Principle Conference Partner

Many Investors, One Voice

NZ Shareholders Association National Conference and AGM 2012

When: **Saturday 11 August 2012 from 9.30-3.30**

Where: **Alexandra Park Function Centre, Greenlane Road West, Auckland**.

Once again the NZSA is delivering a fantastic line-up of speakers for this premiere event. Anyone interested in investing will not want to miss this opportunity.

- **Rt. Hon. John Key, Prime Minister** Find out first hand where the government sees New Zealand's current situation and the priorities going forward. We have invited the Prime Minister to comment on the impending partial privatisation of some SOE's.
- **Sean Hughes** CEO of the Financial Market Authority. Hear how the advent of the FMA has created a sea change in the New Zealand regulatory environment.
- **Tim Bennett** The brand new CEO of the New Zealand Stock Exchange. Hear Tim's thoughts on the priorities and ideas he has to reinvigorate the stock market
- **Tony Carter.** One of New Zealand's most respected company directors. Chairman of Fisher and Paykel Healthcare and on the board of Fletchers, Air New Zealand and ANZ National. Tony will talk about the opportunities and challenges facing New Zealand companies in these difficult times.
- **And more!**
- **2012 AGM:** Meet the NZSA Board. The chance to have your say.
- **Full buffet lunch** included for registered attendees.
- **No charge** for members.

Accommodation: Explore the many attractions of the beautiful harbour city that is Auckland A range of accommodation at reasonable prices is available close to the venue.

Registration: Via the NZSA web site at www.nzshareholders.co.nz Early registration will assist with catering.

Cost: **Members**: No charge. Partners: $20 door donation towards buffet requested.
Public: $80 per head including buffet lunch.

"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc. NZSA
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In this Issue

Oil Lamps in the boardroom

India is a fascinating place to visit - a land of astonishing diversity. There are myriad different cultures and landscapes. Mumbai with its vast slums heaving with people at one extreme and stunning, largely deserted sweeps of beach in front of serene five star resorts in Goa at the other. This is a country that has given the world one of the great activists in Mahatma Ghandi plus innumerable artists, philosophers, and thinkers. One of these was B R Ambedkar, the founder of the Indian Constitution. He said "History shows that where ethics and economics come in conflict, victory is always with economics." Which patient reader brings me to the subject of this article.

Last month, New Zealand Refining held an SGM seeking approval for a massive upgrade to its Marsden Point facility. This gave us an insight to the way that major shareholders can dominate and potentially defeat proposals that may be in the best interests of the company, but not suit their own agenda. NZR is 73% controlled by four oil companies being, BP, Z Energy, Caltex and Chevron. With the exception of Chevron, each has two members on the board giving a 70% representation. Most director appointments are based on their executive position in the oil company and consequently frequently change, which is disruptive to say the least. There are three independents which keen observers will note is a distinct minority.

Under CEO Ken Rivers, NZR spent $21m investigating the feasibility of upgrading the refinery with a new CCR unit. This well proven technology will give an 8% efficiency increase, an extra $US1.10 margin per barrel and the ability to refine a broader range of crude economically. Strategically it allows a significant lift in capacity and market share while reducing greenhouse gas emissions 14%, and will extend the life of the refinery by at least 25 years. However, as always there is a catch, a rather large $365m catch - these projects do not come cheap. Never-the-less, the return on capital is predicted at around 15-17%. Even the harshest stress test shows returns way above the company's long run average. NZR enjoys strong cash flows and the balance sheet can handle the investment. All in all then, you would think it was a bit of a no brainer, and that in essence is what 18 months of analysis showed.

With refining margins and NZR's stock price near cyclical low points, shareholder approval was required as the project greater than 50% of the company's market value. This alignment of the stars is a very rare situation and for once, shareholders were able to see the problems inherent in companies structured in this way. As Mr Ambedkar so rightly observed, ethics and economics did indeed collide!

It became apparent some oil company directors (Mobil and Chevron as it turns out) had opposed the upgrade but by majority the board decided to proceed. The NZSA speculated that the oil companies may be "patch protecting" because of concerns about the extra competition the refinery would provide to their own offshore operations. Alternatively, the return on funds was below what they wanted, despite being attractive for most investor – which begs the question why they don't just sell and move on? Both reasons were confirmed by Mr Rivers in a remarkably candid radio interview after the SGM vote was taken on 27 April. As expected, Mobil and Chevron voted against the deal, but 99% of other votes were in favour (including BP and Z Energy) and the motion was narrowly passed.

This incident has highlighted the conflict of interest when large shareholders are presented with the opportunity to drive their own agenda via their director appointees. And the directors themselves are in an ethical and legal quandary. On the one hand, under Section 131 of the Companies Act, they are bound to act in best interest of the company they are directing (and by extension, the best interests of ALL shareholders). On the other, as employees they are expected to toe their employer's line. If they do not do "the right thing", they might find avenues of advancement quietly closing. Nothing might ever be said, but everyone would know why. Likely it would be the corporate equivalent of Hara Kiri. What would you do?

If this all happens behind closed doors, it may not be a problem for conflicted directors. That of course is a cop out on the rights and wrongs of their actions, but realistically, shareholders would have no clue whether their best interests were served if they didn't even know the discussion took place. It is only when subject to a strong dose of sunlight as they were with NZR that investors can understand the real nature of the problem. Did the oil company directors act in an exemplary manner? Who knows? NZR Chair David Jackson was at pains to point out to the SGM that he had made sure every director understood their primary responsibility and I accept his word on this. Proving anything one way or the other in regard to what went on inside the oil company directors heads is always going to be an exercise in futility anyway.

The underlying concern is that in most cases shareholders will have no idea if good ideas are stymied at board level by entrenched interests. Is it appropriate for the oil companies to have two representatives? At NZR it only requires three companies working together to defeat any board proposal no matter how attractive to the hundreds of smaller shareholders. Normally it would stay hidden, and it was only the unusual situation prevailing at NZR that let all investors have their say.

If you choose to invest in companies with large controlling multinational shareholders, you need to factor something into your risk evaluation. You can bet there is a snowballs chance in hell that a tiny investment in New Zealand will change the corporate intentions of a company that is larger than our whole economy!

Most of you don't have any NZR shares and may think this is all irrelevant. But that is not the case. While NZR is an extreme example, it is not alone. For example, over 50% of Contact Energy is held by Australian corporate, Origin Energy. What chance Contact would be allowed to expand operations in Australia in competition with Origin? How much concern will Olam really have for the 20% of NZ minority shareholders left in Farming Systems Uruguay?

Briscoe's and Michael Hill are controlled by interests associated with families or individuals. Here it would be reasonable to assume much closer alignment between the interests of the controlling shareholders who have a lot of skin in the game and the success of the company. However, that does not always follow, as anyone with shares in the Robinson family controlled Rakon will know.

How much weight you put on these considerations will depend on your own assessment. It may be that other compelling factors far outweigh the potential risks. There should be less concern if the majority of the directors are independent as sometimes happens. Or you may trust the non-independent directors and managers to always behave in an ethical manner and put the interests of the company ahead of their own. In that case, you probably also believe in fairies and are a paid up member of the Flat Earth Society!

Where to from here then? Perhaps if we travel north and west from our Indian beginning across the vast steppes of Russia to the dazzling multi-coloured churches of Moscow we will find an answer of sorts. Russian Nobel Prize winning novelist Alexander Solzhenitsyn said "Even the most rational approach to ethics is defenceless if there isn't the will to do what is right". Like so many things in life, it seems this decision may well come down to your own judgment about the willingness of the people involved to do what is right. Caveat emptor!

John Hawkins

Chairman

Notice of Annual General Meeting

The Conference and AGM of the NZSA will be held on Saturday 11th August at the Alexandra Park Convention Centre in Auckland. Full details are in the flyer at the front of this edition.

Nominations for Board positions and Notices of Motion must be received by the Secretary at PO Box 42-139 Orakei, Auckland no later than 44 days prior to the AGM (28th June). If you wish to nominate any member to the Board of the NZSA or submit a Notice of Motion, the forms to do so may be obtained from Chris Curlett by emailing him at

secretary-treasurer@nzshareholders.co.nz

Family Trusts benefit from On-line voting

Trusts and Proxy form signatures

Those members whose investments are held through a family trust have been disadvantaged when they have wanted to appoint the NZSA their proxy holder, or indeed to vote themselves on the resolutions – as up until now companies have insisted on having all trustees sign the form.

After much lobbying by ourselves, and with the advent of on-line voting, the procedure is changing and now most issuers (companies) will accept the signature of the first Trustee who signs only.

Computershare and Link are both providing for on-line voting of resolutions at AGMs/SM.

Link's online voting allows for a special NZSA proxy appointment – which is great recognition of us and our role in providing this service for our membership of shareholders.

It is the Issuer who decides what signatures they will accept on the voting form. Some are sensible and accept the signature of the first person who signed, but some Issuers insist on all signatures. The Issuer creates the proxy form and it is sometimes important to read the flip side. The Registries are not driving this trend, it is the company legal team.

For online voting it states that the terms and conditions must be read and also the declaration signed. This in effects allows for one Trustee to sign.

This is very good news and we would now encourage all of you Trustees who have NOT in the past bothered to vote your proxies, to please do so and appoint the NZ Shareholders Association as your proxy holder.

