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Presents

NZX LIMITED [NZX:NZ]

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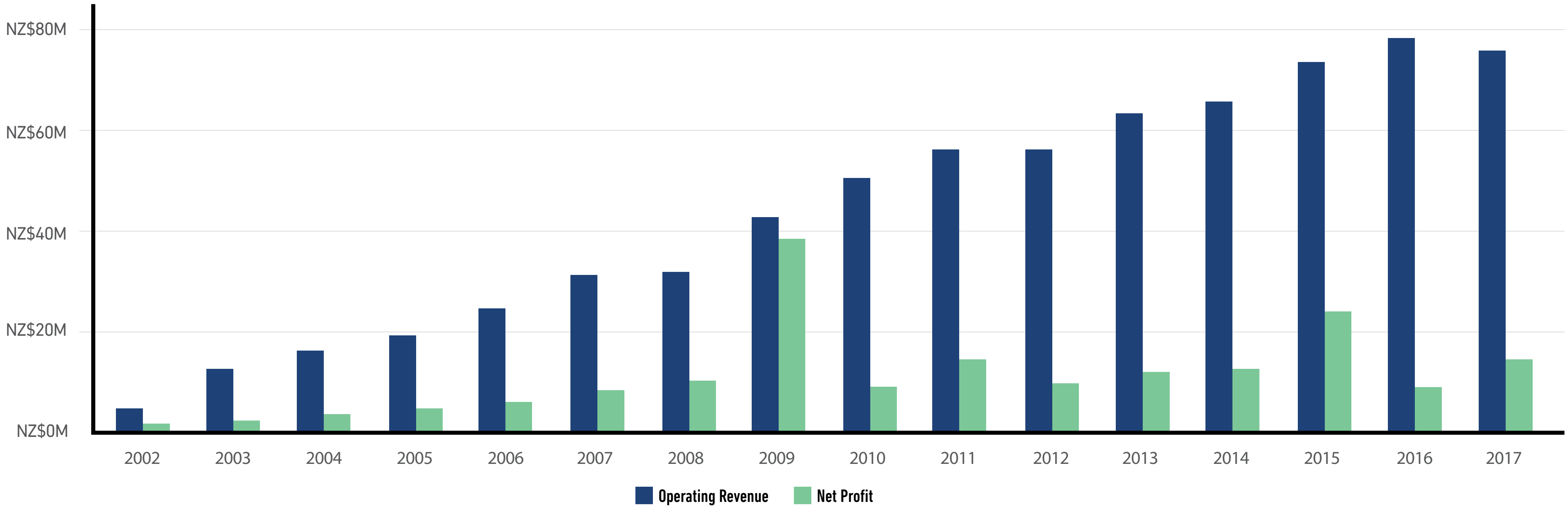
OVERVIEW & HISTORY

OVERVIEW

- NZX Limited (NZX:NZ, Market Capitalisation = NZ$290M*) is a publicly listed company that is licensed to operate and regulate securities and derivative markets in New Zealand (Refer Appendix #1 for New Zealand Capital Market/s Structure).
- It operates the following NZX Markets: NZX Main Board, NZX Alternative Market, NXT Market, NZX Debt Market, and NZX Derivatives Markets.
- It regulates the NZX's markets by (1) developing and enhancing the market rules, practices and policies, and (2) regulating market conduct by monitoring and enforcing the rules.
- It is also the market operator for New Zealand's wholesale electricity market, and Fonterra Shareholders' Market.
- It owns a Funds Management business that includes the SuperLife superannuation and KiwiSaver business, and the Smartshares Exchange Traded Funds (ETFs) business.
- It owns a Funds Administration Platform business – NZX Wealth Technologies (formerly Apteryx, acquired in 2015).
- Lastly, NZX is a publisher/supplier of information, news, data & analysis/insights.

NZX REVENUE & PROFIT SINCE 2002



* As at 12 September 2018

HISTORY (1)

1866	—	The first local exchange was established in Dunedin
1870's	—	Further local exchanges were formed in Auckland, Thames and Reefton
1871	—	Introduction of Sharebrokers' Act 1871
1908	—	Introduction of Sharebrokers' Act 1908
	—	Compulsory licensing for Sharebrokers introduced
1915	—	Stock Exchange Association of New Zealand formed
1983	—	New Zealand Stock Exchanged (NZSE) was established by the Sharebrokers Amendment Act 1981, replacing the Stock Exchange Association as the profession's elected ruling body
1989	—	Board of Directors appointed, replacing council and executives, with David Wale appointed Chairman, and Bill Foster appointed Managing Director
	—	The creation of the Market Surveillance Panel to oversee compliance
	—	Comprehensive revision of the Listing Rules
1991	—	Implementation of Screen Trading and closure of trading floors
1992	—	Fully Automated Screen Transfer and Electronic Registration (FASTER) system introduced
	—	Connectivity to share registries for electronic transfer of stock ownership
1998	—	Fully automated clearing and settlement of trades (scripless)
	—	Replacing share certificates with statements of holdings

HISTORY (2)

2000
- NZSE explored an option to merge with the Australian Stock Exchange, but its members objected to the proposal

2001
- NZSE submitted a private bill, New Zealand Stock Exchange Restructuring Bill to the Parliament

2002
- Exchange Members voted by a majority of 85% for demutualisation of the NZSE
- NZSE Limited formed
- Bill Foster stepped down with replacement **Mark Weldon** taking over as CEO

2003
- NZSE Limited renamed to NZX Limited
- IPO and Rights Issue
- NZX listed on NZSX

2004
- NZX Funds Management launched two new funds:
  - Acquired Management rights for NZ Mid Cap Index Fund from ABN Amro Craigs
  - Launched the Smartshares brand, expanding the passive funds business
  - Launched Link Market Services (LINK), a share registry, a 50/50 JV with ASX Perpetual Registrars

2006
- Acquired managed fund research business FundSource and rural data business Agri-Fax
- NZX established AXE ECN in Australia, a JV which NZX has 50% stake, while brokers Citigroup, CommSec, Goldman Sachs JBWere, Macquarie and Merrill Lynch each had 10% stake

2007
- Acquired Investment Research Group (Data) and NZX Newsroom
- Formed the TZ1 Carbon Market

2008
- Acquired ProFarmer Australia Pty Limited
- Acquired Dairy Week Limited
- Acquired 22% shareholding in Bond Exchange of South Africa for NZ$5.58M

HISTORY (3)

2009
- Launched a new clearing and settlement infrastructure
- Introduced new derivative products
- Acquired Country-Wide publications, the Clear Grain Exchange, and Australian Crop Forecasters
- Acquired The Marketplace Company ("M-Co") and its subsidiaries Energy Clearing House Ltd and Energy Market Consulting Ltd
- Acquired a 30% shareholding in Appello Services Ltd.
- Sold its shareholding in the Bond Exchange of South Africa for NZ$10.2M
- Sold the assets and business of NZX subsidiary TZ1 for US$37.1M

2010
- Launched the NZX Derivatives Market
- Acquired Callum Downs
- Sold its 30% stake in Appello Services Ltd
- AXE ECN ceased operations

2012
- **Tim Bennett** assumed role as CEO with Mark Weldon stepping down
- Commissioning and roll-out of the Nasdaq X-stream trading platform
- Launched the Fonterra Trading Among Farmers market
- Successfully renewed NZX's four Electricity Authority service provider contracts

2014
- Announced the establishment of a new market for small companies – NXT
- Introduced a new product - equity futures

2015
- Announced the acquisition of SuperLife
- Launched a broad range of ETF's spanning all main asset classes
- NXT, NZX's new market for small companies officially launched
- Acquired wealth management platform Apteryx
- Sold its 50% stake in Link Market Services for NZ$14.3M
- Announced a deal with S&P DJI to produce and commercialise new indices

HISTORY (4)

