"The Scrip"

MANY INVESTORS; ONE VOICE

New Zealand Shareholders Association Inc
NZSA

June 2015

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Russian Roulette

Most of you will have heard of Russian roulette. It's a game of chance with potentially disastrous consequences. The player puts a single round into a revolver, spins the chamber aims it at their head and pulls the trigger. There is a one in six chance they will blow their brains out. Amazingly every year, a few gung-ho people do just that!

This came to mind when I was reading the application from Efficient Market Services trading as "Unlisted", for an exemption from the requirement to become a licensed market under the new Financial Markets Conduct Act. The FMC Act was a once in a generation overhaul of securities laws. It sets standards and protections on which investors and participants alike can rely. It addressed a whole host of issues that had allowed the finance company debacle to occur, and by and large has erected a fence at the top of the cliff, rather than waiting to pick up the pieces at the bottom.

One important change related to the requirement for share markets to be licenced, have comprehensive systems and be subject to rigorous oversight. This was the outcome from an exhaustive series of consultations including detailed input from NZSA. While NZX and its fledgling small cap offshoot NXT already comply, Unlisted's current low cost, unregulated model falls outside the new law but will be required to be licensed by late this year. Many of the 16 stocks traded through Unlisted are very small, but four (combining the two Rangitira stocks) have market capitalisation above \$100m with the largest, Skyline Enterprises a whopping \$442m.

Under the proposed exemption, companies on Unlisted only need meet the

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requirements of the Companies Act (which applies to every company including the corner dairy) and the Takeovers Act. By its own admission, Unlisted operates on the basis of caveat emptor, Latin for "let the buyer beware".

Unlisted will have no prohibition on insider trading. That must be brilliant for shareholding managers who can trade to their own advantage based on knowledge that is not available to retail shareholders. Nor will there be any prohibition on market manipulation. Having made that clear in proposed Rule 5.5.1, The market manipulation, insider trading and disorderly conduct prohibitions and sanctions of the Act do not apply..... Unlisted then says in rule 5.5.3 that you really shouldn't do anything that is likely to mislead, manipulate or deceive the Market, or any conduct which prevents the operation of an orderly market. On my reading of this contradictory section, dumping a few shares cheaply to depress the price, and then buy up large from panicked investors who think there must be bad news coming up might be frowned on but will be perfectly legal if this exemption is granted.

We note also that FMA expressed concerns in 2014 about the problem of conflicts of interest in its General Obligations review of NZX. There are no proposed rules about this by Unlisted and of course, if unregulated there would be no review of their operation by FMA either.

But surely you say, the market disclosure notices will ensure that everyone knows what is going on. Well, no! There will be no requirements around ongoing market disclosure beyond a need to take "reasonable steps" to make sure that what information is released is widely distributed. The proposed rules state that .... ***trading on the Market is most efficiently conducted and fostered for all participants when Issuers are required to disclose to all participants as much relevant information as can be disclosed without material damage to the interests of the Issuer.*** The key words are the last five. Never mind that shareholders might be interested that a company is about to breach its bank covenants. That would certainly not be something the issuer would want to release unless it had to. They could simply decide it wasn't in their interests - end of story.

The proposed rules try to cover some of these concerns by stating that disclosure should be made for ***...such other events, actions or new information that the Issuer at its sole discretion may consider to have a material impact upon the market price of the Issuer's Quoted securities if such event or action was known to investors provided that such disclosure is considered by the Issuer to be in the interests of all security-holders generally.*** Again, the problem is that it is all up to the issuer to decide. Who is to say that bad news depressing the share price is in the interests of all shareholders. It would certainly not be for those trying to sell.

There will be no need to issue significant shareholder (SSH) notices either. Major shareholders could sell out or someone take a 19.9% position without disclosure. Prudent shareholders have a right to know about major movements in the ownership of their investments prior to the annual report

Unlisted is quite open that it undertakes limited market surveillance and that there is no assurance that it will detect or act on any breaches. Compare

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this to the impressively sophisticated state of the art automated NZX system which effortlessly highlights undesirable trading behaviour. Unlisted will have no market regulation function independent from its commercial management, nor is there any equivalent of the NZ Market Disciplinary Tribunal that investigates breaches at NZX. Unlisted talks of referring any breaches at its discretion to FMA and says: ***The FMA pursuant to its powers under the Act and with regard to EMS's status under the Act, can determine the fines, penalties or other actions it considers appropriate in respect of an Issuer's non-compliance with the Rules***.

That applies to matters that all companies must address under the Financial Reporting Act 2013, but in our view, with the exception of the Fair Dealing provisions in the FMC Act, the FMA is unlikely to have general jurisdiction over an exempt market - that's the whole point of seeking an exemption. In the preamble to Unlisted's proposed rules, we have this statement: ***If participants breach their obligations in any material respect, EMS may (but is not obliged or required to) take any action available to it against such a participant or any other person***. So even if they know there is a problem, Unlisted might do nothing at all. Without resources, how will they know anyway? Not too much comfort for investors there.

Unlisted does not have any fidelity fund to ensure that trades are cleared and settled. On the contrary, the proposed rules specifically exclude liability. The NZX fidelity fund was required some years ago when a brokerage failed due to fraud by a staff member. All trades were settled and no investor lost money.

So what safeguards are proposed? Well, in our view, they are pretty light. As at present, Unlisted will require notice to be given to investors that they are dealing on an unlicensed market. There are some powers to request information from issuers or brokers, but enforcement can only be by suspension or cancellation of the listing - which has a pretty negative impact for shareholders wishing to trade. And only registered brokers and their AFA's can place trades on Unlisted. Unlisted also makes the point that they have been trading for many years and there has not been an issue. I guess if there are few rules that will be true, but equally, without surveillance how do they know? Unlisted is concerned that they do not have the requisite listings and fee structure to comply with the new licensing regime. And they say they fill a gap in the market for companies not wanting such a formal setup as NZX.

NZSA understands the problem Unlisted has. They may very well close if the exemption is refused. But ultimately in our view, the need for informed, transparent and confident markets must take precedence. In fact, the international share market organisation IOSCO has concerns that exchanges may lower standards to obtain listings. Having only recently aligned ourselves with best international practice, now is not the time to lower standards or fritter away the safeguards.

The NZSA Board has resolved to strongly oppose Unlisted's application for an exemption. We fought hard and long to improve things for retail investors and we are not about to allow these to be watered down. We have no desire to encourage a return to" the wild west". In Russian roulette, there is no point in pulling the trigger again, having survived the first time, as the odds of a catastrophe shorten significantly. So it is when it comes to exempting away key investor protections. .

The greater danger for most of us lies not in setting our aims too high, but in setting our aim too low, and achieving our mark.- Michelangelo

John Hawkins

Retail Therapy - Too much for some

Last Scrip, I wrote about the key factors that differentiated successful listed retailers from the also-rans. To inform this analysis, I initially prepared a table covering a range of factors including net debt. Unfortunately, a "plus" was transposed to a "minus" and Briscoe's net cash position of $85m was entered as a net debt of $85m - a difference of $170m. Of course, if you were Auckland's spendthrift Mayor, this would be a mere trifle! The result was that rather than debt/stock being 119%, the figure on the table should have been zero.

Fortunately, the error did not affect the conclusions that were able to be drawn. In fact, quite the opposite. Briscoes positive cash position puts them in the same comfortable and financially flexible territory as Hallenstein Glasson. It is an important factor in allowing the company to achieve a strong bottom line despite their discount model giving relatively lean gross margins on sales.

I apologise for the mistake but stand by the conclusions that were so clearly apparent.

John Hawkins.

New Taranaki Branch to be launched

Members who use the NZSA web-site will be aware that the launch of our new Taranaki Branch is to take place at the Plymouth Hotel, New Plymouth on 7th August at 7 pm with two of New Zealand's most prestigious guest speakers. If you have friends or relatives in New Plymouth who are interested in share investing, tell them about this event, and get them to register through our website

NZSA AGM and Annual Conference 2015

Satuday 12th September

Venue – Waikato Institute of Technology (WINTEC)
Tristram St., Hamilton Central

The AGM of the New Zealand Shareholders Association will take place at 11am, late in the morning's proceedings.Nominations for the Board (Rule 12.3c) and any Motion (Rule 20.2c) should be lodged with the Secretary (Chris Curlett) 44 days before the AGM (Rule12.3c). Chris can be contacted via email at ***chris@curlett.co.nz*** for the forms or other information on this or on 021-738032

This event is always worth a year's subscription on its own. If you have not spent time in the Waikato, it is well worth taking extra days to do so. The venue is within walking distance of hotels. Excellent speakers have already been approached. We will advise all members of the programme as soon as it is finalised, and in the next issue of The Scrip.

