The Scrip NZSA®

MANY INVESTORS, ONE VOICE

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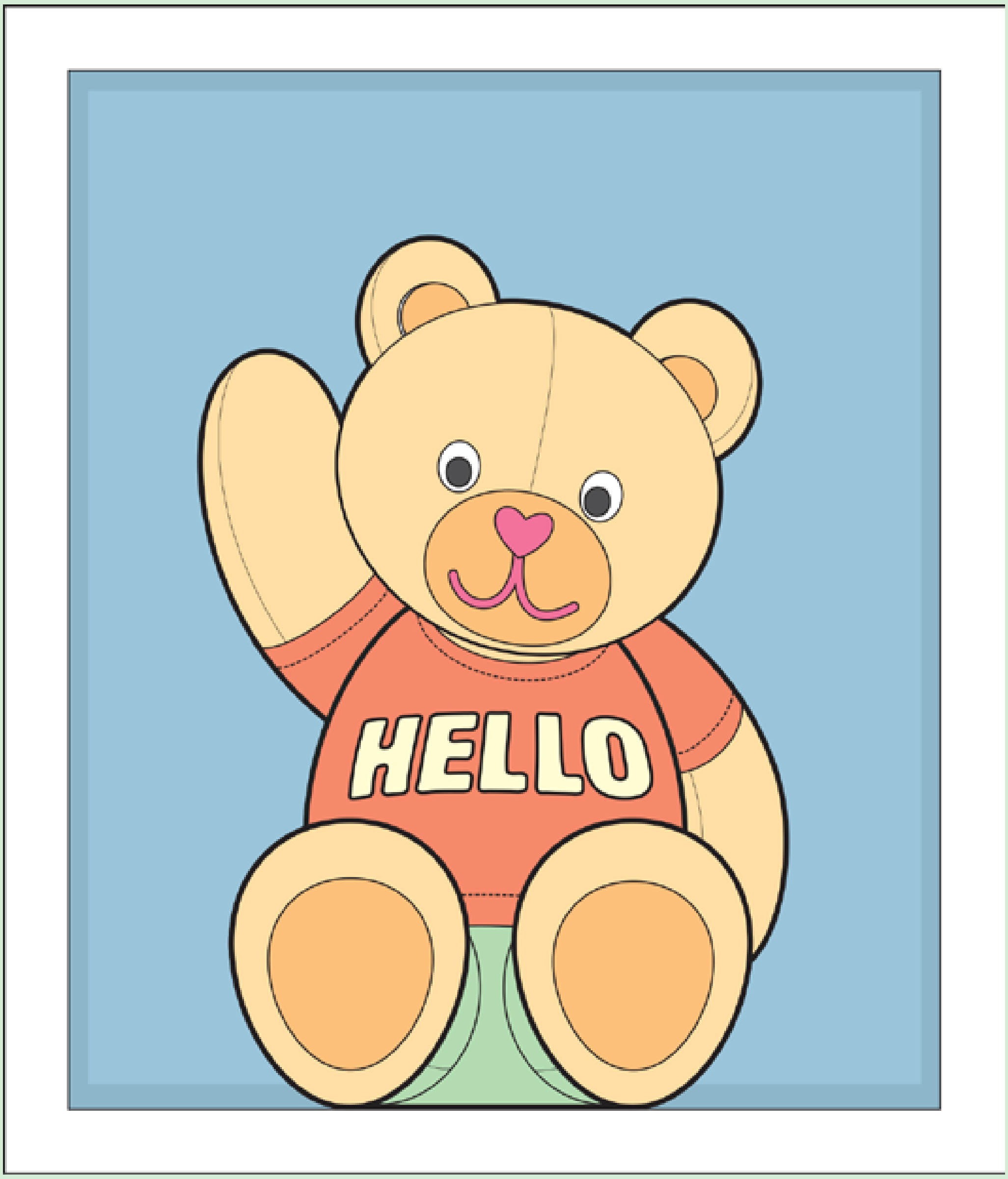

GLENN JONES ART

A VOICE FOR RETAIL INVESTORS

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New Zealand Shareholders Association Inc.
NZSA®
Many Investors, One Voice

How did we get here, are we even there yet, where to next?

Dear Members,

No doubt like me, most of you are at home inside your bubble viewing the daily onslaught of COVID-19 news stories, worrying about family and friends, checking your investments and thinking through the questions of this article's title. Well, you are not alone!

Upon writing this article on Friday 3 April, the NZ50 was trading around the same level it was a year ago, 18% off its peak of mid-February 2020, but it was at one stage 30% off this in late March. Well, given what the world is going through, many may say "an 18% drop isn't so bad". This might be true, but as you and I know, the fall has been much more severe across many of our listed companies.

To highlight this point with just a few as at the 3 April 2020 compared to their Feb 2020 highs, Abano was down 74%, Air NZ down 71%, Auckland Airport down 49%, Cavalier down 43% from what was already an all-time low, Kiwi Property down 44%, Kathmandu down 77%, Fletchers down 35%, SkyCity down 55%, Sky TV down 60% and, even the always optimistic, Mainfreight was down 24%.

Yes, that's why the 18% drop for the NZ50 seems too good to be true. But, it's been boosted by F&P Healthcare up 22%, A2 Milk up 9%, Fonterra holding flat and, to a lesser extent, utility companies minimising their losses.

New Zealand boards, their directors and executives are scrambling to understand what this means for their businesses. What is the impact on the supply chain? When will customer demand likely return? How long will the shutdown last? Are we an essential service or, at least, can we prove that some of our business is? Can we service our debt; will we remain solvent? What costs can we cut? At a time like this, one wonders how some directors can perform and respond quickly enough given the number of directorships they have.

It is mindboggling how a thing called COVID-19 can have such sudden and far-reaching consequences on a global scale to our way of life and the business community. The government has quickly swung into action providing financial support for Kiwis and NZ businesses, the extent of which is unprecedented. However, even with this we are still witnessing significant cost-cutting, rushed capital raising and some businesses going under.

Kathmandu (KMD) has suffered a cruel blow due to the timing of its purchase of Rip Curl. Previously, KMD traded around $3.30 a share which then dropped to under $1, forcing a capital raise at 50c a share. The company seeks $207m and has a current market capitalisation of $227m. We must acknowledge KMD though because, even under pressure, it provided a fair deal for retail investors through a pro-rata accelerated entitlement offer, assuming of course that its shareholders have the cash and the appetite to take it up. If not, the dilution is eyewatering.

Fletchers, when just starting to gain momentum, has cancelled its interim dividend, withdrawn earnings advice and implemented pay cuts, up to 12 weeks for some, across most of the organisation. Fletchers are coming under pressure from observers comparing the 15% pay cut to directors and executives during the shutdown to cuts of up to 70% for some employees.

Z Energy has cancelled its final dividend, stopped non-essential capital expenditure and is seeking more working capital flexibility from its bank.

The FMA and NZX have temporarily loosened rules for capital raising and audit deadlines. The government has also announced urgent changes to the Companies Act that provides a 'safe harbour' from insolvency responsibilities for six months and the ability to put debts into hibernation. The aim is to stop reactive actions from directors putting businesses into liquidation and provide the means to retain employees.

So where to next?

Well, we all want the country and markets to recover as quickly as possible, but the reality is likely to be along the lines of this analogy. If you stumble and fall over you can quickly pick yourself up, dust yourself off and get back on your way. But if you fall from a two-storey building, you're going to need medical attention and your recovery will be long.

As retail investors, we have our role to play in the recovery through providing capital to businesses, considering flexibility where warranted and holding directors to account for the decisions they make during the crisis and in the recovery process. Where we feel decisions are not in the best interests of all shareholders, we need to be very loud indeed.

Considering the current environment combined with the temporary flexibility offered to boards, I see many areas as crucial for directors to get it right in the eyes of retail investors. The ones I will be watching closely are as follows.

While the government has provided six months' relief for business and directors regarding solvency, this flexibility must be used for the right reasons by directors as per the guidelines.

No doubt many financial institutions are looking to buy in low with the upcoming flood of capital raising opportunities. This must not be at the expense of overlooking retail investors. Kathmandu, in a time of significant difficulty, has shown how retail investors can be included. Companies must still consider providing retail investors equal opportunity before taking advantage of the temporary changes to capital raising rules.

Continuous disclosure still needs to happen, although many companies have reduced their risk by withdrawing future performance guidance. Regardless, companies still need to disclose immediately to the market when an occurrence, once announced, would materially impact the company's share price.

With such significant cutbacks of dividends and staff, we need to ask if directors and executive remuneration reductions have been enough. Surely, they are in a better financial position to weather this storm than most. This includes challenging short-term and long-term incentives.

We need to call out directors that have too many directorships in their portfolio. Not only are they taking up spaces from other talented directors, but this crisis will have taught them they cannot be effective with such a portfolio. I accept that the last widespread crisis (the GFC) was 12 years ago, but the point is they happen and once they happen it's too late.

