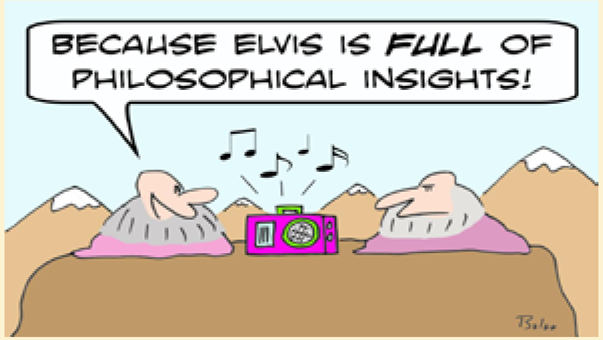
"The Scrip"
MANY INVESTORS; ONE VOICE
NZSA New Zealand Shareholders Association Inc

Fidelity or Folly

October 2014

The great rock 'n roll icon and unexpected part-time philosopher, Elvis Presley made the observation that: Admire someone and it builds you up. Envy someone an' it pulls you down. Which makes more sense? An admirable sentiment of course, undoubtedly true and yet something that flies in the face of human nature when faced with adversity.



Recently, a group of former Ross Asset Management clients (RAMIG) released an open letter to the Minister of Commerce and several others complaining that long after his fraud conviction and subsequent 10+ year sentence they remain out of pocket and "the government should do something". The letter traverses many issues including the slow and costly resolution of liquidations, the perceived low penalties, lack of restitution and many others. Disappointingly, the RAMIG letter fails to acknowledge the recent huge changes to the law that address most issues. It also seems to lump all investment classes into the mix when we know that despite some difficult times and low or negative returns, most listed companies and well governed institutions weathered the finance company crashes and GFC in pretty good shape.

There are however three issues raised that demand closer examination. The first concerns the RAMIG groups claims that it is too difficult to claw back payments made to investors in Ponzi schemes such as the one operated by David Ross. Currently there is a two year window for clawing back payments

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made to investors who knew, or should reasonably have known that the funds were not obtained legitimately. RAMIG would like this extended to 6 years and to apply to all funds paid out from money fraudulently obtained. This could create some interesting consequences. For example, consider an innocent investor placing money with what turns out to be a ponzi scheme. For 5 years all is well. Then the fraud is uncovered. A few months later the hapless investor receives a demand to pay back all the interest (and any capital taken out). Problem is they have already paid income tax and spent the money! They could well be seriously out of pocket having lost the funds they thought they still had in the scheme, but they now have to pay back what they thought was legitimate income. The end result is they may be ruined for the benefit of others who may have only recently invested. And what if they have died and the money has been inherited by their children and used as a house deposit? Is it right that one innocent group should have their future ruined to the benefit of another? There may be a midpoint solution that is more equitable, but the simplistic proposal promoted by RAMIG would inevitably have unintended and completely unfair consequences in my view.

The second demand by RAMIG is for a fidelity fund, paid for by the undefined "finance industry". This would pay investors who lose money in the case of "frauds or failures". The group points to the SIPA scheme in the USA, which it claims protects mum and dad investors. However, examination of this scheme shows it applies to broking firms and does not cover misrepresentation, poor investment decisions, commercial failures or fraud, but only broker insolvency. There is an extension which allows coverage where securities were not actually purchased, and this has helped some people in the Madoff case. However, if payments made by dividends or capital withdrawal, are greater than the value of any securities not purchased, then no fidelity payment is available. Further, in the USA, all securities purchases must be held separately, effectively giving the protection of a custodial service. This is now largely the case here, although NZSA remains uncomfortable with separate divisions of the same company being both a fund manager and a custodian. We think there should be complete separation.

In fact, New Zealand, brokers do have a scheme run by NZX which guarantees that trades made will be honoured, even in the event of broker failure. This was invoked in the high profile Access Brokerage case. All trades were honoured and no-one was left out of pocket.

A SIPA scheme may not have helped Ross Asset clients for several reasons. Firstly RAM was not a broker. It was a private advisory company, which placed clients funds into a range of investments, supposedly in their own names. Under legislation at the time, (unlike managed fund providers), it was not required to be audited, have trustee oversight or hold individual clients securities in a custodial service or even a separate account. Although such a setup is no longer permitted, it does raise the broader question of why Mr Ross's clients did not make enquiry or obtain advice as to the wisdom of investing into such an unsatisfactory structure. Secondly, the operation turned out to be a giant fraud, and as such would not have been covered by a SIPA scheme. Even if it was, the payout for many individuals would likely have been compromised by dividend or capital payments over time exceeding the actual value of securities not purchased by the unscrupulous Mr Ross. The reality is that no rules will protect against those who ignore them.

Then there is the question of who pays, and what the implications of a broad fidelity scheme could be? The nearest example we have is the government guarantee that applied to South Canterbury Finance. The end result was that this became the best zero risk option available and hundreds of millions of dollars was invested - which ultimately cost taxpayers dearly. That is the problem with protecting against "failures" as the RAMIG group wants. Any old shonky, high risk or high income investments would be very attractive (if covered). No assessment of risk required! No thought about whether a particular investment was viable! The end result would be a huge transfer of risk to careful and conservative investors and ultimately complete loss of confidence in the capital markets. RAMIG say this scheme should be funded by the "finance industry", but of course that simply reduces the returns available to investors who do their research and carry out checks on those they are entrusting their hard earned money to.

On one matter, we do agree with RAMIG. That is the ease with which ill gotten gains can be secured within trust structures.

Although limited claw back provisions are in place under the Companies Act, these seem difficult to enforce and largely ineffective. There are also complications when trusts are set up with a mixture of legitimately obtained funds and those from more dubious activities. The NZSA spoke strongly about this issue to the Commerce Select Committee considering the Financial Markets Conduct Bill. While there was concern, they chose to park this for later consideration - something we consider a real cop-out. Encouragingly, FMA recently spoke out publically and said this issue must be resolved. We will bring to bear what pressure we can, once the new Commerce Minister is in place. As with most issues, the solution is not going to be easy as it should not penalise those of you who use trusts for inheritance planning or genuine long term asset protection.

Returning to Elvis and paraphrasing slightly: To judge society by its weakest link or deed is like judging the power of the ocean by one wave.

In my view we can never fully protect against that rogue wave, but with education and care we can learn when to stand back far enough from the edge of the ocean to avoid getting drowned. Surely that is a better solution than never being allowed to stand at the seashore, even on a calm day?

John Hawkins

Chairman

NZSA Conference - More than good value

Over 300 participants assembled for this year's conference on the theme of "Investing for Growth or Income." The presentations are now available on the NZSA website.

Tim Bennett CEO NZX.

Tim outlined the exciting changes which were occurring in our listed capital markets. Kiwisaver was now a major factor in New Zealand investing with $3.5billion invested in the year ended June 14. The Financial Markets Conduct Act was allowing same-class share issues to be conducted amongst shareholders and staff of companies at lower cost, and in a simpler format. The launch of NXT the exchange for smaller companies, could provide a stepping stone to the main board, and an opportunity for investors to participate in faster growth at an earlier stage. With 22 IPOs in the past year, the main board was also experiencing growth.

The implications of these developments were spelled out.

- A change of emphasis from a predominantly yield market to more diverse growth opportunities.
- More challenging environment for NZX Regulation. "We can police

the rules, but we cannot make all of them into good businesses."

- Greater demand for solid research by brokers and advisers.
- Questioning by shareholders is of great benefit in confirming the direction of the enterprise and informing the market at large.

Currently the investor age groups present a challenge with 69% aged 50+, 21% retired, and only 5% students. Tim lamented the gap in investor ages caused by the sudden halt in 1987. We need a more informed return to the days when secondary school pupils fought for the newspaper to check on market movements.

Editor: Of course it will not be a newspaper to day, but a semiliterate blog in a cellphone app, and that is something nobody needs to fight over.

Shamubeel Eaqub NZIER.

Shamubeel took us through the broad trends, showing that the GFC had been the deepest and longest recession since the Great Depression, and that the recovery was now slower, more uneven, and more gradual. The unevenness was both local, with house prices in Auckland and Christchurch moving way ahead of those in provincial towns, and international, with Europe apparently still sick at its core.

Without China, New Zealand would have gone backwards. The experimental policies of Quantitative Easing in USA and Europe, had lifted asset prices, and increased the appetite for risk, without restoring growth. Interest rates were so low in some places that banks seemed to be charging depositors, and yet money was still flooding in because opportunities for growth were so limited. Risk was often not being priced in. Shamubeel's fear was that our Reserve Bank, like others in the OECD were trapped in old models, and relying on interest rate rises when there is no chance of runaway inflation. There was also a fear that poor economic policies from minor parties might find their way via MMP into the government.

Shamubeel talked about the pace of change, and raised a laugh as he asked how many had no smart phone. A forest of hands went up, and he pointed out to NZSA's grey haired landliners, "If you are in an industry that is backward, there is less room to get out." NZIER, he said, now has no accountant. Technology is overtaking skilled professions. Agriculture still employs the same number as it did in the1916 census. In an interesting chart, he illustrated the changes in world economic centres moving from the Mid East, dawn of civilisation, through to Northern Europe, and the USA, and now back through the middle East towards Asia, where New Zealand will be well placed. He also talked of the effects of the fastest area of funding growth, the retirees and their demand for income.

Questions ranged through the trends of climate change, the effect of denser and more immediate communication, political splintering into smaller parties, and the possibility of inflation. It was sobering to think that, in spite of the easy supply of money around the world, internationally consumers had not yet been willing to cheer up - to borrow, and spend and invest.

Rob Everett, CEO FMA.

