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

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In this Issue

Fifty shades of Grey

Shareholders in a few companies must surely be feeling like the mythical Anastasia Steele being dominated and disciplined by the equally mythical Mr Christian Grey in the undeservedly popular literary disaster penned by author E L James.

Tragic too that after 5 years of exceedingly hard work by a whole range of concerned capital market participants including your Association, and a massive overhaul of regulation and guidelines that we still have a small group of directors and managers who apparently cannot comprehend that expectations have changed and shareholders are no longer whipping boys (or girls) to be dealt to as they see fit.

PGC

Elsewhere in this issue of the Scrip, readers will find an AGM report about Pyne Gould Corporation (PGC). This makes depressing reading, but since that time the situation has become even more frustrating for minority shareholders. PGC which has been twice censured and fined by NZX over the past twelve months, is now effectively a holding company for a number of investments including Torchlight, a special partnership which deals in distressed assets. Because of this structure, the investors in and financial position of Torchlight is not public knowledge. What is known however is that the Torchlight holding forms around

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25% of the assets of PGC. For its part PGC denies that Torchlight accounts should be consolidated (and therefore visible to investors) as PGC does not hold an outright controlling interest in Torchlight. It appears that PGC define this as a blocking stake, which is more than their current percentage ownership of Torchlight.

In our view this is an arguable position as the accounting standard does not talk about blocking stakes or percentages, but considers the practical outcomes for any holding. It says:

4.13 "Control" by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:

(a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity, except in the following circumstances where such capacity is not required:

(i) where such policies have been irreversibly predetermined by the first entity or its agent; or

(ii) where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the second entity.

(b) the first entity has an entitlement to a significant level of current or future ownership benefits, including the reduction of ownership losses, which arise from the activities of the second entity.

Current PGC auditors Price Waterhouse did not help matters by failing to send the senior audit partner to the PGC AGM, and being unwilling to answer questions in any detail. Neither did the non appearance (again) of managing director and controlling shareholder George Kerr. AGM's are important. They are the opportunity for shareholders to question directors, management and auditors about any aspect of the business.

PGC's previous auditors KPMG resigned, reportedly because of issues over related party transactions. Now, the current auditors, Price Waterhouse (PWC) have issued a qualified opinion. They say they were unable to obtain sufficient audit evidence about the carrying amount of the group's investment in Torchlight fund LP, the carrying amount of the group's investment in its subsidiary Torchlight Group Ltd, the associated impact on both the group and the company and the disclosures in the notes to the financial position.

So, months after balance date, minority shareholders are still blindfolded as to the true position of the company. It is difficult to see how minority investors can assign an accurate valuation to PGC when key financial data remains unavailable to them. Quite why NZX considered such a qualified opinion sufficient to allow trading in PGC shares to recommence following a suspension for failing to provide the annual report is equally troubling. Does quality of information have no role to play?

NZSA already has a formal complaint with the regulators over the accounting treatment of EPIC, which in our view allowed PGC to report an inflated profit for the 2014 year. Recent revelations by the company that the $22m "profit" booked in the 2014 accounts from the sale of Perpetual to Bath Street Capital would have to be reclassified to "an available for sale financial asset" adds to this uncertainty. NZSA understands from published sources that Bath Street Capital , would pay PGC up to $22m in the event that Bath Street Capital floated its trust company operation (which now includes Perpetual) on the NZX.

However, Bath Street Capital owner Andrew Barnes was reported in late 2014 as saying that "No way on God's sweet earth will we be listing in the first, second, third or even fourth quarter next year. In fact, we have no plan at this point to take the company to market." The $22 million was always a conditional payment and was a maximum - it could be much less. It was recognised as such in notes to the PGC accounts However, on the income statement, the maximum potential payment was included as a gain on disposal of discontinued operations - something the auditors apparently allowed. In a clarification note to the market on 2 February, Chairman Mogridge says "Both PGC and auditor PwC say it will have no impact on the NPAT for the year ending 30 June 2014 because it was correctly categorised as a receivable at that time". This is a remarkable position to take, particularly since according to NBR, as far back as May last year Mr Barnes was disputing the "top up" payment interpretation in the press. At the very least his comments should have led to a conservative accounting approach being adopted. The prospect of $22m being wiped off the reported PGC profit of $26.6m could hardly have brought joy to the PGC directors. By adopting the approach they have taken, the possibility of having to make a write down has effectively been transferred to a future reporting period. Readers can judge for themselves if PGC and the auditors approach actually allow investors to ascertain the true position for 2014?

Moreover, in the grander picture, this interpretation seems to support a view that profit can be booked because the board "believes" funds may be received, even if there is no firm commitment to make a payment at a specific time. That opens an interesting can of worms - how meaningless would accounts become if companies could book profits against possible sales that might or might not eventuate because the directors believed they probably would. Call me old fashioned, but in my book, accrual can only occur when a sale is completed and there is a firm commitment with a definite time frame.

HLG

In January, Hallenstein Glasson (HLG) released an upbeat note to the market outlining a significant lease commitment for a flagship store in the soon to be built ANZ Centre in Christchurch. In part, the release said:

"You don't get opportunities like this every day of the week. It's an amazing chance to get the best position and to be part of the whole new city. We see it as a long-term decision. It's really important for us, as a strong New Zealand brand, to ensure we have a strong presence in Christchurch. This is a bespoke situation where we can design the store exactly as we want. What we will deliver will be of the highest international standard and reinforce the strength of both brands and that we know and understand our customers."

Glassons will cover 456m2 and Hallensteins 452m2 in an edgy integrated store, complete with huge digital screens, inspirational displays and upbeat music.

This is positive news for Christchurch which only now is starting to see some activity returning to its earthquake ravaged CBD. However, nowhere in the release did HLG note that Chairman Warren Bell and major shareholder and director Tim Glasson are the owners of CHC Properties which is developing the ANZ Centre. Only after being queried did HLG's CEO release a statement saying that the matter had "been negotiated at arm's length" and "the company got an independent report to ensure it was paying an appropriate amount for the space".

This is not good enough. In a small country like New Zealand, these types of situation will arise from time to time. NZSA has no problem, provided that any potential conflict is disclosed up front, properly mitigated and the protocols to ensure this has been achieved are clearly spelt out. In the HLG case, we believe the board should have appointed a subcommittee of independent non-conflicted directors to examine the proposal. Perhaps they did? But shareholders have not been given any detail. And who was the independent valuer? Ideally this should be one of the major property management/ appraisal/sales firms who hold large data bases against which significant commercial proposals can be compared. Again, shareholders have not been told.

The key to dealing fairly with ALL shareholders is for directors and management to develop the mindset that disclosure is an obligation, not something to be avoided if at all possible. The rules and regulations allow for exemptions for situations of commercial sensitivity or uncompleted negotiation. Conflicts of interest will nearly always be important to investors, regardless of how "material" they are to the financial results. Accounting rules, complex and difficult as they are to understand, ultimately expect reported figures to be a true and accurate record at a moment in time. For some things, fifty shades of grey are not acceptable.

Perhaps, rather than the unfortunate Miss Anastasia Steele, it is time a few directors and managers received a summons from Mr Christian Grey!

John Hawkins

Chairman

Just Water - A creeping takeover

At the end of last year an offer was made to the shareholders of Just Water by the interests of insider and director Tony Falkenstein which already owned 70% of the company. The process followed an unremarkable path. The Board had sought offers for the company, and although three parties expressed interest no firm offer was forthcoming. On 9th October Mr Falkenstein, founder and director, announced his intention to proceed with an offer of 15c per share. At the AGM on 23rd October, the company explained its improved results for the previous year, and the directors rightly sought an independent valuation without comment on any difficulties the company was facing. The unconditional cash offer of 14th November, accompanied by Korda Mentha's valuation beween 14.7 and 16.8c/share, was followed by the resignation of the CEO, the resignation of the 3 independent directors, the disclosure of 79% holding by Falkenstein interests, the appointment of Tony Falkenstein as Chair, and the appointment of a new Chief Operating Officer. As the company remains listed and the attempt to gain 100% of the company has clearly fallen short, shareholders will need to keep an eye on the board, to see that minority interests are adequately protected.

