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IMPORTANT ANNOUNCEMENT

New Zealand Shareholders Association Inc.

NZSA

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2015 NZSA Investor Conference and AGM

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When: Saturday 12 September 2015. 9.30 - 3.45p.m.
Where: Wintec Atrium, Tristram St, Whitiora, Hamilton

Theme: Investing in a low Interest Rate World

- **Are low interest rates the new normal?**
- **Spreading your risk - what strategies might work?**
- **Dairy - is there any boom left in the gloom?**
- **Can niche opportunities or infrastructure smooth returns?**

Exceptional speaker line-up

- **Andrew Little** Leader of the Opposition
- **Paul Glass** Executive Chairman, Devon Funds Management
- **Shamubeel Eaqub** Economist and commentator
- **Fiona Mackenzie** Head of Investments, NZ Super Fund
- **Michael Chamberlain** Director and Actuary, Superlife Ltd
- **Rob Campbel**l Chairman Summerset, Tourism Holdings and G3
- **Mark Devcich** Head of Research, Pie Funds
- **Mark Cairns** CEO, Port of Tauranga

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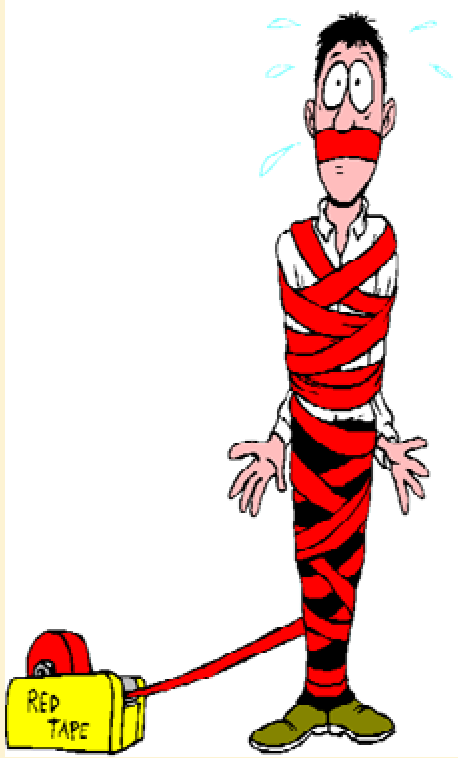
In this Issue

August 2015

The Red Tape Issue

Does anyone really like red tape? Complaints about having to comply with the disclosure requirements of government and owners are as old as the hills. Teachers, doctors, and managers all sweat under this yoke. Lawyers and company secretaries usually do not because it is their bread and butter. So it was not surprising to hear Don Braid, CEO of Mainfreight, speaking out passionately about the misconceptions harboured by bureaucrats, be they rule makers in NZX, government, or even committees of fund managers. It reminded me of a popular management book of 50 years ago, Up the Organisation, by Robert Townsend a former CEO of Avis.



It is good to hear a CEO speaking out in this way. It shows he is focused on the real objectives of his team - to keep customers and make new ones, - to fill customer needs, efficiently, and at a profit to the company. More stringent disclosure requirements often interfere with those primary objectives, just as they can distract a teacher from the real job of teaching. The usual criticisms are, that those making up the disclosure rules have usually not managed a company, and that rules create more paper but don't create sales, jobs, or profit.

The primary target for these comments was the publication by the NZ Corporate Governance Forum's principles of good governance.

The Forum is a collection of large fund managers, including ACC, AMP, ANZ, Government Super, JB Were,

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Milford and other fund managers. You can look it up on the website ***www.nzcgf.org.nz***. The guidelines include sections on Ethical Standards, Board composition and performance, board committees, Disclosure, Remuneration, Risk management, Auditors, Shareholder relations, and other Stakeholders' interests. They extend a little and fill out the governance guidelines published by the Financial Markets Authority.

Board members of the NZSA welcomed the participation by Fund Managers in shareholder activism where NZSA has often felt like a lone voice. Lifting the standards of governance has been a preoccupation of NZSA's from its inception, and Fund managers have not always been vocal advocates for this, preferring to voice their opinions in private.

We are differentiating again between governance and management. The governors of a business set the strategic direction and delegate the operating to a team of managers. They employ financial officers to produce the information on which proper disclosure can be made of both verbal and accounting information. Managers should love their customers, and abhor a paper war, settle and document transactions and agreements as succinctly as possible, and move on to the next conquest. Boards are paid for their brain power, experience and wisdom, (risk management.) Directors are ultimately responsible for disclosure, compliance, and direction.

Don Braid's claim was that Mainfreight values trade experience in governance above diversity, or the rotation of directors. There is still debate about the effect of independent directors. A broad international study on the supply of independent directors by Knyaseva and Masulis concluded: "Empirically we find that board independence has a positive impact on firm value and operating performance."

Some independent research is on Braid's side. In a 2014 study of Australian companies since 2003, when a majority of independent directors was required, Swan and Forsberg found that boards dominated by "gray" directors were clearly more successful in increasing a firm's value. A grey director is one who is aligned with either major shareholders (incentivised,) or has a strong affiliation with management (ex executive.) Grey directors, it was found, generally controlled costs including executive pay, and invested shareholders funds well to make the company perform better than others.

Mainfreight is a successful company and its success after conservative board renewals, falls directly into the research findings of the Swan-Forsberg study, but across the NZ market at large the findings are mixed. Many failed finance companies were controlled by grey directors, as was GPG. The impact of new independents was positive recently for Fisher and Paykel Healthcare, and Tourism Holdings.

The answer lies in the culture of the individual firm. It is unique to the enterprise and it demands buy-in from both board and management. Mainfreight has that in abundance, and Mainfreight's independents must help the culture to respond and develop in a competive global market. We need more proof that independent directors do have positive influence.

Nevertheless both major fund mangers and retail shareholders are entitled to clear information in line with both accounting standards and NZX rules. The rules are there to curb the excesses of the past and to protect long term investors. They are not simply red tape which blocks good management. They are "best practice, "and they come with the rider in the words of the Forum: "each company is different, and deviations from the guidelines are sometimes appropriate.

However, transparency with the owners is important and boards should explain why a particular guideline is not being followed." Now, he probably didn't see it this way, but that is exactly what Don Braid did, and shareholders enjoyed the difference

Alan Best

Welcome Taranaki

NZSA Grows another Branch

On Wednesday August 5th, NZSA held the inaugural function of our new Taranaki Branch.

Around 60 people came to hear our star line up and learn what the NZSA is all about.

Joan Withers, current NZSA Beacon Award holder spoke about Mighty River Power, governance, diversity on boards, and the professional and credible conduit that NZSA has become in bringing retail shareholder views to the companies they own

Tony Carter, current Deloitte Chairman of the Year spoke about Air New Zealand, Fisher & Paykel Healthcare, the importance of quality corporate governance and the essential watchdog and sounding-board role played by NZSA . Like Joan, Tony gave practical examples where NZSA is making a real difference.

NZSA Chair John Hawkins gave an overview of the Associations origins, purpose and wide range of activities and benefits available to members. New Taranaki branch Chairman Grant Langdon finished by introducing his three committee members and seeking additional assistance. As he said "you get back what you put into something like this". The audience clearly liked what they saw with a good number signing up on the spot and many others leaving clutching membership forms. Notably, two people have already put up their hands for committee roles.

An informal mix and mingle and supper followed with all speakers (plus NZSA director Martin Watson who drove from Cambridge to support the event) being in great demand. It was only the increasing likelihood of missing out on dinner that allowed our speakers the excuse to depart, well after the scheduled finish time.