2016

- <u>Tim Bennett stepped down as CEO with current Head of Markets **Mark Peterson** to act as interim CEO</u>
- <u>**Mark Peterson** appointed as CEO of NZX</u>

2017

- Five-Year strategic plan presented at Investor Day on 16 November 2017
- NZX and HKEX signed a memorandum of understanding

2018

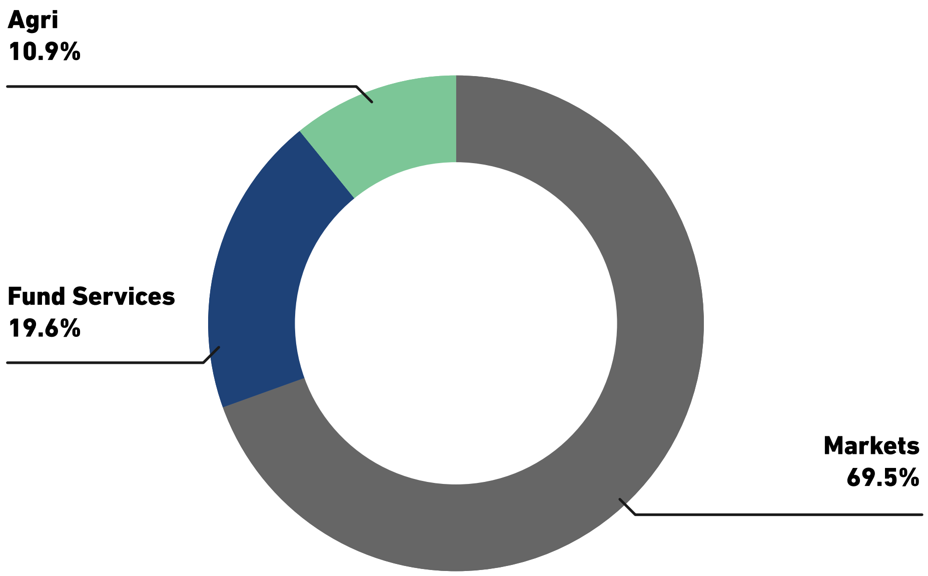
- NZX and SGX signed a memorandum of understanding
- NZX announced its intention to seek scale through strategic alliances with global peers
- NZX announced PDS for NZ$40M subordinated notes offer
- NZX announced sale of Farmers Weekly
- NZX announced the issuing of shares to employees (NZX Employee Share Offer)
- NZX announced sale of its Australian grain data business which NZX will incur a write down of intangible assets of $2.05M
- NZX announced the sale of its final agri business (the red meat and forestry components of AgriHQ) which NZX will incur a write down of goodwill and intangible assets of $0.8M
- NZX announced it will implement changes to its trading and clearing pricing structure effective 1 October 2018
- NZX and Nasdaq signed a memorandum of understanding

BUSINESS SEGMENTS

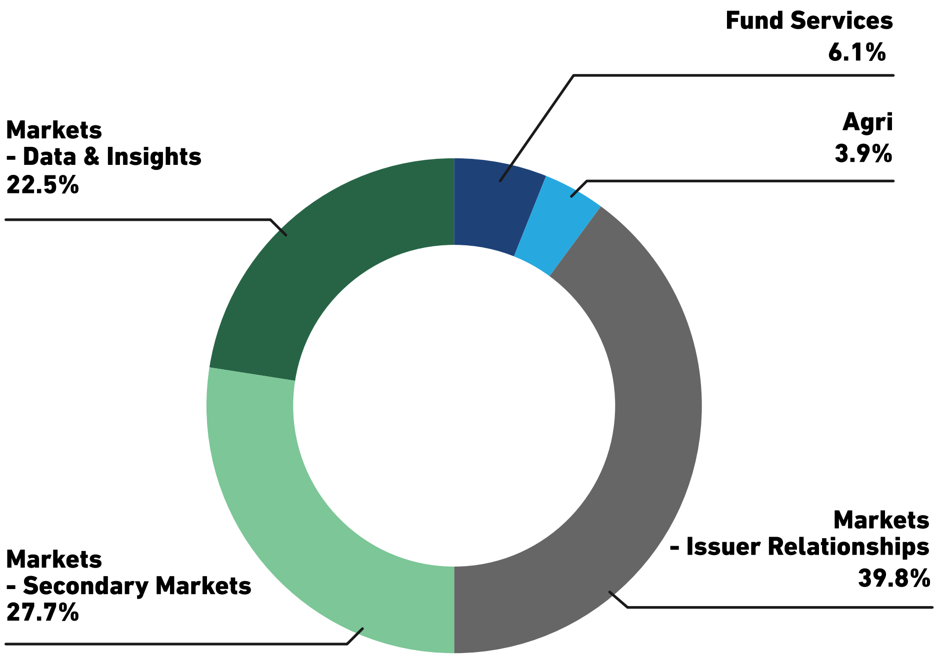
BUSINESS SEGMENTS

- Management has been trying to diversify/expand NZX's revenue/earnings streams since it was listed in 2002.
- Currently, it has three reportable business segments: (#1) Markets, (#2) Funds Services and (#3) Agri.
- Looking at the revenue chart below, it appears that Management has had some success in its diversification efforts. However, if we look at the earnings chart, the core "markets" business still dominates and contributed ~90% of NZX's earnings in 2017.
- From a reporting perspective, starting in January 2018, Management split the Markets segment into three main reportable business units: Issuer Relationships, Secondary Markets and Data & Insights.

NZX SEGMENT 2017 OPERATING REVENUE*



NZX SEGMENT 2017 OPERATING EARNINGS*

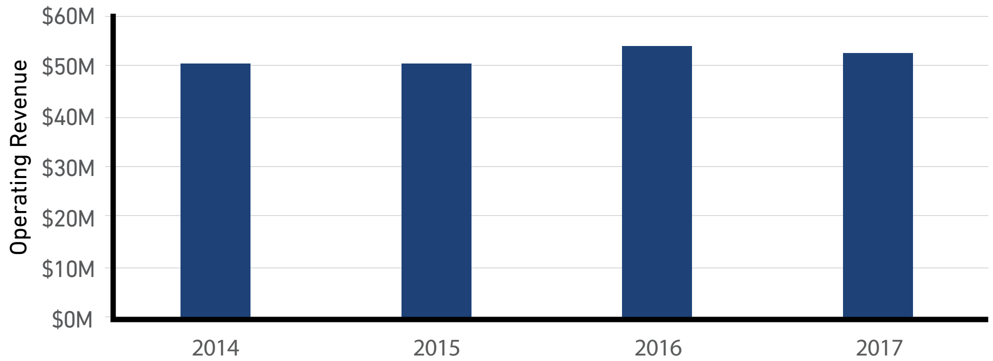


** Source: NZX 2017 results as at 31 December 2017*

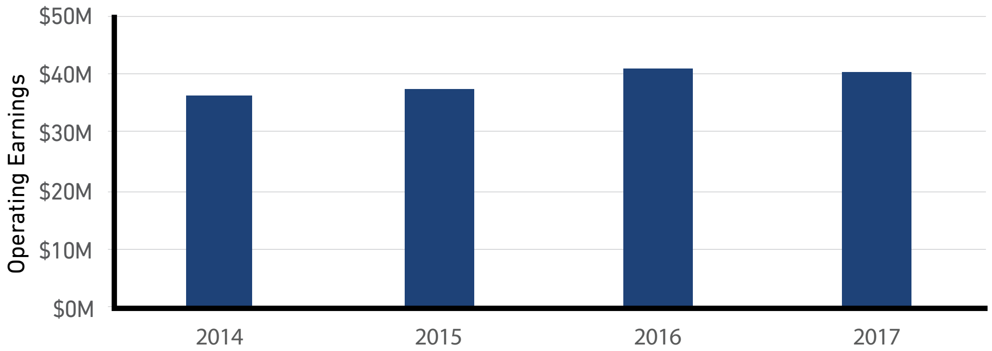
BUSINESS SEGMENT #1 – MARKETS

- NZX is the operator and regulator of securities and derivatives markets and provider of trading, post-trade and data services for securities, derivatives and dairy products, as well as the provider of a central securities depository. It also includes the Fonterra Shareholders' Market and the energy market business, which comprises the contracts operated on behalf of the Electricity Authority.
- The Markets segment is critical to NZX, as it accounted for ~70% of NZX's operating revenue, and ~90% of its operating earnings in FY2017.