During the offer period, Colin Giffney wrote to all shareholders. Colin was a former member of the Takeovers Panel, manager of the listing of Just Water in 2004, and a current shareholder. Many important issues were raised by his letter.

The first was the difficulty he had in circulating other shareholders. Addresses took the maximum time to arrive in his possession and when they did they were not in a digital format which could be mailed by computer.

It is unacceptable in this age that a shareholder acting in good faith should be impeded from contacting his fellow shareholders, whether or not his views coincide with those of the independent directors.

It is unacceptable in this age that a shareholder acting in good faith should be impeded from contacting his fellow shareholders, whether or not his views coincide with those of the independent directors. The whole purpose of having independent directors was to level the playing field between the insiders and minority shareholders, and ensure the free flow of timely information on the company. NZSA has lobbied to maintain the right of a shareholder to access the registry and this access should at least be prompt and efficient.

If delaying tactics are used, this will inevitably raise questions about the motives of those involved.

The second was his view that the report on the offer by an independent adviser is a matter of opinion. The assessment of share value is an "art form," not an absolute. It will be affected by debt levels, the use of cashflows, discount rates, and above all the validity of data from the company. In this case the report appeared to be commissioned by the offeror not by the independent directors. However the independent directors, not the consultant, are ultimately responsible for the opinions expressed, and each one of these "employees of shareholders" should be assessing the information in the report before a consensus is agreed.

NZSA has had occasion of the past year to question other independent reports which omitted information vital to the final conclusion

NZSA has had occasion of the past year to question other independent reports which omitted information vital to the final conclusion – Opus, and Lyttleton Port – and in each case we felt that the independent directors had not dealt with issues that were obvious to the non-accountant reader.

The third was the apparent conflict between recent statements of performance and the advice to shareholders published by the independent directors. Suddenly, in the view of the directors, the outlook for Just Water had become very negative. It is not surprising that an offeror would sell this story to shareholders, but it is the job of independent directors to adopt a more objective stance. There are risks and threats to all companies, but when the Trustees of several associated but legally independent trusts, apart from the offeror are not selling, there is strong indication that minority shareholders should think twice.

Finally there was the view that, although Just Water was not a dividend or a capital play, it was a "cashflow story." In 4 years the company had retired nearly $13m of debt. Although the share price did not reflect it, it was in a more stable position than in 2010. Although the Korda Mentha report employed a discounted cash flow method, the details of the latest historic or projected cashflow were not revealed, and the assumptions were questioned not by the independent directors but by a minority shareholder. The action of Tony Falkenheim to reduce the board and management, and take control of costs may be the best course, but that does not offer the minority shareholder a sufficient reason to sell.

We have advised shareholders in the past, not to accept a takeover offer early. "Wait for the independent advisers report and the independent directors advice." Now we should add: "Wait for all the information to emerge, and accept as near as reasonable to the deadline, after assessing not simply the p/e and dividend chart in the NZ Herald, but also the strategic and cashflow story which has unfolded during the full offer period. To refuse is always an option.

Alan Best

NZSA AGM and Annual Conference 2015

NZSA's AGM will be held this year in Waikato. The date will be advised in our next issue. We are required by Financial Reporting regulations and our constitution to hold our AGM before the end September. If members have any special issues they would like to have aired during the conference or AGM, please advise a branch committee, or board member.

Undirected proxies are our preferred members' choice

NZSA proxy holders pick up the voting summaries from the registry desk a quarter of an hour before the AGM commences. NZSA's preference is to have voting by poll, and this allows both "for" and "against" votes to be counted.

However on many straight forward resolutions voting is still conducted by a show of hands and NZSA proxy holders are left with a dilemma. To insist on a poll simply aggravates those who want the proceedings to flow smoothly. To announce that a proxy is holding votes both for and against and will vote both ways is pedantic, and does not reflect the weight of opinion. So we appeal to members to vote "proxy discretion" on the form of appointment. This allows the proxy holder to vote in line with NZSA policies; and also to consider any facts uncovered at the meeting which might influence the vote. We are increasing the preparation and research support we put into each AGM and believe that members' interests are best served by an "undirected proxy."

We are taking up the issue of a proxy holder who carries votes both for and against the resolution with NZX, to see if there are any rules or precedents for our guidance.

Alan Best

Proxy Co-ordinators report for 2014

During the year a very good number of AGM and SMs were attended by proxy representatives of the Association – a total of 80. This is another great achievement by our dedicated members, who give up their time to actively attend company meetings on behalf of all members.

Breakdown by region:

Auckland	52 (down 3)
Wellington	14 (down 1)
Christchurch	9 (down 4)
Tauranga	4 (up 1)
Dunedin	1 (same)
	Total 80

We thank all of our active representatives who give their time freely to research companies for potential issues, attend the meetings, ask questions of the directors and write up the reports for The Scrip. It is a very valuable service:

Online voting is now efficient and easy to use. Please take the time to appoint the NZ Shareholders Association as your proxy for all your shareholdings.

Again, we would like to focus on co-ordinating proxy representatives with individual members who actively follow their 'favourite' or 'troubled' companies. So for those of you who have issues or questions that you wish to be asked at the meeting, please forward these by email to ***proxies@nzshareholders.co.nz.***

Attending meetings, researching the resolutions, questioning the Boards, and then voting is a vital activity, and important for all shareholders in order to maintain the integrity and ethics that the NZSA aspires to. If you wish to and can assist us, please get in touch with me at the above email address, or your branch chairperson.

Jacquie Hagberg

Auckland

Alan Best	Grant Diggle	Michael Cornell	Bruce Parkes	Des Hunt	John Hawkins
Martin Watson	Noel Thompson	Jacquie Hagberg	Bill Jamieson	Fiona Gray	Uli Sperber

Wellington

Martin Dowse	Phil Kelleher	Peter Milne	Matthew Underwood	Juliana Husheer	Brrian Tyler
Scott Hudson	Vinny Venkatesh	Cheryl Barber			

Christchurch

Robin Harrison	Peter Heffernan	Barbara Duff	Max Smith	Pam Hurst	Gary MacIntyre
Tim Kerr					

Tauranga

Jane Lyndon	Howard Zingel	Lloyd Christie

Stock Screeners - A great on-line tool for Investors

Where do you start when you want to choose some stocks for your portfolios? While its useful to have access to a financial adviser or broker who can provide research and their recommendations, there is an age-old saying in investing that you should always "do your own research".

The internet has provided investors with many tools to assess stocks in a dispassionate and logical way, based on the company fundamentals criteria that investors will regularly use. Most of these criteria are based along three main principles:

- Value - buying shares relative to their current earnings (as cheaply as possible)
- Growth - buying shares relative to their known or expected growth rate
- Momentum - buying shares relative to their recent share price movements

I'm happy to disclose that I have a bias towards value investing when seeking investments that are already listed. That is, I try to buy as cheaply as possible. It's always an interesting time for me to be screening for investment opportunities in NZ, Australia and the USA when there has been some kind of macro event that has caused share prices to drop in a violent yet temporary manner, beyond any rational consideration.

Some investors also ascribe to technical analysis, or using charts and formulas to focus on the probability of price action based on patterns rather than company fundamentals. I have not included any technical analysis focused screeners in the list below, as I personally don't use this method to assess stocks, as it tends to reflect a trader's view rather than a long-term investor's view.

Below are a number of popular screeners I have used over the last few months to inform and help consider stock purchases. A number of these screeners are globally focused, and may or may not include NZ stocks. Investors would be well advised not to rely solely on the data of these screeners, and to ensure that the data inputs used by these screeners are the same as those recorded by the companies in their public results.