Another peek at Piketty

Professor Thomas Piketty established that over a long period the rate of return on capital exceeds the rate of growth of an economy. (R is greater than G) This means that wealthy people or families generally accumulate more assets than the average wage earner in the economy, or that disparities between rich and poor will increase over time. Further, Piketty showed that wealth disparities in old pre-war Europe based on class and priviledge declined after world war 2 with the rise of an educated middle class, while the gap between rich and poor in USA increased over the same period, and it appears to be increasing still. He pointed out that for most of human history economic growth was 0% or a little above per annum, but that in the post war period with reconstruction and increased money supply growth rates increased, and are continuing in developing countries, although they show signs of declining in mature economies today.

The remedies to inequality, he thought, in broad terms, are

- to increase the transparency of banking information, so that it is easily accessible by researchers and governments,
- to publish the assets held by families and trusts – make a formal register of wealth,
- institute a wealth tax – a simple tax on assets,
- to institute progressive rates on tax on asset increases.

Piketty feels that a much more cooperative view of banking and wealth should be adopted by nations. He quoted the changes in the secretive Swiss Banks with the pressure on tax avoidance and money laundering from the US government. He accepts that changes in attitudes towards tax havens and profit transferring by multinationals will be incremental, but believes it is important to begin the process.

Now Piketty's theorem has great relevance for shareholders.

The first thing to note is that investment in shares in productive companies which benefits both the growth of an economy and the wealth of a family, is the clearest way to accumulate wealth. If R is greater than G, you'd better be part of the R-side. If you invested $5000 today for 50 years in a low inflation environment of 2% and reinvested all dividends an annual rate of 8% in six monthly instalments, your heirs would have over 50 times your initial investment. So we should advise all our children to start young.

That leads to the second thought. If growth rates are in fact slowing, and wealth accumulates wealth, then we should surely be teaching our children financial literacy, financial independence, and entrepreneurial skills. Although our government has given the job of financial education to the Commission for Financial Literacy, it has only a coordinating role. All the educational agencies go their own way, and in the case of the Community Colleges reading and numbers are the only core subjects to be subsidised. If we are to remain an ethical mixed economy, that is capitalism in a social framework, we need to teach the behaviours that allow people to operate profitably within that framework.

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We should also observe that Piketty's growing inequality is slower here than in many other jurisdictions. In New Zealand the top 15% of households by income pay almost half of the income tax. This income tax is recycled into benefit payments, working for families, paid parental leave, and accommodation support. When these payments are taken into account the wealthy 15% will have paid almost 3 quarters of our net income tax. By contrast households earning less than $60,000 pa will pay only 9% of income tax. The problem in New Zealand appears to be providing handouts to those who do not need them, and that includes wealthy families and superannuants.

Piketty's solutions are essentially to redistribute income and asset growth. Keynes would have applauded that. The more consumption you can stimulate amongst the poorer sections of the community, the better our companies will perform and the richer the owners of capital will become. A new study from the OECD confirms that. Income inequality tends to drag down GDP growth.

The report however, isolates "bottom inequality" (the lower 40% of the population from the other 60%.) That is what brakes economic success, and the main culprit is poor access to education, and therefore limited social mobility. Interestingly, the "top inequality" – that which we all enviously criticise – doesn't much matter. It is economically neutral. So forget those huge bonuses. Their only use in a Piketty world is to help the education and health systems reach those who are at the bottom of the heap.

Alan Best

Access to Investment Advice

NZX CEO, Tim Bennett raised the issue when, as part of his address at the company's AGM, he voiced a concern about the ability of middle-income retail investors to access appropriate investment advice. In this statement, his concern is not the quality of the advice being given; rather it is the quantity of qualified advisors available in the market and the limited number of clients they can properly service. Tim sees those wanting simple advice being adequately catered for by QFE advisers. These are employees of Qualifying Financial Entities who are authorized by the FMA to provide financial services. It is those who want independent advice on more complex products, provided by AFAs (Authorised Financial Advisors) that he is concerned for.

If you are a little unsure of the different advisor types currently operating, a good starting point is the Financial Markets Authority's **website**.

Currently, there are 1849 registered AFAs in New Zealand. However, banks, brokers and other financial institutions employ 1139 of these. Given a need for advisors to fully understand their client's circumstances and risk appetite before tendering advice, the number of clients they can service must be limited.

Tim's concern seems valid

A major review of the Financial Advisors Act is just getting under way. The Ministry of Business, Innovation and Employment has prepared an Issues paper (**see here**) NZSA will be part of the review and will be making a significant submission. We have a range of issues that we will be raising. Access to AFA's is one. To provide colour and depth to our submission we welcome member's views about the availability of advice or other issues they have personally experienced. Send these through to John Hawkins at ***chairman@nzshareholders.co.nz***

Bruce Parkes

NZSA members invited to the INFINZ Round Table

You are cordially invited to attend an important round-table discussion on the pending review of the Financial Advisors Act (FAA) hosted by the CFA Society NZ, Institute of financial professionals, (INFINZ,) and Massey University at Albany on the evening of 23 June. The event is supported by the Ministry for Business Innovation and Enterprise (MBIE) and the Financial Markets Authority(FMA).

Date: Tuesday 23rd June 2015

Time: 17.30 - 20.30

Where: Sir Neil Waters Theatres Building, Massey University, Albany Campus, Gate 1, Albany Expressway, Auckland

The evening will commence with time to mix-n-mingle from 17:30-18:00. The first session, "Consumers: The Accessibility and Understanding of Financial Advice within the Regulatory Framework", runs from 18:00-18:50. The second session, Advisors: Standards of Practice, Professionalism, and Investor Protection within the Regulatory Framework, runs from 19:10 to 20:00. The evening concludes with further time to mix-n-mingle from 20:00-20:30.

Noted panellists include Diane Maxwell (Retirement Commissioner, Commission for Financial Capability), Angus Dale Jones (Board Member, Professional Advisors Association), John Hawkins (Chairman, Shareholders Association), John Body (Managing Director, ANZ Wealth) and Nick Williams (Board Member CFA Society of NZ). We look forward to a lively discussion on the evening, by both panellists and the community, on a topic that will ultimately impact New Zealand's capital markets, particularly users and providers of financial advice. A copy of the programme is available at ***www.infinz.com/includes/download.aspx?EMAIL=24487230&ID=139301***

We hope you will join us in this important discussion. Ultimately, "The Future of Finance is You."

There will be no charge for this event, but please register at ***https://www.eventbrite.co.nz/e/open-forum-community-discussion-on-the-financial-advisors-act-review-tickets-17074628674*** for catering purposes - a range of beverages will be available during mix-n-mingle sessions.

Company Meetings

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

NZX AGM 21st May

Companies who schedule their annual meeting for the same time as the Budget is being delivered must know that the business media will ignore their meeting. Not a great look for a company that needs to garner all the favourable publicity that it can get. Or, an alternate view might be, a smart tactic to use when there is little newsworthy to say. Tim Bennett told me that they thought the Budget would be at 3. Really? Surely the critical element was the day, not the hour.

Perhaps representing shareholder domicile and a growing presence in the financial capital, the meeting was again held in Auckland. This time at the Sky City Convention Centre in a side room that seemed a good fit for the number attending.

We listened to presentations by retiring chair, Andrew Harmos (read by Neil Paviour-Smith through Andrew's absence with a family bereavement) and CEO Tim Bennett. Both are available on the company website. To get the full flavour of Tim's address I recommend turning to the video of his presentation. The posted slides are just a background to his more rounded verbal commentary.

Both presentations "talked the good talk" and outlined the strategy for the future. "Putting more products on the shelf and operating: capital, agricultural commodity and energy markets in New Zealand and Australia. Last year we were promised high single digit growth. The reality has been steady dividends but a 24cent slide in the share price.

Director Jon Macdonald was re-elected and Patrick Strange elected by a show of hands. Incoming chair James Millar is to be deemed non-independent as he is on the Board of the ACC, which holds more than 5% of NZX shares. While Mr. Millar brings many valuable skills to the Board, being comfortable behind a microphone is not one of them.

We learned later that he was handed the job of chairing only an hour before the meeting started.

There was a good range of questions in general business. The very feminine Directors, Alison Gerry and Therese Walsh looked rather nonplussed when one mature gentleman asked the Board to consider appointing a female director. Others questioned the (as perceived by the questioner) lack of media exposure, the share price, the dividend, director's shareholding, and multiple companies holding meetings at the same time. When asked about the claim against the vendor of the Australian grain business, Mr. Bennett said that a hearing is set for mid 2016. Legal costs of $3.5million have been incurred to date and will continue to increase. NZX would like to settle but that opportunity has not been available.

There was time before refreshments for retiring Director Simon Power to explain his departure – potential for conflict of interest as NZX acquired SuperLife. Mr. Power has just been elected as a Fellow of INFINZ (Institute of Financial Professionals in New Zealand). It is a pity he has to go.

Bruce Parkes

Two different software companies from recent listings

Editor's note: Software companies can make very good investments. Once the platform is established with the potential to integrate to other platforms within a client company, very significant growth in revenue can occur with relatively small increases in expenses. New Zealand has several exciting growth software companies, which are at an early stage of exploiting global niche markets. Investors however, need to be aware of the ongoing development costs, either to stay ahead of competition, or to complete a package which really fills the customer need. So often software companies seem to have the base sorted, but find that they are on a never ending development cycle which more that chews up the gross margin they generate.