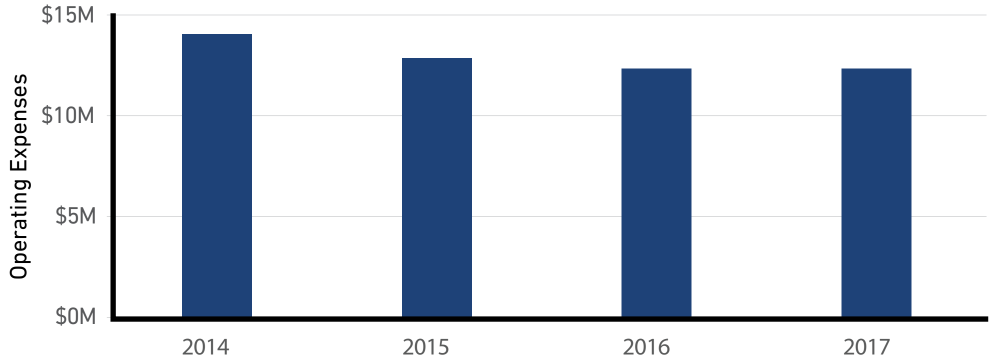
SEGMENT OPERATING REVENUE - MARKETS*



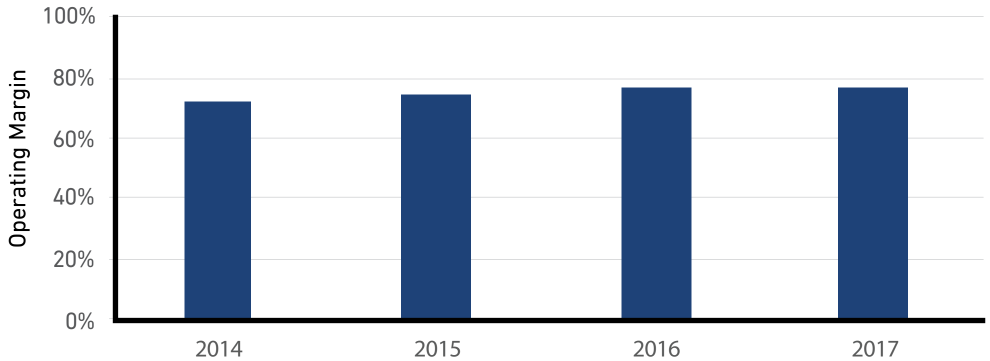
SEGMENT OPERATING EARNINGS - MARKETS*



SEGMENT OPERATING EXPENSES - MARKETS*



SEGMENT OPERATING MARGIN - MARKETS*

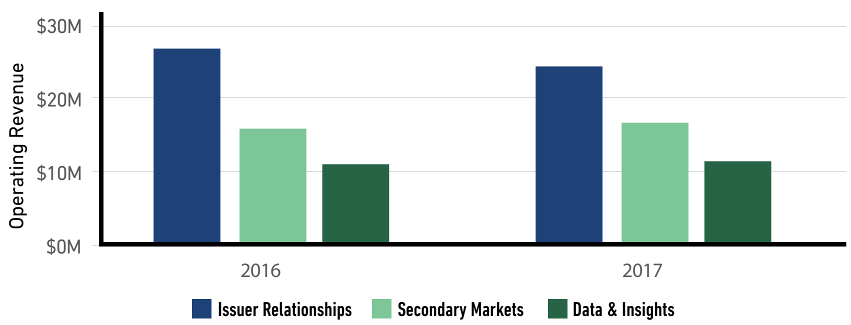


** Source: NZX Annual Reports*

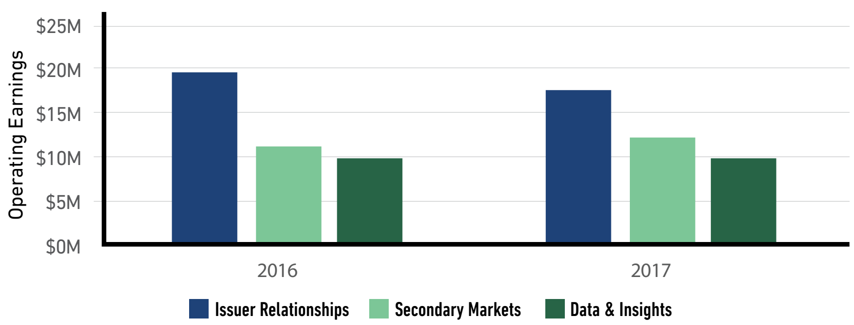
BUSINESS SEGMENT #1 – MARKETS – MADE UP OF THREE REPORTING UNITS

- Beginning in January 2018, the Markets segment was separated into three main reportable business units: **Issuer Relationships, Secondary Markets and Data & Insights**.
- All three units are high margin businesses. However, revenue/earnings from Issuer Relationships can be volatile from year-to-year, as shown in the -9.4% drop of revenue in 2017.
- NZX announced changes to trading and clearing pricing structure starting on 1 October 2018, these changes will increase on-market value traded, improving liquidity levels and enhancing price transparency. However, this change will have a negative impact on earnings and margins in the short term.