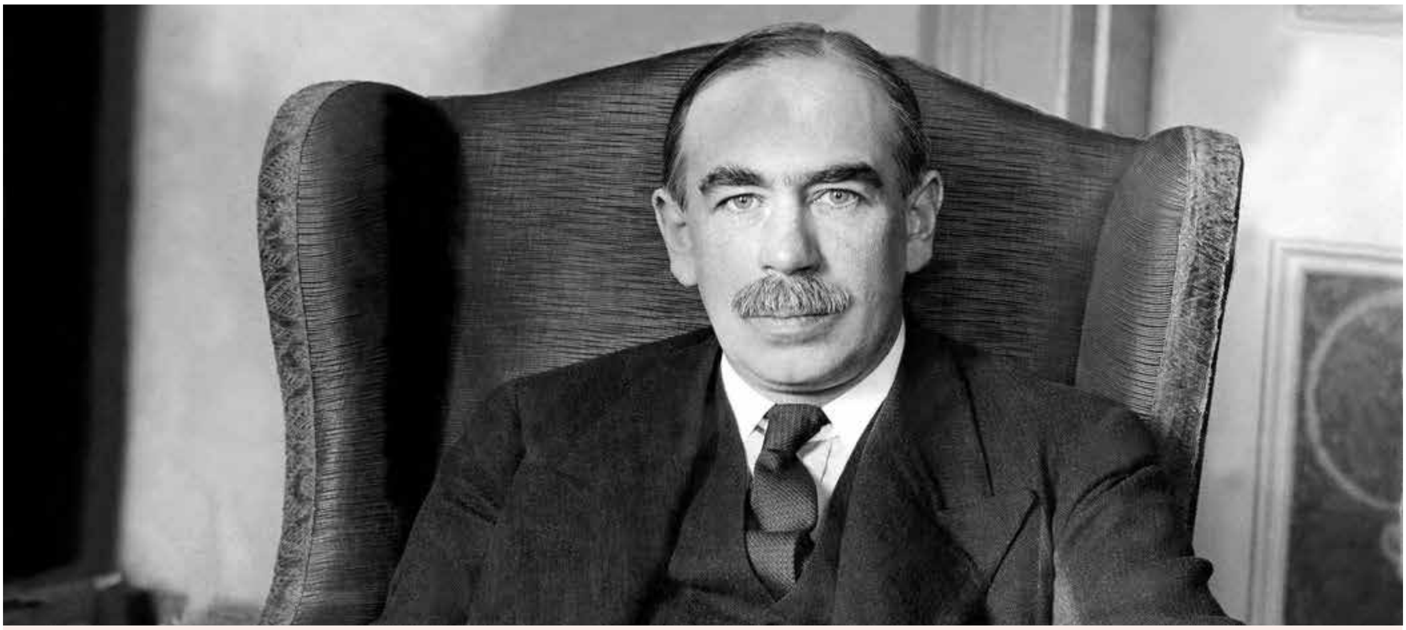
Business recovery plans need to be fit for purpose in the post-COVID-19 landscape, but directors need to ensure that the cure they develop isn't worse than the disease. I am not trying to copy a recent Donald Trump tweet with that statement, it is more about directors getting the balance right. They need to make cuts but making them too deep could leave their business uncompetitive and end up being fatal.

With at least two weeks to run on the level-4 lockdown, there are still many variables at play that could impact the country's and business community's post-crisis recovery. We are fortunate indeed to live in NZ and combined with swift actions already taken, our country is in a strong position to emerge out the other side in better shape than most of the world. Now is the time to push onward!

Keep safe and be kind.

Tony Mitchell, chair

> "THE LONG RUN IS A MISLEADING GUIDE TO CURRENT AFFAIRS. IN THE LONG RUN, WE ARE ALL DEAD."
>
> JOHN MAYNARD KEYNES



February's Quotable Character: John Maynard Keynes

John Maynard Keynes was born into a middle-class Cambridge domiciled family in 1883. His father was an economist and taught at Cambridge, his mother was an early female graduate at the same university. It was at Cambridge that a young Keynes gained a BA in mathematics. He entered the civil service as a clerk in the India office but became bored and returned to Cambridge and, while working as a lecturer, completed a mathematics thesis on probability.

In 1915, Keynes took a position with the Treasury to advise on the financing of the Great War. A year later, he obtained a conscientious objector exemption to conscription, subject to his continuing to work for the government. In 1917, Keynes was honoured with a Companion of the Order of the Bath. In 1919, he was appointed as Treasury's representative in the British delegation to the Versailles Treaty negotiations. When realising that the Treaty was to impose ruinous reparations on Germany, he resigned and published a highly acclaimed book, *The Economic Consequences of the Peace*. The perception that Germany was treated harshly later became a crucial factor in public support for the appeasement of Hitler.

Following his fallout with the British government over Versailles, Keynes was shunned by the establishment but remained a public figure and prominent essayist. In 1925, he opposed Britain's return to the gold standard under the then chancellor of the exchequer, Winston Churchill. He reinforced this by publishing *The Economic Consequences of Mr Churchill*. Six years later, Britain followed Keynes' advice and abandoned the gold standard. Contemporaneously, Keynes proved his understanding of financial markets by accumulating a considerable fortune through judicious investment for himself and his alma mater, Kings College (Cambridge).

It was during the 1930s depression that Keynes cemented his fame. He was critical of the British government's austerity measures which he argued exacerbated the depression. In response, he authored several publications culminating in his most famous (and least readable) *The General Theory of Employment, Interest and Money*. In this, Keynes rebuffed the received wisdom that the market was self-correcting, which, without government interference, would establish full employment. Keynes advocated government intervention through increased expenditure on public works in times of high unemployment and idle factories. Thus, Keynesian economics was born.

Keynesian economics reigned supreme until Milton Friedman, an up and coming economist, predicted that sustained Keynesian policies would cause unemployment and inflation to increase simultaneously. This prediction came to fruition during the stagflation of the 1970s and, when coupled with criticism from monetarists and the Chicago school of economics, Keynesian economics became a pejorative term, especially with the conservatives. But for all that, when faced with a financial crisis, Keynesian economics is promptly invoked. To wit, the 2008 financial crisis and the current COVID-19 pandemic. And not a word of criticism from the conservatives who would otherwise lose their shirts in the inevitable financial meltdown.

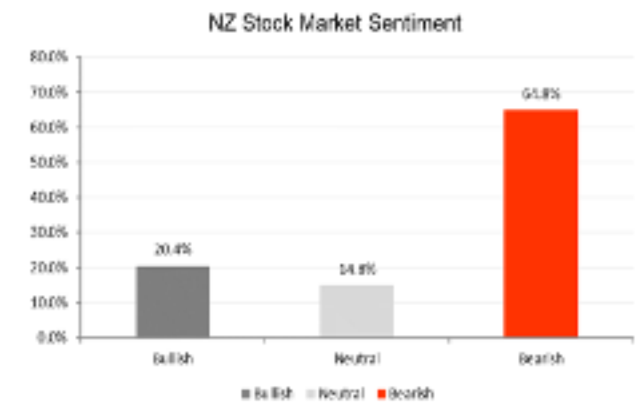
Editor

Academics and NZSA Develop a Sentiment Index

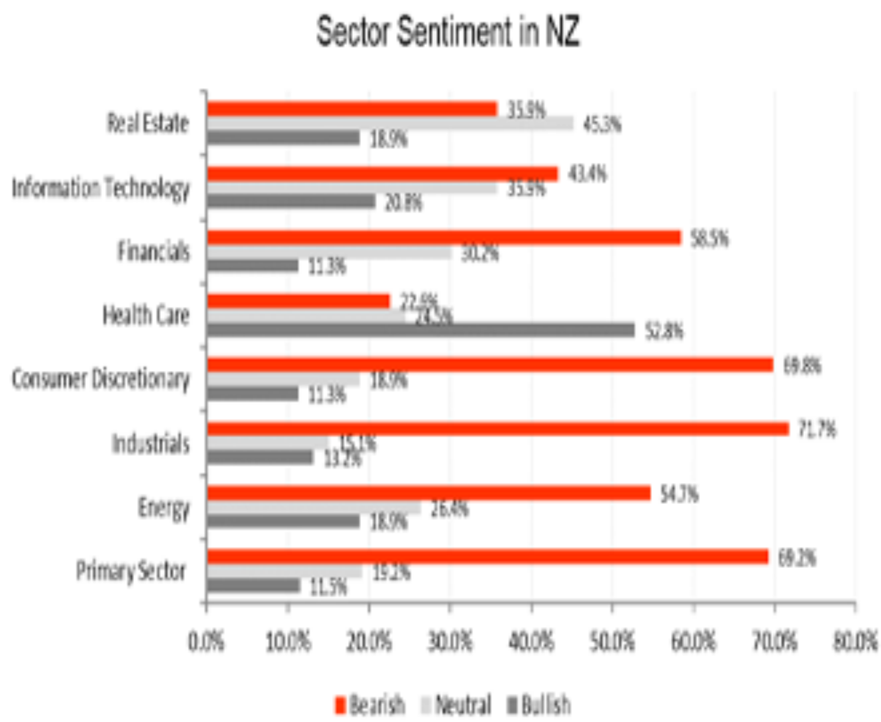
The NZSA has partnered with Professor Jedrzej Bialkowski and Dr Moritz Wagner from the University of Canterbury (UC) to provide a retail investor sentiment index measuring the NZ stock market, NZ sectors and international markets.

"This collaboration between NZSA and UC Business School fits well with our mission to be the voice of investors and will contribute to the understanding of investor behaviour and the overall market," said NZSA chair, Tony Mitchell.

Given the significance of sentiment for price discovery of stocks, the overall aim of the index is to determine the current level of sentiment and changes in sentiment over time. The weekly survey tracks the sentiment of investors' short-term outlook (next six months) on the market. This market sentiment is measured as bullish (expecting increasing prices), bearish (expecting decreasing prices) or neutral (expecting no change) and is not always driven by fundamentals.



The survey has tracked NZ retail investors' strong bullish sentiment at the beginning of the year to a bearish sentiment in recent weeks, which is related to the COVID-19 pandemic with entire countries being in lockdown adversely affecting the short-term economic outlook. Based on the latest results, 20% of individual investors describe their short-term outlook for NZ stocks as bullish, 15% are neutral and 65% are bearish. Sentiment on international markets is similar with about 68% of investors expecting falling stock prices over the next six months, while some 21% are bullish and 11% neutral. Health care, which has been the most bullish sector since the start of the survey in January, is the only sector where bullish sentiment (53%) still exceeds bearish sentiment (23%).



More details about the results and weekly updates can be found here https://www.nzshareholders.co.nz/members/login.cfm. The success of our endeavour largely depends on the engagement of NZSA members. Hence, if you would like to participate and be among the first to learn where individual investors think the market is headed sign up here: https://www.surveymonkey.com/r/NZ_Sentiment_Index_Survey_Registration. By participating in the weekly survey, you not only gain another source of information, but you also support academic research. So, don't delay and sign up for the NZ sentiment survey.