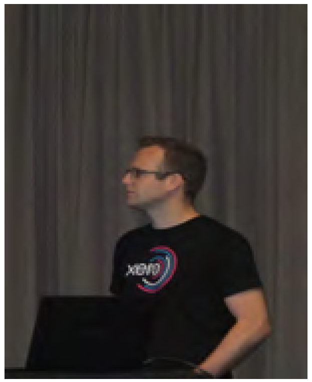
Rob was speaking at the end of reforms which began before the financial crisis and would be largely concluded by the end of 2014. This had stimulated the subscription of over $5billion of new capital in the current year and still climbing. New Zealand had formerly lagged behind, but was now in a better regulatory position than most other countries. With the widening of the Reserve Banks supervision over deposit takers, and stronger supervision over capital raising, the law recognised a balance between issuers and investors, directors duties and staff rights, macroeconomic objectives and those of smaller interest groups. Now the most difficult task is apply a brake, "to lean against the wind," and caution against the intensely personal issue of risk, so that investors are not persuaded by hype. Rob then summarised the issues highlighted by NZSA including clarity of a prospectus, Gentrak's forecast, Port of Lyttleton's failure to call a trading halt, conflicts of interest amongst the small pool of directors, and the censure of directors in Marsden Maritime.

Rob defended the criticism that investors were often paying twice when a company was fined, by pointing to the number of directors who had recently been held personally accountable for failures, but said that protecting and recovering money for investors was also a central part of enforcement. He also fronted on a question over the inherent conflict between regulation and listing in NZX, by pointing to FMA's annual review of NZX regulatory decisions, and the open disclosure regime under which it operates.

Richard Phillips Xero (replaced Rod Drury)

Rod's absence from the conference was explained a week later by the resignation of the CEO of Xero USA, but as his replacement Richard represented his company well by examining its value in the light of 3 themes, value in volatility, the sales approach, and building a macro view.

Tech companies exist by disrupting existing markets. In Xero's case it entered the staid and boring world of SME accounting. Sizing such a market is like counting horses at the introduction of the family car. Tech companies are therefore judged by how quickly they can scale in a market. In NZ and Australia the entry was achieved through professional accountants. However in USA accountants are simply an anciliary service the business operators. In this vast market, Xero has to find a way to go "hyper-local." Building the servers and on-line channels is rather like building a rocket while you are firing it.



The sales approach presented the challenge of scaling up basic door-knocking as in New Zealand, to a million customers in a different environment. Xero is developing several new models, such as XeroU, an on-line business guide which establishes the value proposition for practitioners, and using the online invoice as a tool for promotion and collection, reducing the average collection days from 42 to 31. Sales lessons learned in USA will be of benefit in Australia and UK.

The third point is a matter of vision. Xero's staff have shares, and contribute solutions and ideas for market development. Cloud computing allows for many more connected services to assist customers such as credit checks, and business intelligence at the click of a mouse. Competitors have no "backend" to bring forward and add value for customers. The Xero dashboard is designed to create a happy experience, and bridge the gap between workaday humans and high-speed technology.

Mark Bridgehouse, Fisher Funds.

Mark's talk covered the real objective of saving via a fund: cashflow requirements later in life. His first observations led us to redefine the drawdown risk at retirement by spreading that risk over a lifetime of saving. Early on, volatility is our friend; later stability of earnings more important. Kiwisaver default funds were criticised for not recognising target date needs. However surveys of Target Date Funds overseas indicated that investors were often moved out of equities too early. A later question emphasised the lack of good target-date funds in New Zealand, in which the mix of investments altered over a life span to reflect the different cash flow needs.

The "heuristic" 72 rule was a quick guide for investors to estimate the length of time an investment would double in value. For example $100 invested at 9% will double in 72/9 or 8years. However graphs illustrated the "100 age rule," (take 100 minus your age to find the proportion to invest in equities,) that in 29% of cases the money ran out prematurely before death or disability. (take 100 minus your age to find the proportion to invest in equities,) that in 29% of cases the money ran out prematurely before death or disability.

In other words Stay in equities as long as possible to gain the advantage of total shareholder return

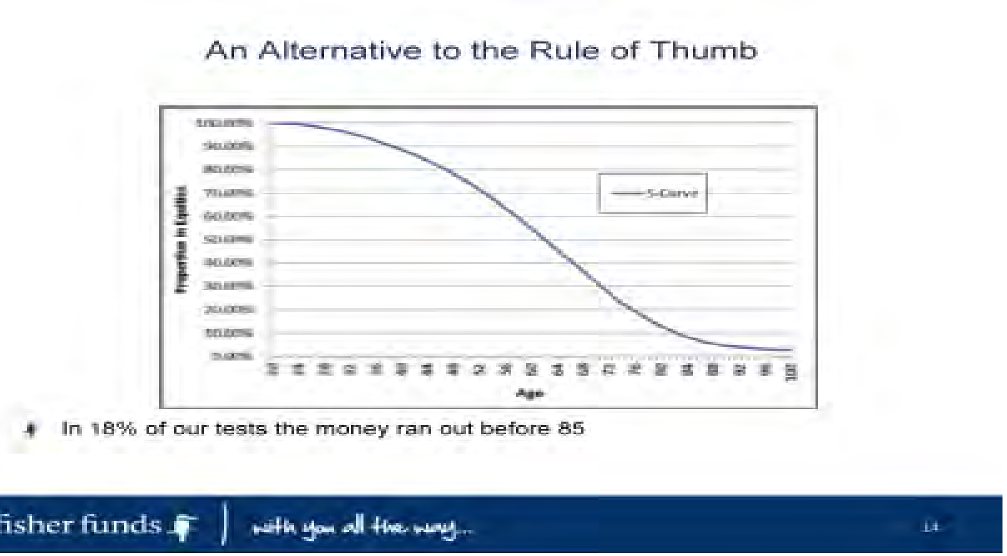
The key accumulation period was typically between 40 and 65, which should be the period to focus on a diversified portfolio of equities.

This led Mark to consider the old adage,

" A cow for her milk, a hen for her eggs,

A stock by heck, for her dividends."

The growth and income split, even suggested by the theme of our conference, was probably not as useful as we assume. The two approaches of high income and continued total return, are not mutually exclusive. If an investment is not growing we ask "why," if it is growing we ask "how." This leads us to define a "competitive moat," (from Warren Buffet,) ie the competitive advantage that allows a company to keep generating free cashflows well into the future. We use the past as a guide, but we asses the "moat" for future earnings. When we have that answer, we stay with a spread portfolio of selected equities, and enjoy the income that is produced



Peter Mence CEO Argosy

Peter's talk drew on research that showed, investors in property want income, security, and indexation (ie comparison to other forms of investment.) A property developer is not an income stock.

Stockmarket prices are volatile but property income stays relatively even. In periods of high inflation property keeps pace, and often outperforms other stocks. However we should not confuse residential property with diversified commercial property groups, (commercial, industrial, retail.) Such investments do comply with the Buffet advice, invest in companies you understand. The "passing yield" is simply the income compared with the buy price. However property managers use a DCF valuation over 10 years allowing for vacancies, and refits and maintenance. The cost of land is the biggest variable, and influences the challenge to buy good quality property at an attractive price. Portfolio gearing is also carefully managed. Generally it is easy to obtain bank loans but banks change their minds in a changing international environment, and listed property vehicles have been criticised for high debt in the past. Peter's mantra is therefore "not to have to sell if another GFC hits."

Attribution analysis carried out by property managers investigates income, interest, asset allocation, rental growth, lease tenure, and upgrades. At the end of a lease a property can be deemed worthless, a fact which is often concealed in property syndicates.

Peter also considered new accounting standards which attributed holding costs and interest on development land banks. He felt that the great sin in property investment was allowing ego (hubris, a la 1986) to overshadow common sense. However seen as service providers, under the PIE regime they would continue to offer investors a reliable income choice.

Simon Challies CEO Ryman Health

Simon gave us a further insight into his company as a growth investment. He denied that it was a bricks and mortar company, but was instead, a service company which put residents and family first, and ended up with happy residents, happy staff, and happy shareholders. Those residents who stay through the settling in, stay for good. Ryman's growth so far had occurred in a period of relatively low growth in the total market. The major market expansion was about to begin in New Zealand and Australia. Ryman's share would therefore become smaller, because it did not generally seek more capital from shareholders, but funded and implemented its plans internally. However the fundamentals would remain the same, with "care, the key," and speed to fix any problem that arose. Ryman's satisfaction surveys were in fact net promoter scores, with the key question: How likely (1-10) are you to recommend a Ryman home to your relative? 1-6 fails, and 7-10 is only a pass. Excellence was the only benchmark, and the formula was scaleable in Australia, although that market was different. A questioner asked about Ryman's low tax liability, arising from the IRD decision that a resident's license payment is an advance. Simon pointed out that tax liabilities would increase from this year onwards, with the Australian expansion. So much has been written of Ryman, a past recipient of the NZSA beacon, that this summary cannot do the company justice, but members did get a sense of the exacting science and standards which went into the successful recipe.

Simon McKenzie CEO Vector.

This talk switched to a regulated infrastructure company, which sought under severe government constraint, to provide a mix of income and growth. Vector now comprises 12 businesses which convey electricity across the Auckland region, reticulate gas to 40 towns, supplies LPG to depots from Whangarei to Invercargill, meters electricity into 700,000 customers, trims trees and maintains lines and pipes across the Northern region.

Simon detailed the significant problem of dealing with a price regulator which approves prices for 5 years when assets last for 40, and opportunites for alternative more profitable investment make old, price regulated infrastructure less attractive. Ahead is electricity storage (batteries,) smart metering, solar power, electric cars, and a regulator which does not recognise technical advance. Simon quoted mistakes by the regulator over cost of capital, (the last reset cost $110m,) and misforecasting the CPI which cost the company $280m. Standard and Poors rated regulatory risk for Vector as uncertain, and dropped its credit rating from BBB+ to BBB, raising the cost of capital. Public perception of excess profits were not matched by acknowledging the benefits of efficiencies in Vector, which had made consumption cheaper and easier. Governments, central and local, want 40,000 more houses in Auckland but do not allow for the development within the pricing formula for Vector. Shareholders left the meeting feeling that the Commerce Commission's remit should be substantially altered, but knowing that at least 2 political parties were touting the price control myth as a panacea for capitalist excesses. Ah, but the electorate is not concerned with reality, or technical detail, but only with sound bites and catch phrases! By contrast, NZSA members who attended the 2014 Conference were treated to some brilliant inside stories, and factual content from our top business leaders.