Jacquie Hagberg

Aged Care Mixed Messages

At a time when it seems all share market analysts have 'buy" recommendations for Ryman Healthcare and Summerset Holdings, the media is full of reports of low wages and no profits in the aged care sector. What's going on? Operators say they make their money from residential villages. From this they provide a return to their investors and subsidise their loss making aged care operations.

In May, Norah Barlow, CEO of Summerset, and CFO Julian Cook presented to the Wellington branch meeting. Ashley Chan's comprehensive report on that presentation provides some of the answers. Elsewhere in this edition there are also reports of Summerset's AGM and Norah Barlow's address to our Auckland branch

The Wellington meeting was lively, with a lot of interest in the business of retirement villages as well as in the practicalities of living in one.

The large corporate retirement village operators aim to take advantage of the demographic change of an ageing population in Western societies. In 2011, there were 260,000 New Zealanders aged 75 years or more (5% of the population). By 2031, this will grow to over 500,000 (10% of the population). Based on current demand, this would necessitate the provision annually of an additional 1000 new individual units (providing accommodation for 1,300 persons) and 1000 new aged care beds.

Currently 9% of New Zealanders aged 75 years and over live in retirement villages (half are run by small operators with less than 50 units). Should the rate increase above this number, more units and beds will be needed. For example, if 11% of the age cohort desire to live in retirement villages, then 1800 new units and 1800 new beds each year will have to be provided to meet their needs. (Tauranga has 17%-21% of the age cohort living in retirement villages.)

At a business level, Summerset has chosen a "continuum of care model" from independent living (villas, apartments), assisted living (care apartment), and aged care (rest-home care and hospital care). It is currently deciding whether or not to incorporate secured dementia care (currently 0.1% of persons aged at or over 75 years.) The average age of entry is 80 years, and the average length of stay is 5 to 8 years – depending on the type of villa/unit/care/hospital bed you take..

At a money-making level, Summerset puts in the money – around $50 million to $100 million to build a retirement village, which takes about 5-6 years to build. It recovers capital from:

1. selling units at a margin over cost;
2. charging a deferred management fee on exit (I understand this is capped at 25% of the purchase price of a unit to cover circa 15% of the total capital cost to pay for village amenities such as bowling green, pool, restaurant and other common areas); and
3. taking any capital gains when the occupant leaves and the unit is resold, although the company is responsible for refurbishment. Capital gains are required to earn an adequate return for Summerset shareholders.

The company tries to control development costs by building in scale and by having an in-house design team (of 8-10 designers and architects) and an in-house project manager (who runs all the trades as a pseudo head contractor). The aim is to try to avoid having to make changes to the design while the retirement village is under construction, thus avoiding excessive charges by builders and cost overruns.

Contrary to popular perception, local councils do go out of their way to attract retirement villages as they recognise the economic benefits that a development will bring – both initial construction employment and ongoing local spending by residents. Summerset maintains a good relationship with councils to ensure that any council charges to the company are fair.

Summerset also charges village services levies (in the NZ$90-$120/week range) and care fees to pay for operational and running costs. Village levies are paid directly by the occupant (typically from NZ Super) and fee increases are capped at the increase in NZ Super.

The company says it is able to make aged care (rest-home and hospital care) work, because it includes an aged care facility in every village from construction – this provides savings from land economies and later on savings from staff economies (as staff can also be shared in other areas). Typically, on the aged care side, the government directly contributes 55% of revenue, while the remaining 45% is privately contributed.

Staff hire, retention and costs would appear to be an ongoing long-term issue for the aged care industry. Turnover is high (circa 30%), caregiver wages relatively low compared to other professions, and 60% of staff including nurses are imported from overseas. While nurses are paid DHB market rates, the main issue described by CEO Barlow is that New Zealand as a country doesn't train nurses to respect aged care as profession. Instead, the "sexy" side of nursing is promoted as being in paediatrics or emergency care.

In terms of future business growth, Summerset has a significant land bank of over 1000 retirement units and 240 care beds and plans to buy on average 1-2 sites per year. There is currently a steady waiting list to get into a retirement home. Those on the waiting list are ranked by the size of their deposit. Most residents are from the local area, and purchase prices reflect the property prices in the area (e.g.. $325,000 in Wellington suburbia to $650,000 in Auckland).

Financially, Summerset has a net tangible asset value of $1.09 as at 31 December 2011. It made an "underlying" net profit after tax of $8.0 million (4.5 cents per share, assuming an average 181 million shares pre- and post-IPO, or a historic PE ratio of 37 times). The dividend payout ratio is currently set at 30%-50% of reported profits.

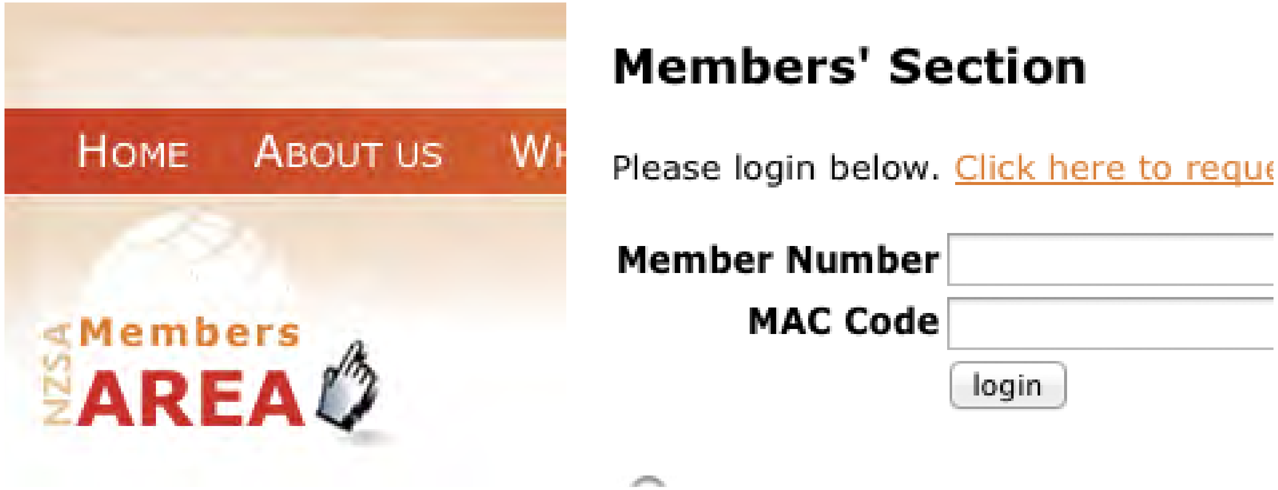
The company has no core debt, with all debt (circa NZ$70 million) being development debt. Total assets are over $600 million of which over $550 million are in retirement village properties. The annual report is laid out in a way to make comparison with its listed competitors Ryman and Metlifecare easier.

Summerset listed on the NZX in November 2011 at an issue price of $1.40. The stock traded below the issue price for about two months, but has since risen then to trade in the $1.60-$1.70 range or 1.5 times NTA. There are 215 million shares on issue post-IPO, with private equity manager QPE Funds Management retaining a 56% shareholding or 120 million shares, and the company has a market capitalisation of $350 million.

Ashley Q Chan

***Standard NZSA disclaimer, as set out on the back page, applies*

Did you know that you can pay your account from the NZSA Website?



Simply go to the NZSA web site at www.nzshareholders.co.nz and click on Members section, enter you member number and MAC (Member access Code) from your invoice/statement and then go to My Account.

Membership Fees

The NZSA board has approved a $5 increase in membership fee for 2012.

General membership which includes Branch membership is now $120.00

Student membership which also includes entitlement to branch meetings $25.00

NZSA with all its news, advocacy, and research is run by volunteers, but we do incur costs and we would appreciate your prompt payment when you receive your invoice.

Strategic Analysis of a Managed Fund

A Master of Business Administration (MBA) at the University of Canterbury culminates in a research project, counting for 25% of the total degree. My project was sponsored (in time only, not monetary gain) by a fund manager based in Christchurch, and involved the analysis of the small managed fund environment in New Zealand; and a research component that included the interviewing of more than 30 participants comprising of high net worth individuals, financial advisors and industry providers.

Due to commercial confidentialities, I cannot divulge some of the key parts of the end result in relation to the actual managed fund that sponsored me, so instead, I have grouped some of my resulting observations into areas that I think you may find interesting. I would like to heartily point out that I am not a financial adviser in any way or form, do not offer any advice in this article, and the comments merely represent some of my opinions which do not constitute financial advice.

Managed Funds

Managed funds in NZ are currently regulated by the Unit Trust Act 1960, and consist of three parties; the trustee, the fund manager and the (collective) unit holders. Most managed funds are under the PIE regime, which allows investors to be taxed at their prescribed investor rate (PIR) rather than the higher tax rate. The Unit Trust Act is administered by the Financial Markets Authority (FMA) which currently has a draft Financial Market Conduct Bill in submission, due for review this year, and this is likely to make some significant changes to the way managed funds operate, among them an increased requirement for full disclosure of fund holdings.

In 2011 in NZ there was an estimated $86.5 billion in managed funds including the NZ Superannuation Fund (Sources: Reserve Bank of New Zealand and NZ Superannuation Fund, 2011)

My study focused on 'small' managed funds, which are generally up to $150million of funds under management (FUM). A managed fund with over $500million of FUM is classed as a 'large' fund and a very different operation. Some of the more well known branded funds are often large funds.