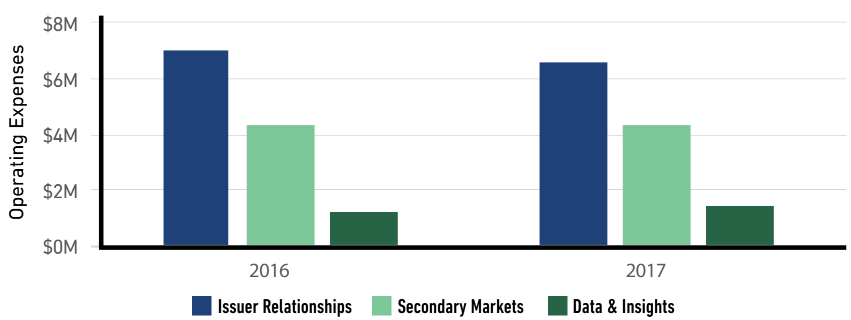
MARKETS OPERATING REVENUE



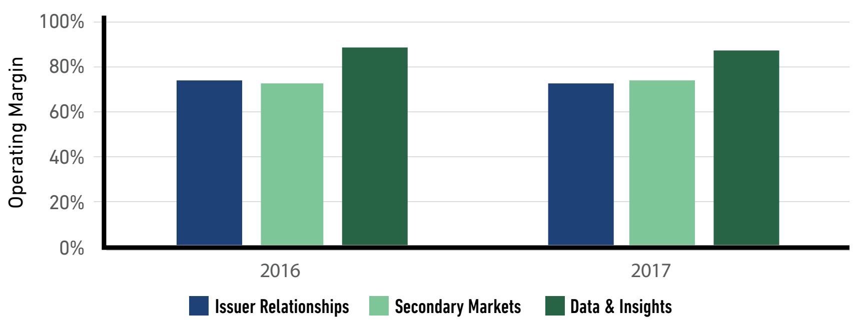
MARKETS OPERATING EARNINGS



MARKETS OPERATING EXPENSES



MARKETS OPERATING MARGIN

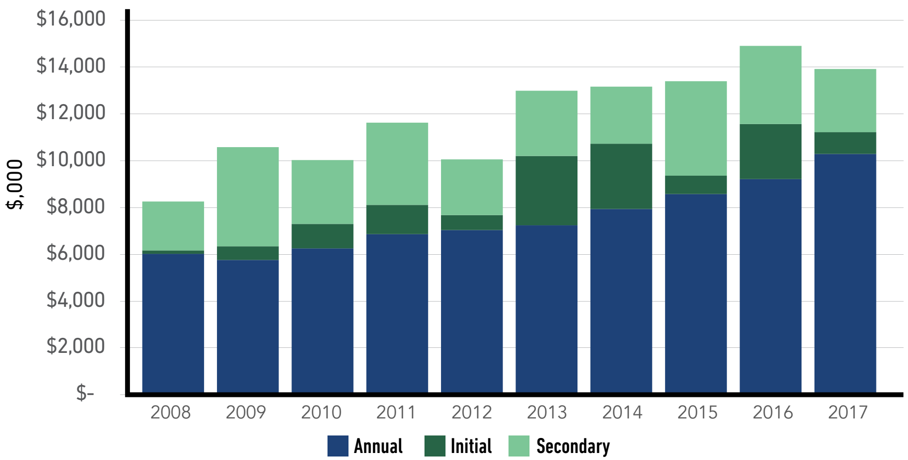


** Source: NZX 2017 Annual Report*

BUSINESS SEGMENT #1 – MARKETS – REPORTING UNIT #1 – ISSUER RELATIONSHIPS

- One of the most attractive qualities of NZX's core markets business is the consistent nature of its recurring revenues, mostly through its annual listing fees.
- However, one potential risk in NZX's seemingly stable and growing annual listing fee is the end (and potential reversal) of the almost-a-decade-old equity bull market around the world, which could negatively impact the equity market capitalisation of NZX constituents and NZX's annual listing fee/s during the year/s of a down cycle.
- One pressing issue facing NZX is the weak IPO record globally in recent years that affects many aspects of NZX's businesses, especially the level of initial listing fees.
- We also note the significant revenue contribution (NZ$9.3M) from Contractual Revenue (via operation of the electricity market & Fonterra Shareholders' Market), which amounts to 12.4% of 2017 operating revenue.

ISSUER FEES



Notes:

- Annual listing fee growth from increase in number and value of listed debt instruments and equity market capitalisation
- Substantial listing of new debt in 2016 not fully replicated in 2017
- Other issuer services revenue relates to activities undertaken by NZX Regulation
- Contractual and development revenue relates to the operation of electricity market (under contract from Electricity Authority) and Fonterra Shareholders' Market (under contract from Fonterra)

REVENUE BREAKDOWN & METRICS

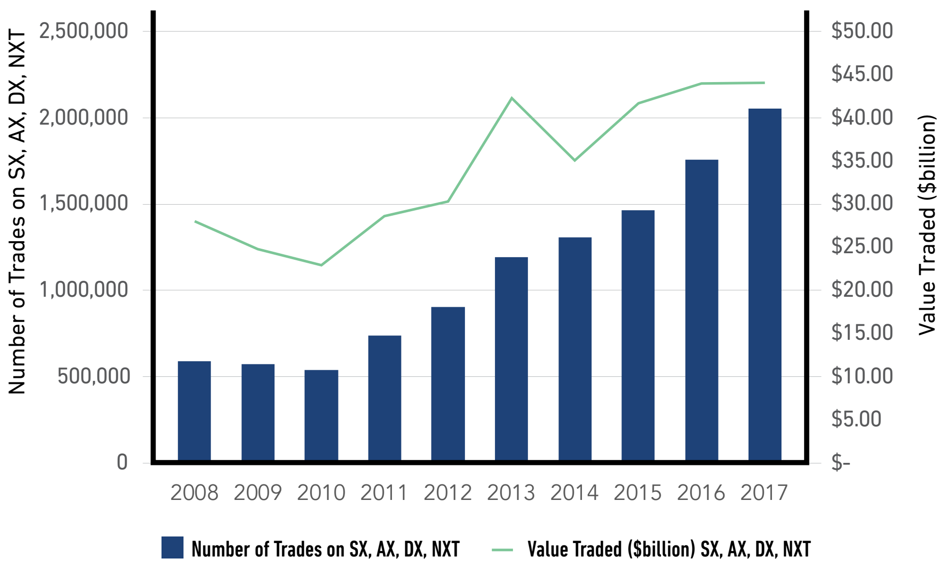
Revenue	2017 $000	2016 $000	Change FY17 v FY16
Issuer Relationships			
Annual listing fees	10,280	9,226	11.4%
Initial listing fees	931	2,330	(60.0%)
Secondary issuance fees	2,696	3,341	(19.3%)
Other issuer services	586	1,144	(48.8%)
Development revenue	428	1,493	(71.3%)
Contractual revenue	9,336	9,236	1.1%
Total Issuer Relationships revenue	**24,257**	**26,770**	**(9.4%)**
Strategic metrics			
Number of listed issuers	223	232	(3.9%)
Equity market capitalisation	135.2 billion	115.5 billion	17.1%
Debt market capitalisation	26.4 billion	25.7 billion	2.7%
Number of new equity listings	1	7	(85.7%)
Number of new debt listings	20	37	(45.9%)
Value of new equity listed	0.48 billion	2.1 billion	(77.1%)
Value of new debt listed	3.2 billion	6.4 billion	(50.0%)
Total secondary capital raised	4.4 billion	4.6 billion	(4.3%)

Chart/Table Source: NZX 2017 Results Presentation – 19 February 2018

BUSINESS SEGMENT #1 – MARKETS – REPORTING UNIT #2 – SECONDARY MARKET

- In December 2017, NZX announced changes to its securities trading and clearing pricing structure, which will be implemented (effective: 1 October 2018) alongside rule changes in the second half of 2018.
- These proposed changes are in response to the complaints from institutional investors of the low on-market liquidity, poor price transparency and the high cost of execution under the fixed minimum trade fee approach currently in place.
- In the short term, this action will negatively impact revenue as securities trading and clearing revenue being variable based on the value of each trade. However, in the medium/long term, the change in pricing structure could promote increased participation in NZX on-market trading, and hence improve Secondary Markets revenue.

VALUE AND VOLUME TRADED



REVENUE BREAKDOWN & METRICS

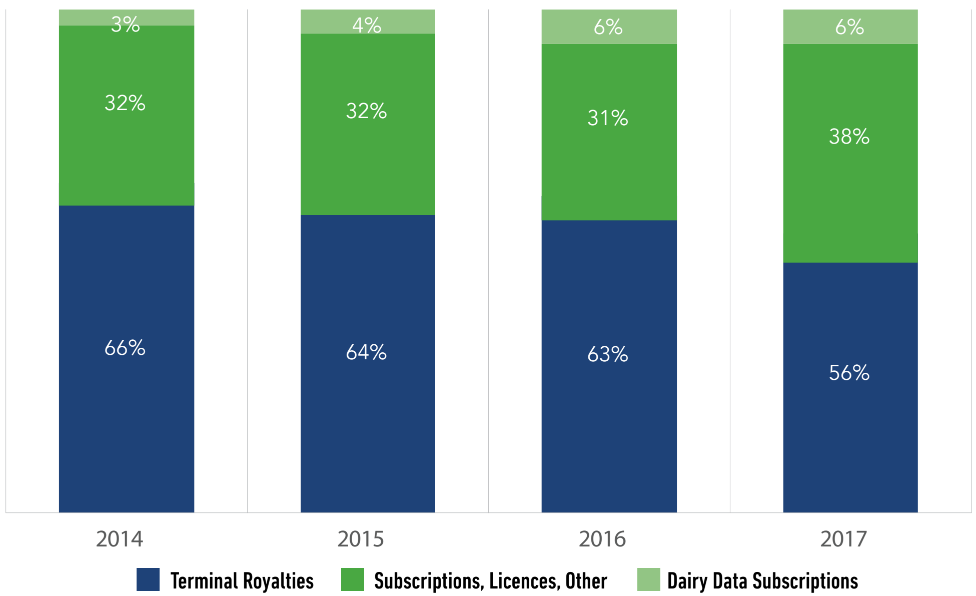
Revenue	2017 $000	2016 $000	Change FY17 v FY16
Secondary Markets			
Participant services revenue	3,768	3,592	4.9%
Securities trading revenue	5,817	5,765	0.9%
Securities clearing revenue	5,911	5,663	4.4%
Dairy derivatives revenue	1,133	706	60.5%
Total Secondary Markets revenue	**16,629**	**15,726**	**5.7%**
Strategic metrics			
Number of trades	2.05 million	1.75 million	17.1%
Total value traded	44.0 billion	44.0 billion	-
Dairy lots traded	311,675	198, 303	57.2%
Number of participants	36	35	2.9%

