



METTLE

ISSUE EIGHT

**MEttLE, a collection of stories and interviews  
with influential New Zealand business leaders,  
curated by MinterEllisonRuddWatts.**



Welcome to the eighth issue of MEttLE.

As the new Chair of MinterEllisonRuddWatts, I am pleased to see our firm delivering to you another piece of substantial value with insights from senior leaders.

This also gives me the opportunity to thank Cathy Quinn for her leadership of our firm while she was Chair over the last eight years. It was a period of great achievements. We are proud to be recognised by international researchers, Chambers and Partners Asia Pacific as its New Zealand Law Firm of the Year for 2017.

I am delighted that Cathy has agreed to continue as managing editor of this publication, in addition to her busy corporate practice.

As a market leading firm and one which prides itself in being innovative in delivering value to our clients, I look forward to partnering with your organisations to help achieve your goals. On behalf of everyone at MinterEllisonRuddWatts, I thank you all for your continued support.

LLOYD KAVANAGH, CHAIR, MINTERELLISONRUDDWATTS



Strategy is an often over-used word, but we stand at a point in New Zealand's history when it has never been more necessary.

In this issue of METtle we ask leaders of our political, economic, educational and environmental institutions, including Prime Minister Bill English and Sir Ralph Norris, about their strategies. We ask them where we should be heading as a country, whether we are making the right decisions now for tomorrow and where we need to invest for the benefit of our shared future.

Whether this involves improving our water quality, protecting our country's international reputation, lifting our ability to grow companies of scale or equipping our young people with the skills to succeed in a global environment, we need to set and deliver strong, durable strategies if we wish to achieve the premium gold standard to which we all aspire.

CATHY QUINN ONZM, PARTNER, MINTERELLISONRUDDWATTS



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# Q+A

WITH PRIME MINISTER  
BILL ENGLISH

Planning for the future growth and prosperity of New Zealand is a daunting task at any time, no less when there is uncertainty on the global political stage and rapid population growth on the home front.

MEttle is extremely fortunate and honoured then to have the Prime Minister Bill English share a few insights into his strategic outlook for the country in what is destined to be an interesting election year.



**METTLE:** Brexit and Trump (plus the rise of Le Pen) are seen by some as a reaction to large numbers of society being left behind post GFC and a growth in the gap between the haves and have nots.

There is a concern by some in business in New Zealand that something similar could happen here.

What is your view?

**PRIME MINISTER:** New Zealand doesn't have the same conditions that have given rise to voter unease in some other parts of the world.

We have one of the stronger economies in the developed world and we have the opportunity to continue that growth and raise incomes while sharing the benefits across the community.

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**METTLE:** You have personally championed "social investment". Would you be kind enough to explain to our readers your philosophy behind "social investment", and why should business care?

**PRIME MINISTER:** Businesses help pay the bill for social policy that doesn't work. Social investment is about using the investment-type thinking which is used in business every day to target interventions more effectively so that we can change the course of people's lives.

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**METTLE:** We believe that globalisation and trade have been important for New Zealand. Do you agree?

Is the pull back and anti-globalisation sentiment a risk for New Zealand?

If so, how does New Zealand best manage this risk?

**PRIME MINISTER:** The argument for free trade is well understood in New Zealand because it is a source of more jobs and higher incomes. While in other countries there's been something of a pull back, including the US withdrawing from the TPP, we have been encouraged by the reaction from our TPP partners. A number of them are positive about progressing the deal. Our inherent Kiwi optimism leads us to believe that, ultimately, countries will act in the best economic interests of their citizens.

**METTLE:** Do you see digital disruption as an opportunity or risk for New Zealand?

Some say it will result in a massive loss of jobs. If it does, how as a society do you think we should respond?

**PRIME MINISTER:** It is an opportunity. It will enable better value jobs. A number of our industries have been significantly disrupted over the last 20 years by wider economic forces or by automation. Digital disruption is more likely to affect professional and financial services who I am sure will prove to be as resilient as our primary production industries have been.

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**METTLE:** Undoubtedly the topic of immigration will come up in the election and some will seek to blame it for rising property prices in New Zealand.

Should we look to limit immigration now we are out of the GFC?

**PRIME MINISTER:** The strength of New Zealand's economy has made us an attractive destination for migrants and has meant tens of thousands of New Zealanders are staying at home rather than heading overseas as they did in the past. We have announced a number of new immigration measures, but we also need to continue to obtain the skills we need for a growing economy.

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**METTLE:** What advice would you give to an ambitious 18-year-old today wanting to build a successful life?

**PRIME MINISTER:** Stick with New Zealand. It's going to be a really exciting place over the next ten years.

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**METTLE:** What is the best bit about being the Prime Minister?

**PRIME MINISTER:** Seeing the growing confidence of New Zealanders, both in their country and in their capacity to handle whatever the world throws at them.

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**METTLE:** When you eventually retire from politics – what legacy do you want to leave?

**PRIME MINISTER:** I would like to leave behind a confident country with a strong sense of direction in which everyone shares in the benefits of success.

**METTLE:** If there is one message you would like to leave the readers of METtle what is it?

**PRIME MINISTER:** If we maintain stable Government and sensible economic policy we have the opportunity over the next five to ten years to achieve things we didn't previously think possible.



# THE NEW LANGUAGE OF LOVE

FORGET ITALIAN OR FRENCH:  
MANDARIN IS THE NEW LANGUAGE  
OF LOVE FOR NEW ZEALAND.

At a time of unprecedented growth in the relationship between New Zealand and China, MEttle interviewed several key figures involved in furthering the learning of Mandarin, asking how developing a shared understanding of language and culture can help New Zealand to capitalise on the growing economic, trade and tourism ties with China.

"The more you understand about a Chinese company's culture, the deeper your relationship is going to be. Language is the entry point to understanding."

Tony Browne, Victoria University



The March visit of Chinese Premier Li Keqiang to New Zealand made headlines around the Pacific.

While here, Premier Li and Prime Minister Bill English signed a number of deals across trade, customs, travel and climate change. Official talks were also confirmed to start on 25 April to upgrade the nine-year old free-trade agreement between the two countries, with the goal of building on two-way trade that has risen to \$23 billion since 2008, boosting trade to a possible \$30 billion.

Another 21 agreements were signed during the visit, including an increase in the number of flights between the two countries that will lift the weekly flight cap to 59 and a further 11 flights possible later this year.

Furthermore, Chinese multiple-entry visas into New Zealand have been extended to five years, and the number of Chinese tourists visiting New Zealand every year are expected to jump from the current 409,000 arrivals per year to over 1 million within a few short years.

However, one of the agreements signed during the recent visit did not make the headlines. The small mention of 'the renewal of an existing education programme' may not have set the world on fire, but is the doorway through which New Zealand must walk to create a future of improved cooperation, understanding and growth.