Dividend Reinvestment Plans - An equity issue

A number of companies offer dividend reinvestment plans (DRPs) which provide an opportunity to reinvest dividends to obtain additional shares, rather than receiving a cash dividend payment.

Relative to many overseas markets, New Zealand listed companies are recognised for high dividend yields. There are probably a number of historical reasons for this including the maturity of many of NZ's older listed companies, and the fact that in decades past many NZ listed companies saw relatively limited opportunities for growth given the small NZ marketplace and the acknowledged challenges of expanding offshore. One of the consequences of this "history" is that New Zealand investors tend to have a strong yield focus and listed companies recognise that dividend streams are a reliable way to gain investors' support.

Issues do arise where shareholders have an expectation of high levels of income yield from companies that have opportunities for growth and want to retain as much of their earnings as possible for reinvestment in their businesses. Making a dividend payment and simultaneously offering a DRP is one way that companies can meet the needs of yield investors while reducing the cash impact of the dividend payout.

DRPs represent a low cost way for shareholders to incrementally increase the size of their holding without incurring broking costs. Frequently this will suit shareholders who have a long term investment timeframe and are seeking to build the value of their portfolio rather than focusing on income generation.

There are a range of other factors that shareholders also need to consider when deciding whether or not to participate in a DRP including:

- Is the company putting the retained earnings to good use?

Retained earnings are an important source of funds for a company's growth. In order to grow the business in a way that increases shareholder value, funds invested by the company need to generate returns that are above the company's weighted average cost of capital (WACC)*. If the return on invested capital is high and the rate of return appears sustainable as shareholders' equity grows, shareholders may well question why the company is paying a dividend in the first place. If a dividend is paid in these circumstances then a DRP is likely to be attractive if it is offered. If no DRP is available, shareholders could consider reinvesting their dividend through periodic on market purchases.

- Does the company offer a discount to the market price when determining the issue price for DRP shares?

Some companies issue shares at a discount to the market price for DRP participants. A discount to the market price can make the DRP more attractive to investors but conversely disadvantages those who elect to take their dividend in cash.

- What alternative uses does the shareholder have for the dividend if they choose to receive the dividend in cash rather than reinvest through the DRP?

If we don't need income for consumption then whether or not we choose to participate in the DRP will usually be driven by the attractiveness of alternative investments relative to the opportunity to reinvest in the dividend paying company. For some investors the decision will be influenced by the weighting the company already holds in the portfolio. If more attractive investment opportunities have been identified then it may be time to review the investment case for the entire holding in the company offering the DRP.

- Could income requirements be met through periodic share sales rather than dividend income? If so, then the investor may still wish to consider participating in the DRP.

Dividends are not the only way to generate income from a portfolio. In a portfolio with a low level of dividend yield, periodic sales of small parcels of shares can also be a way of generating income (though the tax consequences, if any, need to be considered). One advantage here is that the investor can time sales to meet specific income requirements or to take advantage of relative share price strength. It makes sense to focus on "total shareholder return" (TSR) rather than just dividend yield. TSR is made up of both share price appreciation and dividend return. It is possible that a company with a high projected TSR may pay no dividend or have a low level of dividend yield. In this situation, the company is likely to showing strong business growth and reinvesting most or all of its earnings to further develop the business.

- Does the DRP operate continuously or is it periodically suspended?

Not all companies that operate DRPs make them available for all dividend payments. The DRP may be suspended if the company does not see a need to retain a high level of earnings or if the company believes that the shares are trading too cheaply. Suspending the DRP when the shares are seen as undervalued is the responsible thing for the company to do in terms of protecting the interests of all shareholders, however individual shareholders will prefer to have the opportunity to increase their holdings at the lowest prices possible.

- Is the DRP underwritten?

Some companies offering a DRP arrange for the plan to be underwritten. This means that, if some shareholders elect to take up a cash dividend, an underwriter will acquire shares in the company at a purchase cost roughly equivalent to the total value of the cash paid out. Underwriting the DRP usually occurs where companies wish to retain all of the earnings but recognise that shareholders rate more highly those companies that offer a dividend payment. Investors need to think carefully as to how they view this type of arrangement. Clearly there is a cost in underwriting the DRP and shareholders receiving a cash dividend are diluted to a greater degree than they would be if only part of the total amount distributed is made up of new shares. A better approach could well be for companies to effectively explain to shareholders the case for retaining earnings and reduce or halt dividend payments. If investors believe there is a strong case for this then the company should continue to rate well. Some yield investors may sell out, but they are likely to be replaced by other investors who see an opportunity for the company to invest retained earnings at attractive rates of return.

In the next edition of "The Scrip" we will continue our article on DRPs, focussing on how DRPs impact on investors' proportional interest in companies and the return outcomes that can flow from this.

In the meantime, we invite you to share your views on DRPs with us and let us know if there are any other issues around DRPs that you would like us to cover. To do this contact Kane Ongley (kane.ongley@gmail.com) or Martin Watson (martinwatson@xtra.co.nz).

Kane Ongley and Martin Watson

*An explanation of WACC and the "cost of equity" can be found in the article "Capital Efficiency - Equity - The Weighted Average Cost of Capital" that appeared in the April 2014 edition of The Scrip.

Listing loss as port assets tempt a starving Council

On or about end of July 2014, Christchurch City called a press conference to explain that it was impossible for the council to meet its ordinary maintenance and rebuild commitments within its current income, and that it would have to seek other ways of funding its operations. On 1st August Christchurch City Holdings announced that it had signed a lockup arrangement with Port of Otago to buy 15% of Lyttleton Port Company at $3.95/ share on condition that over 90% of outstanding shares were secured by it. A broke council offers cash for a public private partnership (PPP,) when it could have raised money by selling shares. Given that the price was well above the current market of $320/ share, and the combined total of CCHL and Port Otago holding was 95% of LPC shares on issue, the complete takeover was pretty well a foregone conclusion. Nevertheless NZSA wrote to both NZX and FMA to draw attention to the absence of a trading halt on the day of the first announcement. Since that time NZSA's focus has been to ensure with NZX

Regulation and FMA, that price sensitive announcements are picked up promptly at source. We believe that internal surveillance of such announcements has now been tightened within NZX

It will not be lost on members that the recent survey of 900 email members gained a response of 256 active participants, showing a clear preference for improved definition of price sensitive information leading to trading halts. Your feedback was eagerly absorbed by NZX and FMA officials, and will be used to define further developments under the stock exchange rules.

On 29th August LPC advised NZX in its audited statement of financial position that its net assets stood at $533,121,000 or $5.21 per share. The company was said to have no debt, and held cash of $322,124,000 or $3.15 per share. On 2nd September the company published its target statement and the Northington report valuing the company at between $342 and 373 million or $3.35- $365 per share. NZSA met with Northington and wrote to the Chairman of LPC. Our letter is posted on the NZSA website. Our concern was that the difference between the net assets and the DCF valuation was not adequately explained - the more so as the annual report notes 2 asset impairment reviews, the first as at 31st December 2012, when the recoverable value of the assets was above the book value, and the second at 30th June 2014 when the recoverable value of the repaired assets was significantly above the book value. The reply from the independent directors was published by NZX as a statement to all market participants. In it Northington explained that the cash in the balance sheet was earmarked for port repairs, which would cost considerably more than the $322m held in cash, and that their DCF valuation did include provision for earnings on the reducing cash balance as the renovations occurred. Both Northington and the Independent directors maintained their view that the offer was well above a future earnings valuation. It is now clear that most shareholders accepted that view, although we believe that independent directors always owe it to minority shareholders to explain apparent differences between their published accounts and any other expert valuation.

Another interesting prospect was raised by the LPC takeover. Shareholders who rejected the price offered by CCHL were able to appeal to a second independent expert for a determination. A similar appeal was successful when Rank took over Whitcoulls, and the objecting shareholders gained a few cents extra in the price. In this case the offer was well above independent valuation and there was a risk that a final valuation might come in at a lower figure yielding a lower price to those who held out. Northington is widely respected as an authority on ports and related infrastructure, and pointed out the considerable risks surrounding LPC – port consolidation in New Zealand, competitive pressures from other shippers and ports (including Marlborough,) the long time lag for reconstruction and the risk of delays, reliance on the tunnel access from Christchurch, and a reduction in coal volumes. However perhaps the major fear was, being stuck as a minority shareholder with the management of CCHL. Local authorities do not have a good record when it comes to the sole management of infrastructure on behalf of ratepayers. The PPP model followed by Tauranga subject to stock exchange rules, and questioning by engaged minority shareholders still strikes us as being the best solution for the wide range of infrastructure participants.

Alan Best

NZSA Annual Meeting 2014

Amid such a range of high quality speakers, the NZSA's own AGM was a relatively muted affair. Members voted unanimously to re-elect the two board members Gayatri Jaduram, and Lyn Lim. The annual accounts, chairman's review, and notes on the election of officers can all be viewed on the NZSA website. However, in one section the Chairman departed from his report to highlight some of the issues surrounding our largest commercial communications network. His words are worth quoting:

- One issue that is of concern to us is the matter of regulatory uncertainty. For the most part we have tended to keep away from areas which are quite heavily politicised. NZSA is not a political organisation and we will work with whoever is in government. Never-the-less, we think the impact of regulation on shareholders rights has got to a level where it threatens future investment in critical infrastructure. We understand of course that monopolies must be controlled to some extent or they will potentially abuse their position. But when we have a situation where, for example, Chorus is threatened with an extension of regulated pricing to cover products that are not on the face of it captured under the present regulations, I think as investors we need to start asking some questions. What can possibly be wrong with customers being given the option of a lower priced adequately regulated service, or a higher priced superior unregulated service. Last time I checked, Air NZ charged more for business class than economy class, even though both were on the same plane and went to the same place. It seems to me personally that the Commerce Commission approach could in fact stifle innovation, competition and better service, exactly the opposite of what I am sure it intends.
- Some industry voices have said that Chorus should not be paying shareholders anything while they are building the UFB network. That approach ignores the reality that the company already has a huge existing network which its shareholders own, and which it continues to have to run and maintain. Surely it is not unreasonable to expect a sufficient return on that investment to enable ongoing capital expenditure to be made, and at the same time give the people providing the share capital a fair return. This is even more critical when we consider that there are frequent quantum leaps in communications technology which often render existing systems redundant. Just look at the way emails replaced fax machines or digital cameras superseded film. As a result, heavy reinvestment is an ongoing requirement in order to stay in business. One thing is for sure, if the returns do not match the risk, investment capital will dry up and NZ will be the poorer as a result.