Chart/Table Source: NZX 2017 Results Presentation – 19 February 2018

BUSINESS SEGMENT #1 – MARKETS – REPORTING UNIT #3 – DATA & INSIGHTS

- As noted previously, the Data & Insights unit produces the highest operating margin (87.2%) within NZX.
- The business and product offerings are highly scaleable, and the subscription/license model is attractive.
- The growth in the number of subscribers for the NZX dairy data products in 2017 was impressive (+32.5%). However, this growth has barely translated into revenue growth for dairy data subscriptions (+3.1%).
- Also, we highlight the consecutive decline/s in revenue generated from royalties via terminals and suggest this needs to be an area of focus for the NZX.

PERCENTAGE OF REVENUE



REVENUE BREAKDOWN & METRICS

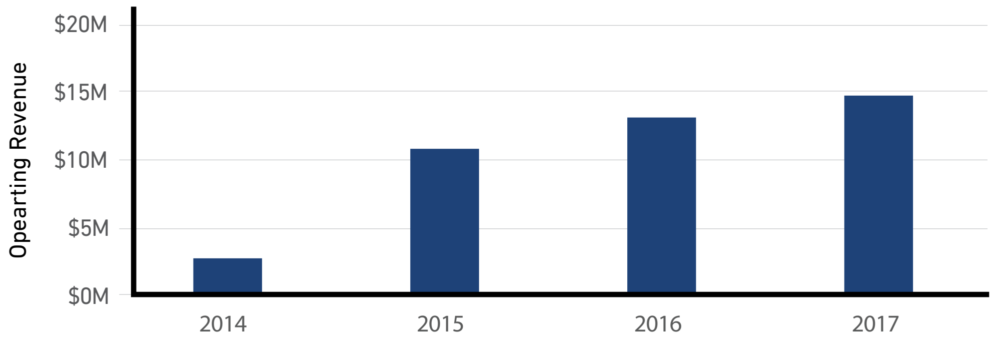
Revenue	**2017 $000**	2016 $000	Change FY17 v FY16
Data & Insights			
Royalties from terminal	6,367	6,965	(8.6%)
Subscriptions and licenses	4,099	3,288	24.7%
Dairy data subscriptions	693	672	3.1%
Other	305	153	99.3%
Total Data & Insights revenue	**11,464**	**11,078**	**3.5%**
Strategic metrics			
Terminal numbers (12 month average)	7,379	7,407	(0.4%)
Number of licences	97	92	5.4%
Number of proprietary security products subscription	404	395	2.3%
Number of dairy data products subscription	774	584	32.5%

Chart/Table Source: NZX 2017 Results Presentation – 19 February 2018

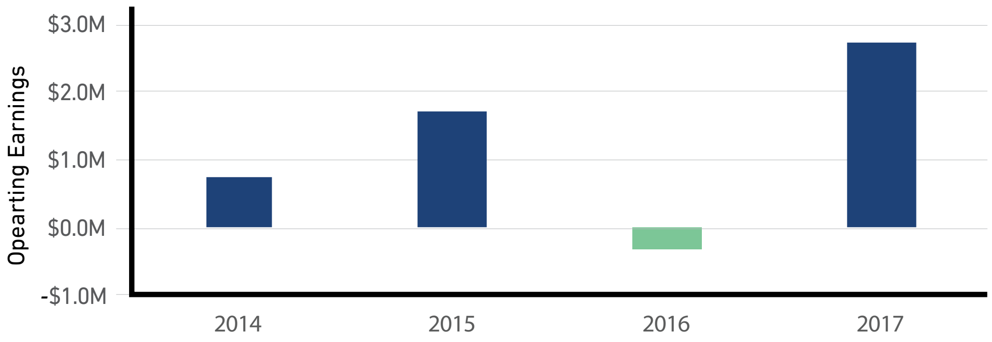
BUSINESS SEGMENT #2 – FUNDS SERVICES

- NZX is a provider of Superannuation, KiwiSaver and Exchange Traded Funds (ETF) and a funds administration platform:
  - SuperLife: A provider of Superannuation and KiwiSaver acquired in 2015 (FUM = NZ$2.0B))
  - Smartshares: An ETF fund manager with 23 ETF funds (FUM = NZ$2.1B, External FUM = NZ$700M)
  - NZX Wealth Technologies: Formerly Apteryx, a funds administration platform that was acquired in 2015 (FUA = NZ$1.1B).
- Management has placed the Funds Services segment in the "Maximising Options" category in their recent presentations, which suggests Management is open to different potential paths forward for this business segment.