I also rely on more than one screener to ensure that the information I get out is as accurate as possible. If a company I screen for value comes up as trumps on a number of screeners, I gain more confidence that this is a stock I wish to investigate further by reading annual reports, research notes and their market statements.

Google Finance ***www.google.com/finance#stockscreener***

Pros:

- Free
- Globally pretty comprehensive

Cons:

- Some NZ information might be outdated
- Works slowly on updating criteria on the fly whilst using Safari for Mac OS X 10.10.2.
- No EV/EBITDA or well known formulas like Piotroski/Altman-Z
- No ability to search by region (only by individual bourse)

UncleStock ***www.unclestock.com***

Pros:

- Free (donations are solicited)
- Global stock selection, including NZ
- Superb selection of criteria for screening including EV/EBITDA, Piotroski, Altman-Z and their own formula
- Many well known screening formulas already available (Graham, Piotroski)
- Ability to backtest your criteria

Cons:

- Complicated
- A bit slow to update on the fly. Stock signals can change through mid-calculation as more data is fed in by Unclestock into your screen
- You need to be very specific or you will be swamped with choices around the world, including microcap and OTC stocks
- Cluttered on the screen due to information overload

Financial Times - ***https://markets.ft.com/screener/customscreen.asp***

Pros:

- Free
- Global stock selection, including NZ
- Predefined screens available based on

"Guru" principles
- Sliding scale makes it easy to select criteria based on relative performance of those values, e.g., choosing the top third of all companies with strong current ratios

Cons
- You need to check the currency used for results or your results might be confusing!
- Interface is a little clunky

Magic Formula - ***www.magicformulainvesting.com***

Pros:
- Free (but requires registration)
- Very easy, only one criteria for you to choose (minimum market cap)
- Based on the popular "Magic Formula" devised by Professor Joel Greenblatt

Cons
- US listed stocks only
- Only screens formulas that meet Magic Formula criteria (you can't modify criteria)

Motley Fool USA - ***www.fool.com***

Pros
- Free (but requires registration)
- Impressive variety of criteria to assess US stocks
- Ability to using a sliding scale to adjust criteria on a relative basis to other stocks

Cons:
- Only US listed stocks
- Some metrics a little hard to understand (poorly explained)

American Association of Individual Investors (AAII) - ***www.aaii.com/stock-screens***

Pros:
- Superb selection (over 70) of guru screens and well known formulas
- Outputs information as a spreadsheet you can then cut and paste
- Shows backtesting of formulas on a horizon up to ten years prior
- Excellent information quality

Cons:
- Subscription based service (includes magazine sent to you 2 times a year)
- US based stocks only
- No ability to modify criteria (but there is a wide variety of criteria)

Dividend Yield - ***http://dividendyield.co.nz***

Pros:
- Great for NZ focused income investors
- Ability to compare NZ Stocks based on your choices or desired yield
- Free

Cons:
- Only dividend yields covered, no other criteria is able to be selected
- Accompanying notes and histories of stocks are potentially subjective

Good luck with your investing, and I hope you find screeners as valuable a tool as I have in understanding companies and seeking value. I recommend you do your own research and find the screener(s) you are most comfortable with, and ensure the data you are working with is up-to-date and accurate.

Aaron Bhatnagar

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***

Pyne Gould Corporation AGM 17th December

This was a very small meeting of only 15 minority shareholders, with the remaining holders, with the remaining from press, auditors and PGC. The meeting was unusual in that there was only one part time non independent Director Noel Kirkwood, present along with the Chairman, Bryan Mogridge. The Managing Director, George Kerr, was not in attendance again. Dissatisfaction was expressed at his absence.

NZSA considered that it was completely unsatisfactory for PGC to hold an annual meeting without being able to produce a complete audited set of accounts. The audit questions that have held the accounts up relate to assets that are very material to the company's financial results, because PGC has a 25% holding in Torchlight but 52% of earnings came from Torchlight. The Chairman indicated that the accounts for 2014 would be fully audited when the 6 month result for 2015 was published.

At the start of the meeting the Chairman read from a prepared statement – stressing that PGC had no debt and significant assets. NTA was up 16% since 2012, however there was a large variance between the NTA and the market price. PGC was therefore buying back shares and cancelling them – using 15% of its capital. The Board believed that the Europeans understood the company's business model of buying distressed assets better than NZ investors, and wish to move to a London listing.

Prior to each resolution Mr Mogridge read out the shares he was holding in favour and those against. The average over the 5 resolutions were approximately 178m for, with between 15,000 and 900,000 against.

There was much discussion over Resolution 1 (financial reports) and Resolution 2 (PricewaterhouseCoopers be appointed auditors). Questions came from the NZSA and from representatives of Millinium a major shareholder in Lantern Hotels group, and covered the following issues:

To the Chair

- Please comment on the conflicting treatment of the valuation of EPIC and Lantern Hotels. EPIC has been revalued upwards to market, but Lantern has not been revalued down to market.
- What has been achieved by releasing a materially qualified and compromised financial report?
- What is PGC's true financial position and do the minority shareholders have a materially poorer level of information than George Kerr and other related parties?
- When are the unqualified audited accounts going to be available?
- Who is responsible for the failure to provide fully audited accounts?
- What is the true relationship between PGC and Torchlight?

To the auditors, PWC

- Qualfied audit reports for NZX listed entities are rare. How many other opinions like this has your firm issued this year, or in the past 3 years? (Answer – don't know)
- Are you and PWC also the auditor of Torchlight (Answer – yes)
- Please explain what you mean when you said in your qualified opinion you were "unable to obtain sufficient audit evidence"?

- Was any pressure – legal or otherwise – applied against your firm to release this highly unusual qualified opinion? (Answer – no)
- What additional work did you undertake to satisfy yourself as to PGC's Going Concern status – given that PGC has operating cash OUT flows of $5.9 m?
- Can you provide a commitment that PWC will see out this audit and the 2015 audit? (Answer – yes)

Torchlight accounts will be available in early 2015, and what would the impact of this be on PGC interim accounts, given that there is an unreliable opening balance?

A summary of the answers given, by Bryan Mogridge and by Karl Deutschle from PWC, were:

> Shareholdings in Lantern Hotels and Residential Communities developer RCL are owned by Torchlight and not PGC, and so are outside the scope of PGC's reporting. EPIC too failed the test for control, and so it was not viewed as an associate, only as an investment for sale, and the proceeds duly expressed in the profit and loss account.
>
> The qualification of the audit relates only to the valuation of some RCL properties which could not be verified at the time of the audit.
>
> PWC stressed they followed the appropriate auditing standards, but did not give many helpful answers.
>
> PWC advised that they will have an appropriate opening position to complete the 6 month accounts.

The key question seems to be over whether Torchlight partnership should be consolidated and therefore exposed in detail in the PGC accounts or treated as an associate with the 25.3% holding by PGC, when 34% would be required for a blocking stake. We believe it should be consolidated because it is clear that PGC has control over the partnership via representation, actions as a general partner, and participation as a major secured lender. It is not satisfactory in a well regulated environment that the results of trading within a special partnership, registered in a tax haven, are concealed from the view of investors. We had hoped these off-balance-sheet transactions had died with Enron and Bear Sterns.

Resolutions 4,5 and 6 to re-elect Directors all passed. The NZSA voted against the re-election of Bryan Mogridge, whose relationship with the company is so close that he can hardly be described as independent. Our view is that he bears responsibility for the state of the annual accounts, the censure of the company by NZX regulation, and its suspension due to late filing. Mr Modgridge defended his position and his independence and he told the meeting that his role in PGC was on the Credit Committee in 2009, when they found $200 million deficit because of Marac, (a complete surprise?). He moved quickly to raise $250m to make sure PGC survived, which resulted in Marac becoming Heartland Bank and PGC an investment company. It had been a long and arduous journey, but George Kerr had put in cash and Bryan Mogridge had put in some of his own money – without all this, the company would not have survived.