Vista AGM 20th May

It was refreshing to attend an AGM to hear from a CEO who really understood how to run a good company. Murray Holdaway has been involved from the start as have the majority of the independent Directors.

We were given an in depth presentation of what the company is trying to achieve with regard to its financial goals, R & D, Marketing etc. Murray also gave a very clear picture of which customers they are targeting now, and in the next three years.

The company delivered financial results that saw both the revenue and profit exceeding the targets provided in the prospectus. They are on target to repeat this over-performance in the coming financial year. It booked revenue of $47.2m and net profit of $4m, and had cash at year end of $30m. Its market cap is now $384m, and it boasts software installations in 4577 sites (mainly cinemas) around the world. It is therefore a market leader with a target of more than 20,000 sites which could be available for its software.

The company has made two acquisitions in the past year, and is looking for other opportunities provided they are core to the current business plans.

Although the company has been successful in keeping key employees, it is considering a long term incentive programme for many of its staff.

The company has 6 offices worldwide and over 300 employees.

Growth markets are the USA, China, Europe, India, Asia, Middle East and Eastern Europe.

Vista's key strategy has been to lock in the major cinemas companies before targeting the smaller private operators. They are now forecasting some 70% of recurring revenue rather than just relying on new sales.

Vista's success in exceeding forecast, and its prospects for further growth, with a high proportion of recurring business, are now being reflected in its share price, which has grown steadily since its launch to investors.

Des Hunt

Wynyard Group AGM 21st May

It was a good idea for this relatively new company to begin with a promotional video showing the need for digital means of fighting modern cyber and organised crime. The worldwide growth in serious crime and cyber crime has increased Wynyard's target market substantially. Chair Murray Horne gave a brief overview of the increasing deal size and lumpy revenue prospects with bigger budgets being spent on security around the world, and then handed over to CEO Craig Richardson.

Craig identified 4 global trends - declining traditional crime like burglaries, growth in transnational organised crime, globalisation of extremism, and growth in high consequence cybercrime. He showed and interesting video of how extremist, transnational, and cybercrime could be combatted using network tracking facilites built into Wynyard software. It was clear that Wynyard was providing the platform while Wynyard's customers used the text mining capability to collect and store suspicious data.

Wynyard is on a path of rapid growth to meet the demand for solutions to serious crime problems around the world. Headcount will increase from 228 to 330 full time employees by the end of 2015. Continuing to develop their market leading product platform will provide scale and repeat business and allow the company to target higher value contracts with bigger margins.

Special attention will be given to the accelerating path to profit, governments as a significant customer base (increasing to 37% of revenue), larger contracts ($1-10m range), and the release of advanced crime analytics platform this year. Working with top tier system integrators Wynyard's software has potential for banks, building societies, police forces and government agencies.

Staff numbers include 24 in USA, 55 in Mid East and Europe, and up to 72 in the Christchurch development base, bringing in revenue of $45m in the 2016. Craig emphasised the expected iincrease in revenue – greater than 50% growth in FY15. However, he pointed out that larger contracts can result in lumpy revenue from contract timing and execution risks – and stressed that shareholders look at the underlying trend in revenue growth rather than any particular period.

Penetrating questions were asked from the floor:

Q $45m revenue is small by comparison with the $8b market. Why should Wynyard capture a larger share? Answer: The market is fragmented with no dominant players, and full of old technology. New efficient players will displace the old. The major competitor, Palentir, for example has sales of over $800m and has experienced 50% growth in the past year. Wynyard's offer is competitive with Palentir's.

Q What is to stop staff members high jacking the IP or hackers compromising the software. Answer: Software is reviewed by outside security experts before release, and staff are vetted before appointment, then monitored continuously by peers and management.

Q. When will surpluses on income over expenditure occur. Answer: This is a matter for board decision. At present the board deems growth to be more important, but it estimates that surpluses will arise late in the 2017 year. Wynyard has always been mooted as a growth stock.

Q. You say the platform is still being developed. Is there sufficient cash to accomplish all of the proposed developments. Answer: There is sufficient for the foreseeable future.

Q. Why doesn't Wynyard publicise and disclose its major contract wins. Answer: we do try to announce any major contracts that are material to the shareprice as required by listing rules, and group these in sectors. Many clients and competitors prefer to remain unlisted because of the sensitivity of some of their security work for government agencies.

Q. Was there pressure from Australian clients to list in Australia. Answer: No the reason for Australian listing was top provide increased liquidity for New Zealand shareholders, and because Australia is short of hi-tech listings, and fund managers were showing an interest.

During the resolutions, NZSA asked for assurances that Consultant, retired Director Herb Hunt ,was being paid at arm's length for services, and it was clear from the answer that his technical expertise was well priced and very beneficial to the company. NZSA's proxy holder also asked about the auto-pilot provision of compliance with ASX rules, and was assured that any changes to the constitution would be brought before shareholders at the following AGM.

In discussion with the chairman after the meeting, we were assured that the pricing of contracts was yielding good margin, but that investment in software and staff for growth would take precedence for at least the next 2 years.

Jacquie Hagberg and Alan Best

Summerset Group Holdings AGM 30th April

The meeting was noteworthy for the inclusion of two shareholder resolutions at the end of the agenda. Both resolutions were related and dealt with a notified consent process for land in Boullcott, Lower Hutt. Neither of the explanatory notes provided for shareholders was attached to the resolutions, as they were considered defamatory by Summerset.

The ordinary resolutions were dealt with on a show of hands and it was heartening to see both directors – James Ogden and Marie Bismarck addressing shareholders with their credentials for re-appointment. Both addresses were pertinent and interesting. It is noted that the composition of the Board is exactly split male and female; few companies are able to achieve this objective and yet, of all industries, Healthcare would seem to warrant a higher female ratio.

Reverting to the shareholder resolutions, the meeting listened to Gareth Worthington with increasing confusion as to the objective behind the request. The first resolution and perhaps the most important dealt with the integrity of management and seemed to mainly concern whether the proposed village would be two stories. The chairman made it clear that at no time had management ever undertaken or inferred that the village would be a single storey affair. Your representative decided that the first resolution was not conclusive and abstained from casting a vote. The second resolution was more difficult and it became clear that a case could not be made with the information given. I voted your shares against this motion. The proper forum for this disagreement appeared to be the courts.

Voting for resolution 4 was FOR - 345,446 shares, AGAINST - 18,490,949

Voting for resolution 5 was FOR - 777,477 shares, AGAINST - 87,828,343

It should be pointed out that the Issued Capital of the Company exceeds 218 million shares and thus less than 50% voted in these resolutions.

Shareholder questions provided an interesting array of queries. Garry Gould of the Anglican Church Pension Board noted the Australian listing of the Company and asked if the Directors had any immediate intention of operating in Australia. The chairman responded by pointing out that the local listing was to assist Australian Institutional holders to trade their shares. Summerset presently did not have the necessary structure to begin operations in Australia but declined to say 'never.' Opportunities in New Zealand supplied enough business for the immediate future.

On the question of dividend policy the Chairman noted that the 31% dividend payout was based on a calculation of underlying profits, and that this was at the lower end of the 30 – 50% dividend policy ratio. He considered the 31% payout would remain unchanged in the immediate future given the continuing opportunities available in the market.

The two villages in Christchurch under construction were mentioned and your representative wondered if, after the recent earthquakes, there were sufficient contractors available given the massive city rebuild that was necessary. Julian Cook responded by saying that they were having no problem at the moment finding quality contractors for their sites.

Oliver Saint

An editorial note from Oliver (a past editor of the Scrip)

It is very important for a proposer of an AGM resolution to get his argument across in writing before the meeting. The difficulty of explaining the detail of a proposal from the floor of an AGM was evident here.

Secondly, it is good to see a fund manager taking an active part in an AGM. The institutions are the power houses of our financial markets, and NZSA wants them to play an open role in the main public forum of their portfolio companies.

Refining NZ AGM 29th April

This year Refining NZ moved its AGM from Ruakaka to Auckland and despite the meeting content staying much the same, the dynamics were quite different. A few "non travelling" shareholders turned up for the first time; the number of Auckland shareholders using the AGM as the justification for a Northland excursion were down; and the after meeting refreshments were different.

Retiring chairman David Jackson set the scene by stating that he wanted the meeting over in two hours. Both he and CEO Sjoerd Post played their parts by making their addresses (available on the company website) more succinct than in the past. They spoke of a year of two halves – an unprofitable first half and a profitable second half. The "operational self help plan" is working, targets have been bettered and the outlook is favourable. The Directors are confident that dividends will be reinstated soon.

