

157. Much of the debenture capital subscribed to the trust was paid for by debenture-holders handing over to the trust investments already held by them, and there is no doubt that had the investments so taken over been held in their original form until the present time they would have shown in the aggregate, a very large increment in price for the benefit of debenture-holders; but, notwithstanding the statements made in the prospectuses and the remarks contained in the reports, very large quantities of these investments were realized for the purpose of providing, directly or indirectly, funds required for the financing of ventures such as the acquisition and development of the trust building in Sydney, that being, moreover, a venture where the probable increment in value was not made available to the debenture-holders, but was taken by J. W. S. McArthur and C. G. Alcorn personally.

ADMINISTRATION COSTS.

158. The extracts quoted from the first prospectus also contained the statement that—

“Owing to the nature of the company’s business, the office costs will be almost negligible.”

And contained a further statement that—

“The company reserves the right to pay brokerage at the rate of 5 per cent. on the value of income debentures subscribed.”

159. Brokerage at the rate of 5 per cent. was paid to V. B. McInnes and Co., and/or V. B. McInnes and Co., Ltd., and this was in accordance with the prospectus. In addition to this, however, a further sum of 5 per cent. was paid to the brokers for administration charges. There is grave doubt as to whether this payment was valid, particularly in respect of debentures issued under the first prospectus. Further reference is made to this matter in paragraphs 223 to 227 of this report, but, in the meantime, we wish to stress the fact that the statement that the office costs will be almost negligible can, in view of the fact that the additional 5 per cent. was paid to the brokers for administration charges, only be regarded as extremely misleading.

CONSULTANTS TO THE TRUST.

160. The extracts from the first prospectus quoted above (para. 143) state that—

“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.”

161. In the first prospectus it is set out that the consulting economist is Professor Belshaw, and that the consulting accountants are Messrs. Watkins, Hull, Hunt, and Wheeler, Mr. W. Crawford Young being named as the then resident partner of that firm.

162. Evidence on oath was given before us by Mr. W. Crawford Young that although he had not actually resigned his appointment he had never furnished any report to the trust. In reply to an inquiry by us as to whether he had even been consulted by the Investment Executive Trust of New Zealand, Ltd., Mr. Young said,—

“I was visited once by Mr. McArthur, who then took the opportunity to inform me that he was proposing to invest in certain overseas companies of world-wide repute which he named to me, and I think he gave me a few figures about their reserve position in relation to the capital. That was the only occasion on which I have had any discussion with him in this connection which can be considered as a consultation.”

163. Evidence on oath was also given before us by Professor Horace Belshaw. In reply to an inquiry by us as to whether he had ever supplied any report to the trust, Professor Belshaw said,—

“Shortly after my appointment I issued to the trust one report on sources of information. This is the only report I have ever furnished to the company, and the only report for which I have ever been asked. I resigned my position as consulting economist about eighteen months after my appointment; the reason which I furnished to the trust for my resignation was that I had not been called upon to make any further reports.”

164. Further reference to Professor Belshaw’s resignation is made in paras. 231 and 232 of this report under the heading “Misleading Information supplied by the Investment Executive Trust of New Zealand, Ltd., to V. B. McInnes and Co. and/or V. B. McInnes and Co., Ltd., brokers for the trust.”

NEW PROSPECTUSES.

165. We make the assumption that the officials controlling the trust realized that from their point of view certain of the statements (quoted in para. 143) made in the first prospectus issued by the trust were very dangerous.

166. We think the foregoing assumption is a reasonable one because, not only were the second and later prospectuses considerably modified, but a very strong and successful endeavour was made by the trust to regain, through the agency of the New Zealand Shareholders Trust, Ltd., control of the debentures already issued in the First Series.

“DIVERSIFICATION” (see also paras. 144 to 149).

167. Even, however, in the second and subsequent prospectuses issued by the trust there are statements which are subject to strong comment in the light of the actual practice adopted by the trust.