They were open about their plan. Shareholders who wanted dividends were encouraged to focus on Heartland, as PGC would become a long term, asset holder. He stressed the company had no debt now.

In General Business questions were asked as to why the company remained a public company – how absurd this was – and why not take the company private? (It is of course unnecessary for George Kerr to spend money buying out the minority NZ shareholders at this stage).

Why is the company moving away from the transparent and well regulated NZX to the London AIM, which is much less regulated? Mr Mogridge said they had not mentioned moving to AIM and that they are not hiding from regulation. He stressed that the company has considerable cash and opportunities in the theatre of Europe where dealing in distressed assets is available, and understood by the market.

In reply to a question on the FMA investigation into PGC, Mr Mogridge said that it was ongoing, but it was not busy. However on 15th January 2015 PGC was censured publicly for failing to supply its accounts on time. The NZ Herald also noted recently that the FMA is investigating the PGC financial reports.

We all know how obscure the activities of GPG became when it was listed in London and failed to inform investors adequately of its activities. Add this to the questions over the valuation of EPIC, the valuation of Lantern, and the sale of RCL sections, and we wonder what part of PGC's financial statement is believable. NZSA will be following these questions with both auditors and regulators.

Jacquie Hagberg and Alan Best

Metlifecare AGM 22nd October

Newly appointed Chairman Kim Ellis presided at his first AGM and also first Directors meeting for the company and left most of the commentary and review of the annual results to Alan Edwards CEO.

Major highlights were:

Metlifecare is the second largest retirement village operator with 23 villages and 5000+ residents.

Has expanded significantly in last 2 years bedding down the purchase of Vision & PVL.

Infratil & NZ Super Fund purchased 38% shareholding from the controlling RVNZ of Australia.

Continuing village development is occurring in two new North Shore villages and completion of stages 3 & 4 of the Poynton in Takapuna.

Profit up 18% for the year after excluding 1 off gain on acquisitions last year.

Editor: since the AGM, MET has announced the purchase of 5ha in Red Beach for a $150m village development.

Q & A – Auckland has seen several potential village sites purchased by other competitors this year and Metlifecare did not see these as creating an oversupply or competitive threat in the Auckland area. Villages tended to be located near existing residential areas where new occupants prefer to live in or near their own area.

In reply to another question as to why no new sites had been purchased for 2 years, the company said it was carefully evaluating more land for development and could not comment further at this time. Higher deferred management fee charges compared with some competitors were queried. Two residents of Auckland Villages enquired if their older villages would be upgraded, but the company was satisfied with the current standard of these villages.

An interesting presence again this year was Alastair Duncan, Secretary of the Service & Food Workers Union, supported by 3 of the village employees, commenting on the need for higher wages and seeking a "living wage" rate. The Company was reviewing the remuneration policy and had sympathy with their concerns. Management encouraged staff to take level 2 training qualifications. Wage rates were also tied to the financial support provided by Government subsidies which was not expected to increase this year.

Five Directors were up for re-appointment, 2 Infratil, 1 NZ Super and Kim Ellis as new appointees and Alistair Ryan by rotation.

Director's fees were increased by $100,000 to $600,000 (last increased in 2008) to accommodate the increase in the Board to 7 directors. Fees are to be reviewed during the next 12 months to ensure they are comparable with fees for similar sized companies.

Fiona Gray

Editor: This report was omitted in December, because the Auckland Branch visit to the company covered much of the information.

Rubicon AGM 5th December

Rubicon (whose origin was Fletcher Forests) consists of 2 quite distinct activities:-

(a) its (almost) 60% subsidiary Tenon Ltd - a finished wood manufacturer with its production facility located in Taupo, primarily supplying into the US new housing construction and DIY markets.

(b) an (almost) one third share in a partnership with 2 large forest based US companies supplying tree replanting stock - again primarily in the US.

This partnership (known as Arbor Gen) focuses on the development of advanced genetically modified tree stocks. It currently supplies about 30% of the loblolly pine stock in the US. (Loblolly pine is the most commercially important pine species in the South Eastern US.)

If there is real value awaiting to emerge from Rubicon - and shareholders have been waiting for this for some years - it will come from Arbor Gen.

The discussion regarding Tenon (which at its current share price represents something like 50% of Rubicon's share price) can be concisely summarised :-

The US housing sector has in recent years been experiencing its most severe downturn for many many years and this, along with the US/NZ exchange rate, has put Tenon under a lot of pressure. It is now in the early stages of recovery and the company is well placed to benefit from that - being in much better shape to do so, than it was before the downturn.

The performance of Arbor Gen - as reflected in the Rubicon share price - drew a lot of flak from those present. As one shareholder said "For some years we have been promised jam tomorrow - but that day has never arrived".

On the positive side, over the past 3 years, the sale of advanced genetic stock (and it is here that the ultimate value of Arbor Gen lies) increased from 8% to 21% of US sales.

This rate of progress is unlikely to be continued, however, over the next 2 years, as the supply of genetically advanced stock is likely - for various reasons - to be constrained.

The 2015 target is to increase seedling sales by 10% and total revenue by 15-20%.

It would seem that Brazil represents an exciting market opportunity to Arbor Gen.

As regards to the time frame within which this opportunity would be exploited, we were told, in response to a question from your representative, that it was expected that the Brazilian operation is expected to reach the same level of development as the current US operation "in 3-5 years".Let's hope so.

Quite clearly, Arbor Gen is working towards an IPO. This is seen as an important lever in releasing the value they see as being inherent in the Arbor Gen venture.

They were all set to go a couple of years ago but called it off because of unfavourable market conditions. It would seem the environment is still unfavourable for an IPO in the sector occupied by Arbor Gen - despite the current elevated US stock market levels.

We were given no indication as to when they might go to market but it was clear that they would plan to do so, as soon as market conditions were such that they could proceed without undue dilution of shareholder value.

In brief, the message was that "we are all disappointed with the Rubicon share price, frustrated that we have been unable to fulfill our IPO ambitions (because of market conditions,) but excited at the physical progress made by Arbor Gen and the prospects facing it."

Finally, a word of praise:

We have all gone to AGMs where shareholder questions are fobbed off and minimal answers are given to serious questions probing fundamental aspects of a company's operations. Not so in this case. Credit must be given to Hugh Fletcher (Acting Chairman) and Luke Moriarty (Chief Executive) for the full and frank way they responded to the questions asked of them - as a result of which your representative, at least, came away better informed and feeling shareholders had been given a "fair go".

Brian Tyler

Synlait AGM 2nd December

This was the second annual general meeting for Synlait since listing and attracted about a hundred shareholders.

Graeme Milne reported that the company had achieved its IPO forecast with EBITDA up 13.8% and NPAT up 70% at $19.6m. The company was sold to shareholders as a growth stock and a number of projects are under way to fulfil that promise. Foremost in this for 2015 is the "dryer 3" construction at a cost of $135m, running on schedule and on budget. The outlook is that the New Year will be pretty much the same, but the weakening in prices will start to take effect in the latter part of the year. The delay in obtaining a licence from the Chinese government for their infant formula was misinterpreted by the market, in that approval was always going to happen.

The reason for drop is firstly, the increase in production throughout Europe and the USA. Secondly, the removal of quotas in the EU, will allow for the increase in milk production that in turn will put pressure on the high prices. Some European commentators forecast a drop of up to 80%. The third factor is the retaliatory action by the Russian government banning imports from the EU, and the fourth is the over-stocking by Chinese importers who have reduced buying as a result.

To counter this Synlait is adopting two policies:

Targeting chosen customers in a wider market throughout Asia, the Middle East and Africa,

Developing new products such as Lactoferrin and Ammex butter.