An analysis of fees showed that most funds have a manager's fee, trustee fee, administration fee and a performance fee. There is a variety of criteria for triggering the performance fee, making it easier for some funds to charge this fee than others, and as an investor, it is worth examining this closely.

Most of the small funds evaluated for the project had a broad investment mandate, meaning that they can essentially invest in any type of security, with an asset allocation that can flex with market conditions. Some larger funds tend to 'commit' to their asset allocation with a more prescriptive mandate, for example investing certain percentages of the total fund in equities, fixed term and/or cash, regardless of the market conditions. For the smaller funds, this broad mandate allows them to be nimble and fast in the financial markets, however some financial advisers find it harder to do sufficient research on these managed funds in order to recommend them to their clients, as there is less certainty as to the fund's area of investment.

Louisa Bangma

Returns obviously vary considerably from fund to fund, and year by year. Melville Jessup Weaver Consulting Actuaries (**http://mjw.co.nz/**) release a regular investment survey showing the returns for a number of managed funds in NZ, which is comprehensive and helpful. FundSource (http://www.fundsource.co.nz/) also do a comprehensive list of funds, with performance figures and MorningStar ratings.

Investor Behaviour

The project focused on high net-worth investors (HNWI), who are defined as those with net assets of more than $1million (Source: Capgemini, 2010). There is no specific data to indicate how many of these types of investors reside in NZ, but based on the proportion of the Australian population for which there is data, I surmise that there may be up to 30,000.

Somewhat surprisingly, not all the investors interviewed had a specific required return, although there was a range of expectations, most of which incorporated some capital growth. Examples of expectations around return included: [sic]

- 3 times the amount you're willing to risk
- 7.2% per annum which means you double your money every 10 years
- Cash rate plus risk premium – about 8-12% per annum
- 20% capital growth per annum
- Absolute return.

Most HNWI investors interviewed had very low liquidity requirements, and a low to medium risk tolerance that sees them preferring to take a lower return for a lower risk strategy. None were speculators looking for high risk investment products.

In general, the investors interviewed who specifically had money in managed funds were looking for positive returns and a sense of trust in the investment managers of the fund. Investors knowing that the investment managers had their own money in the fund rated very highly.

Since last year, financial advisors have had to be authorised under the Authorised Financial Adviser (AFA) regime. Their code of conduct requires that they sufficiently research a financial product before recommending it to their clients, but there are no criteria or specific measurement tools required. Several of the AFAs interviewed commented that they believe Kiwi-saver has improved the financial literacy of New Zealanders. However, many investors interviewed indicated that they were not thoroughly reading research provided, investment statements or financial statements for a given financial product or security. The level of trust given to financial advisors was still very high, despite all the recent and on-going global financial turmoil, and some having sustained losses over the last few years (specifically in relation to collapsed finance companies). In my opinion, individual investors may do well to investigate more thoroughly, supplementing professional financial advice with their own education and information about the financial markets and investment options.

Louisa Bangma MBA

Please note that the author is not a financial adviser and no part of this article constitutes financial advice.

Share Buy Backs

Recessionary conditions in many parts of the world, mean that companies have become cash rich from working capital reductions and lack of growth in their traditional markets. Buybacks are more frequently suggested in these times.

Alan Best

Share Buy Backs are usually seen as a buy signal. The directors are telling us as insiders, that they cannot see a better way of using the company's cash than by buying its shares on the market. It signals confidence in the on going operations, and a capital gain for shareholders as the supply of shares is shortened. These insiders are telling us that the current market undervalues the shares. They then have the option of cancelling the shares bought, or keeping them as treasury stock perhaps to issue as long term incentives to staff, or as consideration for an acquisition. Cancellation sends a stronger message of shortening scrip and strengthening price, while treasury stock leaves the question of future dilution open for the time being.

However, in order to assess whether the buyback is really the best use of capital, we should also ask ourselves about the other alternatives open to the directors. Here are some:

a. A capital return to shareholders: Often the difficulty of having this type of payout approved as tax free discourages directors. Generally IRD regards the original subscribed capital to be returned as tax free, while the reserves built up over a period of profit growth, are scrutinised more carefully. A capital return often suggest to shareholders that the staff and directors are lacking in the imagination and leadership required to deploy that cash to improve the business or to take over a similar or competing business, and it becomes a negative signal.

b. Declare a special taxable dividend: This is possible if the company holds large reserves of imputed (franking) credits. However most companies have only limited access to these and prefer to hold them for the payment of normal dividends. If normal dividends are increased, rationing them so as to maintain the higher payout, the share price will often rise to reflect this and so there is a double benefit to existing shareholders.

c. Repay debt: Here the directors must assess the gearing and the risk of a high level of borrowing. The negative is that debt, while raising the risk of the share is a cheaper means of financing than shareholders' equity. Equity is expensive to attract by a public offering, and more expensive to service in tax and dividends.

d. Spend up on new plant, R and D, or stock and debtors. For exporters, the current exchange rate may not encourage the installation of new plant although the imported plant itself may be cheaper than usual. R and D is not a highlight of New Zealand companies and we live in hope that it will be stimulated by tax breaks in each budget round. Increases in stock and debtors are not viewed positively by investors unless accompanied by greater increases in sales and profit.

e. Hoard the cash to take advantage of new investment opportunities. Competitive conditions wont allow the opportunities to be spelled out, and shareholders will only wait for so long before getting restless over large cash reserves.

Researchers have theorised that a rational investor does not mind whether he receives a return as a capital gain or a dividend. If he gets no dividend he can simply make his own by selling a few shares. In practice however, investors are reluctant to sell shares in a good company, a fact exploited by GPG, in the past, as it accumulated more and more capital from shareholders by its dividend reinvestment schemes.

Share buy backs need to be questioned by shareholders in the light of the particular circumstances of the company. Why should they approve a large option scheme for management(dilution), when they have just approved a buyback (concentration)?

Is the company at risk from being too highly geared? If so, don't buyback; pay off debt.

Are there large opportunities around the corner? If so, hold the cash and take the opportunity.

How important is the buyback to the largest shareholders? Do they benefit more than they would from other types of payout?

Is the company up to date in its plant, maintenance and research? Telecom and NZ Rail were not, at the end of the century, with disastrous results for the share price.

And over it all, is that part of the market one which is in decline, telling the directors to pay back capital, and maybe to buyback and artificially support the price of the shares?

As shareholders we should be saying to Directors: Caveat Emptor "Buyer Beware!"

Alan Best

In the hunt for fair, effective and transparent financial markets

Introduction

NZSA has been heavily involved in the "once-in-a-generation rewrite of our securities law" (as was described by the then Minister of Commerce Simon Power).

Being the only New Zealand organisation representing the "buy side" of retail investors, it was obviously important that NZSA got involved at an early stage as a "stakeholder" in the process. During the rewrite period NZSA has had a number of meetings with various regulatory authorities. NZSA believes it has made a significant contribution to the rewrite.

This rewrite is a significant step in the process of restoring and enhancing retail investor confidence in the NZ financial markets.

An early step to the rewrite was the Ministry of Economic Development ("MED") discussion paper in June 2010 titled "Review of Securities law" in June 2010. This called for interested groups to make comments on a range of existing provisions and proposed changes to be incorporated into a new securities law regime. NZSA made a substantial submission on this in August 2010.

NZSA made a number of further submissions during 2011. These were:

- June 2011, submission on the Commentary on the Securities Act Review as detailed in the 2011 Cabinet Economic Growth and Infrastructure papers.
- September 2011, submission on the draft Financial Market Conduct Bill on technical aspects.
- November 2011, submission on the Financial Market Conduct (Regulators and Kiwisaver) Bill.

Financial Markets Authority on effective disclosure in offer documents

In March 2012, NZSA made a substantive submission on Financial Markets Authority's ("FMA") draft guidance note on effective disclosure. As you will appreciate effective disclosure is fundamental to fair, efficient and transparent financial markets.

FMA met more than 30 stakeholders (including NZSA) and received over 60 submissions on its consultation paper.

As a result of the submissions on the draft guidance note on effective disclosure FMA published a revised draft of the guidance note in April. NZSA made a further submission on the revised draft.

The final guidance note was published by FMA on 8 June 2012. FMA Head of Primary Regulatory Operations, Sue Brown, said "the final guidance note will improve the quality, accuracy and relevance of the information provided to investors by issuers………We have refined the guidance in response to the highly constructive issues raised by submitters in the second round of consultation. We hope that issuers and their advisers now have a clear understanding of how the guidance applies to their disclosure documents, and FMA's expectations…"

FMA will start using the guidance note as part of its risk based assessment of offer documents for new issues from 9 July 2012, and for continuous issues, from 1 January 2013.

Financial Markets Conduct Bill

The Financial Markets Conduct Bill ("FMCB") had its 1st reading in March 2012 and was referred to the Commerce Select Committee. This Bill is NZ's largest bill ever – the "doorstop" as it is affectionately known! Submissions were called for by the end of April 2012 on policy matters

NZSA made a substantive written submission on the policy aspects of the FMCB in April.

John Hawkins (NZSA Chairman) and Gayatri Jaduram (NZSA Director) made an oral submission to the Commerce Select Committee on 7 June 2012. We are hoping for an important change from an investors' perspective to the disclosure exemptions as a result of our submission.

NZX consultation memorandum on changes to Listing Rules on Board Diversity and other matters

NZX released its consultation document on changes to the Listing Rules for public consultation in March with submissions due 30 May.