On to the appointment of Directors. This company has a large 10 person Board, only three of whom are independent. BP, Mobil and Z Energy each have two and Chevron one representatives; Alternates sometimes back these up. It is not uncommon for these non-independent Directors to retire within their first term in office. The oil companies soften their dominance by not taking fees for their second Director. Retiring chair, David Jackson, and incoming chair, Simon Allen, both favour this arrangement. NZSA believes this to be over representation and that the board is larger than necessary for a company of this size.

Nevertheless, Mike Bennetts, Mark Elliott and Peter Springford were re-elected and Simon Allen and Stuart Brown elected - all with over 99% of votes in their favour.

Post meeting, Chevron has sold its holding in NZR and Mr Gilbert has resigned as a Director. Will we see the appointment of an independent director in his place?

Bryan Halliwell again had a motion before the meeting as part of his crusade against the user allocation and the gross refining margin. (The discount the big four oil companies get on their processing fee) The NZR Board strongly rejects Mr. Halliwell's claims. He has been unable to gain the support of any of the regulatory agencies he has approached. Independent audits support the Board

His position was set out in summary in the notice of meeting and he was given time to address the meeting. While his sincerity and deep belief in his case remain apparent, his fervor for his cause seemed, to me, to be dropping. For the first time, he did not vow to continue his fight, whatever the vote on his motion. The sole speaker from the floor suggested that it was time he gave his cause away.

He did garner some support. Forty percent of the proxies I held were in favour; I voted discretionary proxies against. Over all, only 3.46% of the votes were cast in favour.

The 2014 Hale and Twomey independent review of the Refining NZ Processing Agreement noted that the current benchmark for freight calculations was not reflective of actual costs. While required corrections offset each other to some extent, NZSA considers that an accurate benchmark should be developed to address the actual costs on an annual basis. Sjoerd Post agrees. He told me that work was already underway to address this issue.

Finally, tributes were paid to Mr. Jackson for his service as a Director and Chairman. He responded with some emotion, noting that he had expressed his faith in the future of the company by increasing his shareholding. The speed with which the Chevron holding was snapped up suggest that there is market support for his view.

Bruce Parkes

Briscoe Group AGM 14th May

Briscoes, including Rebel Sports, and Living and Giving now does over $500m of sales and produces over $50m profit before tax. Its low gearing means that it can move quickly into a property purchase or acquisition, and pay regular dividends to shareholders.

Dame Rosanne Meo chaired a friendly meeting with presentations by CEO Rod Duke who was supported by Geoff Scowcroft (CFO,) on property developments, and Peter Burilin (COO) on the importance of brands in the business. Living and Giving was not mentioned in either the Annual report or the meeting, and it is clear that Briscoe Homeware and Rebel Sport dominate the thinking.

I congratulated the board on the 22% increase in EBIT for the past year, the promising start in the first quarter, and its excellent stock turn which is fundamental in retailing.

The Chair was reelected as a director. She was clearly concerned after 14 years in the job, as was Stuart Johnstone, also reelected, at the stability and maturity of the board. However it appears to be working so well that shareholders are unlikely to push for change. We voted undirected proxies in favour of the two reelections. Nevertheless the closeness of the 2 long-serving independents above to the business, places a heavy responsibility on the shoulders of the only other independent Mary Devine. Succession is clearly being planned within the management team, which seemed youthful and commercially aggressive. We could tell that it is being considered within the board which with 2 women and three men looks diverse and balanced.

Alan Best

Property for Industry AGM 21st May

Just two weeks after a double hip operation PFI's Chairman, Peter Masfen stood to guide the first AGM since the merger with Direct Property Fund. No doubt he was expected a smooth run and he got it. At least to outward appearances, the merger has proceeded smoothly. He reported total shareholder returns of 24.6% - higher than the NZX Property Index; an increase in dividends and a (strong) share price performance. The share price has actually slipped. He wasn't challenged on that but no doubt if he had been, his comment might have been "that's the market."

The presentation notes, overheads and video are available on the company's website. As is a web cast/ video of the meeting. This comes across (at least with my broadband speed) as more of a podcast and attendees might be pleased to know that they were not visually recorded.

Directors Anthony Beverley and Greg Reidy were re-elected by a show of hands. Mr Reidy represents PFI Management, the company's external manager. Director John Waller missed the meeting as he was recovering from surgery. Three of the four independent Directors have over 10 years on the Board. Back in 2013 Mr Masfen told me that the Board was actively looking to refresh its membership. This year he told me that there is no refreshment planned.

The normally pro forma resolution to authorize the directors to fix the auditor's fees drew an observant question from one shareholder who noted a 39% increase in total audit fees and for the first time, a cost for a review of the interim financial statements. Audit chair, Mr. Beverley responded that following the merger the Board decided to review the audit function and sought proposals from three companies. PWC's successful price was competitive. Further, the Board believed that for clarity and in keeping with the company's position as a NZX50 company, a review of the interim statements was desirable.

After 40 minutes it was over. A relieved Mr. Masfen was off to rest his hips while attendees enjoyed refreshments and an opportunity to talk with the Directors and PFIManagement personnel.

Bruce Parkes

Seeka Kiwifruit Industries AGM 28th April

The meeting attendees were mainly growers who are also shareholders. The Chairman, Fred Hutchings, introduced the Board Members and gave a Presentation covering the company's activities. The strategy focussed on lifting the company from its vulnerable position caused by PSA to New Zealand's premier produce company.

The CEO, Michael Franks outlined the company's performance detailing its emphasis on safety and the importance of the people in the organization. He detailed the recovery from PSA with all indicators showing improvement, and promised greater improvement over the coming year.

He also outlined the important part which the company loyalty scheme, property leasing, and product diversification play in this recovery.

The three directors standing for a position on the Board, Martyn Brick, John Burke and Ashley Waugh were re- elected.

There was some discussion regarding the number of directors on the Board and the input of some directors. The annual report notes Amiel Diaz attended 12/15 board meetings, while Niel TeKani attended 10/15. In the Audit committee, Martyn Brick attended 9/13 meetings while John Brick attended 11/13. It was suggested that perhaps some incentive mechanism to reward input should be investigated. Attendance at directors' meetings does not necessarily mean input but the lack of attendance does imply a lack of input and certainly a lack of connection.

The motion to increase the directors' remuneration pool by $50,000 to $400,000 per year was carried.

Graham Jamieson

Chair Fred Hutchings replied to NZSA's enquiry on board attendance:

Firstly I make the observation that all directors take their responsibilities seriously and all bring a skill set and valuable perspective to the board. Apologies are received should they be unable to attend a meeting. When an apology is received feedback before the meeting is given either to the CEO or myself on any matter on the agenda concerning the director, once the board papers have been distributed. Furthermore depending on the agenda particularly if it involved significant approvals or decisions of the board, I follow up with the apologising director after the meeting to keep them appraised of board matters. We do not keep a record of the reason for an apology. Something I may very well instigate to be able to respond more fully to enquires of this nature.

You make the observation that one of our directors attended 2/3rds of the board meetings held. He attended 7 of the 11 prearranged monthly meetings and 3 of the 4 additional teleconference meetings (generally arranged with short notice) called to finalise matters arising from the monthly meeting once further information is available or subsequent action taken by management. Additionally he attended all 5 remuneration committee meetings held in 2014. On all occasions when a meeting was missed there were valid reasons at the time. I recall sickness accounted for at least one apology. He only missed 1 meeting in 2013 following his appointment.

CDL Investments AGM 27th May

Controlled by Millenium Copthorne Hotels (67% of shares,) CDL has had a sluggish recovery from the financial crisis of 2008. Now with a market cap of $173m it has seen growth in its share price of about 18% this year. Chairman Hong Ren Wong read haltingly his prepared scrip, and handed over to the familiar BK Chiu. Chiu saw Auckland's house price inflation as a supply side problem stimulated by immigration (over 50,000 even without the student visas,) inadequate building consents, (and don't we know the difficulty of gaining approvals,) easy money from the banks, (who have to lend to stay alive,) and rising expectations amongst young buyers, (not like us when we were young.) He ran through the development sites in Auckland, Hamilton, Napier, Nelson, Christchurch and Wanaka. However he said the company needed to stick to its conservative gearing, and cash reserve because the scene could easily change, and its $30m cash hoard would be required to purchase blocks of land up to $150m for subdivision into residential sections.

I asked whether the trim management team had any monetary incentives to turn the landbanks into cash quickly, as had been introduced by Goodman Property Trust. The answer was "no," but there was no indication that management was lacking in this regard. Sections are the product, and the land bank and cash are areas of slow stock turn. Nevertheless shareholders were happy to vote for Messrs Wong, Henderson (independent) Aloysius Lee (ex Singapore Hotels) and Roy Austin (ex Northington, independent replacing Rob Challinor.)

Alan Best

Dorchester Property Trust SGM 29th May

When a majority wasn't enough

Dorchester, trading on the Unlisted market, is a hotel investor spun out of the financier and insurer formerly known as Dorchester Pacific (now Turners) five years ago. It held this special meeting after a unit holder, LET Securities, complained that the trust's managers were too slow in selling properties and returning funds to investors. At the meeting, LET, owned by directors Deepak Gupta and John Southworth, sought enough votes to be appointed as the manager of the trust, replacing Dorchester Hotel Property Trust Management.