#### MANDARIN: THE KEY TO OUR SHARED FUTURE

Tony Browne, New Zealand's Ambassador to China from 2004 to 2009 and now Executive Chairman of the New Zealand Contemporary China Research Centre at Victoria University, plus the Chair of the Victoria University of Wellington Confucius Institute, says that language learning is the key to understanding what will power our shared future.

"The extent of our economic prosperity is dependent on China," he says. "When I was ambassador we celebrated 50,000 annual visas into New Zealand. Now we're racing towards one million."

"A major element of growing the tourism industry is to be able to service it. We are seriously short of the skills we need right now, and demand is only going to rise. If we want to provide the services that Chinese tourists want here, we need more people trained in the language and culture to respond to their wishes. We need people who can engage with China long term, people knowledgeable about China. And we have to grow them ourselves."

#### ALIVE AND WELL AT PRIMARY SCHOOL LEVEL

Browne says that great progress is being made in teaching Mandarin in primary schools here. One such school is Churchill Park School in Glendowie, Auckland, which introduced Mandarin five years ago and has had a Mandarin language assistant provided by the Confucius Institute for the past four years.

Churchill Park School has also taken a lead role in bringing together a cluster of eight local primary and secondary schools to gain Ministry of Education ALLiS funding that supports the teaching of Asian languages in state and state-integrated schools.

"We have become aware of the importance of learning Mandarin and Chinese culture for New Zealand," says Churchill Park School Principal, Liz Gunn. "Part of the Ministry's vision is to prepare our children to be global citizens; it is our duty to introduce them to a variety of cultures."

"There's an expectation that schools must be teaching a foreign language by years 7/8, but with all the trade and growing partnerships within Auckland, as well as internationally, it makes good sense for us to lead our students into these areas too. As our children will grow into a society where interacting with China will become more prevalent in a number of ways, we want to expose our students to the language and culture early on because we know children learn languages more readily the younger you teach them."

#### THE SECONDARY SCHOOL CHALLENGE

At a secondary school level the dynamic becomes a bit more complicated, partly because this is a time when many high school students can be tempted to ignore foreign languages in favour of subjects that lead to accounting and law.

"Let's talk about the numbers first," says Tony Browne. "The Ministry's own website ([educationcounts.govt.nz](http://educationcounts.govt.nz)) shows that primary and secondary schools teaching Chinese over a five year period have shown exponential growth. However, although in secondary schools Mandarin is the only language increasing in numbers, the numbers are still low – way short of where we need to be."

When asked why, Browne says that it is not primarily about a lack of interest or willingness on the part of schools. Firstly, he says, they just can't simply change subjects overnight. "There are for example German language teachers in permanent positions. You can't just convert a German teacher into a Chinese teacher just like that."



**"China isn't the remote destination it once was."**

Chris Grinter, Rotorua Boys High School

"Secondly, there is a shortage of teachers. Although there are plenty of bilingual people about, they cannot go into a classroom and teach unless they are qualified. This requires a period in a university to get the recognised qualification."

"And thirdly, we battle the perception that Mandarin is a 'hard' subject, and more importantly that it is difficult to achieve high NCEA grades when studying it. This is partly because of the nature of how NCEA is geared to languages in the western tradition – and doesn't give adequate recognition to the complexities of using a completely different script."

"Furthermore, we hear that when students are trying to get their qualifications up to get into the top university courses, achievement in Mandarin doesn't count towards the assessment of your capabilities. That is something the universities have brought in to try to balance out the bright Chinese kids who speak native Mandarin. It is difficult to get the momentum that we'd like to see – it's an issue."

This tallies with anecdotal evidence that some parents of children in streamed schools discourage their children from studying Mandarin as it can impact on what class a child gets into – and thus even whether they might get into some university courses."

However, not all schools operate a streaming system. Chris Grinter, Principal of Rotorua Boys High School, which has been teaching Mandarin for nearly 25 years, says that while it may be true that many see Mandarin as a hard subject, students also view it as an exciting subject through the cultural exchanges and opportunities it provides.

"At Rotorua Boys High School we do not stream, we have virtually no domestic Chinese students and very few international Chinese students, so there is no more disadvantage than any other subject. And I think the desire to aggregate marks is less of an issue for our boys than the traditional desire to keep the three sciences and both maths subjects. Thus the stated disadvantage is not significant in our school."

#### TWO SECONDARY EXEMPLARS

Browne says that the picture is not all about roadblocks. Many secondary schools are focusing on Chinese and have made strong progress, he says.

"There are many schools around the country where principals with vision are taking a pathway into Mandarin and are making headway. As Chair of the Confucius Institute, I work with 140 schools that the Chinese recognise as among the thousand world-leading Confucius Classroom schools. We have 29 of them in New Zealand."

**"The practical and financial support that comes from the Confucius Institute and a number of universities in New Zealand is hugely beneficial in preparing our young people to develop a strong relationship with China."**

Chris Grinter, Rotorua Boys High School

Two examples of Confucius Classroom leadership at a secondary level are Rotorua Boys High School and Westlake Boys High. Chris Grinter, Rotorua Boys' Principal, says that a focus on Mandarin originally came about as a result of a strategic overview of which international languages should be taught in the school.

"At the time we taught Japanese, German and French. We decided that Chinese was the language most significant to the future of our young men, so we decided to put all our resourcing into it – and have done ever since. It is now compulsory in year nine and we teach it at all levels through the school."

"Other schools contemplating this pathway should be heartened by the level of support and resourcing available to teach Mandarin. The practical and financial support that comes from the Confucius Institute and a number of universities in New Zealand is hugely beneficial in preparing our young people to develop a strong relationship with China."

Grinter says that the success of the approach is measured in the growing number of his students who choose Mandarin as a subject when it becomes optional. "I also think it is successful in terms of the world view we try to encourage our students to acquire. Some of our students are going to university to study Mandarin, and others are now living and working in China. It isn't the remote destination it once was."

Associate Headmaster at Westlake Boys High School, Alex Reed, approaches the topic in a similar way, although Mandarin is one of seven languages offered at the school.

"We have a fundamental belief in learning languages," he says. "They broaden young people's perspectives and increase their cognitive capacity in many ways, as well as preparing them for life outside school."

"At Westlake Boys High, Mandarin is an important language because the relationship with China is important to us. Our programme was established here 14 years ago by Tina Kwok, who runs our international department. It's a compulsory language for years nine and 10, and we now offer a course from years nine to 13. It has been going well and continues to grow, with around 300 students who study Chinese in our school now."

Reed says that the school leads an ALLiS cluster of schools supporting Chinese from years one to eight, has sister school relationships set up in Dongguan and Shanghai, and has become a Confucius Classroom in recognition of the work it has done.