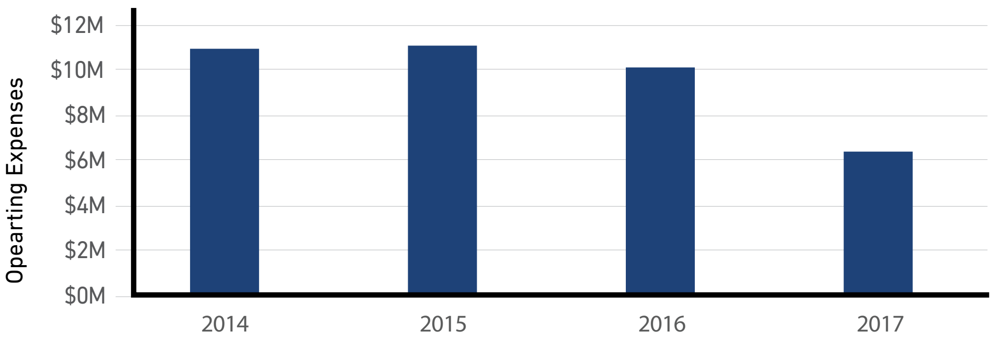
SEGMENT OPERATING REVENUE - FUNDS SERVICES*



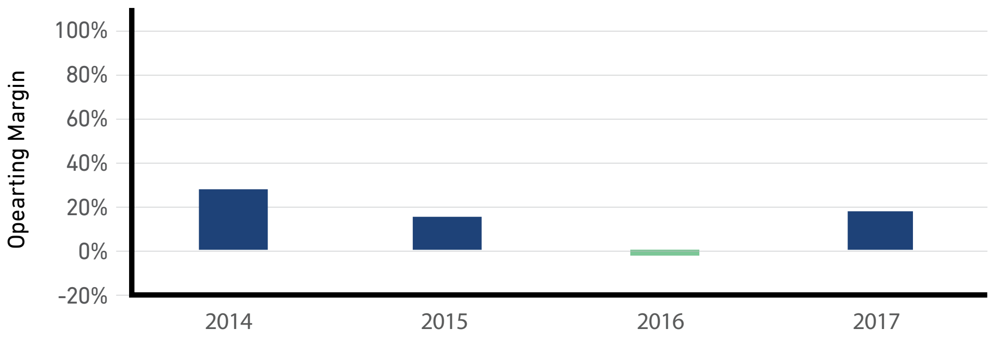
SEGMENT OPERATING EARNINGS - FUNDS SERVICES*



SEGMENT OPERATING EXPENSES - FUNDS SERVICES*



SEGMENT OPERATING MARGIN - FUNDS SERVICES*

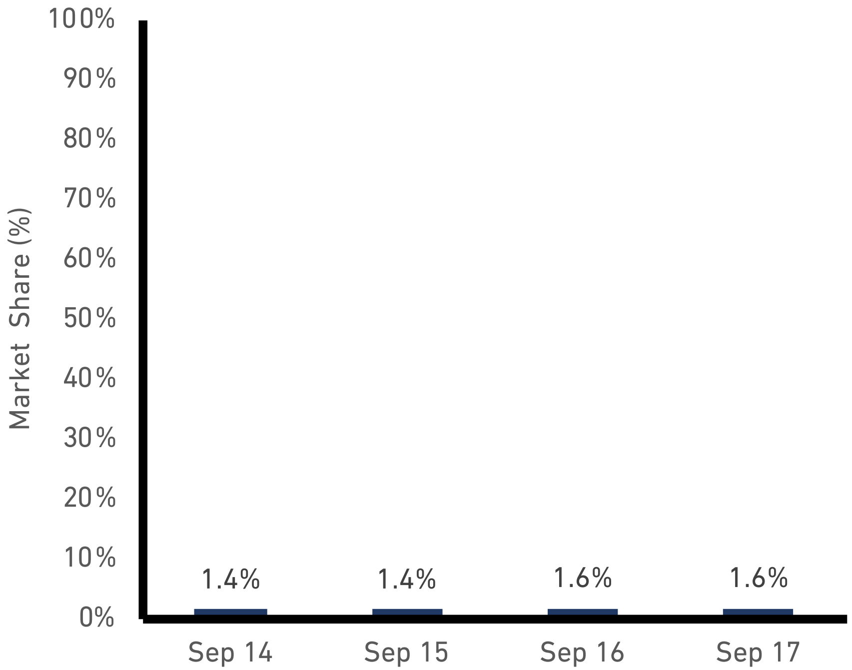


** Source: NZX Annual Reports*

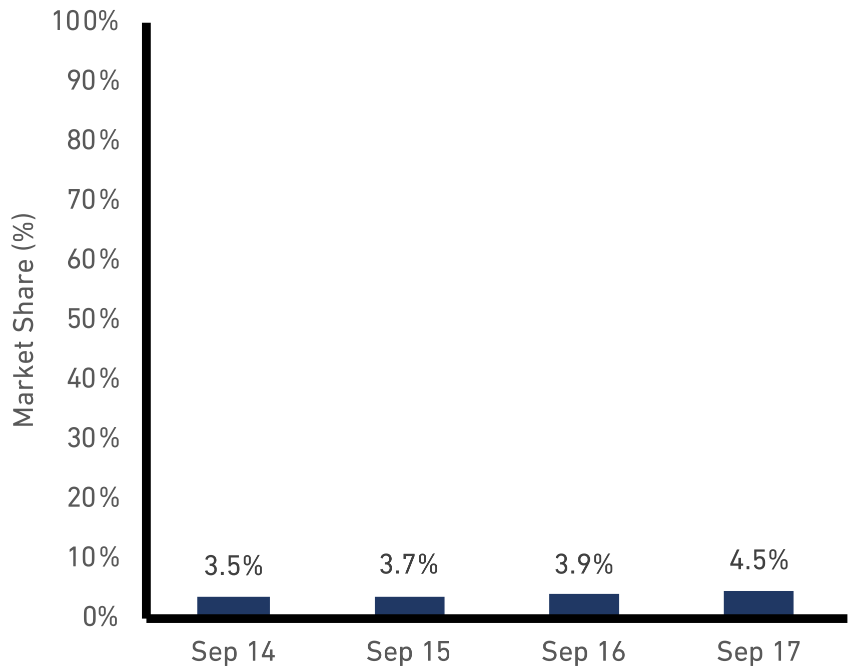
BUSINESS SEGMENT #2 – FUNDS SERVICES FUNDS MANAGEMENT – SUPERLIFE

- SuperLife is a provider of Superannuation and KiwiSaver that NZX acquired on 1 January 2015.
- Total consideration for the acquisition was NZ$35M (NZ$20M initial payment + NZ$15M earn out).
- In 2017, SuperLife generated NZ$7.8M of revenue, and with over 50,000 members, and ~NZ$2.0B external FUM.
- On the surface, SuperLife has been growing at a sound pace…
  - However, we believe a significant part of the FUM growth in recent years has come from positive market movements (For example: from Sept 2014 to Sept 2017, S&P/NZX50 Index was up 50.6%**);
  - Market share data suggests that SuperLife has been unable to compete effectively to gain significant market share while under NZX's ownership, especially in the fast growing KiwiSaver market;
  - It remains sub-scale in our opinion.

SUPERLIFE'S KIWISAVER MARKET SHARE (%)*



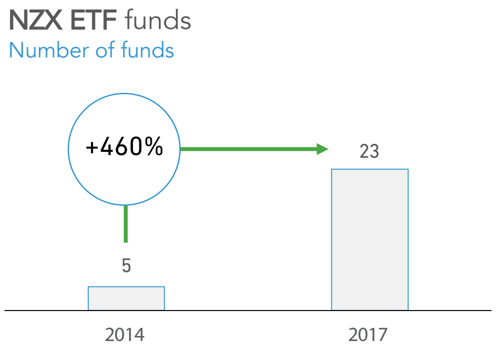
SUPERLIFE'S SUPERANNUATION MARKET SHARE (%)*

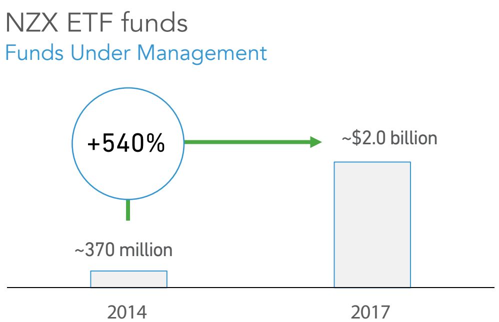


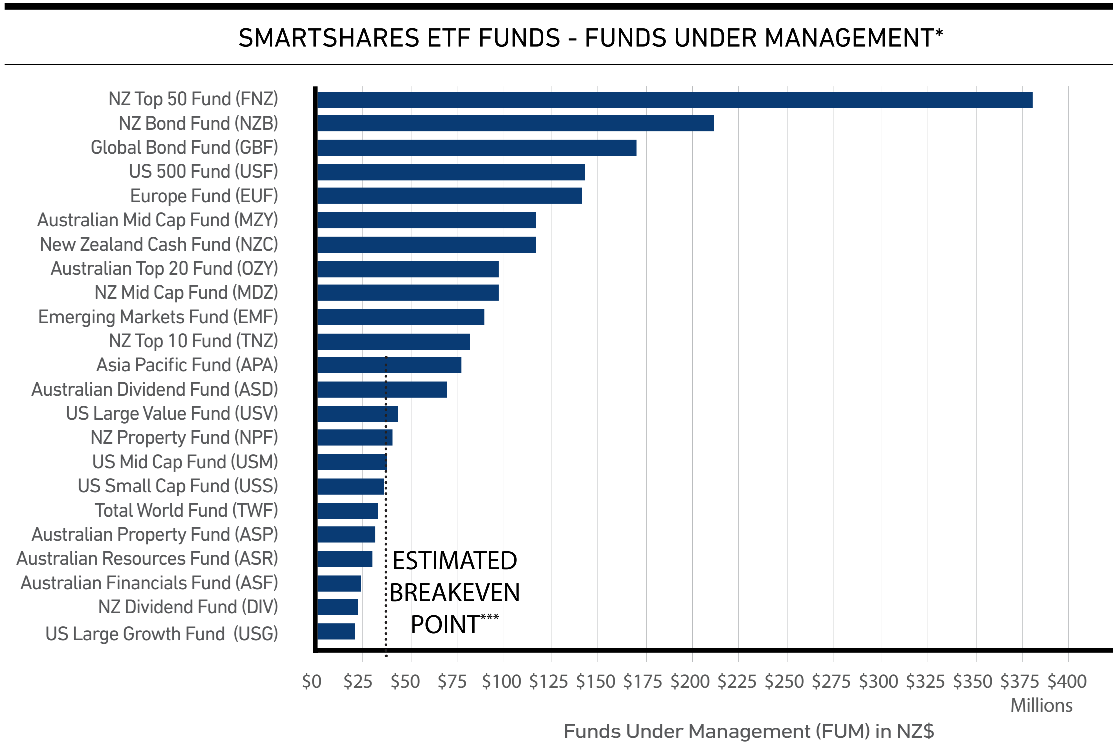
** Source: NZX 2017 Investor Day Presentation*
*** Source: Thomson Reuters Eikon*