The meeting, chaired by Lloyd Wong from Public Trust, Dorchester's trustee, who had previously advised that he would abstain from voting undirected proxies on the two resolutions before the meeting.

Mr. Southworth addressed the meeting. In essence, his case was that despite a buoyant property market, the Trust manager had not advanced the sale of properties in an expeditious manner. He promised an aggressive public sales process on all properties. He noted the sale (post the calling of this meeting) of the Goldridge Resort in Queenstown to a Dorchester Management related party, at " 6 – 7% below carrying value, but did not suggest any misconduct.

Paul Byrnes, for the manager, in a short 3-minute response noted the manager's position was fully set out in the notice of meeting. They had spent $70,000 on marketing the properties, had engaged with 53 interested parties and attracted 15 initial contracts that had not led to completion.

Questions from the floor were wide ranging. LET rejected suggestions that they were linked to an Asian Bank and that they had bought units to "make a quick buck" – although their whole exercise is pointless unless they saw an opportunity to make a handsome profit on the price they have paid for units. The Public Trust was fully aware of negotiations leading up to the sale of Goldridge and approved of the sale as the best deal available. Mr. Byrnes made the point that the three criteria around a sale process are: the price, the cleanness of the sale (lack of conditions) and the execution risk.

The vote on the resolutions was an engaging case study on the control and governance of small companies with a diverse inactive ownership. There are in the circa of 27 million units in the Trust. 9,537,679 votes were cast – around 35%.

Resolution One – that Dorchester Management Trust be terminated as manager of the Trust received 6,549,202 votes (68.67%) but failed. This was a Section 18 of the Unit Trusts Act resolution requiring a 75% majority of votes cast. The second (ordinary) resolution – that the manager of the trust accelerate the time frame within which the remaining properties are sold and the Trust be wound up by November 2016, passed with 93.94% in favour.

While waiting for the vote count, my eavesdropping on attendee conversations suggests a number changed the minds on their vote during the course of the meeting. Was this material? Probably not, but we will never know.

Bruce Parkes

Coats Group (formerly GPG) AGM London 21st May

Although the number of New Zealand shareholders is now dwindling, NZSA managed secure the services of Max Smith's brother Rodney as proxy for members. Fortunately several of the issues that concerned us were raised both in the media and with the company. The board is too large to be efficient and the inclusion of 3 -4 managers on the board risks the 20th century problem of takeover by management. Coats replied to these issues:

"Coats Group plc seeks to adopt the standards of similar sized industrial manufacturing business on the FTSE. Grant Thornton is an authoritative source on corporate governance. In its 2014 review, the average FTSE350 Board is 9.5: 1 Chairman, 2.8 execs and 5.7 Non Executive Directors - Coats is in line (10: 1, 3, 6)."

The resignation of Sir Ron Brierley took the number of directors to 10. It should also be noted that there are a number of differences in governance between the UK and NZ. Boards in the UK, for example, are typically larger than in NZ because they include executive directors -the company executives are not paid any extra fees for being part of the Board over their normal remuneration.

Also the use and structure of Board Committees in the UK is more formal. The UK has Senior Independent Directors for example. All directors stand for re-election each year and the remuneration structures are more public. While Coats does not have any assets in NZ or Australia, it has a share register, listing and shareholders in both countries. Having Mike Allen as a Director provides the appropriate level of insight into those markets."

Apart from its voting guidance sent to members and published on the website, NZSA was able to rebut these claims both to the company and in briefing the proxy holder. We do not believe in guidance of averages. Whether or not Coats board numbers are in line with average FTSE companies is irrelevant. The issue is whether that actually contributes to focussed oversight of strategy and management. NZSA's view is that having several executive directors on a board is more likely to result in management having undue influence on these important tasks. Sir Ron's resignation arguably increases this possibility, as the ratio of executive to non-executive directors increases. In the case of GPG (prior to the shareholder revolt), it is obvious that having a high concentration of executive directors did not result in decisions being made that were always in the best interests of the company, its shareholders or good governance practises. If we include Bake Nixon, a recently resigned manager, there are now 4 managers around the board table, and the distinction between independent governance and management is blurred.

The argument that executives bring a more intimate knowledge of the company to the board table is fallacious. A good board will always call managers to meetings to explain initiatives and answer the hard questions. So while we tolerated the appointment of CEO Paul Foreman on the board to participate in the risk, we voted against the appointment of the other staff members. We also voted against the massive headroom allowed in the directors' fee pool. NZSA's policy is that small revues of the fee pool every two years keeps directors' pay in line with the market and the performance of the company.

In the event, although our arguments were made known to the company, the Chairman did not follow accepted meeting procedure of allowing questions and discussion on each of the 17 resolutions. Instead the resolutions were put to the meeting on a show of hands without any debate. The more things change, the more they stay the same. If you want to obscure your company from the light of day, register it in London, where it will be lost in the crowd, and the shareholders' voice will be swept away by the puffery. Ask GPG; ask PGC.

Alan Best (from notes by Rodney Smith and John Hawkins)

Caught on the Net

Does eating chocolate help weight loss?

We all want to believe that it does so the media is quick to publish research that supports our desires. This post is about a scientist who set out to conduct dodgy research and get it published. A great case study on how we should question all reported research on any subject- especially those claiming we can gain from little effort on our part. ***More***

Money for old folk

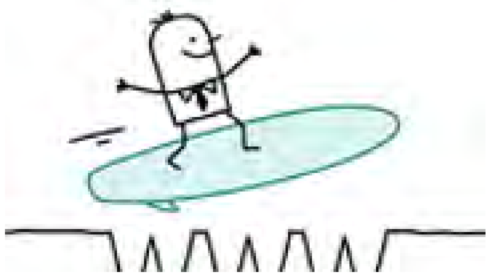
The relationship between aging and inflation is not as simple as economists assume. Economists have believed that the ageing of populations leads to slower growth because a country's potential output tends to fall as its labour force shrinks. Japan has long been used as a model to support this theory. But as The Economist explains, Japan may be the outlier and demography can be a friend rather than a foe in beating deflation. ***More***

The triumph (and failure) of John Nash's game theory

Nash, who died recently when his taxi crashed, was a mathematician who found fame for an economics paper on game theory and was the subject of a Hollywood movie. John Cassidy, in the New Yorker, provides in clear layman's terms a precis of his career and the long-term impact of his "best response equilibrium." ***More***

Is Finance Parasitic?

This post in Uneasy Money looks at a number of ways the finance industry uses information



advantage to profit at the expense of the rest of society, with particular emphasis on payday loans and "no interest" offers for changing credit cards. ***More***

Social Impact Bonds

These are flavour of the month with our government but are not explained in detail beyond a 20 second sound bite. A wise investor never invests in something they do not understand. The New Zealand Initiative has issued a report outlining their use overseas and how they might be used here. ***More***

The panic of 1825 and the most fantastic financial swindle of all time

The bankers of London probably knew as much about the (mythical) nation of Poyais as we do about some companies in the market. This New York Fed report draws parallels between 1825 and 2008. ***More***

Fighting the bubble in bubbles

There is a lot in the media about bubbles. In fact "bubble" seems to be an in word with scribes and commentators. Justin Fox, in Bloomberg View, offers a somewhat tongue in the cheek look at bubbles. ***More***

How to think like a trader

Charles Kirk, in a Kirk report blog, discusses the approach of trader Bruce Kovner. In brief, he assumes that the market is always right. ***More***

Why you need boredom, distraction and procrastination in your life

Most of us - no matter how many time saving techniques we employ - don't have enough time to waste. But having down time can be extremely beneficial. Thorin Klosowski blogs on the "holy trinity of inactivity" with some backing references. A report we might like to believe in. ***More***

Financial fundamentals for directors

I suspect most shareholders skip past the financial pages in a company report. The Australian Institute of Company Directors offers a white paper on how to negotiate the most complex of financial reports. There is lots of other information there also. ***More***

How technology has affected wages for the last 200 years

Today's great paradox is that we feel the impact of technology everywhere - except in our pay cheques. James Bessen, in the HBR, claims that through history, major new technological changes were initially accompanied by stagnant wages and rising inequality. However, over time these patterns reversed and ordinary workers eventually saw robust wage growth thanks to new technology. ***More***

Nobel winner's math is showing S&P500 unhinged from reality

If you sold every share of every company in the US and used the money to buy all the factories, machines and inventory, you'd have some cash left over. That's the numb of James Tobin's "Q ratio" concept. Bloomberg says that according to Tobin's Q, equities are valued about 10% above the cost of replacing their underlying assets - higher than at any time other than the Internet bubble or the 1929 peak. ***More***

Why living off your savings in retirement may be a mistake

Or so says Jason Heath in Canada's Financial Post. He asserts that short term saving and spending decisions are about balance and long term retirement budgeting is no different. Try not to save for tomorrow at the expense of today simply to become a millionaire. ***More***

The risks of owning an individual stock

This alpha architect blog sets out (with supporting charts) the case for a diversified portfolio. Over a 5-year period only 46% of individual stocks outperform the benchmark and the probability of beating the benchmark by more than 100% is only 10%. ***More***

What keeps top (Australian) fund managers awake at night?