**"Chinese is embedded into everything we do."**

Alex Reed, Westlake Boys High School

"We run cultural events, with a large annual China event that is supported by our Mandarin learners," he says. "Moreover, our students have won essay and speech competitions, and have gone on to study the language at university. It has had an impact on our relationships too, most recently with a visit from the ambassador. Chinese is embedded into everything we do."

#### SKILLS AND LANGUAGE SWAPS: THE WAY FORWARD

All our interviewees are agreed that for the work that has been done so far to develop well into the future for all parties, funding, commitment and a culture of immersion and embedded involvement are required. Certainly, during the New Zealand-China FTA negotiations in 2007, the Chinese government sought a series of approvals for various Chinese skills to be admitted to New Zealand.

"The Chinese delegation asked for 150 visas for Mandarin teaching aides, to allow for growth," says Tony Browne. "They are graduates from top Chinese universities who go through a tough selection process. They come here for a year and work in our schools – and at present there are 147 young Chinese graduates known as Mandarin Language Assistants working in around 400 of our schools. I find it particularly encouraging that these schools are not concentrated just in big centres and well established schools – lots of rural schools are involved too."

#### SO, WHAT IS THE OPPORTUNITY FOR KIWI COMPANIES?

"There are hundreds of millions of Chinese people learning English, and many of them are due to come to New Zealand," says Browne. "However, if you are fluent in English that doesn't mean that you prefer to speak in English. It also doesn't mean that the leaders of your company speak English."



**"As China is our second top trading partner, we need the human infrastructure to sustain that growth."**

Tony Browne, Victoria University

"If I was running a large New Zealand company seriously engaged with China, I would want to be able to interpret and understand what my Chinese partners are saying – and why. We need Kiwis with a deep understanding of China to engage with the depth needed to develop deep business relationships with this crucial economic partner."

"The more you understand a Chinese company's culture, the deeper your relationship is going to be. Language is the entry point to understanding – you don't need to be a native speaker to be sensitive to cultural nuance. So, as China is our second top trading partner, we need the human infrastructure to sustain that growth – and we need the support in our schools and onwards to develop that infrastructure."

#### BE COMMITTED, TAKE CONFIDENCE

Leaving the last words to the two secondary school leaders, Alex Reed encourages schools and businesses to support the language.

"Schools, sustain your commitment. Make sure your teachers understand that they need to engage with the students. And, business, please give students opportunities to get into the workplace, to show how Mandarin is an important tool that can be used. Schools are always looking for a connection with businesses – long term, as a school we want to see if we can connect with businesses and even offer tuition to them."

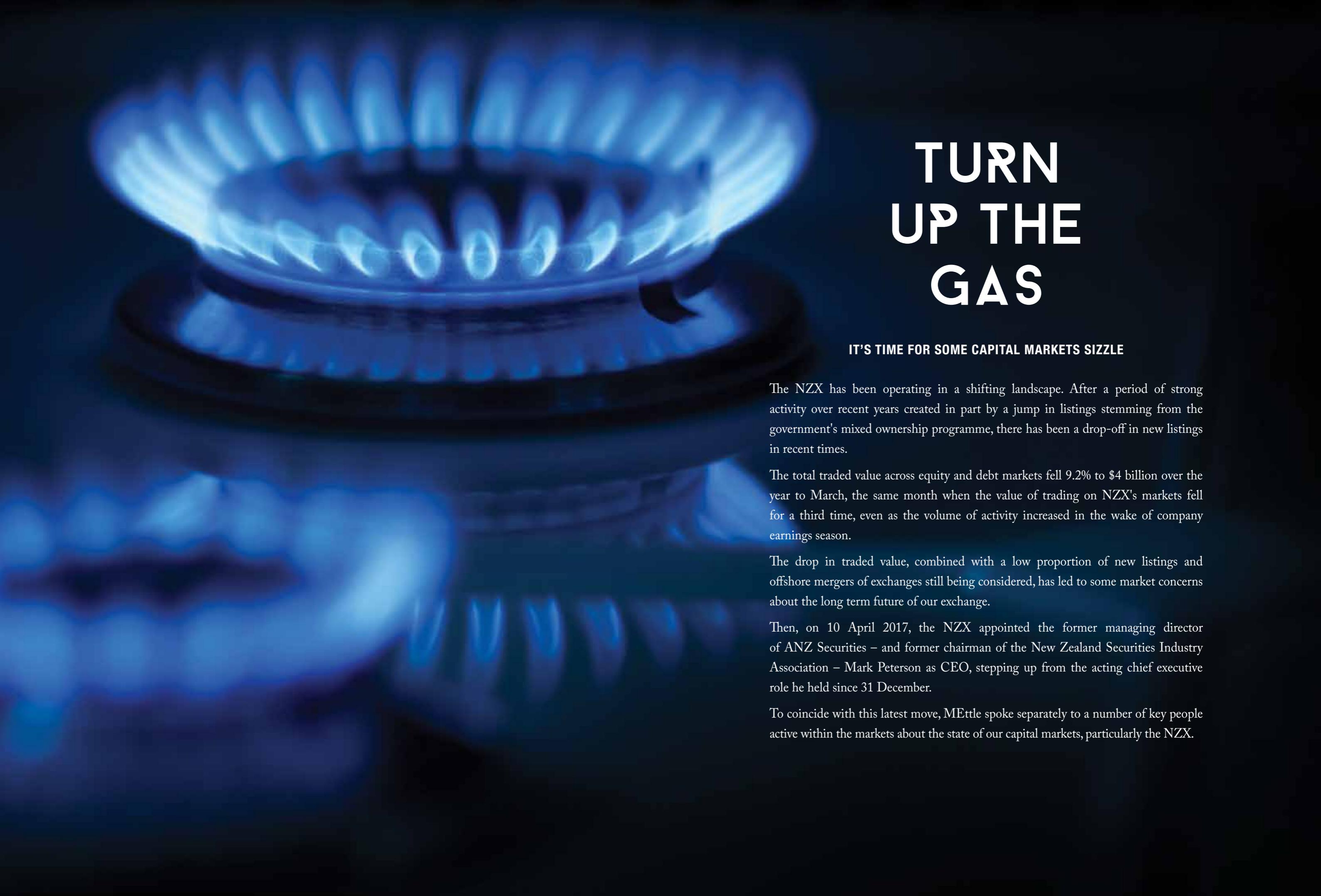
Chris Grinter adds: "My main tip to schools would be to take some confidence and assurance from the fact that there are wonderful agencies out there that will support you and ease your anxiety around introducing Mandarin as a new subject. It is well supported with funding, by people like Tony Browne and the Confucius Institute, as well as opportunities for staff and students to travel."