Both products command a price premium and although not unique to Synlait they do have a very modern plant and an alternative process which gives them an advantage. Lactoferin for example, marketed at $500k/metric tonne, will increase from 5 to 15 tonnes in 2015 production.

All of this will be supported by a new quality control laboratory, which is vital to Synlait's predominately large business customers. The plan is to sell 70% of product to selected multinational processor/marketers. This demands that they work closely with suppliers on quality and sourcing so that every aspect can be verified by the customer and ultimately the consumer.

The three vital projects discussed at last year's AGM are now completed: These are the large warehouse at the Dunsandel site, the completion of the lactoferrin plant and the automated canning plant which is considered to be the most advanced in the dairy industry. There is a large forward investment program still to be implemented.

Chief Financial Officer Nigel Greenwoods report can be viewed on the website Shareholders' funds are now $183million. The return on shareholders' funds was 33% for the financial year under review. The Chinese regulatory delays resulted in deficits of $8.5m while the excess stock sold in a falling market cost $6.5m, and foreign exchange losses cost $2m. Bank covenants were not threatened. Savings were made by Mitsui's documentation system, and the factoring of receivables.

Of the resolutions, Bill Roest was re-elected, but the increase in directors's fees was closely questioned. One NZSA member opposed the size of the increase, and suggested that an increase in shareholder return should parallel increases to directors, and that the declining forward projections would suggest tighter control over directors' wages. Noel Davie, of Strategic Pay, defended the increase with research showing that directors' pay had increased by 9% over the past two years, during which public scrutiny and regulatory compliance had become more exacting. NZSA supported the increase with clear reservations over the consultant's arguments, and a warning over further increases in the near future.

Questions.

a. The issue of production capacity and the effect of the No 3 dryer would have on this were answered by pointing out that a full 24 hour shift would be possible and introduced as required that would fully utilise the capacity available to the company.
b. Synlait intend to make Amex butter and a question was asked as to wheth-

er this would mean they would be in direct completion to Fonterra. The answer was that the "amex" is an advanced product better suited to high end bakery needs, not unique to Synlait, but a process they were well equipped to do better. It would mean they would compete on the world butter market with a more versatile product.

c What was the appeal of Lactoferin that made it so significant? Answer; This byproduct of milk in the form of a protein was an effective antibiotic when ingested and was also associated with anti-inflammatory properties. For these reason and some that had not yet been identified, it had considerable potential in the pharmaceutical market.

d An issue raised was whether the company could fund its growth program from cash flow and not have to ask the shareholders for more money. Graeme Milne answered this quite positively by re-affirming that the board believed that they could, although not at the current $100million per annum, and that a solid 20% return to shareholders could be maintained. The board saw the company as a growth company. This was for the current development program and future programs which were envisaged would be referred to shareholders when the time came.

e An explanation of the "Akara" brand of infant formula was requested. This brand was manufactured under agreement to the parent company of New Hope Dairy but under the auspices of a new company jointly owned called New Hope Nutritionals. Synlait own 25%, management own 20% and the balance is owned by New Hope Dairy.

f The NZSA proxy asked the question regarding the board's policy on changing the auditors and at what intervals. The point was made that the NZSA held the view that auditors should be changed every 7 to 9 years in order to ensure a fresh set of eyes and skill were in place that may see things differently. The question was answered by the Deloitte representatives who confirmed that it was policy to change the partner every five years. They also stated there was no requirement for a change to be made. For the moment it made sense in their view to have the same auditor for all of the Synlait companies and associates. Perhaps?

Max Smith

Supplementary note: On 2nd February Synlait published an excellent investor briefing which can be viewed on both NZX and its own website. Its forecast of profit has been downgraded for the first half, but maintained for the full year.

a2 Milk Company AGM 18th November

Yet again a2 made a release to the NZX shortly before the AGM began. The release was at 1.25pm, the meeting started at 2pm. The announcement titled 'Proposed ASX Listing' https://www.nzx.com/companies/ATM/announcements/257798

The NZX marked the announcement as price sensitive & when I arrived home, the share price was up 6c. Last year a2 made an important announcement just before the AGM started and were questioned about it.

Making announcements just prior to an AGM disadvantages shareholders attending the meeting. They are unlikely to be able to assess the information & buy or sell shares based on the release. I have been to other AGMs where this practice also occurs.

The directors response is that they have to promptly advise the NZX of information, quite right. The solution is simple, hold the board meeting the day before the AGM, release the information then. If an urgent unforseen matter occurs on the day of the AGM an appropriate release would be made. Directors may claim they have a board meeting immediately before the AGM to reduce costs, fees etc. Really? One set of meeting expenses, possibly, with one nights accommodation is not a huge burden for any company when the alternative is to disadvantage persons attending the meeting.

A few brief notes.

a2 has to ensure that consumers know the benefits of A2 milk is only available from its proprietary milk a careful branding strategy is needed.

Intellectual property: Studies continue to support A2 with additional patents continuing to be filed

There is no intent to raise capital before ASX listing, possibly first quarter 2015.

I asked if there was a capital raising would it be available to all shareholders or only selected large shareholders as in the previous share offer. All options will be considered!

Operational review:

UK:. New distribution system through Tesco, Ocado. Aim is selling within M25 ring road around London & spread from there. J Sainsbury is to sell, in 200 stores in the SE. a2 will be placed in higher priced specialist milk sector in supermarkets. The previous distributor placed a2 in the general milk aisle.

China. Legislative changes slowed momentum. Shipping of product is recommencing. Product is well accepted by consumers. Synlait did not make the commencement date as it wanted a new South Island canning facility to be included in it's Chinese registration.

Australia. Fresh milk is being shipped to China. A2 is considering constructing a UHT plant to supply China. a2 is now in the Australian drinks top 20; Coke & Pepsi are in top 11.

USA. There is support for supply of a2. The company will develop its 'own entity' & packaging as a stand alone coy with other players. On the West Coast, there is interest from supermarkets.

Michael Cornell

Scott Technology AGM 4th December

Scott Technology AGMs are held alternate years in their own factories in Bromley, Christchurch and Kaikorai Valley, Dunedin. It is a company that makes things and a company that uses short sentences in its annual report. There are no adjective-sprinkled sentences of 53-54 words, as in many annual reports. Introductory comments at the meeting were drowned by the crashing of hammers on steel, but Scott Technology makes things. The venue is a factory – and there were no amplifiers.

Chairman Stuart McLauchlan described the results of the previous year - mining held back, but gains were made in other sectors, and 91% of income is now earned from overseas sales. He reported a shortage of skilled workers with the demands from housing and dairying, but the company's expectation for the next year was a small world recovery, led, hopefully, by the United States, with perhaps some falling back in China. There was optimism in the UK, though this seems to be the only bright spot within the EU. The reduced income for the year was mainly the effect of currency changes.

At the AGM last year, acting as NZSA proxy, Tim Kerr asked on behalf of a member, that the company provide a 5-year trend statement. The response was that it was a good idea, though the CFO Greg Chiles stated that there was no financial reporting requirement to include a 5-year trend statement. He agreed to look into including it in the next year's annual report. It was not included.

At the previous year's AGM the company announced it was to seek some acquisitions. Two companies have been acquired; RobotWorx in Ohio, and Applied Sorting Technologies in Melbourne. The company is in the process of acquiring Machinery Automation and Robotics (MAR) of Australia. Scott Technology exports to 71 countries. The contractual – design - build business that Scott Technology specialises in is metaphorically a 'tidal' business. That is, the cash comes in, then goes out. It is not a river-like cash-flow business. The company of course is aware of this and the programme of acquisitions and a trend toward designing and making more standardised products, purchasing off-the-shelf robotics, offering more service and maintenance contracts and supplying consumables now contribute to one third of the company's income.

Purchase of the acquisitions has been by bank debt, but the Board is considering a capital raising issue in 2015.

