present, there are four data centres with another being developed but at the same time there are two campuses over 11 kilometres apart in case of any cataclysmic event.

The next subsidiary was Tilt Renewables. Because of the Paris Accord, Australia has a renewable generation target. Coal and gas generation are being retired; wind and other generation have to be developed. Matt talked about the aspects of the Salt Creek Wind Farm and for electricity generation as a whole.

Then to Longroad Energy in the USA. Again, there is a demand for renewables and expertise in a competitive market. The country has many opportunities as every state has an energy policy.

Finally, Matt referred to the ANU Student Accommodation 30-year concession. At present, they have 3760 beds and the right to build more accommodation. It is a reliable cash yield with a low vacancy risk.

Tim returned to talk about Trust Power. Its only hydro investment is the Waipori power station. The price of electricity has been declining since 2008 because of the flat line consumption demand as houses have more insulation and LED lighting.

Trustpower's response has been to offer more than one service, such as electricity, gas, telephone, and internet. They have more than 90,000 customers taking more than one service, which makes it difficult to switch to other provider/s, thus reducing the turnover of customers.

Then to the Wellington Airport runway expansion. It is needed because of international airline growth is in long haul trips. A study of tourists is that they spend most of their money in the airline city. So this affects the airport and the city of Wellington. The cost of presenting their case has been over $22 million. But the Airline Pilots got involved about the safety distance at each end of the runway. They succeeded in arguing against the current standard that had been in place for years. Tim's quip was that this means only two airports (Auckland and Christchurch) would comply and we would only be flying around New Zealand in Bombardier planes.

Then to Question time. Infratil purchase infrastructure and is not into batteries. But they have looked to see what Tesla is doing in South Australia. Their bus numbers will be reduced. In the long term, this sector has low growth prospects and a low rate of return, and Infratil will be exiting this sector.

Cliff Thomas

Bay of Plenty

NZSA aims to raise the standard of investor education throughout the community. Bay of Plenty Branch contributes to this not only in its branch activities, but by featuring a Money Week Seminar, targeting members, non-members, and students. Please spread the word amongst your family and networks for this year's seminar

Jane Lyndon

Seminar theme: Investing 101 + more.

On Thursday 17th August, 2017 Time 5.30pm Presentations start at 6pm sharp.

At Club Mount Maunganui, Kawaka Street, (opposite the hockey stadium)

Keynote speakers: David Boyle, General Manager Investor Education, Commission for Financial Capability, and Julian McCormack, Investment Specialist, Platinum Fund Management, Australia
Entry prices: Members $10, Non-members $15, Students Free

Taranaki

On April 28th we had a presentation from Mark Butcher and David Rae who are custodians of the New Plymouth Perpetual Investment Fund which had its origins from the sale of the New Plymouth District Council majority shareholding in Powerco. The sale in 2004 was very controversial with both the public and also those of us who were forced to sell as the purchasers got to the 90% threshold to force the remainder to sell. For those reasons a good turnout was not surprising. Because of this fund the New Plymouth District Council has the second highest credit rating after the Bay of Plenty District Council with their stake in the Port of Tauranga. From 2004 the fund was managed in house, and now the Custodians have out sourced management to Mercer NZ Ltd.

Our AGM was held on the 24th of May and all of our office holders reelected for a further year, however two committee members stood down. Two others were elected to the committee and we look forward to another year of activities.

We had a mid-winter dinner on the 7th of July and our guests for the evening were John Hawkins, our National Chairman and Michael Midgley our recently appointed CEO who both gave us a rundown on the activities of Head Shed. From comments from our members later it was well received. What is achieved by the organisation is a very credible performance given that it consists of one full time employee and a bunch of volunteers. Well done and thank you from us all.

We have events scheduled for the next 3 months and on the 10th of August Dean Anderson from NZX will speak on Exchange Traded Funds. On September 6th Martin Hawes will speak to us, I am not sure of the topic but I am sure it will be of interest to us all. We have organised local man Neil Walker to speak on the 19th of October and he will speak about the manuka honey industry which he is very involved in.

Grant Langdon

Wellington

As I write this, it is just over two weeks to go to the National Conference in Wellington (on Saturday August 19) and we have over 160 registrations, with more arriving each day – three more in the last 10 minutes. We can accommodate about 230 people at the James Cook so if you have left your registration a bit late and find when you go to register and it is full we are really very sorry.

Post conference we have John Hawkins coming down to run two investor education courses on the weekend of 14/15 October and Brian Gaynor speaking in early November. Later in November we will have our branch Christmas function and then we all head into the Christmas season.

Scheduled meetings

- 12 September
- 10 October
- 14 November

Martin Dowse

Canterbury

We had a busy schedule in the June - July period with a site visit for members to the Synlait milk plant in Dunsandel on 7th June and then the Argosy and Infratil roadshows with NZSA members invited to their presentations in Nelson, Christchurch, Dunedin and Invercargill.