A significant change is NZX's proposals on board diversity. The proposal is that issuers be required to include in their annual reports:

- the gender composition of the issuer's board, senior management team and any subsidiary board; and
- a statement from the issuer's board providing an evaluation of the issuer's performance with respect to its diversity policy (if applicable).

A footnote is also proposed, noting that an issuer may choose to disclose in its annual report any general or wider diversity policy or any other matter relating to diversity if it considers such disclosure would be of benefit to, for example, its investors.

NZSA made substantive submission on 30 May on the proposed diversity rule and on other important proposed changes such as the disclosure of information rule and material transactions.

On the proposed diversity rule we had this to say:

NZSA supports diversity on boards and senior management and welcomes any change which encourages diversity on boards and senior management. However, we believe NZX's proposed rule change does not go far enough to reflect the purpose of the financial markets law reforms nor, with respect, NZX's own rationale. In order to achieve the intended purpose and objective, a diversity rule should not be limited to gender. Any proposed change should reflect board and senior management diversity in the wider sense. It should also be mandatory for companies to disclose and report on its diversity policy.

You can view a copy of all our submissions on the "once-in-a-generation rewrite of our securities law" on our website at: www.nzshareholders.co.nz.

Gayatri Jaduram

Director, NZSA

Gayatri Jaduram

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. Run your curser over the report heading for a link to the company website

Diligent Board Member Services AGM 17 April

The Chairman of the meeting was David Liptak, Non-Executive Director and Chairman, USA. Allesandro Executive Director, Chief Executive Officer & President, USA also addressed the meeting, which was video linked to USA. You may realise that the Chairman and much of the company's operations are based in the USA.

No proxies for the NZSA were received. I can only assume that shareholders are so delighted with the share performance of the company that they were stunned into forgetfulness about the AGM! It seems that this company is doing very well. Despite that please supply your proxy to the NZSA. Issues can emerge close to an AGM.

Diligent 'produces' Boardbooks, which is a system for securely supplying board documents to Directors; meaning they receive information & amendments in real time, do not have stacks of documents to carry around and the information is very secure. Before the meeting I spoke with one of the Directors who briefly showed me how Boardbooks works. It seems too simple to make money, why hasn't someone else done it? They have, but I was assured those systems were not as good and most importantly not as secure as Boardbooks. A major point of difference between Boardbooks and other systems seems to be security which is vital. Before purchasing Boardbooks companies often do their own testing of the security of the system. One major customer spending four time the cost of the years licences on testing! Customers regularly make suggestions about improving the product & security. These suggestions are included in continuous improvement. Diligent's increased results are 'tranformative' & the growth 'explosive'.

The first quarter results are impressive with the nett income profit nearly exceeding that of the whole 2010 year. Revenue is up. New sales are up. New clients are up with a very high client retention rate. Much growth comes from referrals, which means existing clients insist subsidiary companies, boards, other staff members use this system. Each person is an additional contract.

Boardbooks seems to be spreading like a 'virus'. In the first year of the contract very little profit is made even though Diligent charge an 'installation fee',15% of 12mth contract, which competitors do not. The second year is when the contract is profitable. The effect of this is that the increase in the current year first quarter profit result is as a result of the new clients, referrals, from a year ago. The Chairman also explained how USA accounting affected recording income, consequent growth & profits. When a contract is taken out for a year the full fee is paid up front. Every month a 1/12 of that contract is shown as 'earnings'. Therefore the full value of the contract is not shown until month 12. (I think I have got that right). Due to the growth of Boardbooks new sales, though increasing, become a smaller part of 'the book'. Graphs presented showed how important the existing contracts are to support the new year on year contracts.

Diligent has about US$6.9m in cash & does 'not feel overburdened'. It has been considering what to invest in and a dividend policy. I got the impression that this has been considered for more than a year with the Chairman commenting 'Nothing to say regarding policy'.

Motions voted on included:

Reducing the size of the board from a maximum of 11 down to minimum of four with a maximum of seven. There are three independent members of the board & it is intended to maintain that number. Maybe some other companies could aspire to this percentage of independent directors on their boards.

Stock options. Used to retain & attract talent & so reduce the cash outlay of attracting & retaining talent.

Classified board. (Staggered appointments) Used in the USA in 85% of new companies. Regarded by some as an 'anti-takeover device'. **http://en.wikipedia.org/wiki/Classified_board.**

Of interest:

In the USA first quarter results are low.

Boardbooks is used by the following percentage of listed companies: FTSE 21%. Fortune 500 18.9%. NYSE 15.2%. NASDAQ 6.3%. TSX 5.9%. How big is the market? There are 3,500 Fortune companies not using Boardbooks. There are 33,000 registered users of Boardbooks. All sales, yes 100%, are from 'inbound' leads. The sales force does not have to go looking for clients. New clients know that they want Boardbooks. Client support centres in NZ, USA, UK. SNZ, ChCh is the development centre for Boardbooks. The future, keep expanding, Europe has huge potential and Asia.

Michael Cornell

Turners Auctions AGM

Chairman, Michael Dosser introduced the review positively emphasising the 23% increase in net profit, and quickly handed over to CEO Graham Roberts, who dealt with market conditions in more detail. His overheads are available on **www.turners.co.nz/About/Pages/Investors.aspx**

There has been a significant reduction in second hand vehicle imports from the peak of 150,000 to the current 65000 p/a. Kiwi Carriers, a significant player, has exited from the market and the emission regulations have had a dampening effect. From the tax payers point of view these regulations have not worked so far, because they have raised the price of vehicles to the consumer, who hang on to vehicles longer, and increase pollution. Graham showed slides of Turners major receivership auction in Manukau, featuring heavy machinery, with 500 on-line bidders of the 1450 registered, many from overseas, paying NZ$13m, and clearing all lots offered. He also spoke of the Microsoft upgrade which would make the site more expandable and user friendly. The "Cash-Now" option, involving immediate valuation and cheque payment within the half hour, for car sellers was also proving popular.

The uncertainty over the review of the 1928 Auctioneers Act, attempting to replace "as-is-where-is" terms with consumer protection, was also mentioned. In Christchurch, Turners had taken a lead with the removal of cars from the central city and a $50,000 donation to the earthquake appeal. The forecast included research on acquisitions for this cash rich company, currently trading about 20%ahead of budget.

In this meeting we actually had a contested election of directors, and so the Chair called for a poll, in which the two existing directors Shale and Graham were re-elected, while Brian Gaynor outscored Tony Coombe to take up a new seat. Whether the extra seat in this small company is warranted is debatable, but we would hope that the injection of fresh ideas will result in earnings growth.

Several shareholders were concerned at the way in which GPG disposed of its interest, going to one broker, and offering the shares to certain larger buyers at $1.15 when the retail price was over $1.30. Gaynor's Milford Asset Management quickly took up the offer to make it the 2nd largest holder in Turners.

Other questions concerned the average commission rate, which has kept pace with the inflation of vehicle prices; and the current payment of dividends from capital, which it is clear from the cashflow statement cannot be kept up for long.

Alan Best

Property for Industry AGM 18th May

645,629 proxies held

Vanilla ice cream has been a long term favourite for New Zealand consumers. It is safe dependable option, liked by all, with no hidden surprises. To the apparent satisfaction of shareholders present, the PFI Board delivered vanilla, with just a taste of lemon, at the AGM held at Eden Park.

With 45 industrial properties (40 in Auckland), PFI has weathered the Great Financial Crisis in better shape than some other listed property companies. This year there has been an increase in property leased and the weighted average lease term.

Increased interest costs (despite lower borrowing) and increased taxation (up 55.5%) through the removal of depreciation, have battered the bottom line. Distributable profit equated to 7.21 cents per share with 99.3% (7.175) cents paid out in dividends. Chairman, Peter Masfen, said distributable profit for 2012, Q1, was down 8%. He indicated a likely decrease in 2012 dividends to around 5 cents per share.

During the year PFIM, a private company owned by interests associated with McDougal Reidy and Co, bought the managements rights to PFI from AMP Capital Investors. The terms and conditions of the management contract remain the same.

Unlike some other property companies, shareholders seem comfortable with the performance of AMP and their successor PFIM. Peter Masfen stated firmly that the company had been externally managed since listing in 1994 and there is no intention to change that. Shareholders had a different concern. The (only) questions from the floor looked for a value of the management contract. They were disappointed. The contract is not part of the capital of the company and therefore is not included in the Financial Statements.

Bruce Parkes

Summerset Group AGM 24th April

Retirement village operator Summerset Group Holdings held its first Annual General Meeting since listing in November 2011, at the Te Raukura centre on the Wellington waterfront. An audience of around 80 shareholders including some media representatives attended the 35-minute meeting.

Charman Rob Campbell and CEO Norah Barlow addressed the meeting and Norah delivered a presentation covering the origin of the company, growth in the number of villages over the years, and the strategy in place to build more units each year.

Construction of new villages in Nelson and Hamilton was started in 2011. 122 units were delivered in 2011 and 155 units will be built in 2012. Growth is funded from revenue. Summerset has brought most construction management and project functions in-house to contain costs, reduce 'middle-men' and to ensure consistent results. A substantial land bank has been acquired for future villages.

