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10 November 2008

PRESIDENT'S REPORT

To the members of the

CFA SOCIETY OF NEW ZEALAND

I have great pleasure in presenting to the members a report on my first year as President of the CFA Society of New Zealand ("the Society").

It would be an understatement to say that this has been a testing year for the investment industry. This has been an unprecedented period for investment professionals and clients in New Zealand and globally. The quality of financial advice received by New Zealanders has come under intense scrutiny. Many New Zealand workers have commenced contributing to KiwiSaver schemes in the midst of a sharp correction in equity and credit markets. Liquidity concerns have impacted on many types of investment vehicles. This is a time when high professional standards, sound financial skills and a comprehensive investment education have proved more valuable than ever.

It has been a year of hard work for the Society and its people. The first people I would like to thank are the Board of Directors: Katrina Kruger CFA (Vice President/Secretary and Programme Chair), Charles Widdicombe CFA (Treasurer), Louis Boulanger CFA (Advocacy Chair), David McCallum CFA (Membership Chair), Dr Ian Nield, and Jeremy Simpson CFA (the Past-President). I would also like especially to acknowledge the dedication and expert assistance provided by Ginette Clarke, the Society's Administration Manager.

Also, I would like to thank members who have assisted at Board level. They are Peter McCaffrey (CFA Society's representative as the New Zealand Country Sponsor of GIPS), Clare Memmory CFA (programming and organisation of Auckland Webcast Viewings) and Anthony Sowerby CFA (Investor Education Chair). Other members who volunteered their assistance in various ways during the year include Stephen Bennie CFA, Scott Chaput CFA, Paul Davis CFA, Rhiannon Evans CFA, Daniel Frost CFA, Mike Gibbs-Harris CFA, Peter Lynn CFA, Greg Main CFA, Paul Richardson CFA, Lynette Scott CFA and Jonathan Wall CFA.

It is useful to remind ourselves of the goals of the Society. The CFA Society of New Zealand was formed to promote awareness of the aims of the CFA Institute and the CFA Program, and to lead the investment profession in New Zealand by setting the highest standards of education, integrity and professional excellence.

We promote:

- ethical and professional standards within the investment industry,

- encouragement of professional development through the CFA Program and continuing education,
- facilitation of the exchange of information and opinions among people within the local investment community and beyond, and
- increased public awareness and understanding of the CFA designation and investment industry.

At the launch date of the Society in October 2000 there were 21 founding members. This year our membership grew to 182 members including 148 CFA Charterholders. David has done a great job as Chair of the Membership Committee, sponsoring new members and fielding calls from prospective members.

New Zealand CFA pass rates were excellent again this year. Pass rates for candidates who took the exam in New Zealand were: 37% at Level I, in line with the global pass rates, 48% at Level II and 69% at Level III, well above the global pass rates of 35%, 46% and 53% respectively. Over 240 candidates sat the June 2008 exams and there are already over 150 enrolled in the June 2009 exams. Clearly, candidate support has become a growing role for the Society. We have assisted candidates in forming their own study groups and, as in previous years, made available to all candidates discounted Schweser Study Aids. Local events hosted by the Society for candidates included social events and post-examination drinks functions for CFA candidates in both Auckland and Wellington.

Thanks to the CFA Institute's Society Scholarship Programme, we can award up to 10 scholarships to candidates per annum. The Society again awarded its full quota of Scholarships during the year, worth approximately NZ\$1,500 each. The scholarship winners were Huia Burt, Amanda Chen, Michelle Li, Shafie Rahim and Ann Schneider for the Level I exam in June 2008 and to Amy Kuegler, Sarah Park, Stan Qi, Vincent Santico and Bill Zu for the Level I exam in December 2008. As part of our marketing and sponsorship agreement with Schweser, not only can candidates source discounted study aids, we were able to award the five scholarship winners for the December 2008 exams Schweser Scholarships worth approximately \$500 each. A Schweser Showcase for CFA candidates was also held in August at which four online Schweser study aid packages worth \$350 were given away as draw prizes.

Candidates are the Society's future members. We are pleased with what we have achieved in terms of encouraging participation in the programme and assisting those enrolled.

This year we began a new initiative in the form of an Investment Research Challenge for university students. The Global Investment Research Challenge is a programme supported by the Institute and organised locally. It has grown from a local competition organised by the New York Society to an annual global competition. The Challenge is a unique opportunity for university students, investment industry professionals and publicly traded companies to jointly promote best practices in equity research and company analysis.