There has been little change in directorship with two directors having been on the board for ten or more years. On behalf of the NZSA, Tim Kerr raised the question of implementing a 10-year rule for directors. The concern of the NZSA is that directors play a governance role and directors can get too close to management if they remain with a company for too long.

About 50-60 people were present at the meeting, most of whom took advantage of a guided tour of the factory. The NZSA held 213,274 proxy votes on behalf of 11 shareholders. On the re-appointment of the directors Mark Waller and Graham Batts, the NZSA held 500 votes in favour, 8,724 against and 204,050 as proxy discretion. All discretionary votes were cast in favour of the motions.

Scott shares were listed at $1.55 in 2014 – down from about $2.01 at the same time in 2013.

Tim Kerr

Heartland NZ AGM 31st October

Directors were pleasantly surprised by the number of attendees and the quality of questions in their first Auckland meeting. However, the lack of adjacent parking in bad weather meant that some shareholders arrived late. The NZX website announcements include the Chairman's address and the CEO's presentation.

Prior to the meeting your Board had discussions with the Chairman to gain clarification of the resolution to increase directors fees by $82,000 to take the pool to $1 million. The response given (see below) was satisfactory to the NZSA and we voted in favour of the increase:

> "There has been no increase in this figure for the three years since the company was established, notwithstanding the business has increased materially in both size and complexity.
>
> The Reserve Bank requirements for independent directors to be on the company's bank subsidiary board, means we have a larger total director pool of people than would be normal for an NZX listed company of our size. In total we have 11 directors, two of whom are executive directors – a total of nine non executive directors whereas a total of six to seven non executive directors would be the norm for a listed company of our size.
>
> The principal reason for the increase is to give a little more flexibility in relation to the appointment of suitably qualified and experienced directors to the group. For example, with our recent acquisition of our Home Equity Release Mortgage business, we have an Australian operation, and in the future it may be prudent to appoint an Australian resident director and the board would like that flexibility".

Key takeouts from the meeting were:

- Improved asset mix (having run off parts of the overall property book that Heartland did not want to keep)
- A quick decision was needed to purchase the Australian

and NZ Home Equity Release business, which has provided a fast track entry into strong and established market positions that will meet the needs of the 65 and over population.
- Lift in NPAT from $7 m to $36m, and earnings for 2014 equate to a ROE of 9.0%.
- The low dairy payout could last up to 5 years.

Questions from the floor included
- seasonality of earnings - Answer: consumer and business sectors are steady, but care is needed in the rural sector during the summer months drought.
- was exposure to the dairy sector a concern – Answer: it is only a third of the rural book. Hence, a small exposure to dairy in a very competitive sector, but HNZ would be working with their dairy clients, and be supportive of them in what will be difficult years.
- Why the purchase of 10% shareholding in Harmoney Corp – a P2P (peer to peer) lending platform as this could be viewed as a risky venture. Answer: This is a small shareholding in what is a growth area in the USA. Perhaps, but is following USA practices a wise decision after what we learned in 2007/8?

Heartland has transformed itself from its early beginnings, made good strategic progression and provided improved returns to shareholders. I think we can dispense with the share brokers' view that Heartland is a finance company dressed up as a bank.

February 2015 additional information:

HNZ share price has risen from 0.97 to 1.30 since the AGM.

The Reserve Bank of New Zealand has determined to reduce the regulatory capital requirements for HNZ subsidiary, Heartland Bank Limited to be in line with those of the other New Zealand banks.

HNZ has appointed Ms Deborah Jane Taylor to the Heartland New Zealand Limited Board with effect from 10 December 2014. Ms Taylor will be an independent director.

Jacquie Hagberg

Hallenstein Glasson AGM 10th December

NZSA proxies – 170,222.

The annual meeting of Hallenstein Glassons was held at Rydges Hotel in Latimer Square, Christchurch. This hotel, built since the earthquakes, is only four storeys high in line with the regulations for the rebuild.

The company's net profit after tax was down by 23.5% on the previous year while sales were down by only 5.5%. When I asked the CEO, Graeme Popplewell, if this indicated that they had had to drop prices to sell stuff, he said that you don't want to, but there is always somebody discounting and that the competition from Australian stores such as the Just chain is particularly intense. The chairman, Warren Bell, said that Northern Hemisphere manufacturers send product to Australasia during their off season.

Mr. Bell said that the company aims at a net margin of 10%, and aims to have 10% of its sales online.

Mr. Popplewell said that with e-commerce, customers see the best the world has to offer and are not just looking at Hallenstein's next-door neighbour. He said that Hallensteins have to bid and pay Google to have searches on, say men's shirts, directed to Hallensteins. He did say however, that he thought that the novelty of buying online was wearing off. He also believes that it is possible for the government to charge GST on online purchases from overseas.

Mr. Popplewell said that the customer experience is important, and that the new stores in Wellington and Auckland are designed with this in mind. I asked about a new store for Christchurch and he said that the company would be returning to the CBD. One shareholder complained about the noisy music in shops. Another shareholder, a singing teacher, said that she tells the shop assistants that they will be wearing hearing aids when they are 30 and this usually makes them turn the music down. Mr. Popplewell said that music is incredibly important.

Mr. Bell said that Hallensteins don't want to become too dependent on China. They get some product from Bangladesh. There is a trend towards local manufacturing. In the UK it is returning, and in the USA it never went away, but the infrastructure in Australia and New Zealand has disappeared.

Mr. Popplewell said that Hallensteins aims at shoppers with higher disposable income who shop every week or two and so shops have to constantly offer new product. (If they buy new clothes every week or two then, personally, I'd like to know which opportunity shop they take the old clothes to.)

It was interesting to me that there were far more questions from the floor than there have been at previous Hallensteins meetings that I have attended in Christchurch. A possible explanation for this is that the meeting was held in a smaller room than the one (not at Rydges) in which the other meetings were held.

Peter Heffernan

Pumpkin Patch AGM 25th November

Recently appointed Chairman Peter Schuyt and CEO Di Humphries reviewed the disappointing results for the year ended 31 July 2014.The Chairman also said that Goldman Sachs has been hired to advise on its capital and funding needs.

Revenue down 16% and NPAT $1.2m before reorganisation costs of $11m – final result a loss of $10.2. This result follows the previous 3 years poor performance including the closure of USA and UK stores.

Business conditions have changed for Pumpkin Patch as a niche retailer of children's clothing, with the retail market continuing to be difficult, with margin erosion, more competition from international brands and department store discounting, especially in Australia the largest market.

Commentary centred on the strategic review and the new business plan to be implemented over 2 years to develop an Omni channel communication system, new supply chain, upgraded IT system and fewer targeted stores with no major improvement seen in the results till the 2016 year.

Of concern was the level of debt at $66m and the comment in the Audit Report that the business was reliant on meeting its bank covenants over the next 12 months. First quarter trading was only in line with budget and last year and was very dependent on the Xmas trading over the next few weeks. The company was in compliance with the banking covenants and a testing time could arise later in 2015 if trading did not improve. Reduction in bank debt was a priority.

Many questions from the floor covered the closure of stores, the IT system cost (not to be implemented in 2015), high stock levels, cash flow, the share price at 34c and the possibility of a cash issue to raise funds.

3 directors have stood down recently. The meeting approved the reappointment of Peter Schuyt (Chairman) & Rod Duke and the appointment of Josette Prince (marketing experience), Luke Bunt (Financial), Bruce Cotterill (management) making up a Board of 6 including Brent Impey.

The Chairman concluded that the Board was confident in being able to turn the company round with a strong belief in the brand and management team.

Noel Thompson

Sanford AGM 17th December

A good crowd attended the Sanford AGM held as usual at the Viaduct Event centre on Auckland's waterfront. This meeting marked the end of considerable change at Sanford with Chairman Jeff Todd retiring, Paul Norling taking over the chair and the first full year under new CEO Volker Kuntzsch.