The success of this launch gives the board confidence that our intention to start two or three other branches is achievable in a reasonable time frame. The next target is likely to be in the South Island.

The AGM - Inquisition or Exposition?

This month I want to raise some issues around the conduct of meetings in the 2015 reporting season. By and large we have settled into a routine and the meetings consist of a general report from the chair, which highlights salient points from the published annual report and updates the market on the forecast for the following year. This is followed by a more detailed operational review by the CEO, and the meeting is asked to confirm the receipt of the report which opens the way for questions and comments on the year past and the way ahead. The meeting then moves to the resolutions which may include constitutional amendments, and will include the election of directors and the appointment and fees of an auditor.

Although the routines may be similar in structure, the content yields the variety, and there is considerable variation in tone. Michael Hill for example veers towards entertainment with its revivalist tone complete with a spot prize for a lucky shareholder, while Cavalier tone is subdued and we are warned about the dangers to directors of overpromising.

Inevitably the tone of Restaurant Brands is influenced by the sandwiches of its coffee franchise, the fingerlickin smell of the KFC, and the spicy Italian fragrance of the Pizzas. Such associations are absent from the chemical jargon of a Nuplex meeting, or the investment climate of Hellaby.

So much of the tone eminates from the Chair and CEO. Are shareholders entitled to a good show? Is the AGM a marketing event in which shareholders are coopted into a promotional network, or is it simply a meeting of commercial advisers, accountants and legal experts? Is the fine print more important than spirit and culture of the enterprise.

We think the AGM should reflect the enterprise, and the feeling of the meeting is important. That is why our proxy holders comment on the question and answer sessions, and the reaction to presentations which are now, themselves, usually available on the company's website. Every company is primarily about marketing, not compliance, and shareholder meetings are part of that. Companies need rehearsed presentations, and the ability to answer clearly, serious questions from the floor. An able and articulate chair is important for all listed companies, - not simply a leader with the most industry experience. Perhaps women generally are better at this than men.

The perennial issue concerns the point at which the chair provides for questions and discussion. Some chairs even try to group all the resolutions so that discussion on each is limited. Proper procedure allows in sequence, points of order, questions on the annual report, questions and comments on the presentation by the chair and CEO, and discussion on each resolution. The meeting should also provide for items of general business. A good chairman will explain at the outset what procedure will be followed so that shareholders know when to signal their question. The initial explanation is important, so that can be questioned as a point of order, and maintain relevance for questions on each subject. This is not always followed.

In one meeting, it was clear that NZSA's proxy votes were held both for and against motions, but the company's legal advice was that the proxy holder was not entitled to vote either way in the meeting because he had already taken up the share issue being ratified by the meeting. This is clearly erroneous, but it does highlight the need for a written poll in such cases. In one of the smaller meetings of the new year, the chair of Intueri asked shareholders to mark their papers, and then published the result of his proxy votes on the screen. The poll inevitably, was not strictly necessary but the process was right.

At the bottom end of shareholder meetings is the meeting which is not attended by the chief manager, where several directors are absent, and where the auditor is not represented by a partner capable of presenting a clear and authorative picture of the accounts. It is a rare occurrence, but it is one which indicates how a company regards its minority shareholders and the community of interest around its subsidiaries. Only PGC filled those conditions in 2014, but with the advent of more liberal rules for the NXT exchange and crowd funding, we think it is time for NZX or FMA to issue a guidance note for the conduct of meetings.

If the capital markets are to continue working through NZX listings then company meetings should be well oiled, well presented, well chaired, and savoured with well informed questions from the floor.

Alan Best

Is the Financial Advice Sector ripe for Disruptive Innovation?

There has been a lot of discussion and column inches written these past few months on the review of the 2008 Financial Advisors Act. From what I have read and heard there seems to be significant dissatisfaction amongst independent advisors who feel they are not being adequately compensated for their professional skill and responsibilities. They see no future for themselves or the small numbers entering the industry. Investors are reluctant to pay for advice and as Retirement Commissioner Dianne Maxwell has noted, "investors will often prefer their own gut feeling toward simple advice from someone they know and trust than those who can bamboozle clients with complicated solutions."

The FSC, which represents financial product providers, said in its submission to the review, "the current financial adviser regulation is confusing for consumers, who have a different idea of "advice" to that of the legislation. Consumers who sought advice did not usually want financial planning or class advice but to know whether a particular product was right for them. They want to be able to make easy comparisons of products by features and cost."

Meanwhile, a submission from Massey University lecturers noted that: "The industry is currently feeling uncertainty in terms of how much advice can be scaled so they feel that they have to give full advice or nothing. This means that they are unwilling to offer advice to non-wealthy clients (85% of the population) even if it is generic advice. This is increasing cost and reducing advice cover."

At a Massey University seminar I picked up on a statement by Angus Dale-Jones, Head of Compliance at New Zealand Asset Management. He wondered if the time was ripe for disruptive technology to transform the sector and suggested that if someone came up with an appropriate app they could make a fortune. Are we ready to accept robotic advice? A lot of the risk appetite profiling offered clients by advisors seems rather robotic.

Automated advice is a growing concern to Australian investors with ASA Chair, Diana D'Ambra, discussing this development in her report published in the August edition of their Equity newsletter.

An article on robo-advisors in the June edition of Forbes magazine notes that, "they may act as a gateway to the next generation of investors."

Submissions on the NZ review have just closed. Some change seems inevitable. Whatever it might be, it is unlikely to make access to quality affordable independent advice easier for retail investors. Are you happy with your current

Bruce Parkes

Editor: The opportunities for the automation of advice in investment as in medicine and other fields seem limitless. Nevertheless they are constrained by the same issues as verbal advice:

Is the advice impersonal and objective, or supported by a bank or fund manager pushing his own product?

Does a broker gain by the advice he is promulgating in his app?

Does the buy, sell or hold recommendation come with a full sensitivity to the broader economic environment, and the profile of the individual investor?

On line newsletters like Fat Prophets, Motley Fool or Market Analysis do give clear advice, but require an initial commitment to invest as a retail shareholder, and they omit the broader spectrum of private investment options.

High frequency trading programmes, (HFT) are effectively robotic programmes controlling buy and sell functions by employing logarithms which calculate the deviation from industry norms of individual shares, and relying on numerous trades at small margin to produce a trading profit. These are common in larger markets overseas.

Having said this, a well researched app, would probably be better than the criteria used by most retail investors, and could take account of individual circumstances.

Unlisted - Russian Roulette? Bruce Sheppard's reply

I am the Chairman of and the largest shareholder in Connexionz whose shares are quoted on the unlisted platform.

John Hawkins in his last editorial stated that Unlisted as an unregulated market, should not be granted and exemption to the FMC, in effect closing that platform and forcing the migration of a number of companies to NZX or alternatively moving to over the counter markets.

He said that investing in companies Listed on Unlisted was like Russian roulette. All investing involves risk. In effect all investing is Russian roulette, and there is no evidence that investing on Unlisted is any more risky than any other investing you might do in small cap stocks.

He states that there is a chance an investor might be confused and unwittingly end up on this market. Untrue. Try to buy a share some time. The brokers make you sign waivers, they also will talk you through the risks associated with the market and you cannot even get onto the Unlisted website without acknowledging the risk.

<u>Perspectives of an Issuer, the Connexionz (CNX) Story.</u>

CNX is one of only 3 NZX listed companies that has chosen to de list from NZX and listed on Unlisted.