In just three years, more than 875 students from nearly 200 universities worldwide have participated in the Challenge. There are expected to be 20 countries competing in the Asia-Pacific region for this year's competition alone.

Charles Widdicombe liaised with Otago, Victoria, Massey, Canterbury, Auckland and Waikato Universities in organising the Investment Research Challenge, which will take place on 18 November 2008 at NZX in Wellington. Victoria, Auckland and Canterbury Universities were able to provide teams. I wish to thank NZX for their considerable support of this initiative. The winners will travel to Singapore to take part in the Asia-Pacific Investment Research Challenge. Should the New Zealand team win this regional competition, they will travel to London to participate in the Global Investment Research Final in 2009.

The Directors would like to thank the volunteers involved in the Investment Challenge this year: the mentors, Rhiannon Evans, Daniel Frost and Greg Main, the target companies (Mark Waller at EBOS, Kim Josling at Contact Energy, and Jason Hollingworth at Sky TV), and the panellists, Stephen Bennie, Paul Davis and Paul Richardson.

A successful programme of events for members is an important part of our service for members. I would like to thank Katrina, our Programme Chair for her efforts in co-ordinating the various events during the year.

Some highlights of our programme over the past year include:

In November 2007, Dr Jan Squires CFA, Managing Director, Asia-Pacific Operations for the CFA Institute and based in Hong Kong, visited Auckland to attend our CFA Award Ceremony. Jan Squires presented charters to 11 of the new Charterholders and photographs were taken for publication in *CFA Magazine*.

Doug Widdowson, Senior Analyst in the Financial Stability Department of the Reserve Bank of New Zealand addressed an audience in Wellington in November 2007 on the NBDT legislation that had completed pre-legislation consultation and was proceeding into Parliament. Our thanks to Doug, and to Simpson Grierson for providing the venue.

More recently, we hosted Michael S Falk CFA, a speaker from the Speaker Retainer Program, who addressed audiences in Wellington and Auckland on "Behavioural Finance and Neuroscience: Rational is as Rational Does".

Webcasts have proved to be a very effective way of bringing high quality content to our members. During the year, Ian Nield continued to host Webcast Viewings at the Reserve Bank of New Zealand in Wellington with topics ranging from "The Power of Prediction Markets" to "The Neuroeconomics of Surprise – How the Investing Brain handles the Unexpected". Perhaps the most relevant webcast this year was a talk by Jack Bogle on "Black Swans and Black Monday".

In Auckland our Webcast Viewings have been organised by Katrina Kruger and have covered subjects such as "Establishing an Ethical Framework for Business Decisions" and "Capital Ideas, Past, Present and Future". During the year Clare Memmory kindly took over organising the Auckland webcasts and hosted a luncheon where participants heard Michael Mauboussin on "The Prime Directive, Sharks and the Wisdom and Whims of the Collective". Many thanks to Clare for volunteering to help with Webcast Viewings and to Ian and Katrina for their efforts over the year. I would also like to acknowledge the assistance of the Reserve Bank of New Zealand, Forsyth Barr, Goldman Sachs JBWere and Westpac Institutional Bank in providing venues for these viewings.

Carl Bacon CFA of Statpro, UK, returned again to New Zealand in October to conduct his very valuable and informative workshops on Investment Performance Measurement. His full workshop covered 3 days of intensive instruction which gave participants an in-depth knowledge of investment performance measurement.

A highlight of the year was the Fourth Annual Forecast Dinner held in early November which was another successful event thanks to the efforts of Katrina and her organising committee, and Louis, who negotiated to bring Bud Conrad to New Zealand. I would particularly like to thank the sponsors of the event, AMP

Capital Investors, Forsyth Barr, IRG and KPMG; our media partner, *The National Business Review* and Kaplan/Schweser of the USA. Bud Conrad addressed a capacity audience at the Auckland Club, and again the next day at a luncheon in Wellington at the Bolton Hotel, on the world financial meltdown and its effects on investments including commodities.

Our advocacy efforts this year have been led by Louis. At the start of the year we were preparing to do significant work on our potential role in the co-regulation regime. The requirements of being an Approved Professional Body were onerous and we were not surprised to see this proposed regime dropped in favour of regulation by the Securities Commission. We were able to contribute to the development of an alternative framework and continue to be involved in discussions. In June, Ian and Louis addressed the Finance & Expenditure Committee in Wellington regarding the Society's submission on the Financial Advisers Bill. In August, Louis and I had a very good discussion with the Minister of Commerce, Lianne Dalziel. Such was her interest in CFA Code and Standards that the meeting ran for much longer than planned. It is our hope that, as a result of this, the code of practice for financial advisers in New Zealand will reflect many of the principles that guide CFA Charterholders. We remain in contact with the Securities Commission and are providing our input to the code committee.