A ripple went round the conference at this point. As a result NZSA Board has determined that it will meet with the Chair of the Commerce Commission and the new Minister of Commerce and Consumer Affairs, Paul Goldsmith at the earliest opportunity.

Alan Best

Re-elected Board members Lyn Lim and Gayatri Jaduram flank NZSA Secretary Chris Curlett

Company Meetings

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

Rakon AGM 12th September

As a non shareholder, this was my first exposure to Rakon and its directors/ senior management. A rain swept Ellerslie convention centre with the wind whistling through gaps in the full length track facing glass doors set the scene. Inside, lots of little things showing a lack of attention to detail. Doleful shareholders keeping their distance from Rakon staff while awaiting the arrival of the directors. A seemingly random display of Rakon products drew little interest and I was unable to link it to the promised new directions highlighted during the meeting presentations. Some shareholders looked, without success, for hard copies of the company's annual review and financial statements. These and the availability of pens would have been of far more use during the meeting. Rakon staffers were making desperate last minute attempts to increase the magnification of power point presentations to a readable size.

To the formal business. Chairman Bryan Mogridge (attending from his sick bed and having a dizzy spell while speaking) and Managing Director Brent Robinson made presentations, both of which are available on Rakon's website. Also available there is a copy of the meeting overheads. Many of these were taken directly from the Annual Review and were in a font size that was not screen legible to meeting attendees. The presentations were positive and promised better times ahead now the company has consolidated back in New Zealand and India. At least Mr Mogridge is "walking the talk" with his share buying activity.

On to the re-election of directors – both decided by poll. This is where the lack of pens became an issue and I was able to help out a number of pen less voters. Warren Robinson, absent from the meeting as he was abroad on a "long committed engagement" was reappointed with 74,960,425 votes for and 10,305,836 against. Sir Peter Maire was reappointed with 75,593,806 votes for and 9,599,865 against. I voted undirected proxies against both. Despite the result, this was not a validation of shareholder confidence. The total votes cast was under 45% of all issued shares

On to question time. I did not get to speak. Others beat me to the microphone with the questions I had prepared. First, on the board composition. A suggestion that the board was R&D focussed and needed both fresh ideas (and some gender balance) was greeted with belligerence. This board believes it has the skills required to turn the company around. They believe that their major shareholding means they will make the best decisions. (4 of the 7 member board are non independent and Mr Mogridge seems set on buying himself into a similar position – 6 of the 7 have been on the board since 2005).

Second, what went wrong with the move into China and smart phone GPS? Answer, "we took a huge gamble that did not pay off but we are confident that we can turn it around." I went back and looked through past annual reports and presentations and found lots about great opportunities but nothing about taking "huge gambles," not that I expected to!

Third, when will the company post an after tax profit? "Our forecast is the 2016 year."

Fourth, why are the Robinson brothers paid so much when the company has done so poorly? Answer, "we have to pay market rates."

One lady spoke in support of the board. She just wants them to lift the share price and pay a dividend. She may be waiting a while.

Bruce Parkes

Diligent Board Member Services AGM 24th June

At the start of the meeting is was made clear that the accounts were now in order & had been appropriately filed.

Diligent continues to have a very high customer retention rate which reduces costs. It also scores very highly in customer satisfaction surveys.

Investment is being made in expanding the functionality of the existing product. A new product is in production with no date for completion as all details are commercially sensitive.

Diligent has recently employed its 200th employee & has six data centres.

A Windows 8 version of Board Books has been completed. This does not share any code from the current Apple version. Apple has 1m & Windows 8 - 200k lines of source code.

Michael Cornell

Acurity AGM 8th August

The meeting held at their Wakefield Hospital premises attracted about 50 attendees.

The meeting was uneventful and finished in just over 30 minutes.

The Chairman Alan Issac reported a revenue growth of 23% and an EBITDA of 13%. Acurity is expecting growth from the the realisation that healthcare funding is unsustainable and consequent likely development of the PPP model.

Ian Englad the CEO explained that growth is expected to be driven by the recently created Catheter Laboratory Technologies — the only service of its kind in New Zealand. Acurity has also appointed a business development manager to increase the number of referrals from GPs.

Significant costs are expected over the next 4-6 years from the need for seismic strengthening of the Wakefield site in addition to the urgent work completed in 2012. Acurity is committed to the Wakefield site due to the advantages of closeness to CCDHB regional hospitals. Consequently the upgrades are to be done while keeping current facilities operational. This cost is expected to be around $45-50M. An additional $10M is also required to redevelop the Medical Consultant Centre. Work is to expected to be funded from operational cashflow and banking facilities. High level requirements specification and design work have commenced.

Alan Isaac also report the receipt of a formal take over offer by Conor Healthcare and associated parties. Shares have risen to the offer price of $6.50. Any discussion on this was forestalled by Alan reporting the appointment of KordaMentha as advisors and the intention of the Board to publish its opinion on the offer before the end of August 2014. He reiterated that the shareholders do not have to take any action until that time.

All resolutions were passed without any discussion. Brian Martin and Jay Taylor were re-elected to the Board. The reason given for Professor Geoff Horne not seeking re-election was his desire to retire from the Board and also from his practice to spend more time on personal interests and with his family.

There was only one question from the audience about when clarity around the costing and timeframes of the capital upgrade would be available. Acurity expects a definitive cost to be known in 12-18 months, resource consents within two years and the build to take another four years.

Vinney Venkatesh

Infratil AGM 12th August

Chairman Mark Tume, advised the meeting that he held proxies for 452 Shareholders with 252m votes out of 579m issued, and 279m in the post meeting announcement. Although NZSA had advised Infratil that we preferred poll voting in all cases, the predominance of votes in the hands of Directors, led the chair to pass the resolutions on a show of hands without dissent.

The structure of Infratil with its external manager, Morrison and Co, is that of a managed fund, but there are differences. Morrison now manages US$5b of assets, but does not take its management fee in dilutionary shares each year like a property trust manager. Although the fee incentivises the growth of assets under management, the independent directors focus on a 20% absolute return (TSR) target for all shareholders, and over the longer term it has been successful with an annual average gain since 1994 of 17%pa. The approach of ensuring that each enterprise is staffed by industry specialists with the freedom to develop their own growth plans, and then supporting that management with funding, was emphasised in presentations by Mark Tume and Marko Bogoievski. It was the thrust of a question from Grant Diggle as to how the independent directors monitored the performance of the external manager.

The current mix of investments and current capital commitments are shown on the website presentations. Investments in Airport, Aged Care (social infrastructure,) NZ Energy, Fuel distribution, public transport, and the largest, in Australian energy, alongside a collection of smaller ventures promise a continuation of the growth pattern. The major risk as usual is regulatory action by local and overseas government. Infratil also faces rising competition from other well funded infrastructure investors, as public bodies facing fiscal constraint need to rationalise and sell down part of their services.

Robert Johnson asked the company not to change its registry, and Jenny Merrilees wondered whether the issue of shares to executives would be adequately balanced by the proposed share buy back. As the buyback programme anticipated about 24m shares, it was clear that support for the share price against the possible dilution was sufficient, although the company is clearly disappointed that the current price is well below fair value. A long dissertation about bus queues was found to be quite beside the point when the questioner found that her Hop Card was not in fact part of the Snapper (Infratil) service.

Resolutions to elect directors including Alison Gerry (audit and risk) were passed. Increases to directors' remuneration were not challenged, although they did not include the payments for directors on other listed boards in which Infratil is a substantial shareholder. This is an area which shareholders should monitor more closely. In other companies like Fletcher Building, management representatives on outside boards have the fees from those boards paid into the managing company not the individual.

Shareholders left this meeting feeling that there was still plenty of potential in Infratil's portfolio.

Alan Best

Augusta Capital AGM 11th August

While half of Augusta's portfolio is in Auckland, the geographical spread of its investors is similar to the population spread across the country and this may explain the relatively small number of shareholders who took the opportunity to sample the pleasures of Auckland's Northern Club during the company's AGM. With all approaches requiring an uphill slog, there was a rush for the comfort of generously sized club chairs and sofas. However, I did not see any nodding heads as they listened to presentations by Chairman Peter Wilson and Managing Director Mark Francis. These presentations are available on the company's web site. I noted that the net profit after tax was primarily due to property revaluations and there had been a lower occupancy rate on Augusta owned property. Better is promised for the 14/15 year.

Augusta promotes itself as NZ's largest property funds manager with $1.17b funds under management. While it does own some property, its growing speciality is property syndication, which seems to be having somewhat of a resurgence in recent times. Its current project, the syndication of Telecom Place in Auckland has attracted wide interest and has been underwritten. Whether syndication and external property management are good for investors is debatable. They certainly should be for Augusta. The company's strategy is to recycle out of passive investment assets with a new focus on 'warehousing' assets for syndication when conditions are favourable.

There were three resolutions before the meeting. The inevitable authority to set auditor's fees and remuneration; the re-election of Director John Loughlin; and an increase in the Directors' Remuneration pool.

The biography of John Loughlin attached to the Notice of Meeting identified his former role as chairman of Finance company Allied Nationwide Finance Ltd. After the collapse of the company the FMA issued a formal warning to him and other directors for a likely breach of the Securities Act, while noting that possible defences were available to them. Speaking to the meeting, Mr Loughlin provided more background to this. He said that he saw the warning as a "yellow card" and as determined to ensure he did not receive another yellow card and an automatic sending off.

Directors' fees had not been increased since 2007. The increase requested was to accommodate a third independent director and to acknowledge the increased work and liability required of directors in the registration of prospectuses for future property syndications.

All resolutions were passed by a show of hands with no voiced dissent. A little quirk in the meeting rules - with a 'show of hand' vote, I was precluded from voting on the increase in director fees, as I held proxies both against and in favour of the resolution.