Moritz Wagner

The Good Old Days

In Defence of Directors' Fees

Directors fees have long been a bone of contention with shareholders and, at times, our Association. While the quantum is debated long and hard, the other side of the equation is what directors do for their fees. The list of duties is long, but this is an attempt to quantify their work and time commitment.

Let's start with board meetings. For a Top-50 company, there will be at least eight and up to 11 meetings a year. These usually take a full day. The meetings also require preparation, reading the board papers, and seeking explanations and clarifications. In the old days of hard-copy papers, a board member who turned up with the papers unopened would bring sighs from the other members knowing it was going to be a long meeting with lots of questions. Following a board meeting, individual directors will have tasks to complete before the next meeting.

Boards will also have a strategy and planning process meeting at least once a year. These take two or even three days away from the office to meet with fellow directors, the CEO and senior management to consider the big picture and where to from here. These meetings are not social occasions: they form an important part of the interpersonal relationships that are so important to any company's success.

Then there are the board committees. All NZX companies are required to have an audit and risk committee chaired by a person with finance and accounting experience. As well as dealing with the financial audit, health and safety will be the top priority and occupy a good deal of the committee's work. The committee will meet with the internal auditor and the external auditor, particularly around the interim and final audit. There will also be meetings with the CEO, CFO and other senior managers. There will be committees to deal with board nominations, the appointment of a new CEO, the consideration of board fees and CEO remuneration, and have oversight into senior management remuneration. In some cases, this work is combined into a nomination and remuneration committee. There will be other committees for special purposes such as a major acquisition, takeover or divestment activity, or other special events.

Board members will also be required to meet with various external parties such as the NZX, FMA and NZSA. Many industries have associations and from time to time board members will meet to discuss matters of interest.

Board members will pay site visits where a company has multiple operations so they can meet the team and better understand the business. There will be product launches to attend to meet customers and suppliers. Many companies have internal awards to recognise the work and achievements of the staff. Board members attend these.

We estimate the time commitment at 40 to 45 days per year with a chair's commitment double this to account for the additional meetings with the CEO and senior managers, other board members and external parties.

NZSA policy is that a director should not serve on more than five NZX or equivalent boards such as large private companies, government agencies or other entities. Good directors are in demand for not-for-profit and charity boards, so are often called upon and feel obliged to serve as part of their community service. Considering weekends, statutory holidays and four weeks leave, there are 231 working days in a year. Five boards at 45 days each is 225 days leaving little time for any other work. An overcommitted director is not an asset to a board, particularly when a company is facing challenging times.

When we divide up a director's fee by 40 or 45 days and take into account the work outlined and that they can be fined or imprisoned for offences under the Health and Safety Act, perhaps their fees are not as unreasonable as sometimes suggested.

In the light of recent events such as COVID-19, directors will be under considerable pressure to ensure the financial viability of their companies. They will be spending even more time reviewing and renewing strategic direction and ensuring the CEO and seniors managers are on top of operational matters

Grant Diggle

CBL Class Action

Recently, the CBL Class Action committee distributed a newsletter to former CBL shareholders who support the class action. The salient points are

- The Class Action committee includes Harbour Asset Management, Forsyth Barr and Argo Investments (an Australian-based institutional investor). Its function is to work closely with the legal team and litigation funder, LPF Group
- The class action is supported by shareholders who collectively held more than half of CBL shares when trading ceased
- The class action is still open to CBL shareholders who have not yet joined
- The representative plaintiffs for the class action are Harbour (Harbour Australasian Equity Fund) and Argo Investments
- The Statement of Claim is
    - The directors of CBL are responsible for misleading statements in the IPO documents that, at the time the company listed on the NZX and ASX, it had adequate financial reserves to meet its insurance obligations
    - The directors are responsible for the company failing to update the market in the period after the IPO with material information about CBL's financial position
    - Directors Peter Harris and Alistair Hutchinson, through companies controlled by them, sold shares in CBL while they had material information relating to CBL that they knew was not available to the market generally
- Shareholders participating in or considering joining the class action need to keep all documents relevant to the purchase and sale of CBL shares and all communications with CBL Corporation.

For further information, visit https://www.cblclassaction.co.nz/

Don Kinnell

Quarterly Results: COVID-19 and NZX

This past quarter will perhaps go down as one of the most extraordinary ever in the financial markets. It will also be the most extraordinary quarter for the health sector and many governments around the world including NZ. Who would have thought that a virus called COVID-19 could inflict so much damage to the world's population and create chaos in the financial markets? This significant global event will become part of our history and be memorable for all the wrong reasons.

As at 31 March, there are at least 850,000 people infected with COVID-19 and just over 42,000 people have died. Within NZ and with restrictions on the criteria for testing of COVID-19, we have just over 700 cases, of which 83 have recovered, but unfortunately, one person has died. NZ is in lockdown to break the cycle of the virus spreading and we will know by the end of the next quarter how effective our government's approach has been.

So, what has happened during the quarter ended 31 March 2020 on NZX? We know it began on a high note with the NZX 50 setting fresh closing highs. Just when we all thought the NZX was ticking along nicely, things quickly turned in late February when COVID-19 started to spread outside of China. Added to our financial markets' concerns was the bickering as Russia and Saudi Arabia started to get terse over oil.

Out of the blue, something that no one predicted saw our financial markets tumble. This March madness saw the NZX 50 record its worst quarterly return on record but for all of you out there thinking no, surely there have been other events, do bear in mind that NZX 50 was only created in 2003. However, if we use the NZ Capital Index, which has a longer history, the decline (to date) is not as bad as other significant events that have impacted our market. These other events are stock market crash, December 1987 (-47%); Gulf War, December 1990 (-20%); GFC, March 2008 (-17%); and where we are now, COVID-19 (-16%).

As we head into April and the next quarter, it is inevitable and extremely unfortunate that we all expect further periods of volatility caused by the fallout of COVID-19. While the financial markets will be focussed on economic data to ascertain the impact that COVID-19 will have on our economy, spare a thought for our health sector and the experts who are busy analysing COVID-19 data in an effort to reduce the number of deaths and illness it will inflict on our population.

Also impacted from COVID-19 are those Kiwis who will lose their jobs and livelihoods. It will be interesting to see how Kiwisaver providers manage what is surely going to be a wave of investor redemptions, possibly in full, as the 'financial hardship' clause is used as a reason to liquidate their accounts.

Remember, as we look at our investments and their deterioration, time has shown that these generally improve but spare a thought for our most vulnerable, where, if COVID-19 takes hold, their chances of improving and living may not be as good as your investments surviving.

On that note, stay safe and keep an eye out for your loved and vulnerable ones.

Jenny Miller

Our members attend company annual shareholder meetings (ASM) and special shareholder meetings (SSM) as NZSA proxy holders. They also file detailed reports on these company meetings that include the tenor of the meeting, shareholder questions and, where possible, some after-match chatter. Many of the companies that we report on are not covered by the mainstream media and this gives our members a broader view of the listed companies. Please note that comments in these reports are those of the writer, who may or may not be a shareholder in the company, and do not necessarily reflect NZSA policy.

Abano Healthcare SSM, 20 March

Market capitalisation	\$43.3m
NPAT, 2019	\$7.6m
Substantial shareholders	Harbour Asst Mgt 13.3%, Forsyth Barr 7.3%
Number of shareholders	2812

While this meeting had to be held, Abano did all it could to discourage attendance. A webcast of proceedings was arranged, and the proxy voting numbers announced before the meeting. These numbers were sufficient to authorise the scheme of arrangement for the takeover of the company, which was the sole purpose of the meeting.

Despite the assured result, the meeting proved interesting because it gave a useful insight into how meetings might proceed in the future when we are once again allowed to congregate. Although numbering less than ten, the attendees had to negotiate checkpoints to enter Eden Park and then into the venue. After arms-length and gloved recording of personal details and registration, we entered a space with seats set well apart. A bit like an exam venue without desks.

Only chair Pip Dunphy, fellow director Dr Tracey Batten and CEO Richard Keys were present to represent the company. While they were willing to engage, conversations at three metres are not conducive to easy dialogue.

Ms Dunphy read her speech, which is available on the NZX and Abano's website, there were a couple of questions from non-digitally aware shareholders, and it was all over. Well not quite. There is a "Material Adverse Change or Prescribed Occurrence" clause in the agreement. At the time of the meeting, Abano's trading seemed to be holding up. Two days later it all changed: Abano's clinics followed government direction and closed their doors to normal business.

Will Adams NZ Bidco Limited take the opportunity to exercise their escape clause and come back later with a price attuned to the new market realities? By the time you read this, that question may have been answered.

Bruce Parkes

Editor's note: On 30 March, Abano announced that Adams NZ Bidco had exercised the adverse material escape clause and withdrawn from the scheme of arrangement. This coincided with the closure of Abano's Australian dental practices.

"THE POLITICAL PROBLEM OF MANKIND IS TO COMBINE THREE THINGS: ECONOMIC EFFICIENCY, SOCIAL JUSTICE AND INDIVIDUAL LIBERTY."

JOHN MAYNARD KEYNES

CSM Group Ltd SSM, 30 March

This was a virtual meeting to facilitate a reverse listing of The Good Brand Company Ltd. Chair Roger Gower opened the meeting and advised that the other directors were joining the meeting online. He then outlined the restructuring proposal as follows

- Acquisition of The Good Brand Company comprising the Me Today Group
- Issue of 1.1 billion new shares in consideration for the Good Brand Company
- Issue of 300 million placement shares to wholesale investors
- Issue of 220 million shares to Hunter Holdings Ltd, a related party.
- The election of five new directors: Grant Baker, Stephen Sinclair, Michael Kerr, Hannah Barrett, Antony Vriens
- Approval of an increase in the director fee pool
- Appointment of a new auditor, BDO.

Michael Kerr, CEO of Me Today Group, explained that the brands and products focus on the health and wellness sectors. These include Me Today, Life Space, Artemis and Sleep Drops. They are supplied through chemists and are formulated to be environmentally friendly.

Roger Gower then put each resolution to the meeting and invited questions on the resolutions. As there were no questions, he then asked shareholders and proxies to vote online.