In the opinion of Victoria Thieberger, commenting in Business Spectator, it is an overheated (wild) property market. Their solution is to keep a decent amount of other currencies in your portfolio. ***More***

Unravelling capitalism's hidden network of power

The 2008 global financial crisis saw banks around the world bailed out by governments, as they were considered "too big to fail." It is not just the size of these entities it is their interconnectedness. The Financial Stability Board has published a list of 29 systematically important financial institutions (SIFIs), which could harm the global economy. Most of the work on SIFIs has been around interconnectedness. New Scientist now reports on new work, using tools from network science, to examine complexity. ***More***

How to join the 1%

Perhaps this is more for the children/grandchildren of our typical reader. How do you maximise your chances of joining elite professional services firms who offer the biggest rewards? Lauren Rivers, from Northwestern University spent a decade studying how such firms recruit. She found that the overwhelming emphasis is on style rather than substance as the most prized possession in uncertain times is not brainpower but self-confidence. ***More***

Bruce Parkes

Branch Reports

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We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of those presenting. The work of these professionals who give their time is appreciated by all who attend. Members are encouraged to refer to the individual company websites for the latest news and disclosures.

Auckland

Mighty River Power Visit

Most of us worry about the size of our power bills. But what happens when we become investors in power companies? Do we start worrying then about their profitability and, most importantly, the size of their dividend payouts? On May 11 thirty-eight members of the Auckland Branch of the Shareholders Association were hosted at Mercury Energy's headquarters in Greenlane. We were addressed by C.E.O. Fraser Whineray, C.F.O. William Meek and James Munro, General Manager Customer, then after a comprehensive tour of their premises, treated to a superb afternoon tea.

Fraser began by explaining that Mighty River, with over 100,000 shareholders, has the largest shareholder base of the electricity generators; and "We need them to think like owners". The company, he said, is "Ninety years young" with a century of innovation and investment behind it. "We stand up well, globally, on renewable energy" but "we need a stable regulatory platform". Energy in New Zealand is 80% renewable; the comparable figure for Australia is 10%.

"The real prize," Fraser said, "is transport fuel. This is the big opportunity, we have enough power stations to provide energy to run every car in the country." Mighty River Power is doing a lot of work with Simon Bridges, and the goal is 'energy sovereignty'.

M.R.P., apart from being a generator, is also a nationwide retailer with a market share "A bit below 20%". It is strong in Auckland and the upper North Island. It operates four brands; Mercury Energy, Globug, Bosco and Tiny Mighty. On the issue of satisfaction and 'churn' the company maintains that 60% of customers are highly satisfied. Churn in the industry has been as high as 27% in recent years but M.R.P. has a churn advantage and they "focus on it really hard". It's about "responding effectively to competition". A lot of effort is now going into rewarding loyalty, with discounts on a two year contract . Direct debit also saves money and earns an additional discount.

Globug

This is a prepay service, and Mercury Energy now has 22,000 customers on Globug and the disconnection rate is low. The company sees it as being 'socially responsible'. They have revitalized the Globug brand with television and press advertising, and the brand is strong with "A group not usually marketed to".

GEM

The Good Energy Monitor monitors your electricity usage. 85% of customers have a Smart Meter. The company maintains that savings are 'happening anyway' and it is about building relationships. But they see "Electrification of transport is a key long-term benefit" and electric cars are quieter and cheaper.

C.F.O. William Meek talked about "Partnerships and Community" and described their partnerships with Maori and the company's contribution to education and medical benefits. Mercury also has a long-running sponsorship with Starship Hospital. Mercury Energy is the largest corporate donor to Starship, with $1million being donated in the last year.

Mercury is also a custodian of Lake Taupo and sponsors the Taupo Ironman, which attracts 2,000 athletes.

We toured the company's large, modern and brightly lit (and New Zealand based!) call centre, and were told that the centre handles 650,000 enquiries per year. They have sixty-five people handling customer enquiries and thirty-six people in the Globug team.

At the end of our tour we were taken outside and shown Mercury Energy's new electric cars. The excitement of the executive team when they were showing us these cars was palpable. We were told that charging could be done with a three pin plug at home, and electric vehicles are exempt from road user charges. So are we looking at the future here? Will we, at some point, be driving electric cars, leading to an increase in electricity usage as we switch over from using imported fossil fuels? And what will this mean for investors in electricity companies?

Fiona Gray

Upcoming Auckland Branch Meetings

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

Wednesday, 17th June - Fraser Wyeth, Manager, Market Surveillance, NZX and Josh Danielli, Head of Investor Growth, Snowball Effect (crowd funding.)

Wednesday, 16th September - Simon MacKenzie, CEO, Vector, and a second speaker to be advised.Wednesday, 18th November - speakers to be advised

Please diary these dates, and look for details of the programme on the branch section of the NZSA website

Company Visits

No visits currently arranged

Waikato

This month our speaker was Mike Pohio, ex-CEO of Tanui Group Holdings. Mike, together with a small team of professionals, has almost doubled the Group's assets over the last 8 years, and the tribe's total assets are now over $1 billion. This was done by building a decision making framework, determining what was expected of them, applying professional discipline and reconnecting with stakeholders. Whereas most companies (and governments) see time scales in terms of 1-2 years, 2-5 and 5-10 years, TGH's timescale is 1-10, 10-50 and 50-100 years, so decisions are made for the long term. There is a board of 6 – 3 from Tainui and 3 independents, and decisions are made by consensus, not by vote. Projects are often joint ventures, and Mike emphasised that they favoured cooperation and not competition. He said that TGH's latest project at Ruakura (development larger than the area of the Auckland CBD, with container terminal, education, shopping and recreational space) will be of long term benefit to both Ports of Auckland and the Port of Tauranga, as well as to Waikato and the rest of New Zealand.

Mike Pohio summarised TGH's critical success factors as:

- separation of commercial from tribal and political
- strong corporate governance
- managerial discipline, and
- focused investment strategy, framework and management.

Our next meeting is on Wednesday, 24th June. It is our mid-year dinner and our guest speaker is Franceska Banga, Chief Executive of the New Zealand Venture Investment Fund.

Helen Glyde

Bay of Plenty.

Josh Daniell CEO Snowball Effect presentation

Josh is a trained lawyer with a young person's knowledge of the electronic world. He speaks knowledgably and authoritively on his subject and is looking to spread the word and grow the business.

We were treated to a refreshing look at a new concept for investors, crowd funding on an electronic platform of higher risk start up or young companies in a growth mode. The new platforms in this space range from rewards based such as Kickstarter where, in general, they are looking for donations, to debt lending such as Harmony a Peer to Peer lending facility, and finally to equity funding such as Snowball Effect, which is like a mini IPO (initial public offer).

Worldwide, the growth of this type of equity raising has been impressive from only $6b two years ago to $34b this year.

Of the 600 or so companies and ideas that have so far been looked at by Snowball Effect only six have been released to the market through this trading platform and so far all of them have met their target for raising funds.

The companies featured to date have been mainly in the consumer goods sector, a brewery - Renaissance, a wine company - Invivo, and digital filing system - The Patriot are included in the mix. By getting a wide spread of new shareholders, the companies involved hope to have shareholders "working" for them spreading information and enthusiasm about the products handled.

Crowdfunding is allowed for under new legislation without the need of producing a full prospectus with all the associated costs. Instead an information Memorandum and a Shareholders Agreement are circulated and it is up to the investor to complete their own due diligence, and be happy to invest. The limit of capital that can be raised through this form is $2m.

Investors have come from across the age range with a fairly standard bell curve spread peaking around the 40-50 years. It has been pleasing for Snowball Effect that they have been able to attract some of the older investors due to the electronic platform. They run the "Dad test" over their systems to see if someone of their Dad's age group will be able to navigate their way around the website and processes. This has proven successful to date with the average invested $4,500 per investor, but the range from $100 to $500,000. This platform allows investors to be on the ground floor of a company's development, and spices up the capital raising landscape.

Ian Greaves

Canterbury

Our April event for members was a talk from Rick Hellings, retiring after 17 years as CEO of Smiths City Holdings. His lively talk is summarised below.

Our latest event for members, on 28th May, was a talk by Geordie Hooft, a tax specialist and partner with Grant Thornton. Anyone who thought a 90 minute talk on tax would be boring was in for a big surprise…this was a animated presentation stimulating numerous questions. Many tax topics were

covered, including issues arising from foreign investments (FIF rules), foreign pensions, PIEs, complying trusts and capital gains. We followed the presentation with our traditional refreshments which provided an opportunity for members to discuss with Geordie yet more taxation issues. For those of us struggling in the middle of our IR3 returns this was a very timely presentation!