For the first time in several years, there was perhaps a sense that performance improvement was on the way. The Chair noted that profit was a little ahead of last year on slightly lower turnover with demand for aquaculture (shellfish and salmon) being very strong. Some other deep sea species however were less in favour or difficult to catch and pricing pressure remains an issue. Never-the-less, with a return on equity of only 4.1% and stagnant dividend levels, there is a long way to go. On the positive side, with 90% of the company's product exported, the drop in the exchange rate will be welcome news, as will an absence of court cases around discharges from trawlers that have affected the company for a couple of years.

A new director Mr Peter Kean has been appointed, and the company has decided to continue with a reduced board of six. Directors base fees remain unchanged. Mr Kean has been Managing Director of Lion Nathan New Zealand and Managing Director of Lion Dairy and Drinks based in Melbourne and his background should help boost the board's marketing focus.

The CEO spoke in detail about each part of the business and addressed the problem of how to best add value - something that is essential as Sanford (and NZ) has little opportunity to increase its catch of deep water species. His solution is to do as little as possible to the fish other than supplying it fresh or chilled in ready to eat portions wherever possible. This significantly improves the price, but transport costs and time to some market remain challenges. Limited live fish is also now being sold and commands a 50-70% premium, but this is impractical for export markets. Traditionally a great deal of the catch has been exported as frozen blocks which only obtain a bulk commodity price. While this will always be necessary to some degree, the mix is being changed wherever possible to improve returns.

In response to questions, the CEO said the company welcomed the efforts of Sea Sheppard to stop illegal Toothfish harvesting as this assisted in sustaining the fishery. The drop in oil prices was certainly welcome as it contributed 20-30% of fishing cost. While unable to be precise, Mr Kuntzsch estimated the effect if the oil price remained subdued, at several million dollars on the bottom line.

In response to a question about the sustainability of the dividend (barely covered by earnings), the Chair said the company had always paid its dividend and without elaborating said it was confident it would be able to continue doing so. He also said that Sanford was comfortable with the Chinese walls separating audit from other accounting advice received from KPMG. NZSA policy is for minimal non audit work to be given to the audit firm and periodic auditor changes to reduce a close relationship developing.

Other questions related to the ownership of "Fishmart" and the need for this to be developed as a strong "face of the company". Sanford have been taking more control and intends to make the property a "must visit" destination with education about sustainable fishing as well as the best seafood offering in Auckland. The testing phase of the precision harvesting technology is continuing with encouraging results.

Resolutions to elect Peter Goodfellow, Bruce Goodfellow and Peter Kean were easily carried. Shareholders then retired to enjoy some of Sanford's fine products including the amazingly ugly, but extremely tasty Toothfish.

John Hawkins

Caught on the Net

Three investing principles that everyone should understand

While looking for the "next big thing" to invest in, how can we sort out the good from the garbage? Dan Neagoy, in See It Market, offers three investing principles to follow as a key to successful investing. ***More***

Do riskier investments produce higher returns?

Finance 101 might say yes, but if riskier investments could be counted on to produce higher returns they would not be riskier. Howard Marks, chairman of Oaktree Capital offers a more nuanced interpretation. ***More***

A better way to thing about risk

Srini Pillay, writing in the HBR, discusses how risk assessment is a dangerous double-edged sword. He offers three "better" ways to think about risk. ***More***

Basic simple truths of investing

Barry Ritholtz offers 10 gems of common sense that we all know but regularly forget as we go about out investment decisions. ***More***

Cactus Kate in the gun again

Cathy Odgers aka Cactus Kate was in the Dirty Politics headlines last year along with Slater and Graham. This time she appears to be mixed up with dodgy Samoan registered company Pacific Fiduciaries. ***More***

What is intrinsic value and who decides it?

The simple answer offered in this post is, "the maximum price that an investor would be willing to pay to own the security if she could not ever sell it." But of course the full answer is much more complicated than that.

More

Economic Forecasting

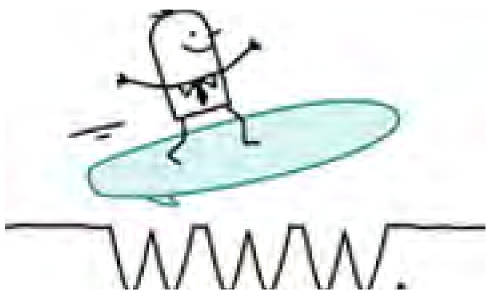
What is going to happen in the future? Everyone has an opinion. Ian Kelly, in Peria, looks at the usefulness of using historical data or relying on regression to the mean. ***More***

History is the antidote to fear of falling prices.

John Kay, writing in the Financial Times, comes down strongly on the side of using a historical perspective to allay fears over the prospect of deflation in Europe. ***More***

122 things everyone should know about investing and the economy

Morgan House, at Motley Fool, set out to write a book about 500 things you need to know about investing. He got to 122 for this



post - you must read number 122. ***More***

Of Kiwis and Currencies: How a 2% inflation target became global economic gospel.

This New York Times article by Neil Irwin is a reminder of the lead New Zealand gave in targeting inflation rates when setting interest rates. ***More***

Should we be fans of socially responsible funds?

Perhaps not unsurprisingly for a blog named Bankers Anonymous, the opinion offered is no. The writer suggests that the returns are low and it is better to invest widely and use the gains for "responsible giving". ***More***

When to throw in the towel on a stock

It is a decision we all grapple with, when is the right time to sell a underperforming stock? This post in Clear Eyes Investing suggests after three years. Perhaps? ***More***

Bruce Parkes

Branch Reports

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

Auckland

Upcoming Auckland Branch Meetings

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

Wednesday, 18th February – speakers Brian Gaynor, Milford Asset Management, and Glen Milnes, MD ikeGPS

Wednesday, 15th April – Presentations by Peter Mence, CEO, Argosy Property, and Dean Bracewell, MD Freightways

Wednesday, 17th June - Fraser Wyeth, Manager, Market Surveillance, NZX

Wednesday, 16th September - speakers to be advised

Wednesday, 18th November - speakers to be advised

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

Company Visits

Stuart and Fiona are arranging the next visit to Auckland International Airport, on Monday 9th March 2015. Details will be advised as soon as possible. Email - ***grayfion@gmail.com***

It is intended that visits will continue in the month between branch meetings.

Auckland Education Courses

Western Springs Community College will run two education courses early 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*2hr sessions

Commencing 18th February 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 3rd March 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.

Bay of Plenty.

Our Christmas function was enlivened by Sarah Ottrey, Director of Comvita, Ebos, and IRD's risk committee, who oozes capability, and practicality, and has worked in large corporates both here and internationally. How refreshing it was to hear a director share challenges of personal health, and value capture in the organisations she serves.

Sarah's 3 core principles for value creation were:

- A oneness of spirit and culture
- Discovery, insight, wonder, and curiosity
- Simplicity of focus for direction

The 86 members present then explored several questions.

How important is a company's market position? Answer: Comvita, for example, has a better market position in China than in New Zealand, and its R&D spend allows it to be curious and develop specialised new products. Surprisingly, Ebos has the third largest revenue behind Fonterra and Fletcher Building, and the strong relationships they have fostered for the long term make Ebos difficult to emulate.

How important is diversity in ethnicity, gender and skill? Answer: When the board is aligned with the customer base, looking at the business from different perspectives, adds value and smoothes out market bubbles. Challenges remain with only 18% of the 273 director's positions taken by women.

Sarah has a rare ability to reach and overview from an immediate grasp of the detail.

Ian Greaves

We have an interesting programme to kick start the year

Friday, February 27, 2015 - Discussion Group Meeting, Gate Pa @ 3 pm

Guest Speaker –Jon Murie from Craigs Investment Partners will speak on the year that was, and the year ahead.

Thursday, March 12, 2015 "After 5" company visit to Comvita & Visitor Experience Centre @ Paengaroa 5.30 pm.