"And the best thing that businesses could offer schools and young people is showing them how they value the acquisition of Mandarin in their future employees: putting value onto the acquisition of Mandarin. Nowadays this is not a journey that schools need to take on their own." (M)

	2009	2010	2011	2012	2013	2014	2015	2016
MANDARIN LANGUAGE ASSISTANTS	2	7	20	26	47	77	107	131
PRIMARY STUDENTS	4838	8453	10178	13161	18754	24143	32896	-
SECONDARY STUDENTS	2077	2119	2632	2849	3277	4218	4316	-
PRIMARY SCHOOLS TEACHING CHINESE	54	70	91	113	151	178	211	-
SECONDARY SCHOOLS	45	45	49	58	62	82	87	-

PRIMARY AND SECONDARY SCHOOLS TEACHING CHINESE 2009-2017

EDUCATIONCOUNTS.GOVT.NZ



# TURN UP THE GAS

## IT'S TIME FOR SOME CAPITAL MARKETS SIZZLE

The NZX has been operating in a shifting landscape. After a period of strong activity over recent years created in part by a jump in listings stemming from the government's mixed ownership programme, there has been a drop-off in new listings in recent times.

The total traded value across equity and debt markets fell 9.2% to \$4 billion over the year to March, the same month when the value of trading on NZX's markets fell for a third time, even as the volume of activity increased in the wake of company earnings season.

The drop in traded value, combined with a low proportion of new listings and offshore mergers of exchanges still being considered, has led to some market concerns about the long term future of our exchange.

Then, on 10 April 2017, the NZX appointed the former managing director of ANZ Securities – and former chairman of the New Zealand Securities Industry Association – Mark Peterson as CEO, stepping up from the acting chief executive role he held since 31 December.

To coincide with this latest move, Mettle spoke separately to a number of key people active within the markets about the state of our capital markets, particularly the NZX.

## STATE OF THE CAPITAL NATION

Research provided by Devon Funds Management reveals that new listings as a percentage of the total amount of listed companies on NZX is down at 2%, towards the lower end compared to other countries, which are more typically in the range of 5–7%.

Paul Glass, Executive Chairman of Devon Funds Management says a lack of listings and low representation of market capitalisation versus GDP are long term concerns.

"This is not something that has happened overnight. It's just been less visible in recent years because there was the rush onto the market as a result of the government's mixed ownership programme, with 2014 in particular being a big bump in listing activity."



**"We are now running into a supply shortage of large quality companies wanting to list. 2017 is going to be a light year in terms of new issuance."**

David Gibson, formerly with Deutsche Craigs

David Gibson, who recently left his role as co-head of Deutsche Craigs, explains further: "I think the government's mixed ownership model first implemented in 2012 with the sale of Mighty River Power, played a big role in turning around our capital markets. It provided around \$5 billion of high quality supply at a time the market needed it. If you looked at the supply for the previous ten years, it looked pretty dismal. At a similar time we also had some good large issuances like Fonterra and Z Energy."

"We are now running into a supply shortage of large quality companies wanting to list. 2017 is going to be a light year in terms of new issuance."

While not denying the trend, Chairman of the NZX James Miller says that it is important to put the situation in the correct context.

"We're not just an equities market. One area we find easy in New Zealand is the debt market; we can place product on that market until the cows come home. You also need to remember that the number of IPOs is cyclical. The NZX has averaged 4.9 IPOs per annum since 2000, and the market has been going for 150 years."

**"The NZX doesn't create supply. We can play an important role as a champion and creating a healthy ecosystem, but ultimately the exchange doesn't determine which companies come forward and how many companies list."**

James Miller, NZX

NZX data shows that the ratio of equity market capitalisation to Gross Domestic Product grew from 27.4% in December 2011 to 45.1% in December 2016 – an increase of 65% over a period of five years. It is also worth noting that Bloomberg numbers show that the five year return of the S&P/NZX 50 index to the end of 2016 was 110.1%, which equates to an exceptional compound annual growth rate over the same period of 16% per annum."

Miller says that the NZX market has the capacity to do one IPO per month.

"We would struggle to do more than that. Would we like it to be more efficient? Yes. But it is worth also noting the NZX doesn't create supply. We can play an important role as a champion and creating a healthy ecosystem, but ultimately the exchange doesn't determine which companies come forward and how many companies list."

### THE POOR RELATION TO PROPERTY?

With lucrative returns coming from property in recent years, there's no doubt that equity markets have been affected. Paul Glass says the key to creating a more vibrant Exchange is to spark interest from retail (non-institutional) investors in the equity markets.

"How do we put the sizzle back into the equity market?" he asks. "People used to attend AGMs and the media were engaged. Now we have very little coverage of business in the media, and individual participation in the stock market is massively down. The fact is equities are not on the radar for many investors – from a cultural sense we're more about debt and property."

### A DEFINITIVE NEED FOR A NEW ZEALAND MARKET

One thing all the key industry players spoken to by METtle agree on is the need for the NZX, and to not surrender to becoming part of the ASX.

For David Gibson it's very much about local capital understanding local businesses.

"Local companies are best followed and understood by local capital. New Zealand definitely needs its own capital to foster its own market. If there was no NZX, there is a real risk that the New Zealand companies could struggle to be understood and find appropriately priced capital."

James Miller echoes the sentiment, indicating that proximity is important for investors when providing capital to make them feel in control of their investment. "You have to remember that the riskier a company's profile is, the more likely it is that the owners of the business are going to want to be close to it. The higher the risk, the more they will want to get in the car and drive there, within three hours or so. And I'd add that if you don't control the capital yourself, someone else will do it for you."

"From an economic perspective, there's no reason why we can't continue as we are – we are profitable. From a tax perspective, it's my observation that the listed companies are fully transparent in their tax paid, and at full rate. The listed market is better to ensure a fair tax base."

Guy Williams, the Head of Investment Banking at Forsyth Barr, has seen this first hand. "I remember advising the Paris, Amsterdam and Brussels Exchanges on their merger. Paris became the centre for equity trading, Amsterdam for derivatives and Brussels, the smallest operator, lost its issuer and investment community. It would be a poor outcome for New Zealand if the NZX became part of the ASX, and if it ever happened there would be many flow-on consequences for the range of parties that interact with capital markets – issuers, investors and intermediaries."



**"It would be a poor outcome for New Zealand if the NZX became part of the ASX."**

Guy Williams, Forsyth Barr

### SO WHY SO FEW IPOS?

As they say, the proof is in the pudding. The industry players we have talked to say that the mixed performance of many smaller early-stage and tech companies that have recently listed

on the NZX hasn't done much to advertise the benefits of listing. Paul Glass says that part of the problem is the amount of what he calls "dross" that has come onto the market as aggressive earnings estimates in IPO documents prove to be unrealistic. "There are concerns of the transactional nature of many of the investments brought to market. Investment banks clip the ticket, private equity clips the ticket and then dumps them on the market – which can burn another generation of investors from participating. There have been too many floats that have performed poorly. However on the positive side some have, and as an industry we just need to get the balance right to encourage investors back into the market."