As indicated in the PVI, we voted against the increase in the directors' fees and the appointment of a new auditor, BDO.

Concerning the director fee pool, we preferred that the non-independent directors who are associated with new shareholding entities waive their fees for at least the first year or until a performance track record has been established. We also believe the fees sought are at the very top end for a company of this size.

Regarding the resolution to change the auditor, the vendors of The Good Brand Company have a pre-existing relationship with BDO and have requested the change. The resolution also permits the board to fix the remuneration of the new auditors. Although BDO is a new auditor for CSM, in practical terms it is not a new auditor for the restructured company. Our preference is for the appointment of an auditor that brings a fresh approach and the restructure presented an ideal opportunity to achieve this.

The company has subsequently announced on NZX that all resolutions were passed.

Grant Diggle

Editor's note: As this is a reverse takeover, CSM's financial data is redundant and therefore not included.

Evolve Education SSM, 26 March

Market capitalisation	$73.8m
NPAT, 2019	($101.5m)
Substantial shareholders	Chris Scott (MD) 19%, Regal Funds 14%, Salt Funds 9.8%, NAB 10.7%, Chris Sacre (director) 6.4%
Number of shareholders	1774

This special shareholders' meeting opened at 9 am. It was the first meeting to be conducted under the COVID-19 rules. As such, it was a virtual meeting with chair Hamish Stevens online alone while the other directors, shareholders and proxies individually joined the meeting online.

The chair opened the meeting by outlining the resolution which was to approve the placement of 145 million new shares to new and existing shareholders at A$0.13 cents per share. This a 116% premium over the current price. Directors and the CEO participated in the placement.

The chair explained that while the previous NZX rule was that companies could only issue 15% of new shares within 12 months, due to the current situation NZX has raised this to 25%. However, the company has no intention of issuing more shares at this time.

Mr Stevens disclosed the proxy votes with 96% in favour, 3% open and 1% against. He called for questions on the resolution. There were no questions. Attendees were asked to cast their online votes. NZSA proxies were cast in favour of the resolution. Mr Stevens closed the meeting at 9.07 am.

Subsequently, the company reported that the resolution was passed with 99.05% in favour.

Grant Diggle

Gentrack Group ASM, 26 February

Market capitalisation	$137m
NPAT, 2019	($16.5m)
Substantial shareholders	Baincor Nominees 11%, John and Valerie Gifford 9.7%, Swann Hill 9.6%, Fraxinus Trust 5.4%
Number of shareholders	3859

Despite a 4 pm start time, and an early release of the slides supporting chair/acting CEO John Clifford's address, it was standing room only for this meeting. While Gentrack meetings regularly test the capacity of the Link Market Services' venue, the four profit downgrades, poor performance, a deteriorating share price, and the sudden departure of CEO Ian Black two days earlier guaranteed a large attendance. Shareholders wanted answers on Mr Black's departure but all they got from Mr Clifford's address and other directors was the standard "mutual agreement" statement and that Mr Black's severance pay was "lower than the market benchmark". We will have to wait until the next annual report to find out how much.

While the meeting was not webcast, a podcast of the full proceedings is available on Gentrack's website. To explain the company's poor performance, Mr Clifford offered a brief history on the electricity sector in the UK, Australia and NZ over the past 20 years and in particular since 2010 when the markets were opened up. With a shift in focus to renewables and close to zero marginal costs, the wholesale market for electricity has turned on its head. In the UK, small backroom investors became market participants and 50 new companies started up, of which 40 became Gentrack customers.

We were told the UK government applied major politically motivated changes to the energy sector. A January 2019 crackdown lopped $2b in revenue and profits from the retail electricity sector and created bloodshed in the industry. Twelve energy retailers collapsed, five of whom were Gentrack customers, causing bad debts and a loss of recurring revenue. Also, Gentrack has seen potential billing projects and contracts put on hold while the sector considers the consequences of the government intervention and retailers seek to survive. Further consolidation in this market is predicted.

Mr Clifford admitted Gentrack had been slow to recognise or react to volatile market conditions but would now be paying very close attention. This led us to ask for an assurance that the company would not take its eye off the ball. The best we got was that Mr Clifford's 9.7% shareholding was a strong motivator and more attention was being paid to customers' creditworthiness.

For FY20 and beyond, Mr Clifford anticipates more failures and further consolidation within the UK energy sector. He said that despite difficult trading conditions, Gentrack is a market leader for billing systems in the energy and water sectors across the UK, Australia and NZ. It has a sticky customer base and extensive IP. Despite the difficult UK market, Mr Clifford is still expecting 5% growth. Gentrack remains a profitable cash-generating business with no debt.

The chair's address also mentioned Gentrack's unsuccessful purchase of Ca+ in 2017 and its subsequent impairment, new and emerging competition, the effects of the change in the business model to SaaS (where upfront costs are high with payback spread over a long period), gearing up for growth that did not eventuate but resulted in additional costs and increases in headcount.

Gentrack's CFO Tim Bluett resigned in December. Days after this meeting James Spence was appointed with a 1 April start date. Mr Spence has a background with energy companies in the UK, Australia, and North America.

We were told of a global search underway to find a new CEO to take Gentrack to its next stage. This includes a restructuring through cost savings and reduced headcount; continued investment in the SaaS business model; upgrading systems to cope with regulatory changes; migrating existing customers to SaaS; developing the South East Asia market; and where appropriate, small synergistic acquisitions.

Questions in general business addressed the CEO's sudden departure and remuneration, the company's cost structure, and the impact of the transition to SaaS on Gentrack's performance. With a headcount of 550 (excluding contractors and interns), only 20% are in product development so we asked where the cost savings would come from and received a relatively vague response of "across the company".

As Gentrack's airport revenue is licence-fee based and not related to flights and passengers, the COVID-19 outbreak would not have a direct impact. However, there is an obvious impact on most global travel businesses in the longer term.

The resolutions put to the meeting covered setting the auditor's remuneration, the election of Darc Rasmussen, the re-election of Leigh Warren, and the adoption of a new constitution to conform with the new NZX listing rules. During the auditor resolution, we queried the 66% increase in the audit fee (from $325k to $537k) and asked if this related to discussions over impairments or other issues, and if the auditor's fee for FY20 would remain at this higher level. We were told hopefully not, but we will have to wait and see.

All four resolutions were passed. However, a surprising number of shares (2.38 million) were cast against the re-election of Leigh Warren, and an unusually large number of shares (5.47 million) abstained from voting to change the company's constitution. Mr Warren had intended to retire but was persuaded by the chair to stay through the period of leadership change. He plans to retire within a year.

As NZSA proxy holders at last year's ASM, we commented that the performance hurdle (for the CEO's long-term incentives) set by the board was merely a walk in the park. However, the CEO's surprise departure has become a sprint from the park.

Jenny Miller and Bruce Parkes

NZX ASM, 31 March

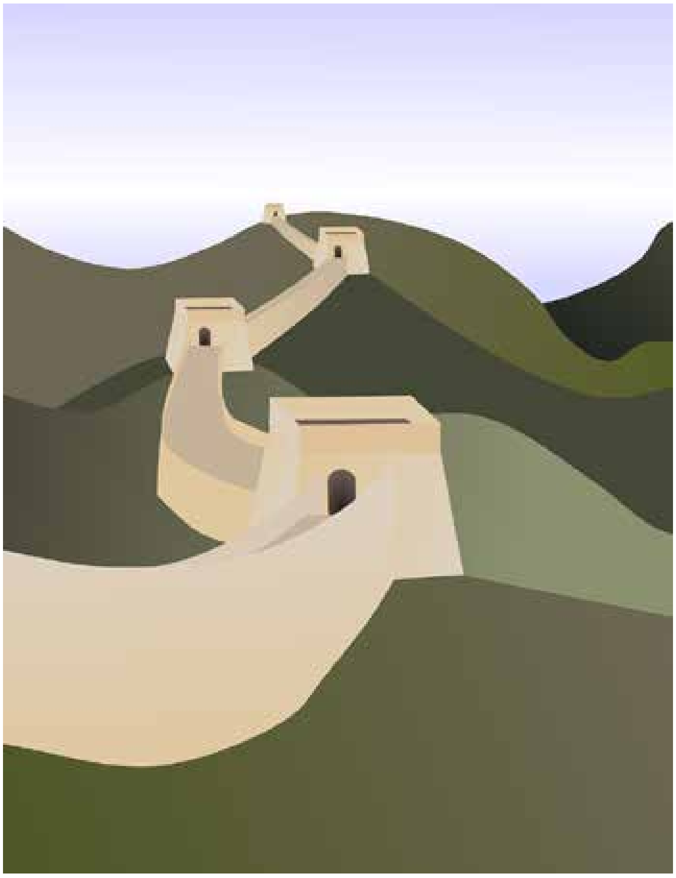
Market capitalisation	$311m
NPAT, 2019	$14.6m
Substantial shareholders	Aberdeen Investments 9%, Highclere 6%
Number of shareholders	3970

Chair James Miller opened this virtual-only meeting by outlining the current situation regarding NZX-listed companies. He said that there will be a need to recapitalise balance sheets and that NZX was collaborating with

FMA and the Takeovers Panel to facilitate capital raisings. In some cases, regulatory barriers have been removed or relaxed to ensure there are no impediments. He appealed to all players in the capital markets to put aside their natural competitiveness and work together to get the best possible outcomes for the market as a whole.

Mr Miller introduced the board members online and then outlined the FY19 results. Overall, it had been a good year for the company with a strong performance in all areas. He spoke about the Capital Markets 2029 initiative and how this would impact the markets in the coming years.

NZX intends to change its governance and operating model by moving to have a wholly-owned subsidiary company managing its regulatory functions. The regulatory company will have a board with an independent chair, independent directors and a CEO. This is in line with international standards. The regulatory company will operate on a cost-neutral basis. Its establishment board will comprise Trevor Janes as chair with directors Elaine Campbell and Mike Heron. A fourth director is yet to be appointed.



