Annual Meeting 29 July 2019

David Pilkington Chair, Address

2019 has been a year of refocussing and reassessing our investment portfolio. Most notable has been our decision to exit our successful investment in Heller's after more than 15 years. Over that period the company had attained market leadership in NZ in its core categories. In order to continue to grow Heller's has identified the need to expand into new categories and into export markets namely into Australia. It was with this in mind that the Board purchased the Moira Mac chicken processing and marketing business based out of Melbourne with the intention that this will form a base to expand into production of sausages and smallgoods. This expansion out of NZ is not without risk and will require investment capital. The Rangatira board felt that given our overall exposure to Heller's, which had grown to almost 37% of our portfolio, it was the right time to sell our 62.5% stake. At the same time Todd Heller chose to sell down 50% of his stake. Todd has been a fantastic partner and a great example of Rangatira's successful private equity partnership model. We have retained our investment in Domett Properties the company that owns the Heller's property in Christchurch. We view this as a good investment property, and it provides a yield of over 7%. It also may offer some development opportunities through re-zoning as Christchurch expands.

We have also reset our listed portfolio, Mark will touch on our approach to this later on, but we increased our exposure to listed markets from late last year lifting this from $30m to over $60m, to date this has provided good returns.

Part of this has been to select an international manager to run a portfolio of global stocks as we are not best placed to do this internally. The listed portfolio has performed well, both recently but it also proved resilient through the December market declines.

The opportunity also came up to purchase the shares from Massey University in Magritek, once again Mark can touch on this company later on, but we feel that there is still considerable opportunity and it is starting to position itself as a leader in the desktop NMR market.

We have invested in a greenfield Kiwifruit orchard development alongside an experienced managing partner and co-investor with a strong track record in the industry. The investment model should provide further opportunities to invest in what is a rapidly growing horticulture sector.

As at March our Net Asset Value was $14.40 per share after paying a 60-cent dividend while our share price has increased 9%, this brings total shareholder return to 13% for the year.

Our aim is to deliver market competitive returns to shareholders over the long-term and steadily increasing dividends to our shareholders.

Each six months the Directors estimate the underlying value of the Net Assets that Rangatira hold. The Net Asset Value does not always move smoothly, as is influenced by the underlying values of the private businesses we hold.

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As a result, and what is usual with Investment companies like Rangatira, our shares trade at a discount to Net Asset Value.

We would expect that as our holdings are more liquid that this discount would reduce which is what we have seen recently, with the shares currently trading at a discount of 12% to Net Asset Value.

What is important though is that the share price rise and asset value increases are consistent with the underlying markets that we invest into overtime.

I am happy to report that Rangatira achieved a Shareholder Return, through an increased share price and dividend of 13.0% in FY2019, this is against the NZX-50 return of 11.1% for the same period.

I want to now take the opportunity to thank my fellow directors for their support and diligent service over the last twelve months. While we have no proposed changes to director fees this year I do want to signal that it is our intention to carry out a more comprehensive market survey of our fees to ensure that we remain appropriately positioned relative to the market. We will bring forward the results of this next year. I will now hand over to Mark to provide a bit more detail around our portfolio. Before doing so I would like to confirm that we will be holding a shareholder briefing session similar to the one we held earlier this year. As I signalled at the time it is our intention to do this on a regular basis the timing of which to follow the half year result. We will soon advise shareholders of the date.

Now I will hand over to Mark.

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Mark Dossor CEO, Address

Thank you David and it is good to be here again in front of our shareholders.

As David has mentioned it has been a busy year for us at Rangatira, which was my first year but Rangatira's 82nd.

We held a shareholder session earlier in May that was generally well received. For those that were unable to make it I would like to introduce two new members of the Team – Chris Westbury and Kurt Purdon. Chris joined us from Cameron Partners and Kurt from PwC both late last years.

Chris and Kurt have added a great deal of capability and capacity to the team, which is particularly required as we re-deploy capital into new private investment.

Operating Earnings

Operating earnings were down on the previous year and also on expectations. This was for a couple of reasons, firstly this year only included 10 months of Hellers results until the sale was concluded in Feb this year.

In addition to this the Hellers earnings were down on last year through this ten-month period.

Bio Strategy had reduced earnings from the previous year. Bio Strategy still faced some integration issues with the VWR acquisition of 18 months ago. We feel now that we are well through this and have forecast an uplift in this financial year. I will talk in more detail about Bio Strategy later.

In the first quarter of FY20 we are seeing improved operating earnings across most of our companies.

Rainbow's End, the new CEO of Rainbows End, Karen Crabb, has implemented new pricing structures which is seeing improved volume and yield and the launch of a new PlayLab product which will see revenues slightly more resilient to poor weather.

Magritek, also continues to experience strong growth.

Profit

The Net Profit for the year was also down on last year, predominately due to the lower operating profit mentioned already and the costs associated with the Heller's transactions and the settlement of the earnout dispute associated with the sale of Tuatara.

Our running costs of the fund continue to track at 0.8% of total assets and we will continue to ensure that they do not rise above this level.

As David has mentioned, we have seen the share price increase over the year with slightly higher than average volumes over the course of the year and post the results announcement.

Portfolio allocation

Over the last 18 months this has changed with us having a larger cash holding with the receipt of the Hellers funds. We have redeployed close to $40m of this into listed stocks and some small Private investments over the last six months.