Fiona Mackenzie, Head of External Investments & Partnerships at New Zealand Super Fund had some additional thoughts.

"We have always approached listing as the first step in a longer term ownership transition so we're keen for investors in our IPOs to have a positive experience. Having said that, it's not possible for every IPO to generate positive short term returns for investors – vendors are incentivised to sell high, investors want to buy low. My hope is that when an IPO hasn't generated short term positive returns, market participants approach it as an opportunity to reconsider which companies benefit most from being listed and what's the best way to bring a company to market."

David Gibson concedes that private equity IPOs could also be a factor in terms of confidence in the market. "If you look at the New Zealand data, private equity IPOs have performed about the same on average as non-PE IPOs, so we can't blame private equity for all the IPO failures. I do think some offshore firms have not covered themselves with glory here by how they have priced IPOs and in terms of how they have brought some companies to market. This makes the market more suspicious of them."

### PERCEPTION OF A 'CLUB' AND WORRIES ABOUT OFF-MARKET TRADING

Behind closed doors some market participants express concerns about institutional investors in our market acting like a club – and effectively deciding in a small group whether to support an IPO, and at what price.

Paul Glass says that he has heard of investment bank perceptions that institutions are difficult to deal with, and also suggestions of almost cartel-type behaviour by institutions in New Zealand's relatively small market: a point he's quick to dismiss.

"From our side of the table this couldn't be more incorrect. We are an intensely competitive industry. We're competing with the market and our competitors every day, looking for an angle in any new IPO. If we think we see an attractive business, we try to seek a favourable position. We try to get to understand the new business and build our own valuation model – not just what the investment bankers tell us it is worth. We have never had a discussion with a competitor about what a price should be."

It is also a point that doesn't wash with Fiona Mackenzie.

"Continuous disclosure rules ensure that all market participants are pricing an IPO with the same information. Therefore, is it really a surprise that everyone with the same information set is arriving at a similar company valuation?"

Separately, concerns have been voiced by some in the market as to growing levels of off-market trading. Fiona Mackenzie says the percentage of negotiated turnover traded away from the market between brokers is one of the highest in the world currently at around 60%, and is far from ideal from a price discovery perspective.

"Price discovery is a key function for any exchange and to the extent that the majority of price discovery is happening away from the exchange (or "off-market"), I think there is a risk that the advantage of being listed is eroded over time, potentially impacting long-term market health and vibrancy" she said.

James Miller accepts that off-market trading is part of the trading ecosystem, but there is only so much that the exchange operator can do by itself. "There are only some parts of it we can influence either way. Ultimately, the principle is that the integrity of the market price is paramount. The more you take off-market, the more the potential exists for smaller company pricing to be inaccurate. Our job is to create an attractive market environment that encourages companies to come – and then be valued correctly."

#### NOT THE KIWI WAY?

Another factor that some commentators say may be holding the market back is that New Zealand is a nation of innovators and creative tinkerers in what is largely a SME economy. It has often been said that the story of the entrepreneurs quietly growing their business doesn't align well with the desire to list with fanfare and drawing the spotlight to you that comes by listing on a public exchange.

Paul Glass sees this as a symptom of the size – or lack thereof – of New Zealand. "Everyone knows each other, and many have a desire for privacy."

Fiona Mackenzie believes Kiwi entrepreneurs don't seem to be as familiar with the idea of listing, or see it as a logical aspiration in terms of growing their companies, in stark contrast with company founders in the US, Asia, and even Australia. "Our research suggests there are a large number of entrepreneurial companies in New Zealand that need capital to continue growing and that at some stage, listing may be the best way to continue funding that growth. I'm personally surprised that some company founders don't seem to consider listing as one of their potential exit options and I would love to see more Kiwi entrepreneurs given the opportunity to better understand the positives, and not just the negatives, of listing."

David Gibson says it's not isolated to home grown businesses or entrepreneurs either. "Private equity companies typically treat IPOs in New Zealand as a last resort. They will always prefer a trade outcome which is often higher value and clean in terms of 100% exit."

#### SO, WHERE TO FROM HERE?

More often than not, in life and the news cycle, it seems that a negative or sensationalist story will always trump a positive one in terms of public appeal. When it comes to the need to boost the supply side of the NZX it is no different, and there's an overwhelmingly shared view amongst the industry players interviewed of the need to accentuate the positive – and to tell a more compelling story about the benefits of listing.

For Guy Williams, there's no shortage of tremendous success stories, but the most successful tend to keep their success to themselves.

"Ryman, Mainfreight and EBOS, all started from humble beginnings. They were small IPOs, have had consistent directors and management teams for a long time, and they don't make a huge song and dance about their success. They have been three of the most successful companies in the market over many years. This is great – it's the point of the market."

"But there are other capital markets success stories that often get overlooked. Let's not forget that Freightways and Summerset came out of private equity, Z Energy from Infratil/New Zealand Super. These companies have grown to become big parts of our capital market, but sometimes don't get as much air time as ones that haven't gone so well."

Fiona Mackenzie points out the benefits from listing extend beyond simply a cost efficient source of growth capital.

"I recently heard the CEO of a high growth export company talk about the social licence benefits to his company from listing – in his sector, community support for growth aspirations is key and being listed in New Zealand helped reinforce their brand as a successful New Zealand company that is worth supporting."

#### KEEP IMPROVING THE KIWISAYER MODEL

It's well recognised that the growth of KiwiSaver funds under management have provided a much-needed capital boost to the market in recent years, and it's a case of improving on that says Guy Williams.

"We had someone in our office recently looking to raise a relatively small amount of capital. His issue was that the main KiwiSaver providers are so big now that raising a small amount becomes problematic for them. Some more flexibility would be helpful possibly with a wider group of vehicles created – we have seen some, but not as many as there could be. Change will come about especially when KiwiSaver becomes more relevant for savers. When your KiwiSaver balance is as big as your annual salary people start to focus on it – we must be getting close to that."

**"Change will come especially when KiwiSaver becomes more relevant for savers."**

Guy Williams, Forsyth Barr

Paul Glass sees a missed opportunity here. "Self-directed KiwiSaver is definitely something we need to encourage more. 99% of people in KiwiSaver have asset allocations done for them, whereas in other markets – such as Australia – they have the ability to direct retirement savings much more specifically, so if you want to have an individual share in a scheme you can. This allows individuals to use retirement capital a lot more actively."