Living in the forced transparent world was actually holding the business back. Our customers, suppliers and employees could see continuously how vulnerable we were and it adversely affected our ability to sell our value proposition

Raising capital was easier and cost less than when we were listed on NZX, and the ability for shareholders to buy and sell was not materially different either.

<u>Unlisted traded companies might be safer!</u>

I have attended a number of Unlisted events with other Unlisted issuers. I thus met the boards of these issuers. I have obviously met the boards of many NZX listed issuers.

The driving culture of Unlisted companies is to drive value, they choose to do the right thing because it is just right, they do so out of a sense of what is right, not fear.

NZX boards spend inordinate time on the optics of what they do, they spend much of their meetings on compliance issues and much of the executive reporting is around compliance. They permeate fear and resentment. You don't find this in the companies that list on Unlisted.

If you compare actual investor harm by the number of events and capital losses over the last 10 years on the bottom third of NZX listed entities and the entire Unlisted crop of companies and scale it relative to the number of entities, my instinct is that more harm occurs in NZX listed entities on any measure.

<u>Investor interface.</u>

Bid and offer balance is important to know. Unlisted publishes not only all bids and offers, they also display the full transactional history of the trades on the site. This is valuable and is concealed on NZX. Also all announcements by the issuer remain displayed. NZX archives these and investors have to go to the relevant issuer's website if they have one or pay NZX to give this data to you.

<u>Primary omissions from the regulatory framework on Unlisted.</u>

The primary issues are these:

- Insider trading
- Continuous disclosure.
- Conflict of interest freedoms.
- Unrestricted ability to issue shares.

Of these the only one that I rate as agnostic to the size and scale of an enterprise is the first. Market manipulation is rare in illiquid markets, as the ability to sell a few then buy a lot cheap is just not realistically available.

Most of the companies listed on Unlisted have an insider trading policy that replicates best practise. CNX does. Sensible business people know that insider trading destroys confidence and this heavily discounts the traded price of the issuers share. Thus increasing the cost of capital for such aberrant behaviour, as it rightly should.

Bad behaviour gets punished, surprisingly more in illiquid markets than liquid markets.

In small companies, the latter three are a significant bar to the commerciali-sation of their businesses. I will only examine briefly the counter argument to the benefits of continuous disclosure.

Breach of Continuous disclosure is only an issue with bad news.

Failure to disclose bad news only harms the buyers of shares when that news is not publicly known. The chance of such harm to buyers is reduced if the company has a best practise insider trading policy.

The harm to the whole has to be weighted against the harm to shareholders buying shares.

Where, as is usually the case with small companies, the market is illiquid, the weight of harm to buyers is massively outweighed by the harm to the whole. Thus boards on Unlisted, and even on NZX, will often not announce bad news. The difference is that the companies and directors of Unlisted companies do not suffer a further penalty which also comes out of the depleted resources of the company.

Macro economic issues.

NZ is a nation of small companies.

To the extent that Unlisted provides a liquidity platform for SME's without the compliance cost and regulatory oversight it will reduce the cost of such businesses acquiring capital by removing the liquidity discount.

The increased value to the existing owners will thus make it harder for overseas owned companies with a lower cost of capital to acquire them and thus help with ensuring that such businesses remain in NZ.

Ownership of our businesses is obviously more desirable than overseas companies owning them. This is often referred to as the hollowing out effect, and is simply an arbitrage on the cost of capital across borders.

Larger economies with greater liquidity in their markets have a lower cost of capital and thus can acquire businesses in less liquid economies, at the same time increasing their own value.

Shareholder protection.

No rules obviously increase the opportunity for unscru-pulous directors and major shareholders to profit at the expense of investors. I emphasis that there is no evidence that this is the case on Unlisted.

Some would propose that an unregulated market should be regulated to protect investors from harm. The consequence however is that investors will also not have the opportunity to invest in Unlisted companies unless those companies estab-lished their own secondary markets, which some could.

What is underrated in the shareholder advocacy arena is the loss of opportunity, caused by harm protection measures.

To ensure diversity of investor opportunity remains available I would hope that the NZSA would consider supporting Unlisted on a conditional basis. The primary matter to be dealt with is insider trading.

I would encourage you to contact Unlisted and get a copy of their application for an exemption. It contains interesting data.

Bruce Sheppard

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***

Restaurant Brands AGM 2nd July

About 200 shareholders attended this AGM. Restaurant Brands covers the KFC, Pizza Hut, Starbucks and the newly launched Carl's Jr. It operates 181 stores throughout the country employing about 4,000 staff.

The Chairman, Ted Van Arkel and the CEO, Russel Creedy, gave presentations on the company's annual performance highlighting aspects given in the annual report. All four divisions were doing well with NPAT up 19% and EBITDA up 14% on the previous year, dividends had been increased 15% to 19c and the share price had strengthened. The latest quarter's figures showed strong sales growth, up 14.7% or 7.6% on a same stores comparison. Capital expenditures were targeted for the best return:-

- 82 of the 92 KFC stores had now been upgraded.
- The development of its own warehousing has improved supply and control.
- The strategy of exiting the lower volume Pizza Hut stores to franchisees was continuing and same store sales were strong.
- The Carl's Jr group was expanding but had suffered supply disruption from the US ports dispute. However, alternative supplies had been sourced which were now benefiting from recent exchange rate movements.
- Company diversity was indicated with women now forming 50% of their senior management team and 25% of the directors.

There were a number of questions from shareholders:-

- ***Why don't we see ads for Starbucks?*** The brand is well known and promotion spreads by word of mouth recommendation and their digital presence through Facebook and Twitter.
- ***Why aren't you running Taco Bell?*** We are looking at it so "watch this space"!
- ***Why had trade creditors doubled in the last 12 months?*** The opening of their own warehouse and holding additional inventories had increased this item of the accounts.
- ***Is there a risk that fast-food is going too far?*** Population growth is increasing particularly in the Auckland region. They are aware of other competitors but market saturation is a long way off.
- ***Are they worried about competition such as from the recently launched Texas Chicken chain?*** This is a US brand; a "knock–off" of KFC". It is being monitored but they are not impressed with the product. It was noted that Red Rooster had tried to enter the NZ market some years ago but withdrew.
- ***There can be long queues and waits at KFC. Could phone ordering be implemented?*** The queues are problem at lunch and dinner times in the drive-through channels and reflect the explosive growth in sales! Monitoring systems are being explored to track it. Mobile Apps for ordering are being developed for KFC and Carl's Jr.
- ***The high NZ$ had benefitted margins last year but will margins be hit now our $ has tumbled?*** We are now using more local suppliers which helps insulate from the fall in our $. Coffee is the big item for Starbucks and they buy on the

spot market.

- ***Are you still planning substantial growth in the number of Carl's Jr stores?*** Currently there are 18 which they are cautiously developing and the target is still 40-50 stores.
- ***Starbucks in Christchurch lost 4 of its 5 stores from the quakes and there's still only one operating. Coffee Culture has 15. Has there been a change in strategy?*** Not all were profitable some years ago with such high central city rents. They are looking for good locations but finding the right sites has been difficult in Christchurch.
- ***Do you think that Starbucks is still competitive?*** Yes, but we continue to look for the best investment opportunities across our brands. The market is reshaping and demand has evolved over the last seven years.

Ted van Arkel sought reappointment to the board and was re-elected. The proxy votes held by the NZSA were cast in his favour. Director Sue Suckling announced her intention to stand down from the board later in the year.