This is a welcome move. Although NZX has maintained Chinese Walls between its operating and regulatory functions in the past and there has been a perception that both arms were not as separate as they should be, “a player also being the referee” was an oft-expressed view. Implementation will be as soon as possible this year although the recent events will now delay this by some months.

FY20 guidance remains at operating earnings between $30m and $33.5m with the proviso that, due to the current conditions, the range of earnings for the different streams of the business may be much wider than previously forecast.

CEO Mark Peterson outlined the changes that COVID-19 has made to the operations. He also covered the split between trading and regulatory functions. He said that trading for the first three months of the year had equalled a typical four-month trading volume. The company is confident that it can operate during the Level-4 restrictions.

Mr Peterson covered the FY19 performance in some detail. He noted that capital raising was a record $18b and that on-market trading was 54%. This has increased to 57% in the current year to date. He said the company was well-positioned with a strong balance sheet as a result of the strategic changes made in 2018.

Chair James Miller then put the resolutions with each director seeking election or re-election offering reasons why they should be on the board.

In general business, the only question was why a senior staff member had travelled to Hong Kong for a meeting. The CEO answered the question explaining the staff member had been a keynote speaker at a conference.

The results of the resolutions were that authorisation for the board to fix the auditor’s fee was passed with 100%, the election of John McMahon passed with 99.86%. Interestingly there was a 13% vote against the reappointment of Richard Bodman and Frank Aldridge.

Grant Diggle

“MARKETS CAN REMAIN IRRATIONAL LONGER THAN YOU CAN REMAIN SOLVENT.”

JOHN MAYNARD KEYNES

"BUT MY LORD, WHEN WE ADDRESSED THIS A FEW YEARS AGO, DIDN'T YOU ARGUE THE OTHER SIDE?" HE SAID, "THAT'S TRUE, BUT WHEN I GET MORE EVIDENCE, I SOMETIMES CHANGE MY MIND. WHAT DO YOU DO?"

JOHN MAYNARD KEYNES

Tower ASM, 14 February

Market capitalisation	$236m
NPAT, 2019	$16.5m
Substantial shareholders	Bain Capital 16%, Salt Funds 14.6%, ACC 7.7%, Westpac 6.6%, Devon Funds 5.2%
Number of shareholders	25,383

Tower's ASM, early in the year, late in the morning, convenient for parking and public transport, and with a recovery story to tell, attracted a good muster. Chair Michael Stiassny took us through the transformation programme to position Tower as a digital, challenger brand in the general insurance market. He summarised growth in operating revenue and profit, compliance and cultural change in response to the Australian and NZ Conduct and Culture review, and the successful capital management programme. After the suspension of dividends in 2016, shareholders were relieved to hear that the directors expect to pay out 50% of NPAT in dividends for FY20.

CEO Richard Harding, soon to return to Australia, emphasised a $25m turnaround in underlying profit, and a 9.1% increase in gross written premiums. The company is placing a lot of faith in its digital platform though it has still to migrate 350,000 existing customers on to this. However, new customers will be able to get access to well-priced insurance for homes, contents and vehicles by completing simple questions online, and the contracts will be simpler and easier for claimants to understand. The full benefit is expected to be realised in FY21.

Several issues were explored during question time. As usual, the Canterbury earthquake claims (provided in the accounts at $61.6m) received attention. Although the backlog has reduced to 81cases, the provision has been increased to 148% of actual assessed claims because the over-cap referrals keep coming in. Why? It is because EQC faces further claims for shoddy and inadequate repairs.When these are added to the original claim the total moves to over-cap (exceeds EQC's limit) and is referred to the insurance company. Naturally, the insurer settles the over-cap claim for the customer, but then claims the amount for shoddy repairs from EQC. Thus, the amount becomes an asset in Tower's books, (ie a debt owed by EQC to Tower, the insurer). Seeing this, the Reserve Bank asked Tower to remove the asset from the solvency reserves. However, EQC is aware of the liability and has signalled to the government that it may be caught short. So, the question at the ASM then became: if and when EQC settles the debt, can this be paid out to shareholders? The chair, who is also a shareholder, was careful. There would be litigation and a settlement and he would love to take his share but could not make a commitment at the ASM.

The company does not divulge customer retention rates but says its churn and retention is normal and expected to improve as it demonstrates its claim processes to customers. Another shareholder asked why Tower was languishing at mid to bottom in Consumer's insurance company survey this year when the board is trumpeting a turnaround. Tower is aware of the delay in acceptance by the market, and aware that it can be overcome only by good claims experience for clients. This was tied into questions about access for older, visually and digitally challenged clients. We received assurance that telephone and physical receptions would be maintained and enhanced with the new digital platform.

All the resolutions were carried by poll, including the election of Michael Stiassny who will no doubt continue as chair. It was good to see the NZSA table and promotions back again at the back of the meeting room to reinforce our presence and proxy representation.

Alan Best

"TO A LARGE PROPORTION, RECENT MATHEMATICAL ECONOMICS ARE MERE CONCOCTIONS, AS IMPRECISE AS THE INITIAL ASSUMPTIONS THEY REST ON, WHICH ALLOW THE AUTHOR TO LOSE SIGHT OF THE COMPLEXITIES AND INTERDEPENDENCIES OF THE REAL WORLD IN A MAZE OF PRETENTIOUS AND UNHELPFUL SYMBOLS."

JOHN MAYNARD KEYNES

What's Going On With Vital Healthcare?

Vital Healthcare Property Trust (VHP) is a listed property trust, externally managed by NorthWest Healthcare Properties Management, a wholly-owned subsidiary of the Canadian-based international health care real estate manager, Northwest Healthcare Properties REIT (NWH).

In early February, VHP released its interim results for FY20. Within the announcement came news of the conditional acquisition by VHP of three aged-care assets for just over NZ$60m. Buried in the interim results presentation is the extra information that these three properties are being acquired from the owner of the manager, NWH.

Interesting, I thought. I imagined a Monty Pythonesque directors' meeting, with the directors having different coloured hats to wear depending on the role they were playing, who they were representing, and having a vigorous argument with themselves over the purchase price. However, I digress, I'm sure it wasn't like this at all.

Why would the owner of the manager divest itself of a performing asset into an associated company? I found the answer in the 7 February news release from NWH. In this release under the heading "Australasian portfolio management", NWH states that it is divesting all assets held directly in Australia, approximately AUD$473m in total, "for which it does not earn management fees". NWH expects to receive approximately AUD$157m net proceeds "that will be utilised to further deleverage and position the REIT [NWH] for future growth while also driving incremental management fees".

So, there we have it. NWH, the owner of the manager of VHP, will transfer these properties from its direct ownership (with no management fees), into VHP where NWH will be able to collect ongoing and incremental management fees.

As well as contributing to the manager's annual base fee, the incentive fee, and property management fees, the manager will receive a 1.5% acquisition fee: about NZ$900k for managing the due diligence, financing, legal aspects and settlement of the purchase. NWH achieves its stated aims. It frees up cash towards deleveraging and improving its investment grade. It transfers the assets into a vehicle where it can take ongoing management fees, thereby increasing management fees.

- Is an acquisition fee a fair fee for VHP unitholders for a purchase driven by NWH so that NWH achieves its aims?
- Is there a benefit for the VHP unitholders?
- Will the 6.5% yield be sustained after management fees and increased debt costs?
- What sort of upgrading will the facilities require?

The manager proposes a foreign exempt listing on the ASX with related legal and capital changes to remove structural inefficiencies, promising improved dividends. The 7 February NWH news release includes the phrase "to remove structural inefficiencies for international investors". I am curious: does that mean for NZ investors in Australia, Canadian investors in Australia or both?

More information about these changes will be released in the next few weeks, with VHP unitholders expected to vote on the changes before the end of March.

My questions remain: What's going on behind Vital Healthcare? Is it for the benefit of the manager, the unitholders or, best case, both? Is the manager preparing for future moves? Will the information released over the following weeks shed light on the strategic background to these moves? Watch this space!

Phillip Melville

Postscript: The special shareholders meeting to vote on the ASX foreign exempt listing resolution was scheduled for 31 March but was adjourned for 48 hours, ostensibly because several stakeholders requested more time to participate in a virtual meeting. The votes cast prior to the adjourned meeting were announced to NZX before the meeting started. This showed 65.97% in favour of, well short of the required 75%. The board didn't have much success persuading those at the (virtual) meeting as 95% votes at the meeting were cast against the resolution. The opposition vote increased from 30.6% to 33.8%. A victory for the little people.

Editor

Whole-of-Life Insurance Woes

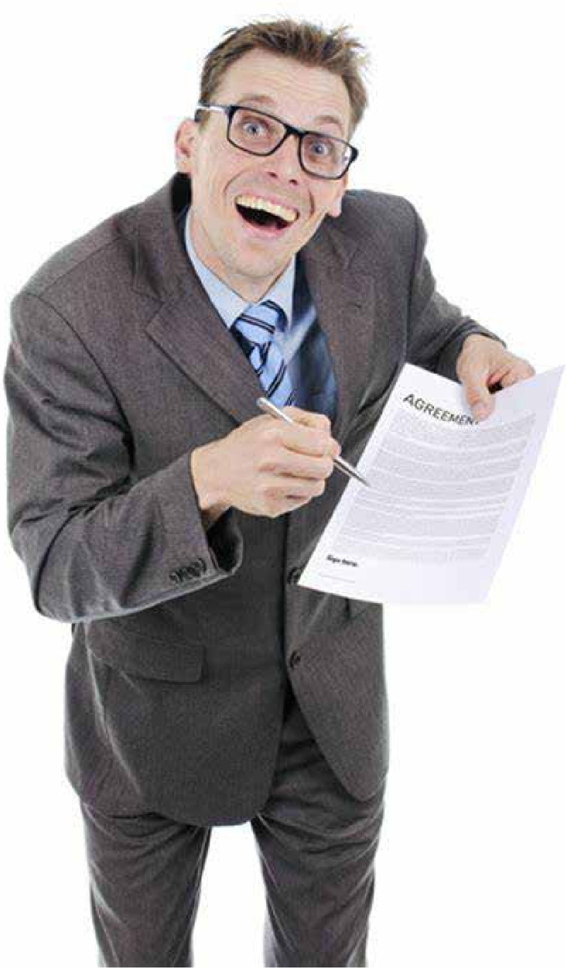
Like other holders of whole-of-life insurance policies, I have received letters telling me about how the insurance companies are effectively going to renege on their policies and flick the business over to other financial service businesses. In the case of my daughter's whole-of-life policy, it was with State which de-mutualised to Tower then to Foundation Life. Now it is the turn of AMP, which sent out a letter informing policyholders that the policy transfer will go to a Bermuda-based company that has a wonderful record dating back 16 years. Wow.