Key results summarised by the CEO:

- Underlying profit for full year 2011 up 35% on the Initial Public Offering forecast to $8.1 million.
- Net profit before tax for full year 2011 up 2.3% on IPO forecast
- Net operating cash flow up 14% on IPO forecast
- Sales of occupation rights up 25% on 2010

Readers with Internet access are encouraged to visit the company's website at www.summerset.co.nz for further information.

Shareholders were asked to vote on the re-election of non-executive directors Marcus Darville and Christopher Hadley. Both were re-elected.

An investor enquired about the company's dividend payment intentions. Chairman Rob Campbell responded that the intention was to pay dividends from the 2012 financial year and distribute 30%-50% of underlying profit.

Another investor enquired about whether dementia care services will be provided at any of Summerset's villages. The response was that moving into dementia care was currently under consideration.

The tone of the meeting was up-beat and positive. Investors had no complaints and are looking forward to further growth.

Scott Hudson

New Zealand Refining AGM 27 April

About 50 shareholders trekked to Marsden Point near Whangarei on 27 April.

Under general business, there were comments made that the company lacked a proper dividend policy. Despite very strong cash flows, the emphasis has been on paying down debt to the detriment of shareholders. The claim was also made that the company had a “lazy” balance sheet with only 10% debt to equity. While that may be true, it did ignore the reality that the low debt levels made the proposed investment in the CCR unit possible without having to call on shareholders. On the matter of a more consistent dividend policy, Chairman David Jackson said he would take this to the board for “further consideration”.

There were three important items on the agenda for shareholders to consider.

The company sought shareholder approval to proceed with the construction of a new CCR unit, which would dramatically increase the refineries competitiveness and returns. The cost is $365m and approval was needed as this was a major transaction. Despite overwhelming evidence that the project was a winner, not all board members had supported it. Some of the issues surrounding this situation are outlined in the Chairman’s leader in this issue of the Scrip. The NZSA had already advised we would vote proxies in support.

Had this not been approved, the refinery would have had to spend $105m anyway (and write off the $21m CCR assessment costs) simply to keep the refinery running after 2015. There would be no incremental efficiency gains with this scenario.

Despite persistent attempts by several shareholders, none of the directors who voted against the proposal would identify themselves, their companies or their reasons. Later that we found that Chevron and Mobil were the two involved. Shareholders could not even determine how many directors voted against. The Chairman defended the situation by saying that all board decisions were subject to robust debate and decisions were often not unanimous. However, he assured the meeting that all directors would support whatever decision was made. While this is standard protocol, shareholders were obviously concerned that there may be some “smoking gun” that they were not aware of. The Chair assured everyone that the information sent to shareholders was complete in regard to the risk/reward consideration.

The motion was finally put and passed with 64.5% in favour. It is notable that virtually all votes except for Chevron and Mobil supported the project. Local company Z Energy and BP voted in favour.

Several directors were up for re-election. The NZSA supported the independents but voted against directors where they represented oil companies that had two representatives. Our reasoning was that the board was too big, and the actions around the CCR decision showed that they may have too much influence. We suggested the oil companies should have only one representative each. We were at pains to indicate that we did not doubt the abilities of Mr Wall and Mr Worrell, but this was a vote on principal. The Chair defended the oil company directors saying they brought considerable skill and experience to the board. He said the company had a comprehensive induction scheme and that the oil company directors were properly advised on their responsibilities to act in the best interests of NZ Refining. The vote indicated 99% support for independents and about 90% for the oil company representatives who were all elected.

The final issue related to an increase in directors fees. The Chair stated very strongly that this was only a pool increase to give some headroom and no director would have any increase this year. The NZSA view was that having some headroom was not unreasonable providing future increases were closely aligned to performance. We suggested that the oil company directors (who are paid employees) should not receive fees at all as these go to the company, not the individuals. We reiterated our concerns that the size and composition of the board should be reviewed. The Chair said he would take these comments to the board for debate. There was no other discussion and the motion was passed with a 92% majority.

After two hours, the meeting concluded, and following a light lunch shareholders toured the refinery.

Helen Hawkins

GPG AGM 24th May

Despite the difficulties of negotiating Auckland's morning peak traffic, around 250 shareholders attended the GPG AGM held at Eden Park Conference Centre on the 24th of May. Main interest centred on the re-election of Sir Ron Brierley.

Following pressure from the NZSA to change the unsatisfactory format of last year, this time Chairman Rob Campbell allowed questions and comments as each resolution was considered. In his address, Campbell highlighted the ongoing commitment to wind the company down. Around one third of assets (other than Coats) have already been realised. Trading for Coats remains subdued and further write downs have been necessary to reflect the true value of some other investments. The company intends to repay a large tranche of bonds in 2012, which will reduce liabilities and interest costs. The continuing impact of legacy pension fund liabilities, part of which relate to long sold companies, is weighing heavily on the company and work is continuing to find the best way forward.

The chairman was scathing of the previous Boards decisions and observed that, *"The assets of the company are not readily in a form which allows of a simple process. The structures in which they are entangled and the lack of decisive direction on many critical matters, along with a culture of non-accountability at Board level, have left a difficult legacy. If one takes a group of individually mainly sound assets, some very good assets and a couple of big liabilities, and mixes them with poor structure and control the outcome is very difficult. "*

The majority of the motions were standard housekeeping and all passed with more than 95% of the vote. An exception was the remuneration report, which achieved only 56% although perhaps surprisingly there was no discussion at the meeting.

The real interest centred on motion three – to re-elect Sir Ron. For 15 minutes he gave a rambling speech. He recounted the early glory days of BIL and later GPG, and went on to outline the profits that an original investor would have achieved. Sir Ron also claimed that governance had always been good at the company – somewhat surprising considering the Chairman's earlier comments!

One shareholder made the point that most people had not been there from the beginning and over recent years the returns had been very poor. Another said he understood Sir Ron had never taken directors fees (except for this year), which he found commendable. This prompted the Chairman to agree that while that was the case, "there had been compensation made in a variety of other ways" – a reference to things such as the massively expensive London apartment the company had retained for Brierley's exclusive use and exceptionally generous option schemes over the years. A third question related to the E115m EU fine that Coats faces. This is due to be resolved in the next month or two and is already fully provided for in the balance sheet.

Speaking on behalf of the 6 million NZSA proxies, I addressed several key issues, the need to look to the future to achieve the best outcomes for all shareholders being the key.

I suggested that when the going got tough sir Ron had run out of ideas and lost the plot in regard to strategic direction. This was illustrated by years of promises to return wealth to shareholders, but no effective action. I pointed out the company had taken on a very large investment (Coats is 40% of assets), and got involved in day to day operations of several investments, both things he had claimed GPG would never do. In regard to the Stavely and Brunel pension schemes, I said we believed this illustrated poor risk management, and likened it to selling the house but continuing to pay the new owners mortgage. I reminded shareholders that the additional pension provisions were estimated to have knocked 16c off the asset backing of each share.

Directors need to be very committed and engaged these days. I pointed out that the GPG 2011 Annual report showed that Sir Ron had failed to attend 4 of 13 board and committee meetings which called this into question. This must have touched a nerve because he became very abusive and effectively called me a liar. Those interested can see the table on page 76 of the annual report, which clearly shows that my statement is entirely accurate.

I pointed out that good governance goes far beyond merely meeting financial reporting requirements and commented that Brierley had resisted having independent directors, full transparency or fronting NZ shareholders for years. Finally I said that while he undoubtedly had many other skills, Sir Ron bought nothing special to the task of winding down the company and that based on his record in recent years plus the other issues we would be voting against his re-election.

The vote was very close but by the unconvincing margin of 50.75% to 49.25%, Brierley retained his place. As Brian Gaynor later observed, if you exclude his own holdings, which presumably he voted in favour, a majority of shareholders were opposed. In contrast, new director Scott Malcolm achieved a 99% vote in favour.

It will be interesting to see how events pan out over the next year. The environment remains very difficult and it will be difficult for the new board to continue it's record of selling assets within 2 % of valuation. The key will be how Coats performs as it becomes progressively more important to the mix of assets. As for Sir Ron, normally a vote like this would result in early retirement. Don't hold your breath!

John Hawkins

CDL Investments AGM 22 May

I arrived at the Copthorne Hotel at 9.25am. The doors to the meeting room were locked. They were opened at 9.50am! This ensured there was no time to talk to the Directors before the meeting. Staff outside advised that a board meeting was being held but the meeting was told that a BoD meeting had been held the previous day! I find this most unsatisfactory.

There were six board members at the meeting, which was conducted by the Chairman, Hong Ren Wong.

My understanding is that CDL Investments is majority owned by a holding company.

The company reported good results for the current economy.

Managing Director BK Chiu addressed the meeting on the 'Current Trading & Outlook'.

'2011 suddenly became boom time'. House building is at a level not seen since 2008 but in Queenstown, there is discounting of sections. In Auckland & Hamilton, the company is selling sections to 'a surprising number of immigrants'. This is contributing to the recovery. Don Buck Rd, Massey, Phase 1 all sold, Phase 2 nearly all sold. The company has substantial undeveloped land holdings in Auckland & has a strong belief in ploughing profit back into development.

What is particularly notable is the rezoning, to residential, of 42 hectares (400 sections) at Prestons Rd, ChCh. There is no liquefaction or lateral movement on this land. It took 3 years to complete rezoning and millions of dollars. (Note ChCh council is a nightmare for resource consent! Ak, Hamilton, Pelorus, Hawkes Bay no problem). Resource consent will be given soon. When developing this land the cost of the land is only 50-60% of the cost.