Bruce Parkes

Moa Group AGM 24th July

A few days prior to the AGM Moa released details of sales for the previous year. This saved discussion and simplified the proceedings.

Thankfully supply in Australia is up 54% and in NZ 18%. NZ 2014 first ¼ nearly double 2013. The 'new' distribution system is working well.

Charts were shown indicating that Moa is doing well compared to other craft beers.

McCashins Brewery has been contracted to brew for Moa. The result of this is that Moa, McCashins and other craft brewers are sharing equipment. This co-operation is likely to continue allowing considerable savings and the ability to purchase bigger and better equipment for the benefit of all.

Of particular interest is a capital raising and rights issue that is being commenced. A couple of days before the meeting the share price of Moa started to rise.

Michael Cornell

Smiths City AGM 26th August

Proxies: 84,960

Operating surplus was 4.1 million, a decrease of 25.4% on last year, due in part to the timing of insurance payments. Profit from operations before interest and tax actually increased by 44.7%

Chairman Craig Boyce reported that consumer business is positive; SCY is placing less emphasis on appliances, where margins are so low. They will open the final stage of their flagship Colombo Street store in approximately two months time. The board sees growth opportunities with acquisitions, particularly north of Hamilton. However they are fully aware of a crowded market in the Auckland region.

Smiths City does not get recognition from New Zealand's financial institutions. So the board has contracted Edison Investment Research to report on the company's operation regularly, and this should give significant analysis to the marketplace and investors.

He welcomed Mr Luke Bunt who is seeking nomination to the board and said that currently, due to the resignation of Ms Sarah Ottrey the board are seeking a new female board member.

CEO Rick Hellings was pleased with the 44% increase in operating profit but disappointed that sales have been flat in the first quarter. A large number of stores have now re-opened in Christchurch providing stronger competition. The consumer technology market is tough. He said that there has been a much improved performance from the Wellington region since they made changes last year. Their Furniture Concepts store is showing growth. Their critical on-line and social media presence is now receiving strong emphasis as they see continuing benefits here. Rick Hellings added that their focus is very much on improved profitability. 2013 involved a restructuring of management into two roles i.e. General Manager Merchandise and General Manager Operations, both reporting to Rick. This arrangement better reflects the company's strategic direction. Staff are critical to Smiths City and there is a strong emphasis on all aspects of training.

Mr Hellings said that the insurance process has been a huge drain on resources and staff time. However, they have reached a turning point and can now utilise staff to focus on helping the business to grow profitability,

Questions:

There has been substantial number of shares sold recently. Who sold and bought these shares?

A: An investment company has made the purchase. Shares were sold by ex director Mr John Holdsworth and one other large investor.

Q: Tim Kerr NZSA asked about distribution and logistics. A: Currently product comes to Christchurch but their intention is have all distribution come ex an Auckland warehouse. This would bring considerable cost and efficiency benefits to the company.

Q: Barbara Duff, NZSA proxy wanted to know about Smiths City approach to customers using technology to compare prices? A: Rick Hellings was aware of this early on and so strategies have been made including the management restructuring (mentioned above) to bring down costs (particularly in the appliance area). Emphasis is also given on the benefits of excellent customer support and backup as well as being able to provide finance (through their in-house finance arm) giving customers the complete package.

All resolutions were passed with both Luke Bunt and Gary Rohloff being elected to the board.

General business generated more questions as well as favourable comments about customer experience.

Barbara Duff

Fisher and Paykel Healthcare AGM 20th August

The MD stated that innovative products were driving growth in all markets.

The final dividend will be 7cps plus 2.7 imputation credit for NZ residents. The company achieved a 34% pre-tax return on equity, 22% on total assets.

FPH is a leader in respiratory and obstructive sleep apnoea (OSA) treatment devices. The estimated market is US$5 + billion and growing. Consumable and accessory products represent approximately 78% of core product revenue.

There is a growing market for FPH products for use in hospitals where they can save cost. Health care spending is on the increase worldwide. Opportunities are for products that can reduce the time patience stay in hospital.

FPH growth strategy is to continue to be experts in humidification, respiratory care, and OSA, and to provide innovative devices which can improve patient care and outcomes.

To achieve these strategies they will focus on the following:

- Continuous product improvement
- More devices for each patient.
- Serve more patient segments including invasive and non-invasive ventilation, oxygen therapy, coronary obstructive pulmonary disease, surgical monitoring, and obstructive sleep apnoea
- Increase international presence.

FY March 2014	% Revenue	NZ$ Million
Operating Revenue	100	623.4
Cost of Sales	44.4	258
Gross Profit	58.6	365.4
Other Income - R&D Grant		3.7
Selling and Admin	27.5	171.5
Research and Development	8.7	54.1
Total Operating expenses	36.2	225.6
Operating Profit	23	143.5
Profit after tax	15.6	97.1

The Chairman explained they have a policy regarding board refreshment with a number of new directors appointed in the last three years. The Chairman Tony Carter and Lindsay Gillanders were voted back in for another 3 years. Lindsay did say this will be his last term as a director.

All other resolutions were passed. As expected with such a good year very few questions were raised. It was a positive meeting and well received by investors.

Des Hunt

Trilogy AGM 23rd September

With a market cap of only $40m, Trilogy is working towards a small profit. Its revenues rely on Ecoya's gift-packed candles, and Trilogy's natural health and beauty range. In the last financial year it achieved a positive cash inflow and a net profit after tax of over $1m. The share price is still depressed partly as a result of the Schweighoffer interests being sold down. The margins in both brands are attractive (over 60%) but sales increases with high quality market positioning and presentation, are the main requirement. Chair, Geoff Ross canvassed these issues and said that brokers and advisers all felt the company is on the right track.

CEO Steve Sinclair detailed positive results for the first six months of the current year with positive growth in Ecoya and Trilogy. It was evident that the agency/distribution arrangement with McPhersons in Australia was stimulating Trilogy sales and merchandising. Distribution in UK, Mid West USA, Asian centres including South Korea, was increasing, while in New Zealand, growth through department stores and pharmacies was occurring with Christmas still to come. Manufacturing capacity should easily cover projected growth. Strong growth in on line sales was being achieved. $2m of debt had been paid down in 2014, and further reductions are budgeted.

We asked about the $580k paid to the Business Bakery which is effectively the external manager of Trilogy, and Geoff Ross explained that this covered payments for a CEO and 2 directors plus some secretarial support. The absence of hurdles and benchmarks and the potential for conflicts of interest in the contract could be a problem, but we were assured that the independent directors checked all payments. Others asked about the exclusivity of the McPherson's arrangement, product development, and the trend towards natural products in cosmetics.

It does seem as if the "moat" around Trilogy's product is not very deep, and it is only pure marketing which will keep the company ahead of the game, but that is something Geoff Ross and his team are indeed good at.

Alan Best

Dorchester Pacific AGM

Dorchester achieved the holy grail of all those who perform at Auckland's Aotea Centre – a standing room only full house – even though we were not seated in the main auditorium. A CBD meeting is ideal for the "suits" and Dorchester staff who walked to the meeting, not so convenient for retail shareholders who had to either meet peak time parking charges or experience gold card bus travel. For them, being able to graze at both pre and post meeting refreshment tables softened this cost - the first, an accident of timing from an earlier Dorchester Property Trust meeting.

To the meeting business. Chairman, Grant Baker, in his introduction, apologised for the absence of director Greg Peebles, who was unwell; and notified that 300 million proxies had been received – over 50% of issued shares. Mr Baker and CEO Paul Byrnes' brief presentations are available on the company and NZX websites. Mr Baker did little more than confirm the company's growth strategy: to drive profit growth through investment in existing businesses; and to add significant growth through accretive merger and acquisition activity. While some of the M&A deals may have been rather complicated, this was an inevitable when the company was operating from a position of limited capital resource.

Mr Byrnes provided an overview of each of Dorchester's businesses. Overall, the group is running 5% ahead of forecast and 50% up on last year. The before tax profit forecast is for $11.5 million to year ending March 2015. For year 2016, the forecast ranges from $15 million where there is no further M&A or Turner investment, to $25 million depending on the ultimate Turners shareholding. Should Turners' shareholders accept the Dorchester offer, gearing in March 2015 will be up to 47% - this will reduce to 25% after 2 years should those shareholders convert their bonds for shares. Bondholders will be paid out if they don't wish to convert.

There were 6 resolutions before the meeting, all voted on by poll with almost unanimous support (99%+). Staples Rodway were reappointed as auditors; and Grant Baker and John Gosney re-elected as directors. The other resolutions related to the Turners takeover – the issue of bonds and shares.

During general business there were questions on justification of profit upgrades – coming from income not growth; and the reverse mortgage business – looking for businesses with shorter cash flows; and the opportunity for shareholders to participate in future capital raising – possibility they will be invited to participate in a SPP (since confirmed). With the company doing well, exceeding forecasts and paying a dividend, shareholder attendees seemed well pleased and departed in a happy mood.

Bruce Parkes

Argosy Property AGM 26th August

I do not own shares in this company, and went to Westhaven on behalf of NZSA, to ask two questions relating to items in the Annual report.

Pg 70, Executive Remuneration: There is a chart of pay bands over $100k, with the number of staff in those bands for the 2013 & 2014 financial years.

Two staff in 2013 year were in bands of $270k-$280k & $330-$340k. In the 2014 year two staff were in bands of $520k-$530k & $590-$600k.

There was no explanation as to whether the 2114 & 2013 details applied to the same positions.

I asked the Chairman whether they were the same position, why such a significant increase had occurred, were the staff previously underpaid or were they now overpaid & suggested that such increases should be explained in the report not just noted in a chart.

The Chairman confirmed they were the same positions; that a review had been carried out; the staff had been underpaid and were not now being overpaid. He acknowledged my comment regarding explaining such increases in the report.

Pg 74. Donations: The Company is a sponsor of the Red Beach Surf Lifesaving Club Inc, for a term of three years. The Company contributed $28,000 in the 2014 financial year, and will contribute the same amount in each of the next two financial years.

I asked the Chairman if any managers or directors were associated with the surf club & why the donation was made. I commented that personally I was in favour of businesses making donations but it is shareholders' money.