BUSINESS SEGMENT #2 – FUNDS SERVICES FUNDS MANAGEMENT – SMARTSHARES

- Smartshares is NZX's ETF fund business, currently with 23 ETF funds*.
- The significant growth since 2014 has been the result of the acquisition of SuperLife.
- 67% of its NZ$2.1B FUM** is contributed by SuperLife members, with external FUM accounting for only 33% of FUM.
- Some of the smaller ETF Funds require further FUM growth to achieve minimum scale to attain profitability***.
- We are also concerned about the true picture of the performance of this business - e.g., *What are the annual external netflows since 2014? Also, we believe the management fees remain far too high relative to new domestic competitors and global index fund providers.*
- Our concern with this subscale business is the increasing pressure from domestic and global index fund providers, with some large players in the industry starting to offer zero management fee products (e.g., Fidelity).



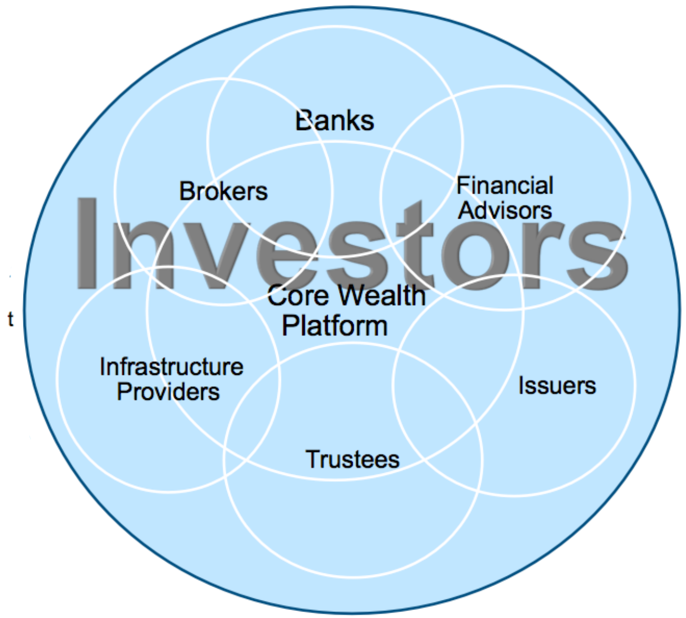




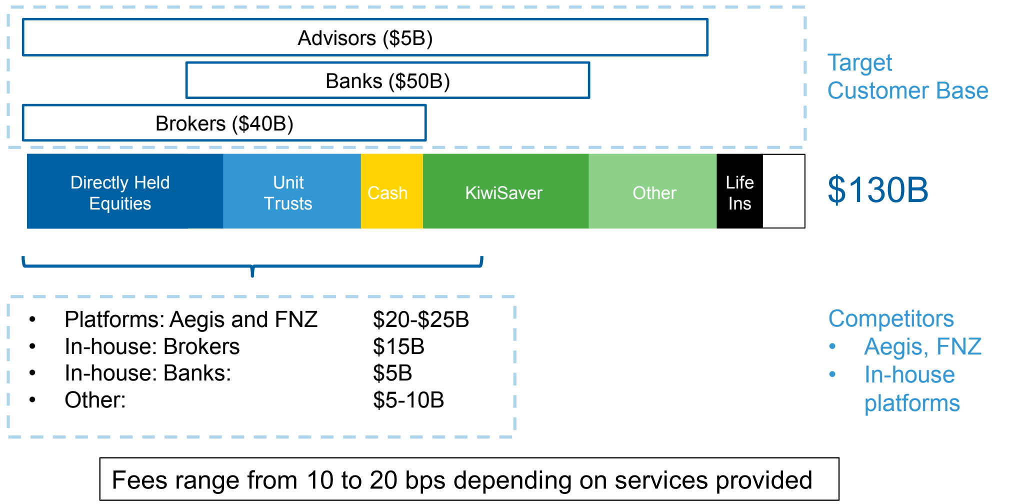
* *Source: NZX Website, as at 15 March 2018*
** *As at 31 December 2017*
*** *We estimate the breakeven FUM for the Smartshares ETF funds to be around NZ$30-35M, based on Management commentary and charts from NZX 2016 Investor Day Presentation*

BUSINESS SEGMENT #2 – FUNDS SERVICES NZX WEALTH TECHNOLOGIES

- NZX acquired Apteryx on 1 July 2015 for NZ$1.5M, and renamed it NZX Wealth Technologies (NZXWT).
- NZXWT is described as offering a fully integrated, flexible, and easy to use range of NZ-centric wealth management services that are accessible via the web.
- Management expects NZXWT to remain in investment phase (i.e., loss-making) in the short term, while suggesting that once the investment is completed, this business should have inherent operating leverage.
- Based on NZXWT's current external Funds Under Administration (FUA) of NZ$1.13B*, it has less than 1% market share of the NZ$130B wealth platform market in New Zealand**.



Source: NZX 2016 Investor Day Presentation



Source: NZX 2016 Investor Day Presentation

** As at 30 June 2018*
*** NZX 2016 Investor Day Presentation*

BUSINESS SEGMENT #2 – FUNDS SERVICES NZX WEALTH TECHNOLOGIES (CONTINUED)

NZXWT PLATFORM DEVELOPMENT TIMELINE:

5/8/2016	NZX announced it had signed up Craigs Investment Partners to use its NZXWT platform.
14/2/2017	NZX stated in its 2016 Annual Report that two major new clients (Craigs and Hobson Wealth) "*are expected to transition onto the platform in the first half of 2017, bringing approximately $2.5 billion in Funds Under Administration*".
16/11/2017	At its Investor Day, NZX stated that Hobson Wealth has paused its project with NZXWT.
19/2/2018	NZX stated in 2017 Annual Report that "*Despite the dedication of the team, progress on-boarding our first large customer to the platform has been delayed, however core platform development is expected to be completed in Q2 (2018) and to go live with that customer in Q3 (2018)*".
15/8/2018	NZX stated in 1H 2018 results presentation that "*Wealth Technologies core system development completed Q2. Customisation for a large client continues ahead of scheduled October go-live. Stage two development on track for 2019 completion. Future clients may require degree of customisation*".