Presentation by Brett Hewlett, CEO; Mark Sadd, CFO & Alan Bougan.

National Chairman, John Hawkins will also address members & mix & mingle.

Registrations essential; numbers limited

Jane Lyndon

Waikato

Our monthly events for 2015 start 24th Feb with Mark Lister, Head of Private Wealth Research, Craigs Investment Partners. Mark always gives us a very good heads up on where he sees the market

We have our programme finalised through to June, and have set dates in March for a two night course on Investment due to strong interest from members

All members of NZSA, and friends, are welcome to attend our events, just give us a ring to book. All details are on NZSA website under Waikato Branch

Upcoming 2015 Presentation Events:

Tuesday, February 24th - Mark Lister, Head of Private Wealth Research, Craigs Investment Partners.

Tuesday, March 24th - Alan Clarke, Managing Director, Abano Healthcare Group Ltd.

Tuesday, April 21st - Phil Neutze, Acting Chief Financial Officer, Auckland International Airport Ltd.

Tuesday, May 26th - Mike Pohio, Chief Executive Officer, Tainui Group Holdings.

Wednesday, June 24th - Midyear Dinner with Franceska Banga, Chief Executive of the New Zealand Venture Investment Fund

A number of mid and late year dates are still to be confirmed......... then

Tuesday, November 24th - Year End Christmas Dinner with Brian Gaynor, Financial Markets Commentator and Principal of Milford Asset Management.

John Davies

Wellington

Welcome to another year – with the election out of the way and dairy prices and the Xero share price back to more realistic levels, what excitement can we expect for calendar year 2015?

No idea. Humans are especially bad at prediction so I won't attempt to forecast interest rates, exchange rates, inflation, growth rates or the share market, I'll leave that lot for the economists to get wrong. All I can say with some certainty is that the Wellington branch of NZSA will meet nine times this year.

We meet on the second Tuesday of most months from 7:30pm to 9:00pm. Our meetings are held at the Royal Society rooms 11 Turnbull Street, Thorndon, just opposite New World on Murphy Street. It is a 5 - 10 minute walk from the main bus and railway station and there is good parking after 5pm at the Royal Society or on Murphy Street.

Our first meeting for the year will be on Tuesday 10th March. We will send out email notifications a week or so beforehand with details for the meeting and you are welcome to bring a friend along to check us out! We also advertise our meetings on the Wellington branch page at ***www.nzshareholders.co.nz/.***

All meeting dates for 2015 are:

- 10 March
- 14 April
- 12 May
- 9 June
- 14 July
- 11 August
- 8 September
- 13 October
- 10 November

I look forward to seeing you at our first meeting

Martin Dowse

Canterbury

We ended 2014 with our now traditional Christmas Social hosted by our Secretary, Peter Heffernan, who organised a challenging quiz with video clips and prizes for the most successful. We concluded the evening with seasonal treats and beverages. This was the sixth successive year that Peter has run the social and we are amazed at how clever and diverse he is able to make his questions.

Members of the branch committee have made an early start this year already holding their first committee meeting. The first three events have already been organised including the much postponed talk by Mark Waller of EBOS now set for March 11th. Our first event will be a talk from Grant Davis (a broker with Hamilton, Hinden, Green) on 19th February. We have several other events in the pipeline with details still to be confirmed. Our monthly Branch Newsletters will keep members informed of progress

Robin Harrison

Members' Issues

Escheatment at Capstone

Our regular correspondent Warwick Smith has a warning for investors. When Fletcher Energy was taken over by Shell in 2001, each shareholder received 1 share in Capstone Turbines for every 70 shares in Fletcher Energy. This resulted in lots of small holdings in Capstone Turbines, registered in Delaware, which still produces an excellent product, and is growing without paying any dividends. Today however, although registered on Nasdac and priced at US$0.60/ share, many of those inactive small holdings have been transferred to the State coffers without compensation, under the law of escheatment.

In fact by US Federal law, all states require financial institutions including brokers, wherever an owner cannot be identified for a period, usually of 5 years, to transfer cashable assets such as unclaimed bank balances, dividends and shares to the state. It is incumbent on the financial institutions to make reasonable attempts to contact the owner, and there are a number of companies who will recover "dead" balances on commission. However small parcels of shares and dividends usually fly under the radar as not being worth the effort.

FDR Again

Past Chair of our Bay of Plenty Branch Allen Smith has written to each Labour leader in turn since Phil Gough, asking whether Labour would cancel the FDR Tax if it introduces a Capital Gains Tax. It is a simple question but he has never had an answer. The current leadership is noticeably keeping its powder dry, by saying it would review the tax system when in government.

Peter Heffernan has also contributed by pointing out that when the total value of an overseas portfolio drops an investor can adopt the CV method and the resultant tax is nil. If in the following year the value recovers to its original value the recovered amount would be assessed at 5% and taxed accordingly. This means that although there has been no real gain in the portfolio, a notional type of capital gains tax has been applied.

NZSA has lobbied unsuccessfully over the difficulties of the existing tax on overseas investment, at several levels of policy making in IRD- management, policy and research. We will stay on the case.

A Member's Research

Murray Brydon is pursuing some research and would like your help. He calls it "Looking for the lemons," by summarising publicly available information prior to collapse. If any member has 1986 annual reports from Equiticorp, Chase Corporation, Renouf, or Robert Jones Investments, he would like to contact you. Please email directly to ***northviewbrydon@gmail.com***

Acurity Takeover Questions

A few members were puzzled by the payment for Acurity shares received from Connor after the issue of bonus shares. As the offer was declared unconditional before the issue of bonus shares can they insist on the return of the bonus issue?

This is the explanation from Martin Watson –

As you know, the takeover process became quite extended, in part through delays in receiving Commerce Commission approval. Additionally, fairly late in the process, AMP Capital Investors (a significant shareholder in Acurity at the time) made their acceptance of the offer conditional on a taxable bonus issue being made, to enable imputation credits to be distributed to shareholders.

The request by AMP did not change the cash value of the offer, it just enhanced the potential tax outcomes for some shareholders by making imputation credits available for shareholders' use.

Clause 8.2 (a) of the offer document is relevant as this states that if a bonus issue of shares is made, the Acceptor will transfer the additional shares to Connor without additional payment. The alternative, as outlined in 8.2 (b), would have been for Connor to have adjusted the offer price down in proportion to the number of new shares issued (in this case from \$7.25 to \$6.13) and then paid out \$6.13 per share for each share including those from the bonus issue. The amount received by each shareholder would have been the same under either payment method.

In accepting the offer, even when accepting after the compulsory acquisition notice, shareholders accepted Connor's offer including all of the features of the offer as outlined in the offer document (reference 8.2, a and b). The term "unconditional" is used to include all of the financial framework of the offer document excepting terms requiring a minimum acceptance level.

There is no need for you to return the 23 December dividend as this dividend was a part of the consideration you received as payment for your Acurity shareholding. The total payment was calculated at \$7.25 per share for each share originally held by you. Equally, as mentioned above, you could have been paid the same amount at \$6.13 per share for all of your shares including those of the bonus issue. The dividend part of the payment will be part of your taxable income for the 2014/15 tax year as will the associated tax credits.

As Acurity has now been privatised, the ACY announcements no longer appear on NZX

Upcoming Events

For more information go to Branch section of NZSA website

2015

February 18	Auckland Branch meeting
February 19	Canterbury Branch meeting
February 24	Waikato Branch meeting
February 27	Bay of Plenty Branch meeting
March 10	Wellington Branch meeting
March 11	Canterbury Branch meeting
March 12	Bay of Plenty Branch meeting
March 24	Waikato Branch meeting
April 14	Wellington Branch meeting
April 15	Auckland Branch meeting
April 21	Waaikato Branch meeting
May 12	Wellington Branch meeting
June 17	Auckland Branch meeting

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