The Chairman stated that no managers or directors were associated with the surf club. A mid level manager was and had approached management about making a donation.

After the meeting several shareholders approached me, thanking me for asking the questions on behalf of the NZSA. It was obvious that they were previously unaware of the issues we raised.

Michael Cornell

Air New Zealand AGM 30th September

Air NZ has been performing well in recent years and has delivered a record profit this time with a 25% increase in dividends to 10c/share. So it was a contented group of about 150 shareholders who heard the addresses from Chairman, Tony Carter and CEO, Christopher Luxon at the Wigram Aircraft Museum.

The main business was the election of two new board members (Jonathon Mason and Linda Jenkinson) and the re-election of Paul Bingham and Jan Dawson. The Chairman, Tony Carter invited each candidate to address the meeting before their respective votes to outline (a) their experience, (b) what they bring to the board and (c) the contribution they expect to make helping to add value to the company. This is a good example of how a company chairman should run the elections. Each candidate followed the presentation format and was well received with unanimous support.

In question time NZSA representative Robin Harrison congratulated the company on their excellent performance for the year which was greeted with strong applause; and went on to say that the Association had praised the company for its governance structure which was a fine example for other companies.

Many questions came from shareholders about the operation of the company. The Chairman, CEO and CFO handled these: -

- How did they handle risk management in light of MH17 and cyber security? The company has a Safety Committee and there is no complacency. They do not fly over war zones and cyber security is given a high priority.
- What is their hedging policy on fuel costs? They maintain a transparent hedging policy on foreign exchange to give them time to respond to changes such as the recent drop in the NZ/US rate. They have short $US cover for this year and some for 2015. However, fuel prices are currently down 10% offsetting the exchange

rate changes.

- What is the balance between aircraft leasing verses ownership? The balance has been 50:50 but as the financial position of the company has improved they were now tending to buy the 787-9s but to lease the narrow bodied A320s in the more liquid market.
- Is there any truth in the rumour that they are planning to resume scenic flights to Antarctica with the 767? They have no plans to run scenic flights to Antarctica. They do fund some Antarctic research.
- What are their plans in relation to the announced $300m extension to Wellington's runway? They had no plans to contribute financially and do not see Wellington as attractive for long haul flights because of its relatively small catchment area.
- Is the 787 achieving the claimed 20% fuel efficiency and what is customer feedback? Yes it is delivering on its economic goals and customer feedback has been very positive. In particular, the better cabin pressure (lower altitude) seems to benefit jetlag and flight weariness.
- What are they going to do with all these new long haul jets? They are upgrading and rationalising the fleet. The 777-300s have replaced the 747s, the 787-9s are likely to be used to Asia and the 777-200s are being refurbished to bring them up to the standard of the new aircraft.
- In view of the mystery of the missing MH370 why don't planes transmit their info to satellites? Global standards for location information are currently being reviewed by the industry but limited bandwidth issues can be a constraint. However, Air NZ flights are required to report in every 15 minutes and the new 787-9s do provide more information.
- Route changes. When will they return their service to LA? The 747 service to London was expensive costing $1m a flight. New routes out of Christchurch were being considered but they would not be making any specific comments about their future plans which are commercially sensitive.
- When would they be announcing changes to the use of IPads and smart phones in flight? Currently in the A320s, 77s and 787s devices can be powered on (flight mode) throughout the flight but the turboprop planes are still under investigation. They did not plan to allow voice calls in flight!

Light refreshments were offered after the meeting and the NZSA ran a table to promote the work of the Association.

Robin Harrison

Wellington Drive Technologies AGM 16th June

WDT has for several years been saying stick with us, things are getting better but there have been problems in the last year. Yet again the company was having a better year but the Mexican govt introduced a tax on sugary drinks causing a significant decline is sales. Coca Cola is a major customer of WDT & Mexico is a major market.

Despite these setbacks the company is bullish on it' future.

My opinion, for what it is worth, is that the product is great, has significant potential, WDT has dug itself out of a deep hole and is now struggling to build on the good work done over the last few years. The CEO Greg Allen commented that if the company does not make a profit in the near future he will leave. My impression of the near future was 1-3 years, sooner rather than later.

During the year the company moved premises at considerable saving.

Sales managers have been appointed in additional countries, sales opportunities are increasing though Mexico remains a problem but has encouraged diversification of the end use of the product.

In the last year the company has produced very quiet & efficient electric refrigeration cooling motors, using their own motors & high tech blades. The manufacture supply chain has been improved changing manufacturing to Vietnam and the creation of a relationship with East West Manufacturing a USA company specialising in manufacturing & supply chain. The address by the joint owner Jeff Sweeney was most interesting & bodes well for the future.

Michael Cornell

Serko AGM 20th August

Having been listed on June 24th, this was Serko's first AGM as a public company. Perhaps not surprisingly, management, corporate advisors and institutional analysts outnumbered the less than 20 "retail shareholders". It was a chance to meet and listen to the Directors – who all addressed the meeting – and senior executives.

The new independent directors: Claudia Batten – a Victoria University educated lawyer, domiciled in the USA with a Bronx twang; and Clyde McConachy – ex head of the Economist Intelligence Unit and forgiven for being a Wallaby supporter; both have entrepreneurial backgrounds.

Serko is an IT company whose cloud based patented software allows companies, government departments and other entities to manage their complete travel and expense process. Their current products and prototype mobile platforms look impressive. I so wish they had been around in my corporate travel days.

Its target market is the Asia Pacific with signed customers in Australia, NZ, India, Hong Kong, Singapore and the UAE. Potentially, a US$300 billion travel spend on which to clip the ticket. The challenges are: continued product development – and recruiting staff for that - and building relationships with major travel management companies in the region.

Serko has performed in line with prospectus forecasts. While still trading at a loss, it has $9million from the capital raising to fund further development. The company has received and will continue to receive government development grants. CFO, Tony Bluett, forecasts reaching break even at the end of the 2016-year.

Since listing, Serko has mostly traded at a 13% discount to issue price. Chairman, Simon Botherway, met this head on with a slide showing Serko's performance over the same period as similar to a range of other listed IT companies.

There were three resolutions – all voted by poll. Messrs Botherway and Shaw were re-elected with 100% in favour. Someone voted 5000 votes (0.01%) against the authority to fix the auditors remuneration.

In the time for general discussion there were no questions from the floor. I suspect many shareholders were itching to get to their post meeting refreshments before trekking across town to the FPH meeting.

Bruce Parkes

Pacific Edge AGM 21st August

It was standing room only at the Dunedin Public Art Gallery for the Pacific Edge AGM which was streamed live on a podcast. Chairman Chris Swann gave an overview of the last financial year which included comments on funding future growth, possibly as a result of having been given copies of an NZSA member's questions prior to the meeting. The target is to achieve revenue of $100 M in the U.S. in five years.

David Darling, CEO, is well aware of the time lag between signing agreements with providers and making sales, he mentioned 7 months as being typical. Despite the Company being interested in five cancers, the bladder is the area of focus with the CX bladder triage set for release towards the end of the year as a follow on to the existing test. He also emphasized the overwhelming importance of the U.S. market with Australia and NZ paling by comparison and hence used to test out methods of distribution and sales.

A number of questions from the floor were generally answered comprehensively, including that from our member which was also given in writing.

One asked whether the Company was vulnerable to the loss of key scientific staff, which was acknowledged. Another asked about intellectual property rights, the Company spends around $500,000 on these. Asked whether the Company would be better to hook up with a major pharmaceutical one, apparently this had been the original intention, but they lacked the necessary expertise. Another question related to expanding product range that is not very feasible for a small company, though a colo-rectal prognostic test is planned.

General business elicited several questions pertaining to three Directors selling shares around the same time and also resolution five increasing the Director's pool. All questions were answered in depth to the satisfaction of the interlocutors, for example, while one director is retiring, two are being sought.

From my limited perspective, I thought this was a very well run meeting. Even slightly curly questions were well received and answered. While I worked the room at the subsequent function and spoke to several people, no one seemed likely to sign up with NZSA though some asked why I had joined.

Mike Hazel

NPT Ltd AGM 21 August

Some companies promote themselves well. NPT, formerly a trust and now a company with internalised management, is not among them. For this AGM, no Notice of Meeting was posted on either the company website or the NZX site. The NZX site did notify the meeting but not the time. I do note that the meeting time was buried in the Annual Report and when I rang the company I was promptly advised - which does suggest this was a common query. Also, shareholders would have received individual notices of meeting. However none were readily available in the meeting room. When I and a Director, also looking for a copy, approached registry staff they did have a few copies tucked away. The company has not published a newsletter since mid 2012 and there have been no news releases this year. Directors and senior management readily agreed that their shareholder communication has slipped while they concentrated on other issues. They promised better in the future.

The sparsely attended meeting was itself brief (20 minutes). Chairman Sir John Anderson and Managing Director Kerry Hitchcock made short presentations (available on the web site). Their message is that the company is repositioning its portfolio; is looking to get the most out of properties it is retaining; and is looking for new properties. The last objective is constrained by a lack of quality properties at reasonable prices on the market.

Two resolutions: the re-election of Sir John and the authority to set auditors fees were passed by a show of hands. Proxies of 79,299 million had been received with 99%+ in favour. Sir John then announced the retirement of independent director David Cushing. What he did not say was that Mr Cushing is not being replaced. The other directors believe their skill set and the expected workload going forward does not warrant a replacement. They emphasised the valuable contribution made by Mr Cushing in the company's transition from a Trust.

In general discussion, questioners (mostly NZSA members) asked about:

Regularity of management interaction with tenants – good

Liquidity – good

Why the Ocean Boulevard shopping centre still appeared as a subsidiary company – property has been sold but NPT still owns the management company that had been set up to operate it.

The (low) share price – not helped by an Institution selling down their holding.

As an aside, the yield at the current share price is comparable with other property companies. When the dividend rises, so will the yield and the share price might be expected to improve.