Nowhere do either company (AMP & Tower/Foundation) hint at a range of options for their policyholders. No inkling of whether policyholders should cash in policies now or retain the policies for a guaranteed reward at the end (literally).

When I asked if anyone could offer some sound advice, my West Coast friend Dave Parry replied.

"I have received the same letter. I have a whole-of-life policy with AMP, the proceeds of which I won't benefit. But I would like my beneficiaries to benefit.

I rang the freephone number in the letter. This goes to a menu system, for which there is no option to select for enquiries about the sale so I selected an option at random



hoping that whoever answered could put me through to an appropriate person. That person had no idea of what I was requesting and put me through to someone else. At this point, you can see the picture. In the event, after 45 minutes I did get to speak to someone who knew about the sale but was unable to discuss it. She took my phone number and email and said someone would call me back or email me. Naturally, that didn't happen. I am writing to AMP Life about this.

The claim that Resolution Life has 16 years of experience is supposed to imply some sort of credibility however when placed against the fact that AMP has about 170 years, this claim looks a bit silly.

I believe the life policies that are being flogged off will become zombie policies with bonuses limited to what Resolution Life can get away with and with policyholders having zero control over their investments. Much like AMP, I suppose.

I could surrender my policy but after 48 years the surrender value would be about 2½ times the total amount invested. Ho-hum."

Dave Parry received a belated reply from AMP Life. The salient paragraphs follow:

"Why is AMP Life being sold? From approximately 2016 to 2018, AMP completed a lengthy and considered portfolio review of its business. After this review, AMP decided to close the AMP Life book to new business and sell AMP Life to a specialist in managing in-force closed life insurance and mature businesses, Resolution Life. AMP is satisfied that the outcome of the portfolio review, including the decision to sell its insurance and mature businesses to Resolution Life, is the right decision for our stakeholders, including customers and shareholders.

Is Resolution [Life] committed to New Zealand policyholders? Resolution has said it is passionate about continuing to build a sustainable long-term business and strong legacy in the interests of all customers and stakeholders. Resolution has said it is excited about the opportunity that lies ahead to strengthen and deepen relationships with existing AMP Life customers, and that some of the fundamental areas it will be focused on are further improving investment performance and strengthening customer service and communication. Resolution [Life] has said it believes that by removing the focus on selling new business, the local team will be enabled to do even more to enhance the current offering and services for our customers."

Dave Parry describes this as "the same old spin", and notes that AMP's letter was unsigned.

In the process of gathering more information about AMP's 'offer', I was sent a copy of an article by Jenny Ruth, reporter for Wellington-based *BusinessDesk*'. Ms Ruth states that the Reserve Bank will not approve AMP Life's sale of its NZ life insurance business. Resolution Life expected to operate the NZ business as a branch of its Australian business, but our Reserve Bank did not agree to this. Ms Ruth in her article stated, "AMP's motivation for selling its life businesses has been painfully obvious. Australia's royal commission into financial services exposed the fact that it had lied to the Australian market conduct regulator, the Australian Securities and Investment Commission, at least 20 times, charged customers for advice they never received and doctored a report that was supposed to be independent".

Information on the Australian banking and financial services sector can be found in Daniel Ziffer's book (reviewed below), *A Wunch of Bankers*. By reading this, you may appreciate why our Reserve Bank has misgivings about Resolution Life's takeover of AMP life insurance business.

Tim Kerr

Editor's note. Dave Parry's policy surrender value of 2½ times his 48-year investment shows a nominal return of 3.4% pa and a negative real return (inflation-adjusted) of (1.3%) pa. But to give this context, the investment has an insurance component. If a policyholder is run over by a bus a week after taking the policy, the insurance company loses big time. But should the policyholder live to a ripe old age, the insurance company wins.

"WHEN THE CAPITAL DEVELOPMENT OF A COUNTRY BECOMES A BY-PRODUCT OF THE ACTIVITIES OF A CASINO, THE JOB IS LIKELY TO BE ILL DONE."

JOHN MAYNARD KEYNES

An Opinion on Energy

Energy is undergoing major changes due to greenhouse gas reduction. One recent game-changer is that solar energy is now cheaper than coal-powered energy and this is already influencing the energy planner's mindset.

Solar energy extracted from sunshine through solar panels and panel efficiency continues to improve exponentially, almost parallel with Moore's Law for computer chips, which asserts: 'that the number of transistors on a microchip doubles every two years, though the cost of computers is halved". Solar technology has not quite achieved Moore's phenomenal speed of growth, but it is still impressive. Panel costs continue to fall while photovoltaic cell technology continues to improve.

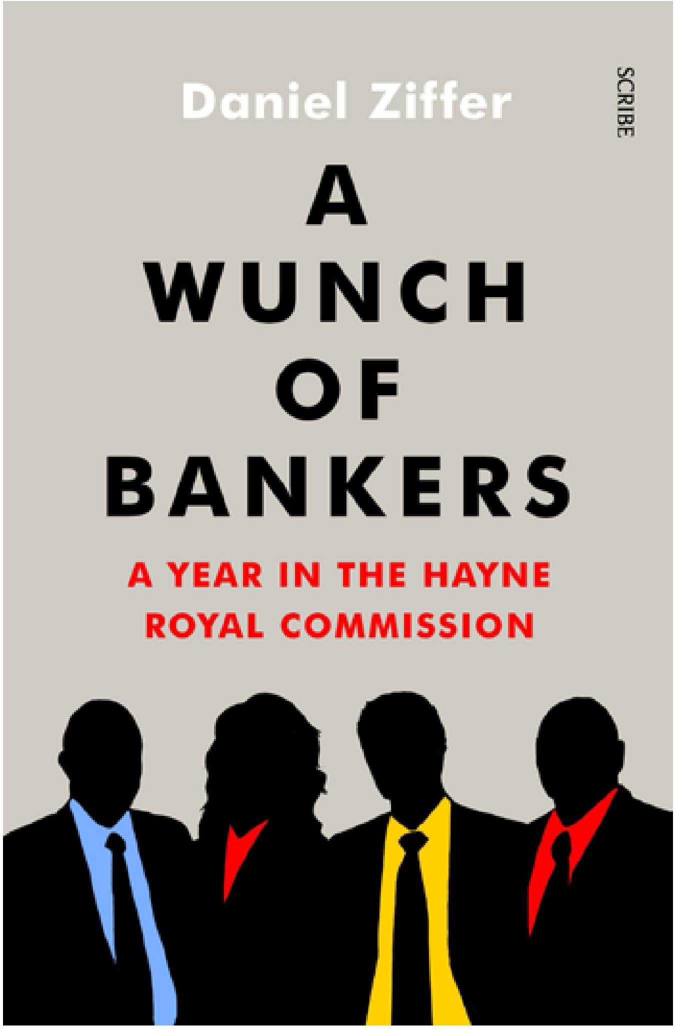
The major advantage with solar is that panels are portable so can be installed (using rooftops, vacant lots etc) closer to the demand, reducing, sometimes eliminating, the cost of transmission power lines. NZ power companies are already adapting to solar generation. For example, Genesis Energy is negotiating to lease a very large land-based solar energy power site in Waikato.

The adaptation of solar technology is also advancing rapidly. The latest innovation is to float solar panel barges on large expanses of water (hydro lakes, sewage ponds etc).

From an NZSA investor standpoint, the North Island power companies (Mercury, TrustPower and Genesis Energy) with hydro storage lakes in the central North Island would benefit most from this floating solar panel technology. NZ's power demand is increasing at about 2% pa, possibly faster in the central North Island and the golden triangle (Auckland, Waikato and Bay of Plenty). Members looking for stable investments with good dividend return and steady growth could flag these energy shares for future investment.

But, please note I am not an investment advisor. This article is from my research and is presented to stimulate thought among members, it does not constitute investment advice.

Max Lewis



A Wunch of Bankers: A Year in the Hayne Royal Commission

Author Daniel Ziffer brings out the colour and grit of the Australian Royal Commission investigating the misconduct in the Australian banking, superannuation, and financial services industry. A long list of scandals was exposed to a horrified nation. These include charging fees to dead people, blatant conflicts of interest and taking A$1b from customers in fees that banks were never entitled to.

A Wunch of Bankers covers not just the big shocks, but the small moments, lost in the flurry of daily reporting, that reveal how companies have used the law, limp enforcement, and basic human behaviour to take advantage of customers. Is there a phrase that judges how much life-insurance spruikers in call centres can terrify you about your impending death and the grief-stricken ruins of an estate you'll leave for your bereaved family while still being legal? Yes, there is.

Was there a meeting in which a bank's executives ignored a warning of "extreme" from its chief risk officer, to embark on an illegal scheme that accrued $3.6b in funds? There was. Bank shareholders found much to question by the end of the year.

Rowena Orr QC was senior counsel assisting and she was brilliant. The relentless questioning allowed those being cross-examined to incriminate themselves. And the results had me snorting with horrified laughter. Daniel Ziffer comments, "Sitting through it every day you wanted to occasionally yell out, 'It's a trap!' as a hapless witness made bold pronouncements about a list of elements noting that they wouldn't be the case… before being drawn to the document that detailed each one as policy and procedure."

'Misconduct' included conduct that was an offence against commonwealth, state or territory law, a breach of trust, of duty or unconscionable behaviour and although this was not a criminal court of law, what it uncovered will be before the courts for a very long time.