#### GET MORE INVOLVED, AND EVOLVE

Looking ahead, Paul Glass says that not only are capital markets relevant in New Zealand, but it is time for Kiwis to get more involved in them, not less. "We need to keep pushing that the capital markets are open for business, and I'd like to see more people buying shares as an investment, getting directly involved. In trying to set a good example, I have set my kids



**"Strong and healthy capital markets are a core part of our present and our future."**

James Miller, NZX

up with a portfolio of shares, not only because I believe it sets them up well for their future, but also because I don't want them to miss out on the enjoyment of investing. I encourage more people in this country to do the same."

Fiona Mackenzie adds that she would like to see New Zealanders become more emotionally attached to their wealth and savings. "If people put more energy and passion into more asset classes, not just real estate, it means that as an economy we will be wealthier, more entrepreneurial, and more engaged in the business of doing great things for our country, as well as planning for economic independence in our retirement."

James Miller says, in closing, that because the global capital markets environment is constantly evolving and continually competitive, New Zealand's capital markets must also evolve to keep pace.

"Countries around the world are constantly improving their capital markets. The market in New Zealand has been around for 150 years, and we need to progress too – as it is fundamental to our belief that strong and healthy capital markets are a core part of our present and our future, and of growing a strong and dynamic economy." 

# A RIVER RUNS THROUGH IT

**"WATER, WATER EVERYWHERE, BUT NOT A DROP TO DRINK."**

Even a passing interest in current affairs over the last 12 months could lead one to believe that New Zealand's water quality and infrastructure are not as they should be. Whether it's footage of a dried-up Selwyn River in Canterbury, news of the polluted aquifer in Havelock North, or reactions to proposed changes to swimmable quality standards of our waterways, there's been plenty of reasons to take a growing interest in our most precious resource.



MEttle has taken the opportunity to revisit a topic first covered in our third issue in 2014, to sift out the current situation. We talked with Dr John Quinn, Chief Scientist - Freshwater and Estuaries at NIWA, and Vicky Robertson, CEO of the Ministry for the Environment, to try and find amongst all the conjecture what is really happening to our waterways and answer the question: are we one tweet away from causing irreparable damage to our clean green tourism brand?

#### WHAT TO DO WITH ROSE TINTED GLASSES?

It's often easy to look back fondly on what things were like when we were kids. House prices were cheaper, there were more fish in the sea, neighbourhoods were safer and we lived in a place where we could bathe in any one of New Zealand's numerous fresh waterways. And, recently, the Government seemed to switch on a fountain of interest in water with its proposed swimmable standards for the nation's waterways.

Dr John Quinn from NIWA points out that it can be too easy to use rose-tinted glasses to view the situation of decades gone by in comparison with today.

"People were less aware of water pollution issues in the 60s and 70s than today. For example, when I was a kid, we went swimming in the Tukituki River, which I suspect had higher E coli levels than it does now. There was a bit of 'blissful ignorance' and we need to remember that back then a lot of rivers had quite serious pollution from very poorly treated point source sewage and industrial discharges that have largely been cleaned up over the last 30 years."

It's a point that Vicky Robertson makes as well: people are waking up to the importance of water quality rather than there being a rapidly deteriorating situation.

"Four years ago, there was more major water reform consultation and no one turned up. This time last year was the next step for changes – and there wasn't even standing room. New Zealand is really waking up to water as a topic: it's very precious."

#### THE QUALITY REPORT CARD – ACHIEVING

Looking at New Zealand's water quality as a report card, it seems we're doing well in some areas but there is definitely a need for improvement in others.

On the plus side, there has been a general improvement over the last decade in reducing contaminants that get into water mainly via surface run-off and as a result of stock in streams. According to NIWA, 50% to 190% more stream sites are improving in terms of E. coli, ammonium, clarity and dissolved phosphorus levels. Dr Quinn points out there has also been

considerable improvement in dairy industry practice in the last 15 years, driven largely by the industry.

"Dairy shed effluent management has got a lot more professional, and the majority of streams on dairy farms are now fenced to exclude cows. Initiatives like the Farm Enviro Walk Toolkit have helped to increase the adoption of a range of good environmental practices."

A recent OECD report has echoed this sentiment, calling 'The Sustainable Dairying: Water Accord' a success story, noting 96% of New Zealand's waterways are subject to the accord with 99% of regular livestock river crossing points now have bridge or culverts to protect water quality.

It also recognised the more than \$1 billion spent on environmental initiatives over the last five years, with the majority of investment going into effluent system upgrades.

#### AREAS NEEDING WORK – AND THE ROLE OF DAIRY

On the more negative side, it is recognised there is a deteriorating situation with regards to nitrates. The OECD report above is highly critical of the levels of nitrate growth in waterways. Nitrate levels are getting worse at 55% more sites than those with improvements, according to NIWA, mainly travelling via groundwater.

More often than not the finger gets pointed at the dairy industry for this, regardless of recent initiatives to curb overland pollutants into waterways, and at the practice of irrigation in particular is under fire, as Dr Quinn explains.

"Irrigation often leads to more intensive land uses that put more nutrients into the downstream aquifers and streams. There is twice as much irrigated land in dairying than dry stock farming. If not well-managed, these effects can lead to increased algae in streams with more nutrients and fewer natural flushing flows, because of dams built to store water."

The impacts of irrigation and intensive dairy farming have been prominent recently, with images of Selwyn River all over recent media coverage. While on the face of it, there is a clear link between those factors and water quality, it's important not to jump to conclusions, according to Dr Quinn.

"The lower Selwyn River at Coes Ford has been in the news recently. It is in very poor shape now due in particular to very low flows. It's not clear how much of the Selwyn's flow reduction is due to increased groundwater abstraction (i.e. more water being taken from it) or very low recent winter recharge of the groundwater. NIWA has just started some research building on earlier studies to try to shed some light on this and guide management."



**"It's important to realise that what we're seeing in quality is in part as a result of decisions made post World War II, when returning troops came back and applied a lot of fertilizer. There are long lags."**

Vicky Robertson, Ministry for the Environment

#### ROLE OF CLIMATE

Vicky Robertson from the Ministry for the Environment emphasises that this is not just a farming problem, as most people live in cities. She reiterates underground flows of water can be affected by any number of substances that leach into the ground over a period of what can be decades, and it is important to think longer-term.

"It's important to realise that what we're seeing in quality is in part as a result of decisions made post World War II, when returning troops came back and applied a lot of fertilizer. There are long lags. We need to make the right decisions now for tomorrow as we'll probably see some deterioration in the future from what we're doing now."

When it comes to the long term, Dr Quinn is quick to point out that responding and adapting to climate change is the biggest challenge we face.

"We need to be strategic and join up our climate change response with our future water management models. NIWA's models predict that average stream flows will be lower on the already-drier east coasts of the North and South Islands and in Northland, but higher in the already wetter western areas: the wet will get wetter and the dry get drier. Drier conditions will increase the pressure for irrigation in the east, and will drive more efficient use of the water we have."