After the conclusion of the meeting there were light refreshments including pizzas and KFC chicken!

Robin Harrison

Mainfreight AGM 29th July

This AGM is always interesting because the chair and speakers try to make a real connection with shareholders. Bruce Plested gave the government his usual serve when he reported that treasury had included the option of winding up Kiwirail as an option for economic action. Later Don Braid pointed out that NZ's roading alternatives to rail could not cope with Mainfreight's shipments, let alone the country's.

Mainfreight faces economic uncertainty which is bound to be reflected in overall freight volumes – NZ dairy problems, Australian mineral problems, Asia's financial tightening, and very meagre growth in USA and Europe. Nevertheless the company faces the future with determination and confidence. New premises in Christchurch and Hamilton will provide local efficiencies, while new customer initiatives overseas will capture increases in those larger markets.

CEO Braid reviewed the EBITDA increases in all regions, and showing slides of premises in Hamilton and Sydney airport, pointed out that global expansion made the company capital hungry. It pays only about 30% of net profit in dividends, and would not become a cash cow while expanding its global reach. While NZ governments regulate insurance cover for transport, Australia lets users pay for shipment and again for spoilage, and so Mainfreight has introduced insurance cover for freight and stimulated staff to be more conscious of handling standards.

In USA, stoppages along the Eastern seaboard have opened opportunities to negotiate with larger businesses, noting that small in North American can be larger than any single NZ customer. In Europe, recent management changes are bearing fruit, and the successful service operation for John Deere tractors is being levered into other regions.

Growth will continue in Asia with a force of 50 representaives increasing the logistics component of Mainfreight service. Don spoke with passion about the need to value experience and wisdom above diversity in Board appointments, and the need to keep expanding the company's own branch locations where they could retain the whole gross margin instead of giving away half to an agent.

The presentation was a tour de force, leaving the speaker flushed and his audience excited. It was left to the chair to round off: "Thank you, Don. I wish you could have shown a bit of passion."

Questions covered the need for a national strategy for our string of small ports, airfreight volumes in China, and support for Kiwirail's national network. Then it was time to elect Simon Cotter and Richard Prebble. Richard Prebble has experience and expertise in transport, and according to management, is contributing fully and in-depth to the board. There were a number of proxy votes against his election, and so the proxy holder abstained from voting although privately and on balance, supporting the resolution.

Alan Best

Z Energy AGM 1st July

NZSA proxies 200704

As part of its policy of national exposure (and perhaps to get a larger attendance) Z Energy held its 2015 AGM in Auckland. The meeting was webcast and can be viewed on the company's website.

Z is still developing its meeting style and still has opportunities for improvement.

- There was no provision for voting by poll – not critical at this meeting as there were no contentious resolutions on the table but has the potential to cause skewed results when there are matters of shareholder concern. I note that the Corporate Governance Forum (representing institutional investors) also argues against the use of a "show of hands" at company AGMs.
- Directors up for re-election did not speak to the meeting. The Board had considered whether they should or not and decided not to do so. I think that was a mistake, now too does Mr. Griffiths and the Directors concerned. They promise a change for future years.
- The after meeting refreshments seem to always be the focus for many who attend AGMs. I can report that the supply matched or exceeded appetites of the 180 attendees
- On a positive note, Directors and senior management circulated and were available for discussion both before and after the meeting.

Chairman, Peter Griffiths and CEO Mike Bennetts, both made presentations. They highlighted the takeover of Chevron NZ (Caltex) – now parked waiting Commerce Commission approval. They see Caltex and Z operating as complementary but quite different companies aimed at different sections of the market.

All resolutions before the meeting were passed by a show of hands (the chairman held proxies for 72% of the share capital). Peter Fowler and Alan Dunn were re-elected as Directors and KPMG reappointed as auditors.

There was time for questions from the floor covering:

Discounts for customers;

Keeping Caltex and Z brands separate? - Yes;

Is there enough feedstock for the bio-fuel plant? Yes will require 14,000 tons of tallow annually;

Has the high sulphur content of diesel been fixed? - Yes - Now 10ppm less than Australia.

Bruce Parkes

Chatham Rock Phosphate AGM 23rd July

A combined AGM of Aorere Resources (AOR: NZX) and Chatham Rock Phosphate (CRP:NZAX) was held in Wellington. All but one director and approximately 60 - 70 shareholders were in attendance. The formal resolutions concerning re-appointment of directors and auditors' fees were passed overwhelmingly by show of hands and were supported overwhelmingly by proxies. Holders of CRPOB options (which were well out of the money) supported the resolution that these options be converted to CRP shares 1 for 7.

As AOR has a significant shareholding in CRP the major theme of the meeting was CRP's activities during the past year.

Unfavourable decision from the Environmental Protection Authority.

Disappointment at the EPA decision and the consequences and implications thereof, underlay much of the business of the evening.

Quite clearly, the company expected something quite different. It thought it had dealt with the objections raised at the hearing and that its proposals regarding monitoring, mitigation etc provided ample protection in respect of the concerns expressed by those opposed to the application. Your representative was, in fact, advised that the company had made very comprehensive suggestions regarding the monitoring of its operations with an undertaking to discontinue its operations if it did not meet the required standards – hence demonstrating tangible confidence in its position. The company was indeed "putting its money where its mouth was". But all of this was to no avail.

Where to from here?

1 Resubmit to the EPA.

As your representative understands the position, the guidelines under which the EPA operates are being reviewed and Chatham has been asked for its input. No amendment to the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 is envisaged but, it was suggested, no such amendment is really required.

This review is expected to be completed by December.

Assuming the outcome of this review gives a reasonable prospect of success, a new submission will be prepared and lodged, it is currently estimated, in June with a final decision being available by the of the year.

2 Raise just enough new capital for work commitments and to keep team together

3 List on an overseas exchange with more liquidity and access to capital (see (c) below

4 Widen investor appeal by progressing other projects. These include phosphate trading and small, niche mining prospects with low capital requirements but where the company's professional expertise can be utilised.

In the view of your representatives (and this is certainly not the view of the company), such activities are/would be something of a sideshow with the inherent danger of diverting management attention from the main chance.

Listing on an overseas exchange.

On the day of the Chatham AGM, it was announced that, subject to the completion of certain requirements, Chatham would gain access to the Toronto Stock Exchange by way of a reverse takeover of a company that currently goes by the name of Antipodes Gold Ltd.

Antipodes will come with about $300,000 cash (which will certainly be a help!) and will result in approximately an 80/20 split between the current Chatham shareholders and those of Antipodes Gold.

The name of Antipodes Gold will then be changed to Chatham Rock Phosphate Ltd.

It is anticipated that this development will give Chatham access to sources of capital that, up to now, it has found it difficult to access.

To summarise:-

- The company was bitterly disappointed with the EPA decision earlier in the year but is confident of success next time round.
- Whether there will be "a next time round" depends in large part, in the view of your representative, on whether the next application can be funded. The company is strapped for cash (2-3 million dollars required) but the company is placing alot of emphasis on what may flow from its access to the Toronto Stock Exchange (per Antipodes Gold.)
- The company is being currently valued on the assumption that it is most unlikely to be successful in any further application to the EPA – or will simply go broke.
- However, given the expertise of its preferred contractor (Boskalis), its close proximity to the NZ mainland, the low capital requirement (the hardware will be provided by Boskalis), and the low operating costs, any mining operation would hold the promise of very attractive profitability.

AOR also has investments in Mosman Oil and Asian Mineral Resources.