The rezoning has been a 'joint project' with Ngai Tahu property, arm who own a slightly smaller area of land opposite, across Prestons Rd. The development of both sites will be a co-operative development. There is a retirement village next door. Foodstuffs are also building adjacent to the developments, which are 15 minutes to the airport but not on the flight path & a few minutes to New Brighton beach, hospital & golf course.

After the meeting I had a lengthy conversation with Independent Director John Henderson.

Michael Cornell.

Postie Plus Shareholders Approve Sale of Babycity

Proxies 151,900

Postie Plus held a special meeting on May 11 at Riccarton Racecourse to obtain approval from shareholders for the sale of the Babycity chain to Baby City Retail Investments, a company operated by former LV Martin manager Trevor Douthett, for $4.05m net. Shareholders approved the sale, in a meeting which lasted only 20 minutes.

The chairman, Richard Punter, said that Postie Plus should be twice the size it is, and that Babycity does not fit the company's growth strategy. Mr. Punter said that Babycity sells 75% hardware and 25% apparel which requires the company to access different sources. Postie Plus will supply apparel to Babycity under its new ownership.

No mention was made of the fact that Postie Plus intends to move its head office from Christchurch to Auckland. This was announced on May 18, one week after the meeting.

No mention was made of the fact that a review of the company's April accounts showed that the company had breached its banking covenants. This was also announced on May 18.

Peter Heffernan

NZX AGM 30th April

The local market operator NZX held its Annual General Meeting at the NZX headquarters on the Wellington waterfront. Approximately 90 people were in attendance.

This meeting was notable as being the last which Mark Weldon would attend as chief executive, as his 10 years in the role came to an end. Chairman Andrew Harmos paid extensive tribute to Mark's leadership and to the key role he played in NZX generating a total return to shareholders of 535%, or 24% per annum.

In addition to his final address as CEO, Mr Weldon delivered an informal and interesting look back at his time in the job, and the various highlights, lowlights and other memorable events. He replacement is Tim Bennett who took over on 7 May.

Dividend guidance was that 3 cents per quarter or 12 cents per annum will be paid to the end of 2013.

The meeting voted for the election or re-election of several directors and for an increase in the size of the directors fees pool. The increase was to cover the likely appointment of an additional director, rather than to increase individual directors fees. The meeting was also told that Chris Moller was likely to step down as a director before the next AGM.

Arguably the most notable item of business was to vote on the return of capital to shareholders resulting from the sale in 2009 of the TZ1 carbon offset registry, to UK financial information services provider Markit Group Ltd. Shareholders voted in favour of the capital return, which was expected to take place by the end of May 2012.

With the Mark Weldon era coming to a close, the meeting was relaxed and positive. The consensus was his tenure was a job well done.

Readers with Internet access are encouraged to visit the company's website at www.nzxgroup.com for further information.

Scott Hudson

Briscoes Group Limited AGM May 2012

Briscoes should be congratulated on achieving another positive year in a difficult retail environment,; with the company committed to offering the best range of brands to customers at the best prices and with a relentless focus on inventory.

Sales increased for the year by 8%, and NPAT was $27.53 million, an improvement of 27.4% on the previous year. Total dividend for the year will be 10.00 cps, representing 77% of Group's tax paid earnings.

The Group is in a very strong financial position with $95 million of cash balances at year-end and no interest bearing liabilities. This strong cash holding might have raised a question or two at the meeting. However, the Chairman pre-empted the issue by announcing that "the Board recognises that the cash balances have increased to an extent that a distribution of cash back to shareholders is possible, without impeding the Board's conservative approach to funding and without being an impediment to the Group's ability to take advantage of acquisition or expansion opportunities should they crystalise. To that end I am pleased to announce today that the Directors have approved a special fully imputed dividend of 10.00 cps to be paid on 28 June 2012".

Group Managing Director, Rod Duke, commented on the successful launch of the transactional websites for all three of the Group's retail brands providing customers with a convenient, easy and enjoyable on-line shopping experience. Whilst the outlook for the remaining of the year was for a continuing difficult retailing environment, the company expects to continue to strengthen their position as the leading retailer of homeware and sporting goods.

Briscoes must be complemented on their transparency and the concise information given in their Annual Report, which shows their Key Facts summary of 5 years financial data, the top shareholder list and the share transactions by the Rod Duke Family Trust.

Jacquie Hagberg

Ryman Healthcare Preliminary Announcement

On 17 May Ryman announced after tax profit for the year to 31 March 2012 had increased 17% to $120.8 million. The dividend for the year of 8.4cps is increased by 17% following the decision to pay a final dividend of 4.5cps on 22 June 2012 calculated on holdings at close of business on 8 June 2012. This performance marks 10 years in succession of record profits for the Company.

For further information please go to the Company website, **www.rymanhealthcare.co.nz.**

Oliver Saint

Caught on the Net

Proposed ASX rule would decimate the value of small shareholders' stocks

The Australian Shareholders' Association has criticised the Australian Stock Exchange's proposal to increase capital raising limits for small and mid-cap companies from 15% to 25%, saying it ignores small investors.

They say the resulting discounting and dilution will decimate the value of small shareholders' stocks **more**

High Frequency Trading is a Cuckoo

Alan Kohler in the Business Specator posits that high frequency traders are parasites whose high frequency trades are being paid for by the rest of us. And sadly, he concludes that it is too late to stop them. **more**

Australian CEO turns back on $400,000 bonus

Mike Quigley, CEO of NBN Company has philosophical problems with the idea that a bonus would make him work any harder. He is prepared to "walk his talk" and turned down a nearly $400,000 bonus because of his personal objection to short term incentive schemes.

This was not just a "one off" gesture. Last year he donated his first $2 million salary to medical science

Our company directors say they need to match senior management rewards to Australian levels. Is this an Australian idea they will pick up?. **more**

Bankers' pay immoral says UK Shareholders Association

The Telegraph reports on the UK Shareholders Association leading the attack on the salaries and bonuses of senior staff in state backed Lloyds Banking Group and the Bank of Scotland. ***more***

Camels cam pass through the eye of a needle

While there is something to be said in favour of living simpler lives, there is no conflict between faith and turning a profit say Desmond Tutu and Bettina Gronbiom in a Financial Times opinion piece. ***more***

Canadian oil sands extraction

After Saudi Arabia, the Canadian oil sands hold the world's largest oil deposits. Extraction and processing is a far more complicated and costly business than traditional oil drilling. After being refused access by the mining companies one intrepid investigator hired a plane to get a bird's eye view of the process. **more**

European Corporate Governance

A new site - VIP. EU - which concentrates on current governance issues in the EU has been attracting a growing audience on this side of the world. The articles can be very academic. **more**

A First Lesson In Econometrics

Economics is easy to understand until faced with the math. John Siegfried explains how, in the eyes of an economist, 1+1=2 can be much more. Its very simple, even I understood it. **more**

The Eurozone as a Modern Day 'Merchant of Venice'

Classical literature is often offered as an allegory of modern life. Now Marshall Auerback uses Shylock's quandry to illustrate the dilemma facing Germany **more**

Thoughtful Giving

Philanthropy New Zealand and Creative New Zealand have launched a website to assist donors in giving effectively and to create a culture of thoughtful giving in New Zealand.

Aimed at new givers or those who want to extend their giving, the site outlines some considerations when deciding whether and how to give. It also includes inspiring stories of great givers. ***more***

Like baboons, our elected leaders are literally addicted to power

Political power has a similar effect on the brain to cocaine - and it's not surprising that, as the Leveson Inquiry shows, our political leaders are hooked on it, says Dr Ian Robertson. in a Daily Telegraph article. ***more***

Do golf tournaments make economic sense?

For the fans, golf tournaments (or any other sporting extravaganza), obviously do. But what about the towns that host golf tournaments, and the companies that sponsor them? A town will include many people who are not golf fans. And a corporation, not being human, cannot appreciate the artistry of Rory McIlroy's backswing **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 the presenter. Members are encouraged to refer to the individual company websites for the latest news and disclosures. The work of these professionals who give their time is appreciated by all who attend.

Auckland

Auckland Branch meeting Wed.18 April – joint speaker presentation: Summerset Group & Trade Me Group

Jon Macdonald – CEO Trade Me Group Limited

Jon delivered an interesting presentation to the meeting covering many aspects of this public company, listed for only 6 month after the IPO in November 2011. Following the IPO, there are currently around 5000 retail investors holding 34% of the shares with the remaining 66% remaining with the previous overall owner, Fairfax Media Limited. The success of the IPO and subsequent public interest exceeded Jon's expectations and this may reflect on the public image of Trade Me as a trusted market place. Jon's comments outlining the companies policies and monitoring of trader activity would indicate good governance of the company to date and tend to support this positive public perception.

From Jon's presentation, the meeting learned of the broad revenue base enjoyed by Trade Me both from listing fees and commissions earned on successful sales. This broke down to 48% from general listings, 16% from Trade Me Motors, 12% from property, 7% from Jobs and about 18% from other revenue. Supported by these multiple income streams the company has enjoyed a steady increase in earnings from 2004 through to 2011 with more than 2.8 million members.

Current staff level is at around 250 with an executive of 8 and a board of 5 who are mostly based in Wellington. Jon then outlined a broader picture of Trade Me which, as well as the major areas of activity that are familiar to most, included three travel related website businesses, "Treat Me" and "FindSomeone" an on-line dating agency.