"These changes don't bode well for future flows or water quality in east coast rivers, and we need to prepare by developing lower water use/high value land uses and/or flow storage."

#### CHANGING THE ENVIRONMENT VERSUS ECONOMY PARADIGM

So how dire is it and what can we do? According to the OECD report, you'd think we're at a turning point. The report states: "New Zealand's growth model, largely based on exporting primary products, has started to show its environmental limits."

Dr Quinn also advocates for "developing, and following a national strategy to reduce the footprint of agriculture in ways that meet our GHG reduction commitments and fits with future water regimes."

For Vicky Robertson, it is more of a meta-issue that is happening around the world as countries grapple with the whole idea of how we can keep growing an economy with a finite resource. From her perspective, we have an opportunity to take a fresh look and see environmental quality as both a value-add and input into business rather than an externality that restricts growth.

"One way to do this is to ensure agricultural practices that preserve and protect the environment are valued and seen as offering premium product. At a grassroots level, we're working with the farming community, in particular with a group of agri-sector leaders who over the last six years have set up a shift in our agricultural industries to move volume or production of product to a focus on high end value. High-end consumers are keen to visit farms to see the integrity of farm practice including animal welfare, clean waterways and other environmental factors. People will pay a premium for integrity and authenticity, not just bare minimum standards."

"Effectively, what that's doing is almost valuing what the water resource means to them. It also means that, rather than being regulated, the agricultural sector is setting the premium gold standard for themselves, and then get audited and authenticated – which is a huge shift in thinking."

Another area she says is by factoring in impacts on the environment as a natural capital input into a business operation that needs to be considered upfront, as part of any business case.

"Natural capital hasn't been in the overall growth model: you think about investing in labour and investing in other capitals but you don't think about investing in natural resources. If we have an economic growth model with natural resources as a key element to invest in, rather than externality going to negatively affect a business, it changes the way we think about growth. It becomes an investment choice rather than a cost of doing business. For example, the big soft drink companies are starting to value sugar production because climate change is affecting

the future viability of sugar as an input in their product and it could be the same here for water."

#### NEW WAYS OF FUNDING ENVIRONMENTAL PROTECTION

If we can value improvements to water quality, Vicky Robertson suggests there is a growing ability for the private sector to be involved in funding them. She cites the Government's \$100 million Clean Water Fund over 10 years as the perfect catalyst, as it provides a minimum of \$250,000 to sizeable projects but it is dependent on leverage from other parties.

"If you talk to our counterparts in Australia, the direct funding mechanism is looking into green bonds and blue bonds. The banking sector here is quite interested in that, and it's now seen as a key part of the portfolios – as we see here in the investment preferences of the NZ Super Fund. It has relevance to the tourism argument also, so if we can invest in New Zealand's clean and green image, there's a huge benefit to be tapped into."

"The fact is we ask the funding question too narrowly with respect to the environment. It doesn't all have to be Local Council and Government funded."

#### STRONG POLICY FRAMEWORKS AND PERSPECTIVE NEEDED FOR THE FUTURE

In conclusion, there are a range of factors to consider when canvassing fresh water quality in New Zealand, from farming to invasive species such as didymo to climate change. There are also many schools of thought as to where we focus efforts to improve the state of waterways.

With a strong policy framework in place, as noted by the OECD, there's an opportunity to deliver actions that will limit the environmental impact of economic growth. These can be as simple as getting trees onto erosion-prone land to counter the impacts of climate change, or the higher level debate around funding mechanisms and creative thinking to involve the private sector.

However, as Vicky Robertson points out, it is important to keep our perspective. The abundance of water in New Zealand – and generally speaking its quality – is good, but for Dr John Quinn it's important to remain vigilant:

"We do need to address concerns that the quality of our waterways has deteriorated over the years, both because it puts our clean green image at risk and because it doesn't line up with the aspirations of New Zealanders. Some things are starting to head in the right direction, but we have a way to go to get many of our lakes and rivers to an acceptable state." M



**"We need to be strategic and join up our climate change response with our future water management models."**

Dr John Quinn, NIWA

# THE GREAT ACHIEVER

## SIR RALPH NORRIS

One of New Zealand's most influential names in big business, a respected leader who understands the interdependency between people and profit, Sir Ralph Norris has built a stellar career on both sides of the Tasman.

Starting his working life as a cadet at Mobil Oil, he spent a decade as CEO of ASB and later ran the bank's Australian parent company, the Commonwealth Bank of Australia (CBA). Currently the chairman of both Contact Energy and Fletcher Building, Sir Ralph also led the revival of Air New Zealand following a government bailout of the airline in 2001.

METtle met up with Sir Ralph to understand how a logical outlook, sense of humility, and unwavering work ethic have served him over the years, and to also learn of his concerns for a future technology-driven job market and how we can avoid group-think at the boardroom table.



### HUMBLE BEGINNINGS

Being brought up in a state house in Mount Roskill, Sir Ralph Norris learnt early on the importance of hard work and providing for oneself. After his parents split up when he was around 10 years old, Sir Ralph reflects how he and his brother "were kept on the straight and narrow" by a disciplinarian mother: an upbringing he says he has a lot to be thankful for.

"I hold a lot of regard for my mother's actions and what she did bringing us up at a time when social benefits weren't around. A sense of entitlement doesn't exist when coming from a humble background, as you don't know what entitlement is. There's something to be said for a bit of hunger and not having a view that anything is yours by right."

Not coming from a position of privilege did mean however that university was not a readily available opportunity. Instead, after "doing alright in maths at School Certificate level", he joined Mobil Oil as a cadet.

**"I hold a lot of regard for my mother's actions and what she did bringing us up at a time when social benefits weren't around. A sense of entitlement doesn't exist when coming from a humble background, as you don't know what entitlement is."**

Sir Ralph Norris, Director

### TURNED ON BY TECH

It was at that time that the then Auckland Savings Bank was advertising for young recruits to be trained in computing. After passing an IBM aptitude test, Sir Ralph joined ASB in 1969, and that he says became his tertiary training.

"Getting into tech early was my education. When you look at computer programming in particular, it follows a certain mathematical logic. I remember the day when I was taking part in one of the computing courses when it all fell into place. I realised that I could do this – and from then on it became easy and gave me a great sense of confidence."

So, at a time when the two 20-somethings Steve Jobs and Bill Gates were kick-starting the computer revolution in Silicon Valley, a young Sir Ralph found himself in one of the best places to be, as banks across Australasia looked to overhaul their operations to keep pace with the new computing technology.