Mosman Oil is continuing exploration at Petroleum Creek, West Coast and will start drilling in the Murchison area later this year. Petroleum Creek flow tests and technical analysis have been encouraging.

Asian Mineral Resources is involved with minerals exploration in Vietnam and its zinc/copper mine is now in successful production and is still continuing with exploration work.

Brian Tyler and Peter Milne

Kiwi Property Group AGM 31st July

Chairman Mark Ford welcomed about 200 shareholders to the meeting. He commented on the transformation of the group in the last three years, involving internalisation of the management contract, and the change from a property trust to a corporate structure; hence the name change in this report. All this has seen as not only a much improved structure for management and staff, but also better transparency for shareholders who he thanked for supporting the moves.

Financial performance was improved by an $8 million reduction in expenses from internalising management, a reduction in interest paid following a rights share issue, and a major increase of $58 million in property valuations which, under present accounting rules, are included in profit calculations for property companies. The result was an increase of 13.7%on the previous year. Distributable income showed a more modest increase of 4.5% to $79.7 million, and dividends per share increased from 6.4 cents to 6.5 cents. Forecast for next year is a further increase to 6.6 cents.

Chief executive Chris Dudgeon commented on the acquisition of the so-called lifestyle precinct across the road from the main Sylvia Park shopping area and also plans for a major addition of shops and offices in Sylvia Park costing up to $200 million with completion in about 2018. The existing office portfolio is performing well with average lease term 4.5 years and occupancy of 98. 4%. The retail portfolio has equivalent figures of 7.6 years and 96.1%.

Joanna Perry and Mike Steur were re-elected as directors.

Bill Jamieson

Green Cross Health AGM 28th July

For a company which is diversifying and growing in new directions, this was a singularly uneventful meeting. Chair, Peter Merton began by saying he held proxies for 67% of the voting shares and ran over the objectives for the past year: to improve the existing operations in Life and Unichem pharmacies, and to expand the 2 recent diversifications of medical centres and community nursing.

The 313 pharmacies managed an 11% increase in revenue, the medical centres gained traction with the acquisition of Peak Primary and Community Care, with the purchase of Homehealth. The Chair later said that the challenge for the current year was to ensure that these developing operations were delivering services efficiently and to the highest standard. He refused to be drawn on the budget or to update the forecast earnings, adopting a pessimistic view of retail conditions particularly in the rural areas. Nevertheless he painted a picture of opportunity amongst the fragmented and often inadequately managed GP market and the home support market, which has been undervalued by both government and business.

He believes the introduction new technology and corporate management will make profitable improvements to these services in the near future, in spite of the reliance on government and insurance funding. Other consolidators like Abano and AWF have shied away from government-funded services recently.

The contribution of retiring director Ian Sharp was acknowledged. The re-election of Peter Merton and new Director Dame Margaret Millard were carried without opposition. Peter Merton was described as a "hands-on, and commercially astute" chair, and we gained the impression that he operates as an executive chairman amongst the staff. This can present governance problems, but the existence of strong and experienced board around him should prevent any confusion of roles.

A 30% increase in the directors' fee pool when the last increase was in 2012, at first sight seemed excessive. However it was justified in relation to other companies of the same size, and given the increase in scope and complexity of the new operations, the revised fee at $500,000 is not out of line. The announcement of a special dividend of 15c/share satisfied shareholders after a successful year for a well-positioned company.

Alan Best

Goodman Property Trust AGM 29th July

NZSA proxies 1,064,654

This year Goodman used the Stamford Plaza for its peripatetic AGM. They do recognize that all venues they have used have both advantages and drawbacks for the various attendees, and are open to suggestions as to where the next AGM might be held. Not only in Auckland, they are committed to taking this meeting to unit holders in other parts of the country. The meeting was podcast and from links on the company website the proceedings can be read, or listened to. With competing Ryman and Mainfreight meetings on at the same time, numbers were down a little on past years.

As a property trust Goodman functions a little differently from a normal company. I'm not sure many unit holders understand or want to understand the difference, they just get a little annoyed when the meeting does not follow the standard procedure. The Trust deed (available on the GMT website,) is an interesting read. However, on a casual sampling of attendees I could not find anyone who had done so.

The Trust is trying to make things a little more transparent for unit holders. The Trust deed has been changed so unit holders now, for the first time, got to vote for directors independent of the manager.

Chairman, Keith Smith, made sure Leonie Freeman – the only director up for re-election – got to speak to the meeting before the vote and he exercised his option under the Trust deed to have all votes (there was only one) taken by poll rather than a show of hands.

Keith Smith, CFO, Andy Eakin and CEO, John Dakin addressed the meeting. In brief, their news was what the attendees wanted to hear. The new incentives for management to convert the land banks were working. The Trust was going well and the distribution to unit holders was forecasted to rise.

Questions from the floor covered:

Are there any plans to move into mixed residential development? – No.

Are there any risks on the Fonterra building project with the current uncertainty over Fonterra's future development? – No, Fonterra have signed a 15 year lease.

What is the current holding in undeveloped land? – Currently about 10% of the portfolio is in undeveloped land, which is about 75 hectares mostly at Highbrook.

There were no questions for Leonie Freeman after her presentation. She was re-elected with 99.8% of the votes in favour – that still works out at over 100,000 votes against! With that, the meeting was over after 42 minutes.

I later asked Andy Eakin about the derivatives line in the balance sheet. He told me that the Trust has hedged against interest rates and since balance date has, for new US Bank loans, hedged against the principal

Bruce Parkes

Comvita AGM 24th July

The AGM was very well attended as always, the beehive was jammed packed, and an overflow was catered for in the café area. This is a complex company which is performing well with passionate people from the Chairman down to the workers.

Alan Bougen, Co-founder and Sarah Ottrey, independent director were re elected and Sarah Kennedy was elected as a new Director. She has had extensive experience in China/Asia and comes from a rural background.

CEO Brett Hewlett announced his resignation after 10 years to take effect from 31 March 2016. He remains passionate about the company and there is no doubt that he will not be lost and will become a director in due course.

It was voted that Directors fees would increase over the next two years and for the 2016-2017 following representations from NZSA, the Comvita Board agreed that the increase of director fees in 2nd year would only be applied if Comvita's net profit after tax per share increases by a minimum of 20% for the year ended 31 March 2016. The Board are happy and are confident of achieving 35% which is of course good news for shareholders.

Jane Lyndon

Xero AGM 22nd July

The Xero AGM was well attended with around 200 shareholders present, but it seems like there were fewer people here this year than last, and the mood was also more subdued; possibly a reflection that this year the Xero share price has traded between $15 and $25, whereas last year it bubbled away between $30 and $45.

The AGM started with Chair Chris Liddell introducing the board, apologies for Bill Veghte, and a welcome to new board member Graham Smith.

Chris then got the price sensitive information out of the way by announcing that they are expecting subscription revenue for the full year to 31 March 2016 to exceed NZ$200m, based on June 2015 FX rates, and that a US listing is still planned but won't be prior to the release of our 2016 financial year results.

Chris then gave retiring director Graham Shaw the microphone. I believe Graham was allotted 7 minutes for his farewell speech and Graham made the most of it with an entertaining potted history of Xero's growth from two people in 2006 in a small flat in Willis Street - before the iPhone had been released and when GFC stood for Group Financial Controller - to the IPO in 2007 with around 100 subscribers (most as Rod noted later with the surname Drury), to today with over 540,000 subscribers globally and a global board. He finished by noting that the company was in good hands and not much was changing with Graham Shaw being replaced by Graham Smith, both accountants by training and they even looked like each other.