Our branch AGM was held on Thursday, 6th July in the Christchurch RSA attended by 32 members, partners and a couple of prospective members. The new committee was elected with one new member, Colin Reynolds. Garry Adams stepped down and was thanked for his efforts on the committee for the past three years. Pam Hurst handed over the Treasurer's role to Frank Stewart and Robin Harrison was returned as Chairman. Pam was thanked for her heroic efforts both with the new format accounts and for organising all the branch meeting venues. The AGM was followed by a talk by Dean Anderson (Smartshare Product Manager) on NZX exchange traded funds which generated much interest and plenty of questions.

Our monthly branch newsletter under the banner "Southern Equity" covers the whole of the South Island and we are increasing our efforts to promote activities beyond the Canterbury Region, particularly in Otago and Nelson where informal satellite groups are operating. "Southern Equity" provides a fuller account of the meetings we have held and details the forthcoming events in major centres of the South Island.

Robin Harrison

Canterbury branch visit Synlait Milk Ltd - June

In June, eleven members of the Canterbury Branch were shown round the Synlait Milk production facility based near Dunsandel, just off SH1.

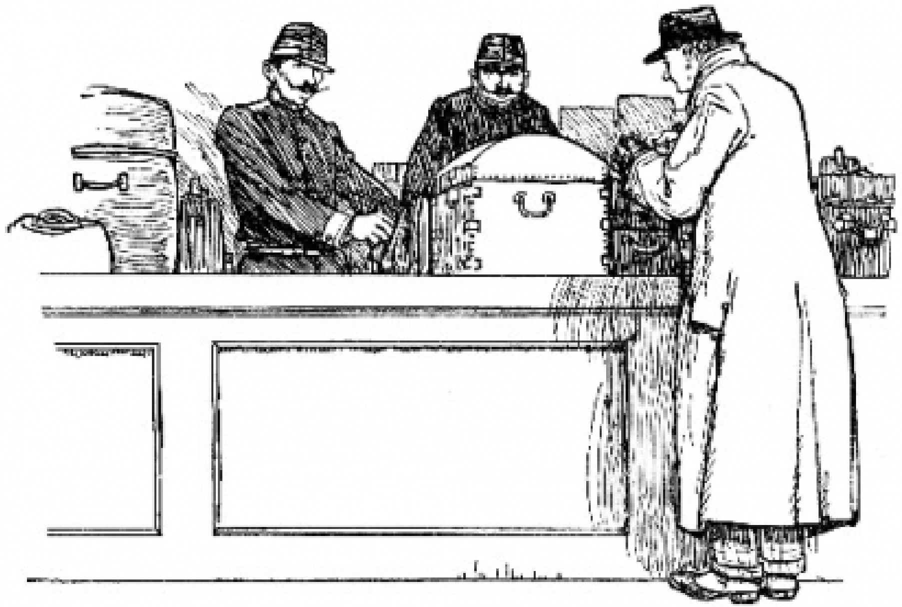
Members were hosted by Phil O'Malley, commercial manager for projects, who showed NZSA members around the plant and by CFO Nigel Greenwood who briefed members on the company's marketing structure and its product positioning within, predominantly, the infant formula market.

Some of the group hold shares in the company, others are considering investing in the company and both groups appeared to be quite impressed. Synlait recently purchased NZ Dairy Foods plant in Auckland. The company's promotional material led with: "Well established after ten years", but under questioning by some of our group, Nigel became quite coy about when the company will begin paying dividends!

Synlait drying tower, a further tower is under construction. With the acquisition of NZ Dairy Foods plant in Auckland the company is confident it will meet its B2B customer and Chinese regulatory requirements ***Photo T Kerr***

IRD is etymologically confused

On reading the letter from Patrick Goggin of the IRD to John Hawkins on the subject of Australian FIF exemption information I was startled to see me, a taxpayer, referred to as a customer. Now we all feel many things about our relationship with the IRD but being a customer, in the normal sense is not one of them. If it was, the activity the letter is talking about is an example of appalling customer service.



I rushed to consult a dictionary. From the Oxford I found -

1 A person who buys goods or services from a shop or business, shopper, consumer, buyer, purchaser

2 A person, individual, creature, fellow, man, woman

Or the Cambridge

3 A party that receives or consumes products (goods or services) and has the ability to choose between different products or suppliers.

