

140. We have already referred in paras. 54 and 79 to 81 of this report to the investments on account of the "B" Series and the "Second B" Series debentures and to the holdings of the British National Trust, Ltd., debentures and the New Zealand Shareholders Trust, Ltd., debentures, the latter being held solely on account of the "Second B" Series. Obviously, these factors must of necessity affect the valuation of the respective groups of debentures *inter se*. We have not, however, considered it profitable in this report to enter into lengthy calculations regarding these various groups. If the Investment Executive Trust of New Zealand, Ltd., is wound up the respective rights of debenture-holders in the various groups are matters which will demand the very careful consideration of the liquidator, who will, no doubt, require expert legal advice and may need to ask directions from the Court. If the company is left in the control of those who have hitherto been responsible for its affairs the whole of the problems involved will be left to them or other interested parties to determine.

INVESTMENT TRUST PRINCIPLES AND THE INVESTMENT EXECUTIVE TRUST OF NEW ZEALAND LTD.

141. There is little doubt that had the Investment Executive Trust of New Zealand, Ltd., carried out in practice the principles which investors were reasonably entitled to expect from a perusal of its prospectuses and "literature," the position of debenture-holders to-day would have been very different from what it actually is.

142. We now refer to several extracts from the prospectuses and "literature" of the trust to show how widely the principles advocated have been departed from.

143. The following is extracted from the first prospectus issued by the trust dated 12th March, 1931 :—

"Insurance Principles applied to Investments.—The sponsors of the Investment Executive Trust of New Zealand, Ltd., believe that in the income debentures of the trust now being offered to the public they have instituted a specially desirable type of investment which ensures safety of capital and provides an assurance of regular and increasing income.

"The chief element of sound investing practice is diversification or the spreading of capital over several types of investments and securities. A carefully chosen security rarely fails entirely, but there is always a risk of substantial depreciation of capital and income in any single investment.

"The Investment Executive Trust of N.Z., Ltd., will follow the investment practice of leading British investment trusts.

"A list of thirty investment trusts published in the London Financial Times, June, 1929, showed not only an average dividend of 13½ per cent. per annum for the thirty trusts, but an increase in the market value of the shares on the London Stock Exchange of 170 per cent. above par.

"The Investment Executive Trust of N.Z., Ltd., has established a statistical organization which collects data relating to international exchange, prices and stocks of raw materials, and manufactured products in the main producing countries of the world, and political factors affecting investments. Quotations of selected investments and securities on the Stock Exchanges of Great Britain and the British Dominions are also obtained, as well as the balance-sheets and annual reports over a period of years of leading British and foreign companies. Statistics of this nature should form the basis of sound judgment and intelligent decision in the sale and purchase of investments.

"Anticipated earnings.—The company has provided for the prompt investment of debenture capital as it is received. Income will consequently accrue immediately, and profits will be distributed at the end of the first financial year. Thereafter, owing to the investment of reserves and premiums on the sale of debentures, the rate of income should steadily increase each year.

"Presuming the average net earnings from the debenture capital to be at the rate of 7 per cent. per annum, the income from reserves would be distributed annually and would, when such reserves reach 100 per cent. of the subscribed debenture capital, amount to a further 7 per cent., making a total income of 14 per cent. per annum.

"Debenture-holders would not only have the advantage of the progressively increasing rate of interest, but their invested capital should ultimately appreciate at least 100 per cent.

"Investments to be spread over several Securities.—To ensure an equitable distribution of securities consistent with economical operations and safety, the company has planned to invest its debenture capital in a large number of securities, and undertakes that upon completion of this issue of debentures in each series, not more than 10 per cent. of the total debenture capital received shall be invested in any one security.

"Administration.—The company was formed and registered in May, 1929. The intervening period has been devoted to the collection of data and compilation of statistical records required for investment and security appraisals.

"Owing to the nature of the company's business the office costs will be almost negligible.

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"The consultants to the company will furnish reports upon general economic and political factors affecting investments, trade statistics in various countries relating to exports, imports, and internal consumption of goods; the production, consumption, and stocks on hand of basic commodities; accountancy practice and general business conditions.

"Statutory and general information.—The company reserves the right to pay brokerage at the rate of 5 per cent. on the value of income debentures subscribed."