New areas of business recently announced include retail listings through a relationship with a global e-commerce company, ChannelAdvisor. This raised a question around potential conflict with the interests of the original support base for Trade Me, the Ma & Pa traders but Jon assured the meeting that his team were aware of situations such as this. After answering several more questions, Jon summed up what the Trade Me business is all about when he observed "We connect people".

Robert Johnston

Norah Barlow has been leading Summerset as CEO since 2001, having joined the company in 1999. Norah is also President of the Retirement Villages Assn and has been instrumental in establishing the code of practice for Retirement Villages in 2008.

Summerset listed on the NZX in November 2011 and has over 1200 shareholders.

Norah commenced the presentation with illustrations on the needs of the elderly, the lifestyle of Summerset villages, and the focus on independent living as a point of difference with other competing retirement villages. The population growth in age statistics for the 75 + aged group require over 1000 village units pa to keep up with the demand.

Summerset has grown to the third largest retirement village provider, with 1486 retirement units, 155 units being added in 2012, and aiming for 250 units pa in the next 5 years.

The strategy is to locate suitable land to build a village and work on the "needs" aspect in designing the village for residents. They are the second largest developer in building their own villages and have had 13 years of continuous village growth. Planning is in place for their 15th village in Auckland. The development model of villages is similar to the “Ryman” model and the planning aspect can take from 1 to 5 years until the first stage of land development takes place. Stage 1 construction is about 15months, when first village residents can move in followed by further development of the village plan.

Summerset was voted “best retirement village operator in Australasia” for the last two years in a row.

The directors have committed to pay a dividend following listing and is included in forward forecasts.

In answer to a question, Nora made some comments on risk: The low level of activity in the property market can create delays in new occupants realising capital to purchase village units. The villages are funded on the self- funding model with a “licence to occupy”. In developing new villages, there could be skill shortages that delay, and/or increase costs and the same could apply to nursing staff.

This new share market listing does provide welcome diversity to the listed retirement village sector.

Noel Thompson .

Future meetings

The Scrip is used to advise Auckland Branch members when Branch meetings are being held, and who will be presenting (see back page) We will also endeavour to use The Scrip to advise of Company visits that are being organised and when they will take place.

Branch meetings take place at the Alexandra Park raceway conference centre, open with tea and coffee from 7pm with presentations starting at 7.30pm.

Company visit to Sky Television Ltd 15 May 2012

CEO John Fellet, greeted seventeen members and gave us an introductory summary of the company’s history and an update on its current operations. The initial subscribers of 21,000 in 1991 had since grown to over 800,000. This had been a period of constant technological change, from UHF through to satellite transmission, and advances in receivers such as MySky. Currently increases in subscriber numbers generally follow population and household formation growth with surges for special events such as the Rugby World Cup. A similar increase is expected for the forthcoming Olympics.

Profit for the half year to September 2011 was $62.7 million, an increase of 2% on the previous 6 month period. Profit forecast for the full year to March 2013 was $126 million, which was in line with the analysts’ range of $120 million to $125 million. Programming costs were steady at 33% of revenue despite the increase in content with the introduction of new channels. With the turn off of analogue transmission, it is expected that some 500,000 households would have to make a decision to either convert to Sky, or Freeview, or compromise with Igloo, which was Freeview with eleven pay-to-view channels at a cost of about $25 per month.

Sky was vulnerable to foreign exchange rate movements, which he regarded as unpredictable. Cover had been taken for most of 2012 at 72 cents to the US$, and for about a quarter of 2014 at 74 cents to the $US.

In response to questions, Mr Fellet said that the Sky shareholding was about 40% Newscorp, 10% Todd family interests, 40% New Zealand shareholders and 10% Australian institutions. The Newscorp influence was minimal, as he had only spoken to Rupert Murdoch once in his 23 years with the company, and the Fox network sold many programmes to Sky’s competitors such as TV3.

The possibility of regulation was always a threat, with competitors being the main source of complaints about market failure. The fact was that most markets had one dominant pay TV company and it had taken Sky 15 years to break even.

The pending introduction of the internet fibre network was seen as not only a threat, but also an opportunity. A possible outcome was the development of a hybrid system, with ‘linear’ transmission similar to today’s operations, coupled with an on-demand schedule for some period ahead. Sky had proved over the years that it could cope successfully with such major technological advances and this is expected to continue.

David Elder, On Air Broadcast Executive, then took us on a tour of the company’s facilities. The heat generated by the huge array of electronic equipment meant that a fail-safe air conditioning system was essential with much back up plant. Advances in the reliability of equipment meant many monitors for incoming programmes had split screens to allow reduction in staff numbers. This was particularly evident in plans for the Olympics, which is the biggest project Sky has ever undertaken. A quick visit outside between showers showed an array of large satellite dishes with one aimed only 150 metres above One Tree Hill to receive programmes such as the BBC from Singapore.

This was an intriguing visit to a company at the forefront of technical change. Our thanks are due to Sky for a clear, comprehensive and frank summary of their operations.

Bill Jamieson

Next Auckland company visit:

No currently confirmed visits. Dates under negotiation are:

17 July	Hallenstein Glasson
4. August	
5 October	
6. December	

Details of the Hallenstein Glasson visit are yet to be confirmed.. It would be helpful if members email their interest in participating urgently to Uli Sperber,

uksper@gmail.com as the approx. no. of participants will assist HLG planning an interesting visit."

Waikato

Waikato has had two presentations over April and May

We are pleased that KPMG has come on board as an event sponsor, joining Craigs & Co.

Our April guest was John Dakin, CEO of Goodman Property Trust (GMT)

It has, as of April, a market capital of around $1 billion and yield on current price of over 6.3%.

John Dakin has 20 years in the industry, with experience in NZ, UK and Australia. He covered where it is now and its future

It was pointed out listed property companies in NZ have outperformed the NZX50 Index by 17% in the past year, and done better than companies in the same sector in Australia, Europe and the US over that period.

Our May presentation was from Matthew Washington, Chief Financial Officer of Pumpkin Patch

Matthew gave an Overview of the different Pumpkin Patch business including:

- Australasian retail, international online/ internet operations and international wholesale/ franchise operations
- Explored the role each business unit plays in the long term strategy for the business, focusing on the importance of online business and the international wholesale/ franchise operations
- Discussed some of the current challenges of trading both in Australasia and our other international markets
- Shared with us their key strategies being implemented and how these will add value to shareholders into the future

We have a full list of guest speakers confirmed for the remainder of this year

John Davies

Bay of Plenty

The Bay of Plenty branch has continued its busy 2012 education programme at our usual monthly meetings. Attendances are consistent with a numbers of members bringing guests along to hear our interesting speakers.

During April Mr Bill Jamieson from Auckland spoke at length about fixed interest investments that provided a lively question time especially those who had "been caught" with Redeemable Preference Shares in their portfolios. It appears that these investors were taken by the quality of the respective bank / company ratings and did not know about or fully realise some of the finer aspect of these investments had extremely long term connotations. However if it was any comfort to an investor a number of more experienced institutions are also in a similar situation.

His message to the ordinary investor was "if you do not understand the terms and conditions of the investment fully; don't put your hard earned capital at risk."

Be prudent; know what the interest rate is and exactly what the term of the investment will be. It seems that many of our members have learnt quite a valuable lesson especially when some of these instruments may not mature until 2037.

During May the branch were hosted on a visit to the Port of Tauranga. Mark Cairns the ports Chief Executive assisted by several senior executives provided an informative presentation relating to their operations. Mark drew several comparisons with Tauranga v Auckland and also with other Australasian ports in relation to the depth of water required for future shipping showing that Tauranga had to keep pace with continuing development and undertake this large dredging project. Also the port has in excess of 180ha of land compared to Auckland's approximately 71ha for future expansion in close proximity to their respective berthing facilities. Business projections for the future are positive and those attending were impressed with managements candour in answering questions. Later in the afternoon two buses took the 77 members on an informative tour of the port facilities. Thank you Port of Tauranga for such an interesting afternoon.

Friday evening 25th May the branch conducted its annual general meeting. Those attending were heartened with the way the committee has conducted it monthly activities during the past year.

Cameron Watson was our guest speaker for the third year running. Emphasis of his presentation centred around New Zealand stocks that were judged by dividend growth and producing positive growing income streams. He also suggested that we as investors should look at what is "fair value", making a number of suggestions that go to form sound judgement strategies. Term deposits will continue to stay low. Investors should not lose sight of company dividends and their resulting imputation credits. Many of the larger US companies quarterly dividends are showing substantial growth this year.

A new committee was elected for the ensuing year comprising of Lloyd Christie, Kerry Drumm, Ian Greaves, David Higson, Jane Lyndon, John Mainland, Neil Parker, Ross Sheerin and Allen Smith. Messrs Greaves and Sheerin are newly elected members.

A pleasant evening in good company.

Allen Smith

Chairman

Wellington

Our next meeting will be Tuesday 12th June.

This meeting is going to start with a Branch AGM and will be followed by a panel discussion chaired by Joe Pope (Chair of Teamtalk Ltd, Revera Ltd), with Dave Ware (MD Teamtalk), Peter Yarrall (Director mainly of unlisted companies), Anne Hare (Craigs Investment Partners) and Matthew Underwood (Chartered Accountant).