Following that they knocked out resolutions in a most workman like fashion. It was good to see that all directors up for election/re-election spoke about what they brought to the company, and that on the screen as a resolution was being proposed there was a count of the proxy count for, against and discretionary. All companies should do this.

After all resolutions passed on a show of hands Rod Drury got up and spoke at length about the company and the journey to date. He also spent some time talking about how the economics of Software as a Service (Saas) companies are quite different to that of ordinary companies. A lot of people don't understand this.

In a SaaS company all the costs of acquiring a customer fall the year the customer is acquired but the benefits accrue over many years after that while the costs to service the customer are low. Knowing your costs and the average period you will hold a customer for you can work out the lifetime value of the customer. Plugging these figures in Rod came up with 450 million of value added in FY2015 to Xero. That is why it is all about growth today and profitability tomorrow for SaaS companies. Expect to hear a lot more on this subject over the next eighteen months and Xero readies itself for a US listing.

(My interpretation of) Rod's take on how Xero is doing in its core markets – New Zealand belongs to Xero, Australia is well on the way and is the current growth engine and the UK is looking like another Australia and will be the next to fire. In all these markets Xero has a measurably superior product to the incumbents. It is the US that Xero has real competition with Quickbooks Online, and it is not at all clear who has the best product. So in the US the focus is on building the team and building features into the US version of Xero for that market. Rod believes Xero has the advantage of being able to innovate faster than Quickbooks.

By the end of the year payroll will be rolled out into 50 US states and this will help drive growth in the US.

Rod also made the point that there are 65 million English speaking small business and at least and other 135 non English speaking small business so Xero with just of half a million customers has plenty of room to grow.

In summary Xero is well capitalised, the core product is in place and working well and the focus continues to be on growth. Profitability will follow.

At the end of Rod's talk there were no questions. Perhaps after nearly 1.5 hours of AGM there wasn't much left to be said.
Martin Dowse

AWF Madison AGM 22nd July

With an increasing dividend, debt reduction of $15m and a successful rights issue to take shareholders funds up 73%, Chair Ross Keenan conducted a positive meeting. On the face of it this board has an impressive mix of talent – 2 senior males (Keenan and Van Arkle,) one founding executive director and cornerstone shareholder (Hull,) 2 highly qualified independent women (Hoare and Amour,) one future director (Rachel Hopkins,) and a new CEO who reports to the Board (Simon Bennett.) Refreshment has occurred with technical and gender balance, and the results of the Madison acquisition are showing up.

Presentation from departing MD Mike Huddleston, and new CEO Simon Bennett reinforced the idea that although this company is market leader in its field, and twice as large as its nearest competitor, it is operating in a fragmented market where labour utilisation is not as efficient as it should be. Companion promotional videos emphasised the trade based labour pool and people placement capabilities of the expanded group. Simon Hull reminisced on growth and opportunity over the 10 years since listing.

Proxies in support of the resolutions were all well over 95% and so a show of hands was called to confirm the adoptions. The substantial increase in fees was not contested because the new levels are now in line with remuneration on boards of equivalent size. The note on employee share schemes provided your proxy with an opportunity to talk about the criteria for the issue of shares to employees, particularly in staff incentive schemes, and the chairman agreed that the new CEO would be bringing recommendations to the board on this. One shareholder lamented the languishing share price and felt the board needed to consider more public promotion. However with the scrip tightly held by only about 500 shareholders who see future growth, trading in these shares is usually light.

Alan Best

Methven AGM 14th July

A small group of shareholders attended this meeting held in Auckland on 14 July.

Although relatively leading edge in its shower products, Methven has struggled with reducing turnover and profitability for a number of years, in part due to its lack of critical mass. In the latest period its investment in a Chinese manufacturing plant has arrested this trend with turnover static but net profit rising nearly 21%.

At the meeting, Chairman Phil Lough and CEO David Banfield talked up prospects with its Methven 130 strategy being the centre piece. This aims to grow revenue from $96m to $130m by 2018 and NPAT to 10% of revenue. The company has invested heavily in new products, although how long it will be before similar products appear is anyone's guess. A new website with enhanced ordering capabilities is showing promise, but the company faces a shift to new premises, surely a significant expense in the short term.

Many shareholders were understandably unhappy with the track record. Responding to questioning, the Chair said they intended to take the company from a yield stock to a growth and yield story. One questioner asked if the $130m target was a realistic stretch or just a morale booster.

NZSA founder, Bruce Sheppard, a Methven shareholder, wanted to know why the USA was not being targeted and pointed out that the modest improvement had come from investing in acquisitions rather than from organic growth. He disputed that this was a "solid" result and challenged management to achieve a $10m profit from the Chinese operation and queried how much would be available for a dividend payment given the need to invest more in the parent company or face continuing decline.. The Chair said that the anticipated profit growth would see an increase in the dividend. The company has no further acquisition plans at present.

Bruce Sheppard opined that the MD and male directors on the current board should go, however shareholders rejected this and Mr Banfield was re-elected with 99% of the votes as were Alison Barrass and Nora Barlow.

Unusually, the company's constitution was up for discussion, with a number of amendments proposed. NZSA 's view is that this document remains at odds with best practise. While it is a modest improvement, it is not nearly as positive as the company claimed in its notice of meeting. For example, the board retains the right to not accept postal votes and directors can be paid retirement allowances (although currently none are). The Chair has committed to a comprehensive review over the next 12-18 months and NZSA has provided a detailed list of changes that we believe are essential to protect shareholder interests.

Despite some concerns and uncertainties around performance and governance, we were persuaded that it was appropriate to vote in favour of each resolution on this occasion although the board and management must surely know they are on notice from shareholders.

Helen Hawkins

Ryman Healthcare AGM 29th July

About 250 people braved a cold and blustery day to attend Ryman Healthcare's AGM held at their brand new resort-like Bruce McLaren Retirement Village in Howick on 29 July.

Rather than a dry restatement of the Annual report financials, Chairman, Dr David Kerr talked at length about the importance the company places on the resident and staff experience. Ryman has lifted staff remuneration by 16% over the past 3 years and is the industry leader on pay. 700 staff achieved NZQA standards in the past year. The management share scheme has been extended to 150 senior staff with all shares purchased on market. New paperless recording systems and a new range of residents activity programmes have been introduced.

Underlying profit rose for the 13th successive year-up 15.3% to $136.3m and dividend was increased by a similar percentage. IFRS profit (including development margins and revaluations rose to $242m. The company expects to be able to maintain this rate of growth for the foreseeable future. The Chair also pointed out that $1000 invested in 1999 has now grown to $22,857 as well as an additional $2430 being paid in dividends and the company has spent $1.7 billion on new villages.

Currently 7 new villages are at various stages of build with a target of 1200 new beds or units annually by 2017. The first Melbourne village has been very successful and the target is 5 villages by 2020. By then there should be 15,000 residents across all the company's villages.

CEO, Simon Challies continued the staff/resident theme previewing a new "Show a little kindness" video and talking to the difference the staff make. Each residents apartment is being equipped with a 10 inch tablet to facilitate the new "My Ryman" database as well as for residents use. "Ryman Engage" is bringing innovations such as men's clubs to broaden the offering to residents.

Looking forward, Simon reiterated a resident number growth target of 70% in 5 years, much of it in the higher value Auckland and Melbourne markets. He produced graphs showing that both markets could easily cater to this growth and in fact demand continues to outstrip supply.