The book reports on the proceedings and explores broader issues raised by the testimony. A mixture of analysis, reportage, and observations, it is densely researched and compellingly written.

Reviewed by Jean Gorman

Disappearing Dividends

Hardly a day goes by without a listed company cancelling or postponing a recently announced dividend. The reasons are obvious. The country is in lockdown and businesses deemed non-essential face at least four weeks of costs but no revenue. At the end of the lockdown, many consumers will have less money to spend, and after such a shock will be less willing to part with what they have. From this, it appears that the post-lockdown period won't be that great either. In short, the companies canning dividends are doing what is sensible.

To their credit, the directors of some companies have given themselves and their senior underlings a haircut. Notably, Tourism Holdings which for the next four months has reduced directors' fees and the CEO's salary by 50% and the executive team's salaries by 30%. Vista has reduced directors' fees 30%. Vista's CEO and senior executives have voluntarily reduced their salaries by 30% and 25% respectively. There may be other boards that have shared the pain with shareholders, employees and other stakeholders. I'm just not aware of them.

It's fair to say that Vista and Tourism Holdings (THL) are victims of circumstances beyond their control. Empty movie theatres and idle camper vans are everywhere. But THL has been paying what some saw as magnificent dividends; magnificent for the IRD as almost 40% were unimputed. These magnificent dividends were followed by an equity raise to restore the balance sheet following a period of commendable growth. All good, but the equity raise approximated the unimputed dividends that were thoughtlessly dished out. Ironically, THL's cancelled dividend was fully imputed.

But there may be worse to come. The shares THL shareholders subscribed to at $3.40 are now selling at c. $1.00. Should THL need more capital to survive the COVID-19 havoc, I doubt that its once-bitten shareholders will oblige. The path THL disregarded was to pay a smaller dividend and finance some of the expansion with retained earnings. Was it really necessary to increase the dividend per share by 80% over the five years? Sure, THL's NPAT covered its dividend payments in most years, but only just.

THL is not the only company paying excessive dividends. Auckland Airport has a policy of paying 100% of its adjusted earnings in dividends. Although selling on a modest dividend yield, the magnificent performance of the company's share price was underpinned by its

ever-increasing dividend payment. AIA is a utility and in normal circumstances has stable earnings, but no business is immune to abnormal circumstances.

Steel & Tube (STU) is another company that has cancelled its dividend, but its directors and management decided they didn't need a haircut. The company was reputedly a solid dividend stock. In STU's FY17 Ms Susan Paterson, in her first annual report as chair, stated, 'We have seen an $80 million acquisition programme grow the stable of Steel & Tube businesses.' And boasted: 'Over the past five years we have provided a pre-tax return of 12.6% including dividends.' But the bolt-on acquisitions were duds, and the FY18 NPAT plummeted to a negative ($32m); an $81m equity raise was the order of the day and the five years of 12.6% shareholder returns went straight down the gurgler.

Dividends were a big part of STU's stellar pre-tax (includes imputation credits) returns. At least the dividends were fully imputed. Over the five years, STU paid out 83% of adjusted NPAT (excludes profit from property sale) in dividends. At the same time, net debt increased by $89m which approximates the $80m acquisition programme. Thus, the acquisitions were financed with debt and not retained earnings. Which raises the question: where did the 17% of adjusted NPAT not paid out in dividends go? The most likely answer is stay-in-business capital expenditure.

When a business upgrades its product, competing businesses must follow to retain market share. The cost of upgrading is capital expenditure, depreciable but not deductible so it has minimal effect on current NPAT. It appears that STU over the five stellar years was distributing all its available profits as dividends. A more conservative approach would have seen a lower dividend and a lower reliance on debt to finance the acquisitions. Of course, this would not have prevented the dud acquisitions but would have mitigated the consequences. By funding half of the acquisitions from retained earnings, shareholders would have been faced with a much less daunting equity raise, or perhaps none at all. The consequence of the large equity raise and subsequent disappointing pre-COVID-19 performance is that shareholders will be reluctant to put further capital in should the fallout from the pandemic necessitate some recapitalisation.

Despite the obvious folly of a high dividend payout ratio, CEO and former director Mark Malpass stated in the FY18 annual report that the company 'expects to resume dividend payments…of 60-80% of normalised NPAT'. What is the attraction of the high dividend payout ratios?

Companies and investors are fixated on total shareholder returns (TSR). Dividends can play a crucial role in determining TSR. A high dividend directly boosts the return and, unless seen as irresponsible, boosts the share price; the classic, two for the price of one. TSR is commonly used as a yardstick for CEO and senior management incentives. This could be seen as an incentive for CEOs and managers to persuade their directors that a high dividend payout ratio is affordable.

AIA and STU have long-term executive incentives based on TSR. THL does not but issues options exercisable between two and five years. Dividends paid between the issue and exercise dates are deducted from the option price, again the two for one incentive. A higher dividend lowers the option price and, as long as it can be sustained, increases the value of the options when exercised. The duration of these supposedly long-term incentives, two to five years for THL and three years for STU and AIA, doesn't seem very long to me.

Investors are equally fixated on TSR. This fixation ignores the difference between price and value. Price is fleeting as can be seen in the companies mentioned above. For example, at the close of STU's golden era of 12.6% TSRs that Ms Paterson lauded, the share price was $2.28 and pre the pandemic had fallen to $0.82. There is no way the value of the company has changed to that extent.

The same can be said about investors' attraction to generous dividends. When THL's CEO Grant Webster addressed NZSA members in Wellington, by my reckoning, there were more questions about the next dividend than the performance of the company. At company ASMs, I've yet to see or hear of any shareholder or fund manager questioning the wisdom of a high payout ratio let alone advocating a more conservative dividend policy.

Don Kinnell

> "CAPITALISM IS THE EXTRAORDINARY BELIEF THAT THE NASTIEST OF MEN FOR ALL THE NASTIEST MOTIVES WILL SOMEHOW WORK TOGETHER FOR THE BENEFIT OF ALL."
>
> JOHN MAYNARD KEYNES

We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of the presenter, and 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, Company Visit to Sanford

When we settled in Auckland just over a decade ago and I discovered the Auckland fish market I couldn't believe my luck. So much fish! So much choice! So exciting! It was like an Aladdin's Cave of fish. We didn't have anything like that in Mosgiel.

Then I discovered they had the Auckland Seafood School and I was so excited I signed up for as many lessons as I could. I was a regular attendee until one evening when I was about to enter the lecture room with a whole line of other people, a young assistant chef looked at me and said "You again. You might as well move your bed in here". I was so deflated I slunk out at the end of the evening and I haven't been back.

But I did return for the NZSA company visit. For various reasons, the visit had been constantly postponed by Sanford and when we finally fixed on a date it was right near the end of the year, but company personnel and management were hospitable and obliging, as are most companies we visit. We toured the factory and gained an insight into their fish processing then filed into their auditorium for an address by the executive team.

Sanford has owned the site in downtown Auckland near the waterfront since 1894. As NZSA attendees viewed the fish processing lines it was explained how the company's trawl gear is moving towards precision harvesting. It is also moving towards collecting the skin and processing waste into fishmeal. Two shifts work ten hours each six days per week and process 25 ton per week at that site. Next December, Sanford is looking at working a seven-day week.

New Zealand has .03% of the global fish market but we were told that the company's international sales team can't get enough product, such is the demand. In particular, US chefs can't get enough.

The auction process is supply and species orientated. The long-line catch is A-grade quality. A fish with a bite mark is C-grade. The auction has over 100 active buyers and if there is a shortage of one species, a limit per buyer may be imposed. Sanford has the only fish auction room in NZ.

CEO Volker Kuntzsch is enthusiastic about the business he leads and explained that NZ has a diverse resource of 130 species. Sanford has been in business for 140 years and holds 19% of NZ's fish quota system. However, Mr Kuntzsch pointed out that there are 6000-7000 recreational fishermen in the Hauraki Gulf, and they catch as much as commercial fishermen. Sanford no longer operates in the Gulf.

Sanford operates three different businesses: mussels, salmon, and white catch. It has fishing, processing, and aquaculture operations at several sites throughout NZ.

In the past five years, Sanford has spent $20m on improving its organisational ability. Originally, the business focussed on volume. The company is still rejuvenating the fleet and there is more work to be done.

Challenges to the business? Of interest to global warming sceptics, Mr Kuntzsch stated that the temperature of the ocean is increasing and the ramifications for fish stocks is that warmer water has less oxygen. Another challenge is veganism. Customers are now wanting transparency of origin and Sanford sells the provenance of NZ. Seafood farming and fishing have a lower impact on the environment through lower emissions than most other protein sources.

Despite catching less product, Sanford has increased revenue by $100m. It now has a value-added focus and has also moved into producing health supplements such as the anti-inflammatory supplement 'Sea to Me' derived from mussels. This is produced in Blenheim.

Precision seafood harvesting is a new technology that does away with traditional trawl nets. Fish are caught and swim inside a large flexible PVC liner that allows small fish to swim free, and this enables the correct size and species to be captured before the liner is brought on board. The fish brought on board are in far better condition than trawl-net caught fish, resulting in higher quality, higher-value product.

Over the next four years, Sanford is making big investments rejuvenating assets, including its fishing fleet which has some vessels up to 35 years old. It is also focused on optimising its land-based facilities. A further goal of the company is to become more consumer and marketing orientated.

There was a real buzz around the Sanford complex the day we visited and all the cafes on site were busy and packed. But now we are in lockdown, these are temporarily closed. The NZ seafood industry earns about $1.8b pa in exports and is deemed an essential business in the lockdown, but you'd have to assume that the volume of seafood exports may be impacted by the current COVID-19 outbreak. We will have to wait and see what impact this has on Sanford's business.