The panel will be discussing a number of topics including: Director liability, Democracy on the board, Remuneration policy, Women on boards, Director competency. We expect a lively debate with a good contribution from our audience.

For our July 10 meeting we will have Ray “the bear” Jack flying back into Wellington to give us an update on markets - one day he will turn bullish - will this be the day? You will have to be there to find out. Regardless of the outlook, expect to be educated and entertained.

Martin Dowse

Chairman

Canterbury

The Branch held its repeat Film Night showing on 24th May of the award winning Inside Job. The film was repeated after member unable to attend the first showing asked for another opportunity. The film was followed by light refreshments and informal discussions. It was an informative and enjoyable evening.

The Branch hosted a talk by Ms Louisa Bangma, a Masters student at the University of Canterbury, on her research findings titled “the performance of financial advisors”. This was our first afternoon session; held on, 12h April in the Fendalton Croquet Club. The talk was followed by light refreshments and an opportunity for discussions. Louisa describes her research on page 6 of this issue of the Scrip.

In early May two NZSA Board members, Jacqui Bensemann and Gayatri Jaduram visited our Branch. Jacqui’s responsibility on the Board is marketing and Gayatri’s (in association with fellow lawyer and director Lyn Lim) is regulatory requirements. This was an excellent opportunity to exchange views with the board members. Jacqui and Gayatri were also able to participate in a meeting of the Branch Committee the following day.

Our Branch Newsletter continues as a regular feature thanks to Tim Kerr its editor. We distribute this newsletter to our members by email. Members’ contributions are most welcome.

The Branch AGM is booked for 7pm on Thursday, 7th June at the Russley Golf Club which will be followed by a talk by John Hawkins. There will be ample opportunity for discussion. Light refreshments will be provided.

Robin Harrison

Chairman Canterbury Branch

What is your elevator pitch?

Board member Jacquie Benseman laid down the challenge: given half a minute in an elevator with a complete stranger who has no knowledge of NZSA, how would you describe us?

This, my rather pedestrian attempt, needs a real high-rise elevator ride.

"We are a voluntary association of savers and investors in listed stocks and bonds, who stand up for shareholders and investors, by monitoring boards of directors, networking with our branches and members around the country, advocating for ethical governance of companies, and improving our financial knowledge and investment skills. We have a proxy service for company general meetings, educational company visits, branch meetings with presentations from leading New Zealand executives, a regular newsletter featuring articles on companies and shareholder concerns.

Or, in a more succinct soundbite, we are there to take up the cudgels with regulators and boards to deliver a fair deal to shareholders and investors. You should join. Have a look at our website."

Across the table at the dinner party, at the footy, and in the elevator we should all have our explanation handy because most people in this country do not rate owning shares in productive enterprises which is partly why we are not a particulary successful economy.

Alan Best

Celebrity Advertising - A Conversation.

Lombard, Hanover, Nathans – they all used it – Celebrity chairmen and celebrity advertising.

Michael Ardley wrote, " I've always had a dislike of celebrity advertising and celebrity directors… When I come across this form of advertising, I immediately figure that if it has to be advertised in this way then it's not worth having and I walk away.. I would like to see advice to the public not to be taken in by this form of advertising."

Alan Best joined in: "The use of market leaders is widely practised in consumer marketing from tennis players to actresses. All children are taught about it in their English lessons in school. Sad how the lessons haven't stuck when it comes to finance, and celebrities lending their names outside their field of expertise."

Grant Diggle commented: "The test should be: Are the celebrities properly qualified to pass judgment on the product they are endorsing and what methodology has been used to independently verify their suitability?"

John Hawkins followed up: "The regulators are aware of the problem and there is tightening up occurring. The proposed FMA guidelines for disclosure in documentation will introduce a general "relevancy" test, but at this stage the guidelines do not extend to advertising copy. The NZSA is pushing to bring advertising into this regime, or at least fast track and advertising guideline. The new Financial Markets Conduct Bill also covers the topic, but there is some dispute about how far the responsibility should stretch when paid spokesmen (actors essentially) endorse an issue. This is more around their personal liability, but the accuracy of statements they are given to read will definitely come under the law. Again we are pushing to ensure a sensible balance."

Alan Best

A word from the deep South:

It was good to get a letter from Southland, which seems to encapsulate the voice of shareholder experience.

" It disturbs me to read the like of the Sunday Star Times financial pages and really see nothing about shares and share investing….

Now before 1987 where things went overboard, every man and his dog was in the paper pushing their buys- Chase, Euronational, Judge Corp... the list goes on. I learnt a lot then.

And then the bubble, when many of the latecomers got burnt because all they were looking for was instant reward.

Today our media has no advice on investing techniques, shares and nothing really about the Share Market. I can still say that the share market will give you a better return today, than our low interest rates and still not interrupt sleep. We are starving new investors of information and the various techniques to enhance one's portfolio.

False euphoria will return to the market again and as usual we will have people who get caught in the discussion held at parties or at the office where people will recount their successes. The cry of pain will rise again.

To put all the educational resources into financial advisers is a mistake. The general public needs more than that. Financial advisers have feet of clay as well. How many of them are truly independent?

Share investing has a dirty name to many, but to me that is nonsense. You do your homework, read widely and reap the benefits".

Neil Harvey

Low Ball Offers are alive and kicking in.

Several members have drawn our attention to recent offers to shareholders of PGG Wrightson, Nuplex, Tenon, Scott Technology and CDL Investments. Unlike Mr Whimp whose offers were found to be misleading, these offers are carefully worded, and even quote the Financial Markets Authority's recommendation as if this gives them greater respectability.

Recently we have seen bids from Stock and Share Trading Company owned by Mr John Armour of Australia, who has made offers previously on St Lawrence Finance and Strategic Finance, and Zero Ltd, owned by Messrs Phillip Briggs and Roy Jackson. They seek to build up their portfolios of small, overlooked companies at a discount to market value and depending on the market make a quick margin on the acceptances. To their credit the respective boards of the companies have published warnings to shareholders promptly.

Shareholders should always check the market prices over a period if they feel tempted. With broker fees on smaller parcels of shares escalating, a low-ball offer may even be worth considering, but not before you have done the simple arithmetic.

As a matter of record NZSA supports the Australian requirement to give equal prominence to the latest market sale price next to the offer price, and to give a one month acceptance window. We do not support the Australian ban on access to the Share register, or the call to ban the practice entirely.

KPMG resigns as auditor for PGC.

Several members welcomed the resignation of KPMG over the governance and related party transactions within Pyne Gould Corporation. Is this a sign of a new era in auditing? Ethical and accounting standards should not be up for negotiation between the board and its auditors. I a major shareholder wishes to operate without the auditor's comments he should buy out the other shareholders and delist the company. Auditors work for the shareholders not the company or its individual directors.

Grant Diggle: I think we might be seeing the start of a trend where the Auditors walk rather than compromise themselves for the sake of the fees as in the past. Undoubtedly the FMA is having a chilling effect on the professionals as they realise the Tiger has teeth, and unlike the perfumed one, will not only bare them but sink them into transgressors.

Max Smith: This action by a major accounting company does set a precedent and it may provide the association with a timely opportunity to remind all auditors that even though the company pays their fee, they work for the shareholders, and not the company. This should be in the arsenal of all our proxies who attend Annual Meetings.

More on "Fair Dividend Rate."

Having read Allen Smith's article in our April issue two members commented. The first pointed out that the Australian stock market fell between 1st April 2011 and 31st March 2012. Smaller stocks outside the index are usually more volatile that the majors, and many fell more than 10%. So investors whose primary overseas focus is on Australia, may not have to pay tax on non-index Australian shares. This makes a total of 3 years in which the capital values have made this so. When will the government wake up to the fact that this tax is a costly exercise which is not yielding the revenue promised and is not worth continuing. IRD would have been better off to tax the dividends of all Australian companies as was promised in the first place.

Our second correspondent pointed out that the fluctuations in the exchange rate, particularly the decline in the NZ dollar has meant that he is paying provisional tax on the basis of previous currency gains which are unlikely to repeated, or even a penalty tax if the dollar moves suddenly the wrong way. "If the RB Governor cant say where the exchange rate will be, how is the shareholder supposed to know?" We never really believed that line: "It's our job to be fair."

Upcoming Events

June 20	Auckland Branch Meeting at Alexandra Park Convention Centre - tea and coffee from 7p.m. speakers Mike Allen, Director GPG and Fiona McKenzie, Head of Investments NZ Superfund
June 26	Waikato Branch Meeting and AGM - speaker Brian Gaynor
June 29	Bay of Plenty Branch Meeting - Gate Pa Bowling Club, 3p.m. - committee member speaking on "My Portfolio"; Difficulty in establishing share valua tions; and investment principles
July 10	Wellington Branch Meeting
July 24	Waikato Branch Meeting - speaker John Fellet, CEO Sky Television
August 11	NZSA Conference and AGM (see front page)
August 21	Waikato Branch Meeting - speaker Grant Baker, the Business Factory
September 19	Auckland Branch Meeting - speakers Don Braid, CEO of Mainfreight and Carmel Fisher
September 25	Waikato Branch Meeting - speaker Frank Jasper, Funds Manager - Australian Portfolio, Fisher Fund
October 25	Waikato Branch Meeting - speaker Philip King, General Manager, Investor Relations, Fletcher Building
November 21	Auckland Branch Meeting
November 27	Waikato Branch Christmas Function

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Editor Alan Best

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