The Society is the Country Sponsor of GIPS ("Global Investment Performance Standards") in New Zealand. Louis has served as a member of the GIPS Executive Committee and also as Chair of the Asia-Pacific Regional subcommittee of the GIPS Council. During the year Peter McCaffrey took over from Peter Lynn as our Country Representative on the Council. Peter and Louis attended the annual GIPS conference in Amsterdam in March. The Amsterdam conference addressed GIPS governance matters (notably the admission of associate member countries) and outlined preliminary planning for the review of GIPS in 2010. The conference was an important opportunity to discuss the promotion of GIPS with other country sponsor representatives.

Louis and Peter organised GIPS Education Seminars in Wellington and Auckland in October 2008 sponsored by the New Zealand Superannuation Fund. The speaker was Jerome Chung from PricewaterhouseCoopers in Singapore. Our efforts to broaden the awareness of GIPS reached a new peak with Jerome being interviewed on *ASB Business* on TV3. Our thanks to the New Zealand Superannuation Fund and PricewaterhouseCoopers for their support and sponsorship of our GIPS initiatives and to Louis and Peter for the many hours of voluntary work they have done for the promotion of GIPS over the last 12 months.

Having introduced GIPS to New Zealand the challenge for the Society and our GIPS representatives is to maintain that momentum. The GIPS organisation (GIPSstandards.org) is gearing up for the release of GIPS 2010. The first draft for public discussion will be released early in 2009, the final version published in January 2010 and the effective date for GIPS implementation is January 2011. Mike Gibbs-Harris and Peter Lynn have agreed to assist Peter McCaffrey in forming a subcommittee to provide feedback on 12 key issues.

This year we appointed an Investor Education Subcommittee Chair. Thanks go to Anthony Sowerby for volunteering to lead our development in this area. We believe that investor education will gather importance and that the Society has much to offer in terms of unbiased, well-founded educational content for investors.

We achieved a new high in terms of media coverage this year with a significant increase in local media articles referring to the Society, the CFA Charter or the CFA Institute. Some good examples included: "Advice you can Bank on" in *NZ Herald* (12.4.08), "Inflation – No Room for Complacency" in *NZ Herald*

(21.6.08); "CFA Produces Rules of Engagement for Ethical Investors", Asset Magazine (July 08); "Panicking is Bad for your Wealth" in NZ Herald (27.9.08) and "Directions for a Crisis – Tips to Keep on Course" in Asset Magazine (October 2008).

The Society is in a sound financial position and benefits from a rising membership base and the considerable resources allocated by the CFA institute. As we grow we face increased costs in delivering services to our membership but we are confident that we can manage this challenge. We are mindful that when we host events we have to commit to incurring costs without certainty over numbers that will attend. We have to accept the risk that some events will show surpluses and other will show deficits. Members can help the society by responding early to invitations, paying promptly, encouraging others to participate in our events.

Active engagement with CFA Institute is the key to gathering new ideas and finding opportunities to maximise our service to members. In February, Ian and I attended the Asia-Pacific Regional Leaders Meeting held in Singapore. Katrina and I attended the CFA Institute's Society Leaders Meeting and Annual Conference held in Vancouver in May. In October David and Charles attended CFA Institute's Society Leadership Conference held in Washington DC. Ginette attended Administrators Briefings in Charlottesville in June and in Washington in October, as well as the Society Leaders Conference. Charles travelled to Hong Kong to observe the Asia-Pacific Investment Challenge Final with a view to initiating the inaugural Investment Research Challenge for university students in New Zealand. These meetings are valuable for maintaining and improving links with CFA Institute, getting new ideas for society activities and building links with other societies.

The CFA Society of New Zealand has an important role to play in the investment industry in New Zealand and the CFA Program continues to grow in recognition by both employers and employees. This is reflected in the strong growth in the number of CFA Program candidates within New Zealand and increased membership of the Society.

I encourage our members to become involved in the Society's various efforts. As our activities expand we need volunteers for a variety of sub-committees.

Thank you for your continued support for the Society.



Mark Brighthouse CFA
President