Time to dive into the etymology of the word and from Chamber's Twentieth Century Dictionary

4 customer A collector of customs; a toll-gatherer; a tax-gatherer

5 customer One who purchases goods or a supply for any current need from another; a purchaser; a buyer; a patron, as of a house of entertainment

6 customer A prostitute

Ah, now I've got it. Ignoring 6, which is not at all appropriate, 4 seems to hold the answer. Those cunning beltway spin doctors have conjured up a 180^0 word shift. Humble taxpayer, be not confused, the IRD is our customer and certainly in tax matters, the customer always seems to be right. Now that here is to be up to 4000 less of them, will our customer experience improve?

Bruce Parkes

Issuers (not NZX) now identify announcements as price sensitive

I have noticed that some listed companies are being over cautious under the new regime and marking announcements price sensitive when they shouldn't be. There were a few last week and this morning there was another example - AFT released its annual report and marked it price sensitive.

Either companies will get more comfortable over time and only truly price sensitive announcements will be marked as such or, if this endures, we will end up having a less efficient system than before.

Martin Watson

The problem of posted rights issues for Australian Shares:

Bernard Ivory wrote to the Australian registry after a recent share issue. The share offer arrived the day after the offer had closed. He could not therefore exercise his rights, and the registry replied that the timetable was mandated by ASX rules, and given that the documents were lodged with Australia Post on time, neither the company or the registry could do anything about it. Often NZ is the only country outside Australia in which shareholders are allowed to participate, and with the decline in postal services in both Australia and NZ, this problem is becoming more acute.

What I fail to understand is why share registries always use post for such documents while continually pestering me with every dividend statement to get all mail electronically. Every Australian and NZ registry has my email address. It seems to me that they should simultaneously send an email notice of an issue, access to the prospectus and to the application form and the BPay details.

We think Bernard has a point and recommend that all holders of Australian shares email the registries requesting that rights entitlements be sent by email, in addition to the postal requirement.

If an individual company or registry continues to be unco-operative, it would be reasonable to vote against the remuneration report with its spill provision at the next AGM, and to tell the company by e-mail why you are doing this.

Alan Best

Education

As Western Springs College has closed its Leisuretime Learning Programme. NZSA will look for opportunities to run its well established courses: Investing for your Future, and Sharemarket Basics, at different locations according to demand.

Meanwhile, investors who want to improve their knowledge or fine tune their skills should join the NZSA, and use the education section on the members' web pages. We also recommend the branch meetings including discussions, talks, and company visits..

For more information go to Branch section of NZSA website

2017

August 10	Taranaki Branch meeting
August 17	Bay of Plenty money week seminar
August 19	NZSA Annual Conference and AGM
August 22	Waikato Branch meeting
September 6	Taranaki Branch meeting
September 12	Wellington Branch meeting
September 20	Auckland Branch meeting
September 26	Waikato Branch meeting
October 10	Wellington Branch meeting
October 19	Taranaki Branch meeting
October 24	Waikato Branch meeting
November 14	Wellington Branch meeting
November 15	Auckland Branch meeting

INFORMATION

NEW ZEALAND SHAREHOLDERS ASSOCIATION INC

PO Box 6310, Wellesley Street, Auckland 1010, Phone (09) 309-9768

Website – www.nzshareholders.co.nz

Chairman	John Hawkins	chairman@nzshareholders.co.nz	021 640 588
Chief Executive Officer	Michael Midgley	ceo@nzshareholders.co.nz	
Secretary/Treasurer	Chris Curlett	secretary-treasurer@nzshareholders.co.nz	021738032
Governance Issues	Grant Diggle	grant.diggle@gmail.com	
Legal & Regulatory	Gayatri Jaduram	gayatri@jaduram.co.nz	
Legal & Regulatory	Daniel Wong	wongdanielw@gmail.com	
Auckland Issues	Andrew Reding	andrewNZSA@gmail.com	
AGM Co-ordination	Max Smith	myph@xtra.co.nz	
Company Research	Martin Watson	martinwatson@xtra.co.nz	
Co-opted Associates			
Proxy Co-ordination	Jacquie Hagberg	proxies@nzshareholders.co.nz	
Corporate Liaison	Des Hunt	desmondhunt@icloud.com	(9) 521 6117
The Scrip	Alan Best	fleshnfruity@xtra.co.nz	(9) 524 0317

Branch Contacts

Auckland	Stuart Gray	auckland@nzshareholders.co.nz
Waikato	Marie Hutchinson	mkhutchinson@xtra.co.nz
Bay of Plenty	Jane Lyndon	janelyndon@orcon.net.nz
Taranaki	Grant Langdon	ghlangdon@xtra.co.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

EDITOR
Alan Best
fleshnfruity@xtra.co.nz

DESIGN
Bruce Parkes

CONTRIBUTORS
John Hawkins, Alan Best, Martin Watson, Max Smith, Michael Midgley, Martin Dowse, Bruce Parkes, Des Hunt, Noel Thompson, Cliff Thomas, Jane Lydon, Grant Langdon, Robin Harrison.

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