Our branch AGM is planned for 7 pm on Thursday, 25th June and will be followed by a presentation from Eric Mahoney of Castle Point funds management. To accommodate a larger than usual attendance we will be seeking a larger venue than our usual Fendalton Croquet Club.

For later in the year we are planning a larger public event in Christchurch as part of Money Week which runs from 31st August to 6th September. Speakers are being arranged including our own John Hawkins.

Robin Harrison

Rick Hellings – retiring CEO Smiths City Holdings Ltd

Christchurch-based retailer Smiths City Holdings flies under the radar. Omitted from NZSA's analysis in the last issue of The Scrip, because it was impossible to separate the retail stock turn from its finance company assets, SCY has opened up branches through most of the South island, crept into Wellington, Porirua, Palmerston North and Tauranga - and paid regular dividends.

After 30 years within Smiths City and Noel Leeming Television Ltd, Rick Hellings on the eve of his retirement, gave us an anecdote-filled discourse on: retailing, Smiths City, the changes and challenges from the re-listing of the company, the Sharemarket crises, deregulation and the rise of the hard-selling Aussie outlets, the earthquakes, on-line marketing challenges, the ever-decreasing time between new developments in technology, the financial crisis of 2007-08, the steady re-emergence (from internal investment) of Smiths City Holdings in the North Island.

Rick stated that with Smiths City the business is based around retail, with income coming from finance and property. While a listed company, it is not among the top 50, and compared to the likes of Harvey Norman, Bunnings, Mitre 10 Mega and The Warehouse, it is a minnow.

The company pays out a dividend of about 6 to 6.5% return on its shares. The company's asset backing is calculated at about 70C per share, but with a group of shareholders owning 40% of the capital, the shares are downgraded due to lack of liquidity and the fact the company is not in the top 50, therefore not attracting major fund management companies.

To the obvious relief of some of us present, Rick leafed through a copy of the distinctive yellow Smiths City Annual Report and stated that much of its content is beyond him, and beyond anyone to comprehend. Instead, he stated, we "should look at these few pages, the ones stating who is on the Board – the rest barely makes sense." He maintained, "specific skills and experience that individual members bring to the board are what matter."

Rick described who some of the major shareholders in the company were, noting in particular the holding held by Aucklander Carrick Belton, whom he described as a pretty canny investor who had obviously done his homework.

Rick explained many of the underlying factors of the company that distinguishes it from the opposition. Many of the anecdotes were quite amusing and Rick's enthusiasm for the continuous challenges of the retail sector was obvious. Questioned on what his plans were after he leaves Smiths City Holdings he stated he was off for six months – with a stop in Hawaii and Europe. He was quite clear in his conviction that he should not remain on the Board, "It is not a good for a retiring CEO to stay on the Board" his replacement CEO is New Zealander Roy Campbell, with a background in Mobil, Lion, Deka, and CEO experience in Bulgaria and the Virgin Islands. who worked in New Zealand during the '80's and '90's for Mobil Oil NZ, Lion and DEKA. Following a period in the UK he worked as a CEO in Bulgaria, and latterly in the Virgin Islands. Many members felt that

Rick Hellings had delivered one of the most stimulating and enjoyable presentations to date.

Money Week plans in Christchurch

Over the past two years Jane Lynden from the Bay of Plenty/Tauranga NZSA Branch has run popular evenings on equity investment under the auspices of National Money Week. Few are aware of Money

Week organised by the even less known Commission for Financial Capability. NZSA Canterbury Branch member and NZSA National Director Max Smith believes the NZSA and National Money Week organisers could benefit from a symbiotic relationship. The NZSA is committed to fiscal education and currently conducts educational courses in Auckland. With this in mind, Max Smith is considering a two-evening presentation to be trialled here in Christchurch. Speakers in the first evening would address people with little more than a vague idea of shares. The following evening speakers would address equity investors who want to improve their knowledge; how to analyse the returns of their shares, when to buy or sell, how to make reasoned decisions.

If the event proves to be popular, the NZSA would look at developing the theme nationally under the Money Week banner. Of course, with the NZSA being only one of a range of financial institutions and centres of learning, hopefully, more organisations would recognise the potential and invest in the week as well; to the benefit of the Commission for Financial Capability and ultimately NZSA members.

Money Week runs from 31 August to about 5 September. Tentative plans are to hold the NZSA equity functions, possibly in the Chateau of the Park, on Tuesday the 1st and Wednesday the 2nd of September. A number of nationally recognised presenters have indicated their enthusiasm to participate. More details will be disclosed when planning for the event firms up. We are looking for local members to assist with this event mainly with regard to the evenings that will probably require additional people power. Please contact Tim Kerr, Barbara Duff or Max Smith if you wish to help.

Tim Kerr

Wellington

A lot has happened since the last branch update and it's been fun.

In April we hosted Glenn Milnes CEO of ikeGPS. For this meeting Royal Society upgraded us to the large theatre downstairs, it felt a bit like we were traveling in business class. A good thing too as we had a quite a large turnout for this meeting.

ikeGPS is a interesting Wellington based tech company that IPO'ed last year and has two main hybrid hardware/software products. The GE branded Mapsight that is sold to US utility companies and automates the process of auditing power poles amongst other things. With Mapsight you take a photo of the power pole and it works out all the measurements of where all the important bits on the pole are and automatically logs it into the utilities back office system, this replaces manual processes. There are 291 million power poles in USA and each has to be audited every few years.

The second product is Spike (Smart-PhoneIKE) – this is a laser range finder that clips that onto your Smartphone and talks to it via bluetooth, you take a photo and from that photo you can drill down to get accurate measurements on it. For example it can be used to size a billboard to work out how big a poster to produce. Spike is sold directly to the public via the internet and a Black and Decker branded version is soon to be released to be sold through major hardware chains.

I wasn't expecting much from the presentation but came away impressed with the company, products and potential market. I'll be at their 2015 AGM as long as it is in Wellington and will write that up.

Not long after the ikeGPS meeting eight of us (mostly past and present branch committee members) set off for the inaugural Wellington NZSA Branch "Investors Tour to USA (and Cuba)" – aka "Ray's Revolutionary Tour 2015". San Francisco (Xero), Chicago (Parts Trader), Omaha (Berkshire Hathaway) and Havana (communism, coffee, rum and cigars). There is a write up of the Berkshire Hathaway AGM in this edition of the Scrip.

A great trip but also good to be home to get some rest – with eight travelling together it was full on as someone always has the energy to get the rest moving, albeit not always in the same direction. It was like herding cats at times.

We arrived back in Wellington after 36 hours of travel (without Auckland based Ray and Perth based Ashley), at 8:30am on the 12th May and at 7:30pm that night it was straight into the May branch meeting with guest speaker Tim Brown from Infratil. Well one of us made it to the meeting anyway even if I did nod off a couple of times during the evening.

Inftratil is doing very well. The transition from Llyod to Marko has been a success and under Marko Infratil has performed well with the Z Energy purchase and subsequent partial sell down, the sale of the Australian energy assets, investment in Australian renewable energy assets via Trustpower (subsidised by the Australian government), and entry into the Australian retirement sector via Retire Australia. That just leaves the buses to sort out now.

Knowing that we had just come back from the Berkshire Hathaway AGM Tim had a few statistics comparing Infratil as an investment to Berkshire Hathaway:

- Over the 21 years to 31 March 2015, Infratil produced the best return of any NZX stock listed for the full period. An investor who reinvested all dividends and rights issues received 18.36%pa after tax. That person would have turned $1,000 into $34,474.
- For the 21 years to 31 Dec 2014, Berkshire Hathaway's compound return was 14.29%pa. A US$1,000 investment would have compounded to US$16,536 before investor tax.
- Because of the 33% appreciation of the NZ$ against the US$ over the period, a US$ investor in Infratil for the 21 years would have received19.99%pa after tax to give US$45,896 from a US$1,000 investment.
- The US S&P500 produced 9.43%pa. A US$1,000 investment would have compounded to US$6,642 before investor tax.

We usually thank our speakers with a brown paper bag with a bottle of wine in it, but this time Tim got a Montecristo Churchill cigar imported that day from Havana. Tim asks that we note he does not smoke, but is father will enjoy it.

For out June 9 meeting we will be holding our branch AGM with a presentation on the Investors Tour to the USA.

Martin Dowse

Berkshire Hathaway AGM – 2 May 2015 Omaha Nebraska

Ray Jack has been a regular speaker at the NZSA Wellington Branch, and although he has moved to Auckland with his work we still get him down at least once a year to present to one of our meetings. Ray's mix of pessimistic optimism and big and little picture investing has made him a popular speaker, variously called Ray "the bear" Jack and "The Oracle of Kelburn".