Bruce Parkes

Caught on the Net

"Risk": The most misused word by financial advisors

When choosing an advisor to manage your assets, one of the single most important factors should be to discover how they view "risk" and what they do to address it, says Micah Spruill in an aurorasignals blog. Micah goes on to offer some guidance to help us get it right. **More**

Why the Yield Curve matters

All investors should have an understanding of the yield curve, particularly as an inverted yield curve has a perfect record of forecasting recessions over the last half century, although the timing is never precise. **More**

Is a Market Crash coming? The dental indicator says yes

According to Bloomberg, when times get tight dental care slips. Therefore, they suggest that a slowing American dental industry may be an early warning sign for the market. **More**

Why you're terrible at calculating risk

Its all down to the "value atrophy" phenomenon says Stanford University Professor Uzma Khan. Her research findings have been republished in Quartz. **More**

A 10 minute strategy to help you stop procrastinating

I know I procrastinate. If I ever get around to doing something about it this Businessinsider article suggests how I might go about it. **More**

Due diligence process in Feltex IPO "very thorough"

There has been a lot written about the Feltex IPO and everyone has an opinion. To better understand the High Court decision, Chapman Tripp have released their summary in an easily digestible form. **More**

The poor performance record of actively managed funds

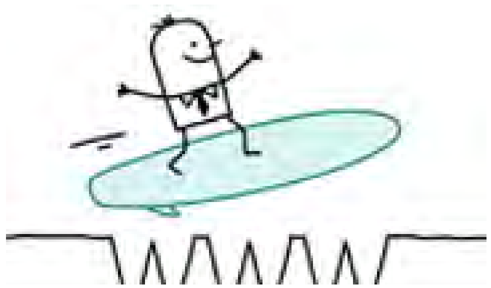
The debate over active vs. passive funds is never ending. Monevator weighs in to the debate and offers a video for those who like to look and listen rather than read. **More**

The other point of view

Is expressed by Cullen Roche in his blog post "I really want to crush the efficient market hypothesis. **More**

Investors are descending into the five circles of bond hell

Or so says Myles Udland in Business Insider Australia. **More**



Hard evidence: are migrants good for the economy?

The impact of migration is a talking point in all developed countries. Thankfully we got through the election season with out it becoming a whipping boy in our media. Two studies on the impact of migration on the UK economy have recently been published. Both studies came to similar conclusions - that lower levels of net migration will impose greater pressure on national debt, but they offer very different approaches to migration policy. **More**

Pump and Dump: How to rig the entire IPO market with just $20 million

Of course this is an American story and it couldn't happen here, or could it? **More**

Morningstar.com's 5 keys to retirement investing

Aimed at US readers but well worth working your way through to see how your portfolio measures up. **More**

Breaking down the Global Competitiveness Rankings

Mark Mobius, who runs Templeton Emerging Markets Fund, blogs on the latest World Economic Forum's global competitiveness rankings of 144 countries and some of the changes taking place. **More**

Ten ways to limit your draw downs in trading capital

Steve Burns, at New Trader U, offers some tips on how to avoid capital losses when trading. **More**

Ten warning signs of global financial meltdown

There are always lots of gloom merchants out there. Sometimes, they are right, often they are not. Your will have to make up your own mind. **More**

Crash Ahead?

This segues on from the item above. The message is, "don't let the purveyors of misinformation send you into a panic. Instead, stand up to them and use reason and science to turn them away. **More**

The (US) stock market may be shrinking, but it's not broken

Over 90% of the profits generated by the S&P 500 over the past decade have gone to dividends and stock buybacks, leaving little to invest in growth and new jobs. While we as investors might think that this is as it should be, some Americans have a different view. **More**

Economics and Women

Economists wield great influence over public policy, including policies affecting the lives, economic power and the well being of women. Yet there is a relative absence of women from the discipline of economics. This blog questions why and draws a not unexpected misogynist response. **More**

No universal law predicts the outcome of disruptive innovation

Disruptive innovation, where producers leap ahead to produce what their customers do not yet know they want, is an attractive mantra easy to identify in hindsight. But many people find it hard to distinguish between what they think will happen and what they wish to happen. **More**

Does the central bank control long term interest rates?

Blogger, Fixing the Economists, says yes. The adds, 'Does it control the spread between the long-term rate and the short-term rate? There is no evidence to confirm this and the evidence that we do have — taking the Fed at its word — suggests that they do not. But regardless, next time some economists tells you that the markets control the long-term rate of interest you can safely tell them that they have absolutely no idea what they are talking about." **More**

Buffet hoards cash, individuals' holdings are at 14 year low.

James Saft, in a Reuters bog, asks who has got it right. **More**

Pride cometh before the fall: A contra view on indexing

Yahoo Finance Editor asks, "is the rise of index funds part of a trend towards sloppy investing - a willingness to follow the herd? **More**

Bruce Parkes

Branch Reports

Branch Contacts		
Auckland	Andrew Reding	andrewNZSA@gmail.com
Waikato	John Davies	cjdavies@xtra.co.nz
Bay of Plenty	Jane Lyndon	janelyndon@orcon.net.nz
Wellington	Martin Dowse	martin@dowsemurray.co.nz
Canterbury	Robin Harrison	robin.harrison@canterbury.ac.nz

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

Branch Meeting 17th September

The AGM was short and sweet, and members settled to presentations by John Penno, CEO of Synlait Milk, and Rob Pacer of Intueri Education Group.

Although Synlait sells into 50 other markets, John's talk focused on the Chinese market which produces about 2/3 of the company's revenue. He talked about the size, 300 times NZ's population, the access, (no tyranny of distance here,) the herd, (only twice as many cows as NZ) and the strategy.

Historically, a farm based business, helped by Mitsui, the company aimed to go downstream and to value add, but the GFC and melamine crises gave it no time to develop. Hence, the agreement with Bright Dairies, born of necessity, moved it quickly into infant formula processing for the world's best brands. Its 10 ton drier only a third of the size of Fonterra's milk powder plants, and 600m litre processing facility, meant that it needed to concentrate both products and markets. John then outlined the dominant consumer profile in the Chinese city market – "Tigermum," the mother of a single child family, technologically aware, and focussing on a successful family. This consumer knows of food alerts within 12 hours of a market announcement, and is prepared to investigate supply chains to ensure the integrity of a brand for her child. Hense consumers are linked by celphone code to their farmer suppliers so that the product source can be verified with its environmental footprint, through the chain, to the day of delivery. Questions covered product research and development, Chinese dairy farms, and water quality.

To most branch members, Intueri Education Group (IQE) was new. The jargon goes: IQE is a PTE (private training establishment,) involved as a PPP alongside the ITPs and Whanangas in the Tertiary education sector, and part of the NZQA framework. Of the 626 PTEs in NZ, which make up 13% of the Tertiary sector, 309 receive government funding via the TEC (Tertiary Education Commission,) which includes student loans, subsidised fees for local students and more limited subsidies for foreign students. A similar situation prevails in Australia with their Vocational Education and Training programme.

The Intueri prospectus forecast included Sales of $65m-76m, EBIDA of $22m-27m and NPAT of $13m-16m. So this is a sizeable business with a focus on educational outcomes, several branded divisions, student welfare, and a high percentage of course completions. The 61% gross margin in the first half since listing, the predictable nature of government supported revenue, the low capital requirements, the reducing debt levels, and the opportunities for rationalisations amongst lesser PTEs, and internal growth in under-serviced sectors like agriculture make this an interesting investment. Further the heavily regulated environment constitutes a natural moat/ barrier to entry of competitors. Questioning clarified the method of expansion, vulnerability to high exchange rates, and the criteria for NZQA and government funding. We left feeling that this operation is definitely worth a second look.

Alan Best

Future Auckland Branch Meetings

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

Wednesday 19th November,

Nigel Morrrison CEO Sky City and Shamubeel Eaqb, Economist NZIER

Future Company Visits

October 13 Metlife Care – limited to 20 members so that residents are not disturbed.

Fiona and Stuart Gray will now coordinate visits- ***grayfion@gmail.com***. Please apply by email and details will be sent a week before the meeting

Bay of Plenty.

Jon Mayson, Chairman of Scales Corporation the newly listed apple grower, previous Chairman of NZ Trade & Enterprise and also previous CEO of Port of Tauranga is very definitely not retired. Jon captivated an audience of 55 in Tauranga with his active corporate life, which has been very much below the radar, a place he likes to be.

He works with start up companies and leading edge technology, such as 3D printing and extrusions of Titanium, all in order to add value to NZ and increase our ability as a country to capitalise on our intellectual knowledge. The breadth and depth of his experience and knowledge as well as the wide range of companies he is involved in were very evident. These companies include offal based pet food, Martin Jet Pack, Kiwifruit Postharvest and Maori Trust investments to name only a few and of course, for fun, there's the Chiefs Super 15.

It was so refreshing to hear of an individual's enthusiasm to support and encourage companies to look wider than just immediate shareholder

NZSA New Zealand Shareholders Association Inc.

Many Investors, One Voice

Bay of Plenty Branch

Money Week

"Free Lunches for Investors?"

Guest Speakers

John Berry

Director, Pathfinder Asset Management

John will provide you with the recipes for 5 Free Lunches for Investors

Aaron Jenkins

Head of Markets, NZX

Aaron will provide a feast of information about investing in shares and the NZX

Thursday 16 October: 5.30pm - 8.00pm

At Club Mount Maunganui
Kawaka St, Mt Maunganui

Finger Food, Tea and Coffee

All Welcome - $15.00 non-members
$10.00 members; Students Free
RSVP by Noon Monday 13 October to bopnzsa@gmail.com or Phone 549 2479

returns. But instead to be concerned for the health of all stakeholders thus creating a win-win environment where improvements to the whole improve the position of shareholders as a matter of course.

Why don't NZ companies learn that it's not about competing against each other onshore but instead to work more collegially to compete actively offshore to win the big prizes? Just think of the wealth destruction there has been over decades in the red meat and fishing industries.

Here's a role model worthy of following for the ultimate benefit of us all in NZ.

What a privilege it was to have such an achiever who is more interested in results and relationships than ego and profile.