"Coming through IT was a great opportunity for me. The bank was in the process of going from mechanised accounting machines to computer systems. I got in on the ground floor and had to learn a lot about banks existing processes and how to convert manual/mechanised accounting systems to computer systems."

Quietly progressing through the ranks, Sir Ralph moved to the position of CIO and, in 1991, when the business was looking for a leader to drive its digital future, a 41-year-old Sir Ralph was appointed the ASB CEO, a position he would hold for ten years until he left in 2001.

### SKILLS VERSUS QUALS

It is well canvassed how Sir Ralph later went on from ASB to head Air New Zealand and the Commonwealth Bank of Australia (CBA), cementing himself as one of New Zealand's big business statesmen and a steady hand at the board table.

Instead, we are going to focus more on how young people today can learn from Sir Ralph as they look to get their own careers going. He takes great interest in how school leavers are being groomed for future job prospects and, echoing a certain computer technician's logic, perceives it as very much an input-output situation.

"People knew I came from a relatively humble background in my early years, but very few people would have thought that as my jobs grew in size. Had I joined CBA from school, there was a certain level I wouldn't have been able to rise above without a University qualification.

"While I appreciate that things have changed somewhat now, not coming from a traditional formal qualification route was certainly no barrier for me. I probably learnt a lot more about management through on-the-job training and had opportunities and promotions a lot earlier than had I gone through the normal banking stream.

"I therefore see it as a responsibility for tertiary institutions to provide education of value and see student loans taken out as an investment rather than a liability. There is a real risk that there may be an oversupply of talent coming out of university and, furthermore, some degree courses are questionable as to whether they are a good match with the requirements of the job market."

### PREPARING FOR THE FUTURE JOB MARKET

Ensuring young workers have the right balance of skills and qualifications is one thing, but another is preparing them for the transformational change expected in the job market over the next two decades due to the speed of growth and capability of artificial intelligence and robotic logic.

It's no surprise that this is a topic Sir Ralph talks on with enthusiasm – less-so from an innovation perspective, but more how it will influence what he often refers to as the most important part of business: people.

"I have a view about robotic logic and its move up the job chain. We've seen over the last 100 to 200 years the replacement of jobs in a range of categories as various technologies develop. We saw it start with the Industrial Revolution with machines replacing labour, which has led to the creation of new and higher value jobs since that time.

"Over the next decade much higher value jobs will be replaced by sophisticated processes driven by robotic logic and artificial intelligence in professions such as accounting and law. An often-quoted mantra is that more new jobs will be created by disrupting innovation - but will they this time?

"Is there a risk of a paucity of higher value jobs in that mid-range? We have people coming out of universities with significant debt, how are they going to service that debt if they don't have jobs or ones that generate sufficient income."

In coming up with solutions, Sir Ralph says a universal basic income is one response that needs to be part of the discussion.

"In the end, all Government tax revenue comes from business, either a direct tax on companies or PAYE for individuals, so if we have less people working there needs to be a realistic mechanism to enable Government to replace the loss of revenue to meet the potentially higher unemployment claims.

**"I may have scoffed at the concept of universal basic income – I'm starting to wonder if it is a position we may need to adopt if a number of jobs disappear."**

Sir Ralph Norris, Director

"A lot of things are bound up in this and, while in the past I would have scoffed at the concept of a universal basic income, I'm now starting to wonder if it is a position we may need to consider if a significant number of jobs disappear. The big risk is if we don't actively think about this, it could lead to a breakdown in society. I know this sounds extreme but I believe the impacts of the changes ahead are going to create significant social issues."

**"By looking at an issue logically, I like to break things down into simple pieces – make the complex as simple as possible."**

Sir Ralph Norris, Director

#### DON'T COMPLICATE IT

It's often thought that great executives possess a rare mix of left and right brain: skills of logic, and incisive business acumen mixed with big picture, people skills and intuition. Sir Ralph is no different and has some simple advice for aspiring CEOs.

"By looking at an issue logically, I like to break things down into simple pieces – make the complex as simple as possible. You can get yourself into a situation with complexity where you end up chasing your tail. By breaking it down the solution becomes easier – an insight I probably learnt from my computing background.

"Another key factor is the importance of team work. I led small groups in projects in my early 20s. If you define what the objective is and everyone understands what their responsibilities are within the team, and help people when they are struggling, you can accomplish a great deal. If you can master that, good people in the organisation start to gravitate towards you and want to work with you. Looking back over my career it was probably a skillset that gave senior managers the confidence to assign me difficult projects in the knowledge I could put a team together and deliver it."

Sir Ralph says that the best managers he has encountered were those who were the best leaders of people, they coupled encouragement with good judgement. "It's about making sure you're clear about what's expected from your direct reports and holding yourself to the same standards. Consistency of approach is really important and is captured in the phrase by the former US President Teddy Roosevelt, 'people don't care about how much you know until they know how much you care'."

#### CONFLICT AND DIVERSITY AT THE BOARD TABLE

When it comes to governance, according to Sir Ralph, a bit of conflict (constructive) and diversity is key for the boardroom table to really test financial and strategic decision making. Two areas he says that New Zealand still needs to work on.

**"Scar tissue is incredibly educational."**

Sir Ralph Norris, Director



**"I do have a concern about the level of collegiality that can develop with some of our boards here which, gone unchecked, can lead to group think."**

Sir Ralph Norris, Director

"I do have a concern about the level of collegiality that can develop with some of our boards here, which gone unchecked can lead to group think. Having a good mixture of people and diversity of background, gender and culture is really important to the composition of a board.

"It's not helped by people making moves into governance roles too early, when they haven't come up against adversity. Scar tissue is incredibly educational, and it's crucial to see a strong track record of achievement and application of skills. Directors also need to have a keen sense of curiosity and ask questions. These aren't normal Dorothy Dixer questions, but questions with weight and thought behind them."

Even with all the prerequisite qualities for an effective board Sir Ralph points out that preparing for crises is something that cannot be taught - and an open mind and a willingness to learn and be held to account are imperative.

"The nature of big business is that unfortunately things don't always go to plan, and you need to try and understand why. Whether it is a profit downgrade or another unexpected occurrence, it's important to go through the experience and check why did that happen and what can we as a board change and manage as a risk going forward."

#### PEOPLE, PEOPLE, PEOPLE

It would be difficult to identify a singular take out from the illustrious career Sir Ralph Norris has built to date. One where he has served some of the biggest organisations on both sides of the Tasman, and continues to do so, but to ask the man himself it is clear where he sees priorities in the business arena should lie.

"If you look at property it's all about location, location, location. If you look at business it's all about people, people, people. From your customer base to your employees to your stakeholders and your license to operate with the community, structuring your business around people is paramount. It's important to remember this because too often we can get buried in the profit and loss statement and not give enough weight to the company's people agenda addressing talent and succession." (M)

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