New directors Claire Higgins and Doug McKay and returning directors Warren Bell and Jo Appleyard all addressed the meeting. Unsurprisingly, all were elected in a landslide. NZSA voted in favour of all resolutions

In question time, NZSA suggested the board should consider an audit change as the incumbents had been in place since at least 1995. We also asked that at future meetings, resolutions should be voted on by poll. the Chair agreed that the board would seriously consider both matters.

A question was raised about listing on the ASX. the Chair said there was no intent to do so to raise capital, but a Compliance listing was a possibility to allow Australian institutions to access the stock more easily.

Another questioner suggested the build rate could be even higher, but the chair was adamant that the company did not want to move too rapidly and increase the risk profile unnecessarily.

In answer to other questions, the Chair said that occupancy was about 96% with stock available being about one month's supply at any one time. About 8 sites in Auckland were under investigation but this was an exhaustive assessment as selecting the right site was crucial to the outcome.

A very happy bunch of investors including a number of Ryman Village residents then retired to enjoy an excellent afternoon tea and network with board members.

John Hawkins

Kingfish Fund AGM 31st July

Chairman, Alistair Ryan commented that this year's net profit returning 6.7% was down on the previous 2 very good years and NZX index gain of 13.5%. The market focus on high yielding stocks (Gentailers and Property listings which did not score well on the Fisher STEEPP valuation process,) was the principle cause.

The share price $1.34, at 31 March was 2.2% above NAV compared with a discount to NAV over the previous 4 years recognising the strength of the current investment portfolio.

In November last year a 1 for 4 issue of warrants was made to Shareholders giving the right to purchase additional shares in October this year at a final exercise price to be announced of approx. $1.18.

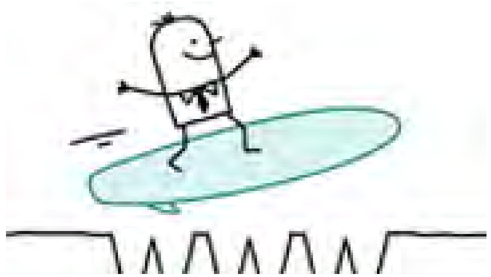
The quarterly dividend of 2% of NAV continues.

Carmel Fisher commented on the underperformance for the past year, and the changes made to the investment portfolio, the unchanged criteria for evaluating investments which has a proven track record to date, and the current market conditions affected by low interest rates, low commodity prices and international events.

Q & A – Several questions were asked, but of note was the point that the extra funds from the warrants would be invested in new "fishing pond" stocks being evaluated. Smaller Companies were not favoured due to liquidity constraints.

Noel Thompson

Caught on the Net



Why 99% of trading is pointless

This is the opinion of John Bogle the founder of Vanguard Group. Vanguard is the funds giant our NZX has just got into bed with to offer an extended range of index tracking funds. ***More***

Are mortgages like potatoes? Unintended consequences in a world of many restraints

Bank Underground is a blog for Bank of England staff to share their unofficial views on emerging issues. In this blog Rena Corrias and Tobias Neumann discuss "Giffen goods" - those that violate the law of demand which says that is something becomes more expensive, people should consume less of it. ***More***

The cost of interrupted work; More speed and stress.

Gloria Mark from the University of California, Irvine carried out a study with colleagues from the Humboldt University in Germany. They found, to their surprise, that people completed interrupted tasks with no difference in quality because they worked faster. This came at a cost: more stress, higher frustration, time pressure and effort. ***More*** I was drawn to the research report from a work productivity blog, which drew a different headline from the same data. Instead it focused on the time it takes to get back to task after an interruption - 25 minutes. ***More***

Asset management and financial stability

A paper from VOXEu on concerns that the growth of the asset management industry and the potential impacts on financial stability. The paper assesses the systematic risk created by fund managers incentive problems and first mover advantage for end investors. ***More***

Did you spend too much on your wedding?

There can only be one answer - but Slate offers a calculator to work out how rich you would be if you had instead invested that sum on the stock market. ***More***

The end of capitalism has begun

Paul Mason, writing in the Guardian admits that his is an utopian view but claims that we are entering the post capitalist era with information technology offering new ways of working and the sharing economy. ***More***

Its time for fund managers to stop skirting around diversity

Victoria Thieberger points out in a Business Spectator article that while there are various efforts underway to increase the number of women in the higher echelons of finance and banking the tiny number in funds management has been seldom remarked about. She says its time for this to change. ***More***

Saving investors from themselves

Jason Zweig, author of the Intelligent Investor column in the Wall Street Journal says that while people need good advice, what they want in advice that sounds good. Sadly, the advice that sounds best in the short run is always the most dangerous in the long run. Yet most financial journalism is dedicated to the basic principle of marketing. When the ducks quack, feed 'em. He sees his main job as saving investors from themselves. ***More***

Stock Market hoaxes, from Napolean is dead to Twitter for Sale

Paul Vigna, in a WSJ blog looks at hoaxes aimed at manipulating the market. Now, in a networked social media world scams are picked up and amplified at the sped of light. ***More***

Why investing is so complicated, and how to make it simpler

In a NY Times article, Sendhl Mullainathan, a Harvard economics professor tries to make sense of his investment choices. ***More***

Bruce Parkes

Branch Reports

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.

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

Upcoming Auckland Branch Meetings

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

Wednesday, 16th September -
a very short Branch AGM - then
Simon MacKenzie, CEO, Vector, and
Mark Ratcliffe, CEO, Chorus.

Wednesday November 18th
Albert Bramley. CEO, Genesis Energy
Second speaker to be advised

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

Company Visits None currenty programmed

Auckland

The latest presentation to Auckland Branch was given by Josh Daniell. A video of this is available on the NZSA members' website, click on presentations. A written summary of a similar presentation made to the Waikato Branch is included in their branch report below.

Waikato

Branch Meeting 23.07.15

Our speakers this month continued our education on new markets in New Zealand open to investors. Our first speaker, Mark Peterson, with help from Tim Lee, informed us on the NXT, and then Josh Daniell, introduced us to the fast-growing crowd-funding phenomenon, the Snowball Effect. This is a lot to get through in an hour and a half, and we were fortunate to have experienced speakers dedicated and passionate about their topics.

Mark Peterson is Head of Markets for the NZX, and started by describing the effect Kiwisaver has had on New Zealand equities. Kiwisaver is now worth $27 billion, and it has 2.4 million members with an average balance of $12,000. It is likely to be worth over $300 billion by 2056. 10% of its investments are in NZ equities, 33% offshore equities, 55% in fixed interest, and 2% in NZ property. The question is: how to expand the NZ financial market? Many of our companies are privately owned and a lot of cooperatives are owned by councils and ports and closed to public funding. This is where crowd funding and the NXT can expand the market for small companies to be open to the public. Whereas the NZX is suited to companies >$50 million, the NXT is designed for companies in the $10 mill + range.

The aim is to have short simple rules, better guidance by prescribed continuous disclosure, with targets to meet. Support is given by an ongoing relationship with an NXT adviser, and research coverage for financial advisers is paid by the NZX. There is guaranteed liquidity, and there are clear listing criteria for investors.

The first successful company has been G3, whose shares are tightly held. NZT is working with three other companies it hopes to list before Christmas. In summary, the main incentive to go to the NXT is size, disclosure regimes and liquidity for investors.