Ian Greaves

Upcoming Events

For more information go to Branch section of NZSA website

2014

October 14	Waikato Branch meeting
October 14	Wellington Branch meeting
October 16	Bay of Plenty Money Week seminars
Novemeber 11	Wellington Branch Xmas function
November 19	Auckland Branch meeting
November 25	Waikato end of year dinner

Wellington

When it comes time to write our branch report I like to look over what I've written in previous years to make sure I don't repeat myself too much. Having said that when I looked at the October 2011 branch report it is déjà vu all over again, with a few words changed it applies very well for this report.

Our programme of branch meetings is drawing to a close with Ray Jack presenting at our October 14th meeting (in 2011 Ray presented on October 11th), we always look forward to Ray's perceptive take on the global economy and for this meeting he will have plenty to talk about (I think Ray may be even more perceptive now). We will also be holding our branch AGM at the meeting (yes again!).

Our last meeting of 2014 will be our end of year function at Time Cinema on November 11th for the screening of an investment themed film (we haven't worked out which one yet but in 2011 it was Inside Job – the Matt Damon narrated documentary on the GFC).

To complete the circle in 2011 there was also a general election that resulted in a National led government, although it happened a bit later in the year.

Coming back to our branch AGM, come along and get involved with the branch, it is a great way to learn more about our listed companies and investing in the share market.

Looking forward to 2015 our first meeting of the year (March) will be a new investor meeting where we will look at the mechanics of getting up and running, and hear how others have started off

Martin Dowse

Canterbury

This has been a relatively quiet time with half the committee away overseas in recent weeks. However, several committee members attended the Annual conference in September and the committee has progressed plans for several future events. The first is likely to be a talk from Mark Waller, Chairman and former CEO of EBOS; tentatively set for late October. Details will be circulated as soon as confirmed.

Company AGM season is upon us and the committee is ensuring that all South Island AGMs have NZSA proxy holders attending

Robin Harrison

Auckland Education Courses

Western Springs Community College will run its education courses again this month.

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.

Course 1. Investing for your future – general investing principles - 2*2hr sessions

Commencing 29th October at 7pm; 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 November 11 at 7pm; Tutor Jacquie Hagberg – 2*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.

A Feltex Finale

In our last report Feltex affairs of April 2014, we noted that claims for compensation brought against the Directors, vendors, and lead brokers by Houghton and 3689 other shareholders were about to be heard. We were not surprised to find that Judge Dobson found against the plaintiffs who were claiming about $185m, and for the directors. What was noteworthy in the judgement under which costs are still not awarded, was the number of legal questions which were investigated as part of the judgement. Remember first that the event took place before the passing of the Financial Markets Acts and Regulations or the Financial Advisers Acts and Regulation, which introduced more literal compliance regimes and FMA supervision. Nevertheless the judgement under the earlier Securities Act does contribute to our understanding of what is fair and reasonable about company IPOs.

There were 3 main areas of claim: claims of breaches under the Fair Trading Act, claims of misleading behaviour subsequent to the IPO especially by Executive Director Sam Magill, and claims of breaches to the Securities Act. The judge found that claims under the Fair Trading Act could not be supported because the whole process was governed under the Securities Act. This is important for the future because it means that where a company's activities are circumscribed by NZX rules and Specific Securities regulations it must be judged under those rules rather than consumer protection regulations. The second area of claim involved complex issues of Tort (negligence,) and it was found that the directors had sought advice carefully at every step of the way, from the formation of a Due Diligence Committee through to the receivership, and that they were evidently not negligent after the issue of the prospectus.

However there were 80 detailed criticisms of the prospectus, and Judge Dobson dealt with these in subject groups – undisclosed adverse trends, misstatements of risk, unreasonable forecasting assumptions, misleading presentations, misstatements of equity incentives, book building process, the tone of the prospectus. Many of the detailed criticisms were not supported because the general tenor of the prospectus did draw attention to the risks and potential for underperformance. However because the possibility of appeals was mentioned several times in evidence, the judge did quote the many passages which refuted each group of claims. Remembering that the Securities Commission had previously been through the prospectus, and reported on it in 2007, we felt it unlikely that claims under the prospectus would be successful.

There were other parties apart from the directors involved as defendents, and the judge's reasoning was interesting over these. He said that the lead brokers Forsyth Barr and First New Zealand could not be considered as "promoters" under the Securites Act, and the Credit Suisse First Boston Merchant were passive investors, while the specific partnership which administered the shares to be sold could be enjoined as a promoter. The judge also drew a clear distinction between a prospectus for defined term debt in a finance company, and a prospectus for the much more complex (and therefore riskier,) manufacturing concern especially one that operated in overseas markets.

This is a landmark episode in our commercial history, and because of the multiplicity of claims, the judgement may be appealed. While NZSA was vitally involved in recommending the appointment of a liquidator, and then in the release of documents by the ANZ Bank, we have stood aside from investor's claims for compensation which were financed by a London litigation funder, and earlier, by subscriptions from shareholders. The message is, in Rob Everett's words at the NZSA Conference; "Even the best regulations cannot prevent failures and losses ---- where investors and firms lose sight of the fundamental questions they should ask about risk..."

The full judgement can be read at ***www.nzlii.org/cgi-bin/download.cgi/cgi-bin/download.cgi/download/nz/cases/NZHC/2014/2229.pdf***

Alan Best

Marsden Marine

Shareholders are still asking questions over the management of Marsden Maritime Holdings, formerly Northland Port Corporation. The company has recently boasted a 10% lift in profit and a "new dawn" in the Northern Advocate. However, some of our correspondents wonder at the sale of Northport Cool Stores to an eager joint venture partner. They observe that the investment was a natural fit for the port investment company. A one off gain of $872,000 was booked, but the tax paid return for 7 months prior to the sale was $313,000, and the carry value of the asset was only $656,000.

The capital cost of the new offices on the vacant land adjacent to the port seems to have been just under $2m whereas the vacated offices in the Marina were rented at only $27000 per year. That's an expensive way to promote your empty development land bank!

The purchase of Marsden Cove Marina for $6.95m, which includes the Northland Port Offices just vacated, involves a plan to spend $700,000 more on haul-out ramps, to lift occupancy, while neighbouring marinas in Whangarei and Opua are said to be struggling.

Marsden Maritime is well served by the POT Public/Private partnership, which is its joint venture partner in the operations Northport. Cash is still flowing from that quarter - $8m dividends in the last financial year. However it is how Marsden Maritime manages its other developments within the listing rules, to the benefit of minorities as well as the Regional Council, that will raise its reputation amongst investors.

Alan Best

What about printable copies of Annual Reports?

We are getting used to reading annual reports on screen, though many of us like to get a selected few in hard copy. Companies like to use the glossy report as a promotional tool, and hard copies are often available at the AGM. But what about the questioner who wants to take copies of a few pages to the AGM or to retain parts of the financial information to refer to later.

Martin Watson would like to see printer-friendly versions of the essential information, without the colour pictures.This would enable a shareholder to print all or parts of the annual report for closer review or to carry to a meeting. Please let Martin know if you support this idea.

Keep talking MRFIC

The mutual recognition of imputation and franking credits (MRFIC) between NZ and Australia remains on the agenda for NZSA. We had planned a meeting with the Chairman of Australian Shareholders Association around our conference, but he was hospitalised and could not attend. The whole point of the move, which will cost both countries some tax in the short term, is to improve economic efficiencies between both countries. It is one aspect of CER where Australia has been dragging the chain. Australian Treasurer, Joe Hockey, reckoned it would cost the Australian Government A$800m per year, and as he plans to run fiscal deficits until 2018, he is edging backwards.

Tony Knights has questioned Mr Hockey's figure. In 2012 NZIER and NZ Treasury have both presented papers on the subject and they have been considered more recently by a working party in Canberra. The NZIER paper suggests that the loss of revenue to the Australian exchequer would be as high as 40%, On Hockey's figure that would suggest a tax take of over A$2b. In fact NZIER found that the immediate cost to the Australia Treasury, as a midpoint in a range of scenarios, was NZ$494m, and to the NZ IRD, NZ$156m. Although the Australian sum was larger the proportionate cost was actually higher to New Zealand. Yet NZ has been pushing the case. Why?

Fundamentally it is because tax foregone is not lost to an economy. It is simply recycled in a more direct way, by increased spending and investment. The Treasury paper claimed the following benefits of MRFIC:

1. Greater bilateral efficiency of investment ie lower cost of capital. Currently, with double taxation on both sides of the Tasman, investments have to generate higher pretax returns to be as attractive as domestic investment;
2. Greater product-market efficiency. Currently, many of the major products in both markets (which are relatively small by world standards) face less competition than they would if MRFIC were implemented;
3. More efficient trans-Tasman investment by SMEs. Currently, smaller enterprises use tax avoidance tactics (e.g. limited partnerships and slim capitalisation loans) rather than the most efficient company structures;
4. The logical next step in CER. So far we have achieved free people movement, free movement of goods, useful movement in services, but investment growth is hindered;
5. Removes the bias towards profit streaming. Currently, firms stream profits towards their local shareholder base and relocate profit centres in the same direction;
6. Stablizes the tax systems. Currently, both governments question whether they should undercut each other in tax rates.

Tony Knights has tested the attractiveness of MRFIC to a theoretical shareholder with a portfolio of 17 ASX companies, spread across 7 industries. The returns are as follows:

Market value at 31/03/14	A$376,556.61
Net Dividends	A$19,098.20
Franking Credits	A$7,368.53
Dividend yield excluding franking	5.0178%
Dividend yield with franking	7.0286%
Shareholder pays NZ tax on $19098.20	NZ$20293.48
Shareholder misses out franking credits of	NZ$7829.70

Tony agrees that in MRFIC there are clear advantages to the individual shareholder and a clear sacrifice to the IRD, but economic growth in both jurisdictions would soon eclipse these ." Don't allow politicians to sweep this under the carpet."

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
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	Lyn Lim	lyn@forestharrison.co.nz	
Auckland Issues	Andrew Reding	andrewNZSA@gmail.com	
AGM Co-ordination	Max Smith	maxandcheryl@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.co.nz	(9) 521 6117
The Scrip	Alan Best	fleshnfruity@xtra.co.nz	(9) 524 0317

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New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

Editor Alan Best

Layout Bruce Parkes