One mistake we have made is not putting more in the listed market in the early stages of this year.

At the time we were buying a number of NZ utility stocks and increased our international holdings, however time has proved us a little conservative on this. We saw some risk in the listed markets and while there was strong rebound from the December declines, we did not have the view at the time that it was going to be a sustained rally that has transpired.

We have since this continued to increase our holdings in listed stocks in the existing portfolio and new opportunities at a rate of about $3m a month since year end. We will continue to do this for the next few months as well

So, in the interim we will allocate more into the listed markets.

Allocation approach

So how are we thinking about redeploying cash into private businesses?

Before answering this, we have to look at what we currently have and how we think about those assets. In our private portfolio we currently have 7 holdings and we have tried to split these into what we call yield assets and growth assets.

Yield assets are generally good stable businesses with pretty good economic resilience and low beta so provide lower growth and risk. These will normally provide consistent dividend stream and cashflow back to us.

The growth businesses will reinvest surplus cash into to growing and therefore not necessarily provide us with cash flow but should provide good capital growth.

So, in looking for new business we will allocate them between yield and growth businesses, it maybe that a business we have a growth asset will become a yielding asset over time.

Pipeline

We still are seeing considerable deal flow of private companies looking for investment. This is probably were we are spending close to 50% of our time at present.

Over the last 12 months we have improved our access to this deal flow and confident that we have or are seeing all deals in the market.

We are also trying to work with like-minded partners on some deals where they are either too big for us alone or each bring complimentary skills.

Based on the activity that we are seeing I am confident that in two or three years we will have more than replaced the capital made available following the Heller's sale.

It is competitive however our reputation and long-term horizon is seen as a significant advantage to many business owners. As I mentioned at the recent shareholders session, we would also welcome any introductions that you as shareholders see in the market as well.

Target returns

As David eluded to earlier, for each of the asset classes we set target returns, we use these in setting expectations of current and future investment decisions. So, in assessing opportunities we only proceed if the investment our view will achieve these target returns or better.

The benchmarks are what we measure our performance on.

This cannot be done in isolation of the risk that we are assuming with each investment. In the case of private investment this includes additional return expectations for lack of liquidity and control premium.

Magritek

I now will take you through three of our private businesses. At the shareholder session I went through all of them, but today I thought it best just to talk about three that we are most active in at present, although happy to take any questions at the end on specific companies if there are any.

We increased our stake from 18% to 25% post year end – this lifts our total investment value in Magritek to over $10m. The Company has a strong year with revenues of close to $20m pa at good margins.   2019 was a year of strong growth for its key product which is a desktop mass spectrometer – a device sold to research sites, universities to analysis materials in real time to a nano scale. Historically large systems are used to do this and a Magritek have been one of the first to market with a high performing system desk top system.

To date they have sold over 500 systems and they sell for between U$50k and U$100k.

There is currently one main competitor who has recently listed on the Canadian stock exchange and an expectation that others are trying to bring a similar product to market. At present Magritek have a strong position and is more about improving manufacturing process and capability to meet the demand.

Operations are based in Germany and Wellington – but with the majority of the staff in Germany and sales team in Asia and USA.

Bio- Strategy

This company has not performed so well this year, still dealing with the transition with the acquisition of VWR in Australia. Coming through this the business is largely Australian based now with $50m of the $80m sales coming from Australia.

We have progressively moving the centre of the business to be based out of Melbourne with a CFO appointed in March and Customer Services, Sales and Marketing now all run from Melbourne.

Late last year Graeme Thompson the founder and CEO stated his intention to stand down and become a non-executive director. We commenced a search for a replacement in Feb and are now in the final stages of appointing a CEO to be based in Melbourne. I think this will create a good opportunity for growth and improvement for Bio Strategy in the Australian market.

Southern Cross Horticulture

We invested alongside two other investors and the Dunstan family (a very experienced family involved in the kiwifruit industry since 1977). This is a partnership to develop greenfield sites into planted gold kiwifruit orchards. The first stage is a 27-hectare development in South Auckland which commenced construction earlier this year and expectation of planting vines in November this year.

We do like Horticulture as a potential for investment, particularly where the industry is well managed from production through the to the end market, and also where they have some control around intellectual property of plant varieties, like kiwifruit.

Public Equities

Given the size of the public equity portfolio I thought we could go over this briefly as well. You will see that the amount invested has more than doubled over the past year and particularly in the Income based stocks, which is a portfolio of higher yielding NZ stocks predominantly in the utility sector where we feel there is limited downside on price but reasonably strong dividend flows.

As mentioned earlier we will continue to increase our holdings in listed stocks over the coming months as well. With continuing declining interest rates environment and stable, albeit flattening GDP rates from around the globe we see that there is still value in investing in the listed markets. There are obviously risks around Chinese growth rates, tariff disputes and Brexit but we will watch these closely.

Public Equities Returns

You will see that our returns both of late and over a three years period continue to be strong in the listed stocks and this performance has also continued into the first quarter of FY20. This is largely due to the weight we have had in yield-based stocks in NZ that have been well supported by international buyers of late and the international commodity stocks that we held and the performance of our manager Intermede.

Other matters

We do plan for a shareholder update in December at the time we have release our half year results, and have also recently updated our website which hopefully provides all the information shareholders need.

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