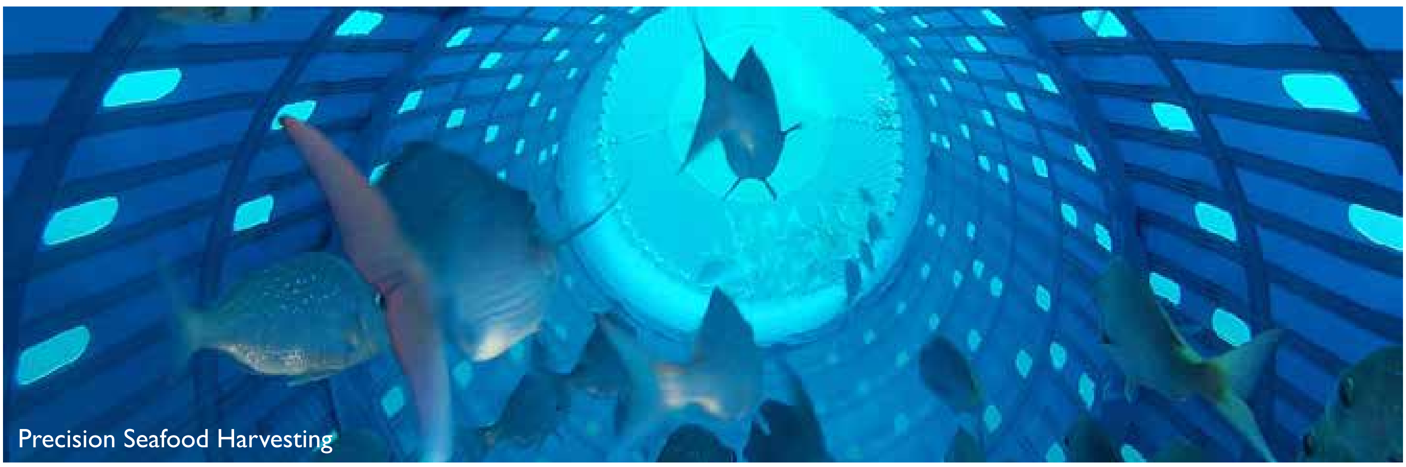
Fiona Gray

Waikato: Mark Lister, Craigs Investment Partners

On 25 February Mark Lister, the head of Private Wealth Research for Craigs Investment Partners graced our branch with his annual presentation on the year ahead.

Mr Lister summarised the past 12 months. The OCR has fallen from 1.75% to 1.0% and the US Federal Funds Rate has fallen from 2.5% to 1.75%. Long-term interest rates are down. The NZ share market has risen 27.5% and the Australian share market has risen 23.7%.

This was followed by an update on the coronavirus situation. Economic indices are being affected by new cases popping up in many places. Global tourism is falling, supply chains are being disrupted, Chinese consumer spending has fallen, commodity prices are being affected. NZ could be hit harder than most with


Precision Seafood Harvesting

impacts on travel, tourism, forestry, and agricultural exports.

Otherwise, domestic economic growth was expected to pick up. NZ has been growing at 2-3% per year, unemployment is at a ten-year low, and the labour participation rate is high. Although house prices are recovering, there are less affordability and social issues. Many will be watching the budget in May to gauge the government's spending plans, debt, regulatory and tax changes, and the possibility of economic stimuli.

As interest rates are not going up any time soon, people have to consider other sources of income. In NZ, the best yield could be the utility's sector followed by listed property companies, the NZX 50, Auckland residential rentals, six-month term deposits, other fixed interest placements, and government bonds. Diversification is crucial in this environment.

For sustainability, investors need to consider what matters to them. Opinions on climate change, social issues, and commodity markets such as oil vary greatly. People will have differing views on Mainfreight and its carbon emissions, The Warehouse providing a living wage, or Nike using sweatshops.

There are three parts to inflation: headline inflation, tradables, and non-tradables (domestic costs such as insurance and rates). Prices of imported tradables have been stable for many years as a result of globalisation and technology and it is hard to see it significantly rising again. Furthermore, our ageing population creates a disinflationary effect by spending less and reducing debt levels.

Mr Lister was asked to explain the meaning and effect of negative interest rates. He described it as a mechanism to encourage banks to lend out money to commerce, forcing them to reduce their reserves in the central bank. Do negative interest rates work? The US interest rates fell to 0.25% but at the same time, the Federal Reserve implemented qualitative easing (print more money).

The best investment stocks during a recession are consumer staples like Unilever and Woolworths who supply necessities. NZ utilities traditionally hold up well. Financials do worse but, on an upturn, perform well. Quality businesses will hold up better as will businesses with little debt.

The shortest question was about the prospect of a capital gains tax. Mr Lister said that this would be political suicide, just like raising the retirement age or changing the pensions. Similarly, any proposal to treat share income differently from other income was fraught with difficulty and would adversely affect NZ businesses.

Regarding the possible closure of the Tiwai Point aluminium smelter, Mr Lister said it could stay as this would allow Rio Tinto to retain a climate-friendly power supply as opposed to the alternative of taking carbon-laden power elsewhere in the world. If Rio Tinto threatens to go, should the government subsidise them? This occurred under National, but what are the philosophical views of Labour? If the smelter is closed, the surplus electricity would adversely affect all power companies.

So, a fascinating evening for everyone. It was a wide-ranging talk and garnered a lot of interesting questions. Let's hope he comes back next year.

Cliff Thomas

"PRACTICAL MEN WHO BELIEVE THEMSELVES TO BE QUITE EXEMPT FROM ANY INTELLECTUAL INFLUENCE, ARE USUALLY THE SLAVES OF SOME DEFUNCT ECONOMIST."

JOHN MAYNARD KEYNES

Bay of Plenty, Jon Murie, Craigs Investment Partners

For several years Jon Murie, a senior advisor from Craigs which has its head office in Tauranga, has opened our branch activities with an annual presentation on 'the year that was and the year coming'. This year, his presentation was given on 24 February.

For 2019, Mr Murie got a commendable six out of six calls correct. For 2020 his calls are

1. We get a correction (S&P 500) of 12% or more
2. New Zealand avoids a recession
3. Labour wins a second term
4. Trump wins a second term.
5. NZD/GBP exchange rate falls to or below £0.45, (currently £0.48)
6. Gold outperforms the US sharemarket (S&P 500)
7. Inflation starts to rise and is at or over 2.2% (annualised) for the last quarter of 2020, but..
8. … the OCR finishes at or below 1.0% by the end of 2020.

Well, Mr Murie has some of them banked already. The recession bit is regretfully wrong. At the time, there was just a whisper about COVID-19. It has taken us all by surprise.

That BOP branch members were able to get a presentation of such high quality speaks volumes of the value of our Association.

Howard Zingel, co-chair

South Island, NZ Super Fund

Alice Mew

On 18 February, Mike Frith, chief economist, and Alice Mew, senior investment strategist for the NZ Super Fund addressed our branch. The fund was established in 2001 by the then finance minister, Michael Cullen and became affectionately known as the Cullen Fund. The fund's objective is to smooth the cost of superannuation between today's taxpayers and future taxpayers.

We were told that current retirees are about 15% of the population but projected to be about 21% by 2033. As of mid-2019, the fund held about $48b, of which the government's contribution has been $16b, a return of 11% per annum. Furthermore, like any other organisation, the fund is taxed and has paid $7b in taxes.

To assuage arguments that the NZ Super Fund would flood the NZ equities market, government regulations preclude the fund from owning more than 50% of a NZ business. As the fund grows, this becomes quite an issue. "We have issues with the lack of large companies to invest in," Mr Frith remarked. Asking a rhetorical question, "How do we invest?" He answers, "We have some competitive advantages, for example, we have no liabilities and it is well-known that we are long-term investors." Stating that the fund has legislation preventing political interference, he added that the fund is a recognised government organisation, which ensures the banks have faith in our investments.

Mr Frith described how the fund uses a reference portfolio with 80% invested in equities. The fund also has another portfolio which is used for following up new investment opportunities that will hopefully outperform the reference portfolio. While the fund is mandated to invest on a prudent and commercial basis, its mandate, legislation, and sovereign debt structure give it a competitive advantage in international equities markets.

Tim Kerr

UPCOMING EVENTS

ALL EVENTS BELOW ARE SUBJECT TO COVID-19 MEASURES

AUCKLAND

April 22	**Paul Harrison (Salt Funds) plus PwC accounting changes, maybe delivered via podcast**

WAIKATO

April 29	**Marc England, CEO Genesis Energy**
May 28	**Mike Bennetts, CEO Z Energy**
June 30	**Rob Campbell, board chair & director**

TARANAKI

May 28	**AGM plus TBA speaker**
June 26	**Taranaki Branch Dinner**

WELLINGTON

April 14	**Mark Malpass, CEO Steel & Tube**
May 12	**Asanthe Wijeyeratne, PaySauce**
June 12	**Mark Lister, Craigs**

SOUTH ISLAND

July 16	**South Island Branch AGM**

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"IF THE TREASURY WERE TO FILL OLD BOTTLES WITH BANKNOTES, BURY THEM AT SUITABLE DEPTHS IN DISUSED COALMINES WHICH ARE THEN FILLED UP TO THE SURFACE WITH TOWN RUBBISH, AND LEAVE IT TO PRIVATE ENTERPRISE ON WELL-TRIED PRINCIPLES OF LAISSEZ-FAIRE TO DIG THE NOTES UP AGAIN (THE RIGHT TO DO SO BEING OBTAINED, OF COURSE, BY TENDERING FOR LEASES OF THE NOTE-BEARING TERRITORY), THERE NEED BE NO MORE UNEMPLOYMENT AND, WITH THE HELP THE REPERCUSSIONS, THE REAL INCOME OF THE COMMUNITY, AND ITS CAPITAL WEALTH ALSO, WOULD PROBABLY BECOME A GOOD DEAL GREATER THAN IT ACTUALLY IS. IT WOULD, INDEED, BE MORE SENSIBLE TO BUILD HOUSES AND THE LIKE; BUT IF THERE ARE POLITICAL AND PRACTICAL DIFFICULTIES IN THE WAY OF THIS, THE ABOVE WOULD BE BETTER THAN NOTHING."

THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY.

JOHN MAYNARD KEYNES

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