As an introduction to crowd-funding we received notes explaining that crowdfunding is a number of people collectively contributing relatively small sums of money to support a business or project. There are 3 types of crowdfunding:

1. rewards or donations crowd-funding, where financial supporters receive rewards or simply make donations through platforms such as Kickstarter and Givealittle
2. debt crowdfunding, where investors lend their money and receive interest on their loans, and
3. equity crowdfunding, where investors raise funds for a business and in return receive shares.

The Snowball Effect, a company category 3, has played an active role in providing feedback to the FMA and Ministry of Business Innovation and Employment in the development of crowd-funding regulations in NZ. The Snowball Effect, of which Josh Daniell is co-founder, has had 9 successful and 1 unsuccessful company listing. Companies gain by having access to a large pool of money; wide exposure through marketing; and to a clear, transparent and efficient funding process. Investors have access to high returns at high risk; simple and continuous information; no fees; standard protections; and a familiar framework for investors. The average investment is $4,500 but range from $100 to $500,000. 27% of investors are female, and the age group is 45+. 750 companies in New Zealand are interested in joining.

As an example of crowdfunding, we were told that the UK market began in 2011, the average growth rate is 410%, 43% in 2014 were angel investors and 30% seed investors. In NZ the larger amounts raised have been with later stage companies, by co-investment with angel groups topped up by the public. Josh said that a lead investor that fitted with company values was important, also a non-executive board member. He also told us that Snowball Effect stays as an email marketing platform with the company after its target funding has been raised. For further information see ***https//www.snowballeffect.co.nz*** or the presentations on the members' website of NZSA,

AGM and dinner

Our guest at our mid-year dinner and AGM in June was Franceska Banga, CEO of the New Zealand Venture Investment Fund since its inception in 2001. Her topic: Technology, Disruption and the NZ Opportunity.

The NZVIF was established by the New Zealand Government as a 50:50 partnership with private investment, because of a lack of capital and expertise available to support young technology companies. Franceska oversees partnerships in 9 venture capital funds and 15 angel investment networks, with 186 companies on their books. The key services provided are: the implementation of global best practice, monitoring performance, fostering development and growth, education, and preparation of reports and advice. The Fund reports performance to Government.

Where technology is apposite to all of us as shareholders in large companies is the speed of disruption. An example given – 16 years ago driverless vehicles were predicted for the year 3000. They are now being tested in the USA and road rules will need to be rewritten to cover them. This will affect how we live and work. These cars are designed not to have accidents, hence car insurance may become redundant. Another example – Amazon is using drones to deliver goods, and regulations cannot keep up with these innovations. Franceska warned that only 2/100 companies succeed. To be successful companies need entrepreneurs, a good team, market opportunity and a unique idea. Even then it may take years, and regrettably some companies go on to the NZX too early.

For those wanting to invest in this area, Franceska recommended reading, "If you build it, will they come?" by Rod Adams.

In summary:

1. Technology is disrupting across all sectors.
2. Growth will continue into the foreseeable future.
3. New Zealand is well positioned and has unique opportunities.
4. Capital for growth is New Zealand's biggest challenge.

Bay of Plenty.

Money week seminar –

NZSA branch will run an investors' seminar on the first day of spring – Tuesday 1st September at 5.30pm.

Location – Club Mount Maunganui. Bring your friends and relations. Start family young on a path to savings and financial independence.

Expert Speakers:

Mark Lister from Craigs Investment Partners,

Craig Stent from Harbour Asset Management

Wellington

Our branch AGM was held in June and took marginally longer than the formal part of the Berkshire Hathaway AGM (which clocked in at 10 minutes). Geoff and Scott have retired – thank you for your efforts over the past years – and we welcome new committee member Christine Pullar.

Garth Stanish Director of Markets Oversight presented at our July meeting, he fielded the numerous questions from the audience very well. It was a useful session.

It feels like the year has just started but there are only four meetings left in 2015. We have Orion Health in August, Ray Jack in September, Meridian in October and the Christmas film evening in November.

Martin Dowse

Canterbury

The Branch was fortunate to have as part of its AGM evening, presentations of Castlepoint's fund management system, by Stephen Bennie and Greg Peacock of NZAM (NZ Asset Management.) Their talk was particularly notable for its practical tips on building a portfolio. They gave examples of things to avoid and watch out for and talked of a wide range of companies as examples.

Our next meeting will be on 20th August, at The Fendalton Croquet Club, when Press Commentator, Peter Alexander will be the speaker.

We are also hosting a special evening for Money Week (30th August to 5th September.) This will be aimed at new and inexperienced investors and will be on Tuesday 1st September. The programme will be advertised in throughout Canterbury.

Robin Harrison

Members' Issues

PGC – An update

Firstly let me say that The Directors of NZSA do not own shares in PGC. We watch its machinations because of the issues it raises for retail investors.

The first issue was the booking of an asset sale, Perpetual Trustees to Bath Street Capital in the last annual accounts. PGC claimed it was categorised as a receivable, and this was upheld by the FMA. NZSA claimed that the purchaser had raised such doubt over the conditions of the sale that the valuation was excessive and misleading.

Within that subject it was also interesting to note that the auditors Grant Thornton helped with the valuation, before they were officially appointed as auditors. We note that an auditor cannot provide independent valuations for a company which it is auditing, and PGC had to correct its announcement to reflect this.

The second issue was over the 25% owned and controlled special partnership, Torchlight registered in the Cayman Islands. NZSA said the detail of this partnership should be disclosed, because although it was a minority holding it was effectively controlled by PGC. Once again PGC's explanation that it did not own a controlling stake, was upheld by the FMA.

What was not excused was the relatively minor slip of operating without two independent directors (one is Mr Brian Mogridge,) for a five day period after the unexpected resignation of Mr Bright. This earned PGC a public censure.

More recently, Questions have again been raised over what lies behind Torchlight, whose special and managing partners are Messrs Gould and Naylor, both PGC directors. Lantern Hotel Group is 30% owned by Torchlight, represented by "independents" Mogridge and Naylor, and the other interests including Millinium Asset Management are aiming to vote down the two PGC directors. Naylor, the former MD of Lantern was in fact voted out in the June AGM.

Finally, Torchlight faces court action from investors in the failed subsidiary Van Eyk. Although it was wound up by Macquarie Group, investors in Van Eyk claim that Torchlight misappropriated funds, buying and selling property to created tax losses outside the Cayman Islands and then on-selling property in Torchlight to create non taxable profit in the Caymans. During the period of loss, over 4 years,it is alleged that Messr Kerr and Naylor paid themselves through their management company, excessive fees.

While listed on the NZX, PGC has obscured the transactions in Torchlight from investors. There are lessons to be learned here. As Buffet advised:"Invest in directors you trust, a company you can understand, and assets priced well in relation to future prospects." It's a complicated story, but we hope that NZX will not allow the transfer of this company to the LSE before the questions are answered.

Alan Best

Education News Flash

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

Auckland Education Courses 2015

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

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

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

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

Commencing 12th August; Tutor John Hawkins

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

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

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

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

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

Upcoming Events

For more information go to Branch section of NZSA website

2015

August 11	Wellington Branch meeting
August 20	Canterbury Branch meeting
August 25	Waikato Branch meeting
September 1	Bay of Plenty Money Week seminar
September 1 - 2	Canterbury Branch Money Week seminars
September 8	Wellington Branch seminar
September 12	NZSA National AGM and Investor Conference
September 16	Auckland Branch meeting
September 22	Waikato Branch meeting
October 13	Wellington Branch meeting
October 20	Waikato Branch meeting
November 10	Wellington Branch film evening
November 18	Auckland Branch meeting
November 24	Waikato Branch meeting

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