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05 October 2020

Additional Information Regarding Resolution to enable the appointment of a “market maker”.

There is a separate resolution for shareholders to vote on in the Notice of Meeting. This resolution is to amend the constitution to enable the Board to appoint a market maker, subject to the Minister of Agriculture approving this change.

There have been questions regarding the role and function of a market maker from shareholders. To assist shareholders before voting, the LIC Board is providing the FAQ below.

What is a market maker?

A market maker is a financial services provider that stands ready to buy and sell shares on a regular and continuous basis at a publicly quoted price. The aim of the market maker is to create price stability and some additional liquidity through consistent two-way quotes in the LIC shares.

Why is LIC considering appointing a market maker?

LIC shares are considered more illiquid than other listed companies because of the restrictions on who may hold LIC shares. As part of its work on LIC's Share Simplification, the Independent Adviser, Northington Partners, identified LIC as one of the least liquid shares on the market and that the lower liquidity was directly attributable to LIC's share ownership restrictions which require a shareholder to be a customer of LIC, and the 5% ownership cap.

Under LIC's current share trading arrangements, shares can take a significant period of time to sell (as required under LIC's Constitution or otherwise) and the trading of small parcels of shares can move the market price markedly. On rare occasions, we have seen a significant spread between the quoted buy and sell prices, although this has narrowed since the introduction of ordinary shares.

The appointment of a market maker is to aid liquidity of LIC shares. If shareholders support the resolution to appoint a market maker, the significant limitations in place to restrict shareholding in LIC to dairy farmers supplying a New Zealand milk processor, employees of LIC and the market maker will remain in place.

Do other companies have a market maker?

Yes. Fonterra and Zespri both use a market maker.

An integral part of Fonterra's TAF scheme is the use of a market maker to help provide greater certainty and visibility to both shareholders and to Fonterra. Fonterra believes that the use of a market maker has been successful.

Zespri also makes use of a market maker and has experienced increased liquidity for Zespri shares since the market maker's appointment.

How would LIC appoint a market maker?

The current LIC constitution does not permit a market maker being appointed or holding LIC shares. An approved holding entity is provided for in the Constitution but only in relation to the operation of the Dividend Reinvestment Plan and the Voluntary Investment Scheme.

Changes to the Constitution would be required to enable the Board to engage a market maker.

This is a three-step process:

1. Changes to the Constitution are required to enable the Board to engage a market maker. In order to be able to appoint a market maker, shareholders will have to approve a change to LIC's constitution, because currently only LIC, qualifying dairy farmers and employees are able to hold LIC shares.
2. If shareholders support the change to permit a market maker under LIC's Constitution, the Minister of Agriculture (under the Dairy Industry Restructuring Act 2001) then has to also approve the change.
3. LIC Management will then run the selection of a market maker, through a Request for Proposal (RFP) process, and the LIC Board would appoint the market maker.

How does a market maker operate and how does that benefit shareholders?

The market maker agrees to consistently quote buy and sell orders on the market at a maximum price spread, and to hold a pre-determined number of shares (within pre-arranged minimum and maximum numbers). Shareholders would benefit from instant execution of smaller trades which assists with improving the liquidity of LIC's shares.

Does the market maker have voting rights on the shares held?

No. The market maker would be prohibited from exercising any rights attached to the shares held.

Does the market maker receive the dividend on the shares held?

The market maker is only permitted to hold shares for the purpose of acting as a market maker (rather than being permitted to hold shares for investment purposes). The terms on which any dividends would be retained would be agreed between the market maker and LIC as part of the terms of appointment of the market maker.