So when Ray suggested that he might take a trip to Omaha Nebraska to see Warren Buffet (the Oracle of Omaha) and Charlie Munger at the 50th Berkshire Hathaway AGM five hands immediately shot up with offers to accompany him. When he then suggested adding Havana Cuba to the end of the trip the partners of two of those five decided to join the trip too.

So it was that on Friday 1st May that eight of us arrived at Omaha airport amongst a fine collection of private jets, and piled into a rental van for our weekend at the centre of

USA. At this point any reader unfamiliar with Warren, Charlie and Berkshire Hathaway should detour to ***www.berkshirehathaway.com*** to read the 2014 Annual Report and the Owner's manual – both cracking good reads.

After depositing our bags at our rented house we donned tour tee shirts and boots and headed off for the traditional Borsheims cocktail reception. I'm not sure how many shareholders were there but it was many, many thousands. We had heard stories of if being so busy that it was impossible to get to the bar and get a drink before the three hour reception finished, but being kiwis we were able to work out the fastest way to a drink (five deep in most places) and get set up with cocktails fairly quickly – we even had time for a second visit later on.

The Borsheims Queue

The Berkshire Hathaway AGM is unlike any other AGM in the world. For shareholders it is a pilgrimage involving a full on weekend of events celebrating a unique investment company and the individuals who have run it for 50 years, the most notable being the 84 year old Warren Buffet and his business partner, 91 year old Charlie Munger. The weekend of events is centered around companies owned by Berkshire Hathaway.

A toast to Kiwi ingenuity

Saturday was the day of the AGM and knowing over 40,000 people were expected (actual figure was 44,000) and that the main auditorium in the Century Link Centre held 18,000 we were queuing at 6:30am for a 7am opening of the doors. We just made it in before the rain started and got some of the last seats in the Auditorium, next time we will have to do it better /earlier. The only times I have seen crowds like this have been at rock concerts and large sporting events.

Once we had secured our seats we stocked up on hotdogs and coke (yep – they own some of Coke too) and waited for the events to start. The actual AGM starts at 3:30pm but it is the lead up that is the interesting bit. First up at 8:30am was an inspirational film produced specifically for the AGM – a comedy with many cameos from well know film and TV personalities. Etched on my mind forever is the picture of Warren Buffet in the desert sampling a tray of See's Candy peanut brittle (another company of theirs) cooked up by the stars of Breaking Bad in their Winnebago. Also there was Warren in the boxing ring as the Omaha Bomber fighting Floyd "money" Mayweather.

Following the film Warren and Charlie came on stage to answer questions from the audience for five hours with a one hour break in the middle for lunch. Questions could be emailed in to three journalists prior to the meeting and these three sifted through them and selected those that would be asked. Each had their turn asking questions round robin style, with each fourth question coming from the audience. Warren and Charlie didn't know what the questions were ahead of time but had anticipated some of them and had no difficulty answering any of them, usually in depth and with a lot of homespun wisdom. Questions covered many of Berkshire Hathaway's investments including Wells Fargo, Clayton Homes, See's Candy, American Express, GEICO, General Re, Heinz, Berkshire Hathaway Energy, Burlington Northern Santa Fe Corp (railway).

Five hours seems like a long time to sit and listen to questions but it was absolutely fascinating, very hard to describe and when I was asked what was the most interesting question I couldn't answer that, there were so many and most of them very interesting.

At 3:30pm the Q&A stopped and five minutes later the formal AGM was declared open. Ten minutes after that all resolutions were voted on and the AGM was declared closed. That's the shortest company AGM I've attended but I guess after five hours of Q&A there wasn't anything left to say.

On Sunday we took it easy – we started with the 5km Berkshire Hathaway "Invest in yourself" fun run. Well done Phil, third in his age group. Well done everyone else for finishing! We ended our visit with dinner at one of Warren's favourite Omaha restaurants Piccolos where, to top it off, Warren and his entourage including fellow director Bill Gates popped in for root beer floats for dessert.

Martin Dowse

Franking Credits In Australia

Recently Tony Knights sent in article from Morningstar commenting on the Murray White Paper which questioned the value of dividend imputation or franking. As the mining sector moves steadily into the doldrums it was not surprising to hear a leading miner bemoaning the restriction on capital available for reinvestment because shareholders were continually pushing for higher rates of payout from profit. Keating's abolition of double taxation on owners' profit in 1987 did make a difference. Morningstar says in the five years before franking credits Australian listed companies paid out 42% of profit while since 1988 companies have paid an average of 70% of earnings. In the same time USA companies where there is no imputation, paid 37% before and 34% afterwards. So we can expect more misguided assaults on dividend imputation from those who want income redistributed, and those, like the miners, who are facing the winds of change. The miners grumble because they have difficulty paying an attractive dividend when their industry is not growing, not because their shareholders are being overpaid.

However, the low rate of return on government bonds and bank interest rates do influence boards when they set the gross dividend payout in their company?

The known facts of the macro-economy are

- that companies are significant beneficiaries of low interest rates, giving them more scope to raise capital, pay dividends, and reinvest profit.
- that world wide, the highest yielding stock markets were the top performers over this century and the last.
- that Australian companies, paying imputed dividends, were forced to manage capital better, and this resulted in improved performance.

The London Business School study quoted by Morningstar showed that the highest yielding stock markets (showing 13.5% return,) were the top performers for every 25 years from the beginning of the 20th Century. A thriving stockmarket best serves an economy, and attractive payout ratios are part of a thriving stock market.

Do we have a problem of a bias towards property investment? Certainly, in Auckland. Would it be worse if double taxation returned? Probably. So if you want to attract capital into productive local businesses, you need the incentive of dividend imputation, and when those business are truly international, dividend imputation will have finished working its magic, and it s effect will be neutral, not negative. So we would say to the Australian government – " keep up your franking, but also, introduce mutual recognition of those credits in both countries."

Alan Best

Property Syndicates - A liquidity problem

It is always important that investors forecast their changing lifestyle requirements over a period ahead of their decision to invest. Recently this was brought home to a group of Christchurch members in the property syndicate Superstore Properties.

Superstore Properties was formed in 1999 by FMG (Farmers Mutual Insurance Group,) by issuing $5000 packages comprising $4000 bonds at 11.875% and 1000 shares which may or may not pay a dividend.

The fund management was later sold to Investment Services Ltd, presumably so that FMG could complete its withdrawl from property investment and concentrate on its primary activity insurance. The managers then sold a major part of the property portfolio to the occupier, Placemakers.

They hoped to reinvest a major part of the proceeds, but the Trustee pointed out that under the Trust Deed they had to return all of the proceeds to investors. So what did they return? – obviously the bonds with their expensive interest rate, leaving parcels of $1250 in loan stock and the original $1000 in shares. The original return was net 9.5% on the total of $5000, and the managers want to pay the same rate of return by declaring a dividend each year of 6.5% on the shares while honouring the original 11.75% on the reduced bonds.

A majority of bond holders would like to have the whole property trust liquidated and the proceeds returned to investors. But the managers, having built up a dominant shareholding will win the day.

So what can we learn from the example of Superstore Properties?

- That liquidity is increasingly important as your investment ages.
- Although the yields look good in property syndicates, a sudden change in circumstance can quickly change that profile.
- The conditions of a trust deed can be critical, and it may be worth subjecting them to the scrutiny of a skilled adviser.
- The profitability of an outside property manager makes it attractive to a new owner. Expect change.

Alan Best

"Catch-22 did not exist.. but it made no difference. What did matter was that everyone thought it existed and that was much worse." ***Joseph Heller***

"The fundamental cause of the trouble is that in the modern world the stupid are cocksure while the intelligent are full of doubt." ***Bertrand Russell***

Education News Flash

These courses are gaining in popularity. Both our May courses were full this year. Enrol early.

Auckland Education Courses 2015

Western Springs Community College will run two education courses mid 2015.

Website: ***www.leisuretimelearning.co.nz/businessandfinance***

Our courses are right for new investors, for current investors who need more knowledge, and for those who want to understand their Kiwisaver investments.

Course1. Investing for your future – general investing principles - 2 x 2hr sessions

Commencing 12th August; Tutor John Hawkins

Price $65 inc GST; plus $20 for the NZSA course book

Course 2. Sharemarket basics – understanding how and why to invest in shares.

Commencing 24th August; Tutor Jacquie Hagberg – 2 x 2hr sessions

Price $65 inc GST; plus $20 for the NZSA course book

Tell your friends, family, and work colleagues about these informative courses. You don't have to be an NZSA member – just keen to develop your understanding

Upcoming Events

For more information go to Branch section of NZSA website

2015

June 9	Wellington Branch meeting
June 17	Auckland Branch meeting
June 24	Waikato Branch meeting
June 26	Bay of Plenty Branch meeting
June 25	Canterbury Branch meeting
July 14	Wellington Branch meeting
July 23	Waikato Branch meeting
August 5	Launch of Taranaki Branch
August 11	Wellington Branch meeting
August 25	Waikato Branch meeting

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Many Investors, One Voice

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Editor Alan Best

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