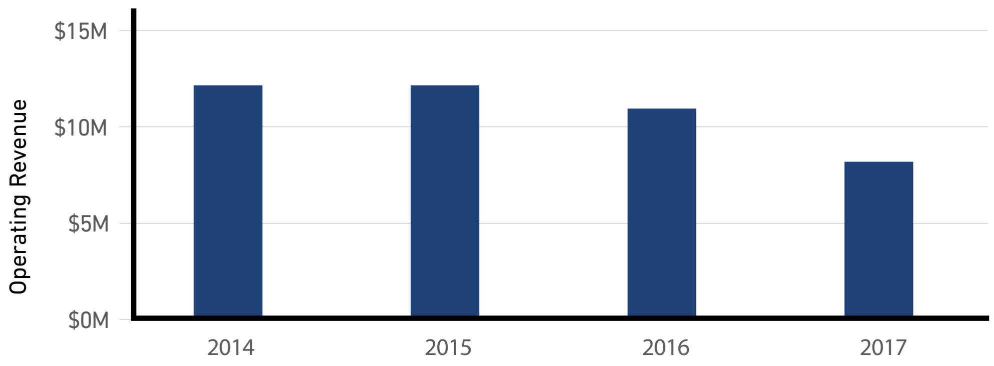
- When NZX purchased Apteryx in July 2015 for NZ$1.5M, the design of the earnout implies Management was sold that under NZX's ownership, and with its influence and management, Apteryx should be able to increase its FUA by 130% from NZ$1.32B to NZ$3B in 21 months (by 31 March 2017).
- Based on NZX's 1H 2018 results presentation, we estimate that NZX has so far spent a total of approximately NZ$6.8M capital expenditure on NZXWT since its acquisition in 2015. In the meanwhile, NZXWT has achieved a -14% decline in FUA since acquisition 36 months prior.
- Management has significantly underestimated the cost, time and problems NZXWT encountered in major software development projects.
- Unfortunately, with <1% market share, NZXWT remains a sub-scale business unit for NZX that is draining resources (financial & management) that could and should be deployed elsewhere.

* *Source: NZX Annual Reports*

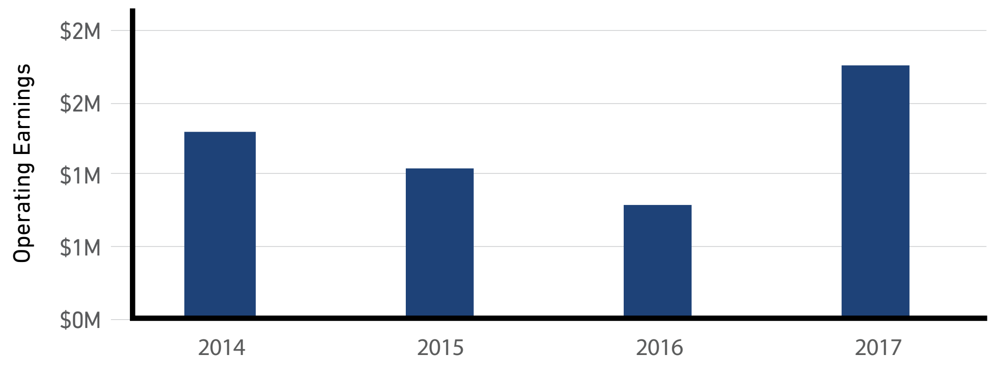
BUSINESS SEGMENT #3 – AGRI

- NZX is a provider of information, news, data and analysis relating to the agriculture sectors in New Zealand and Australia.
- NZX sold the rural newspaper (Farmers Weekly) business to GlobalHQ Limited, effective, 1 July 2018.
- NZX also announced the sale of its Australian grain data business to Rural Bank, with the sale effective 31 August 2018. NZX will incur a write down of intangible assets totalling $2.05M, and the sale of its final agri business (the red meat and forestry components of AgriHQ) which NZX will result in further impairment of goodwill and intangible assets totalling $0.8M.

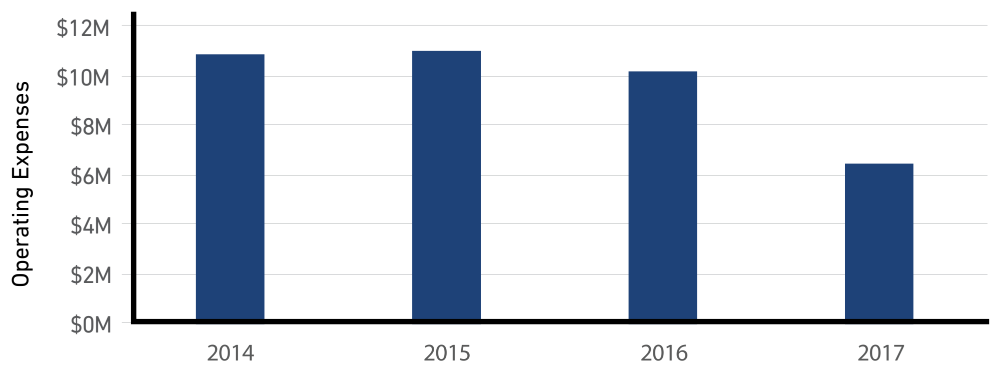
SEGMENT OPERATING REVENUE - AGRI*



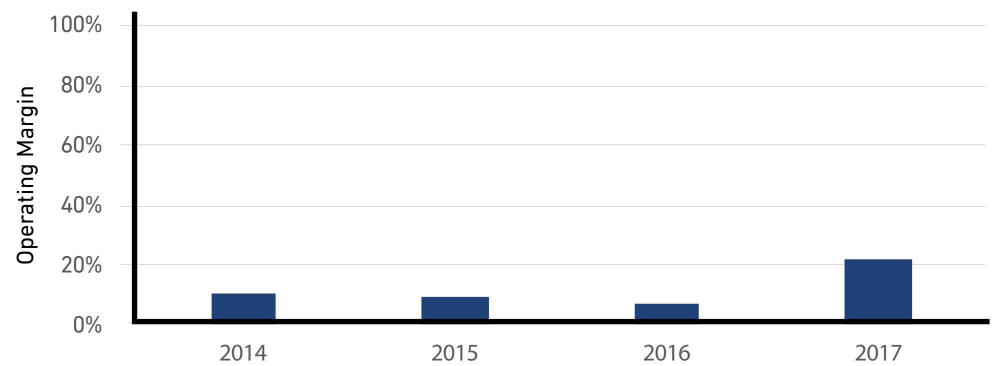
SEGMENT OPERATING EARNINGS - AGRI*



SEGMENT OPERATING EXPENSES - AGRI*



SEGMENT OPERATING MARGIN - AGRI*

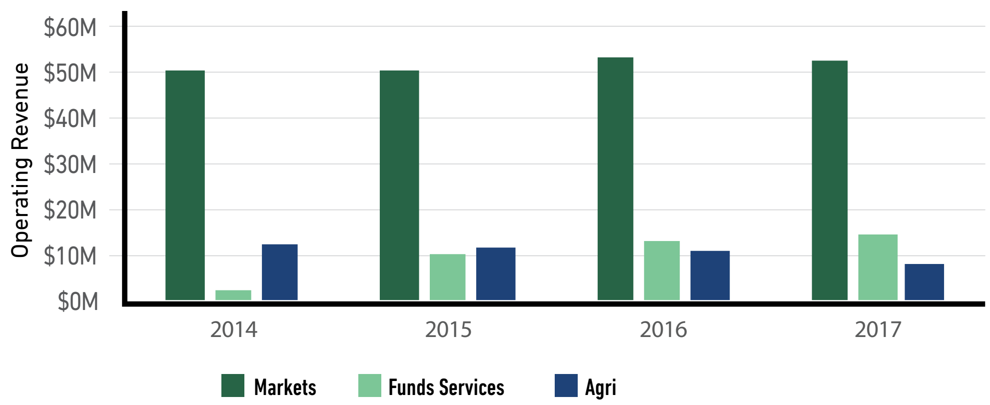


* *Source: NZX Annual Reports*

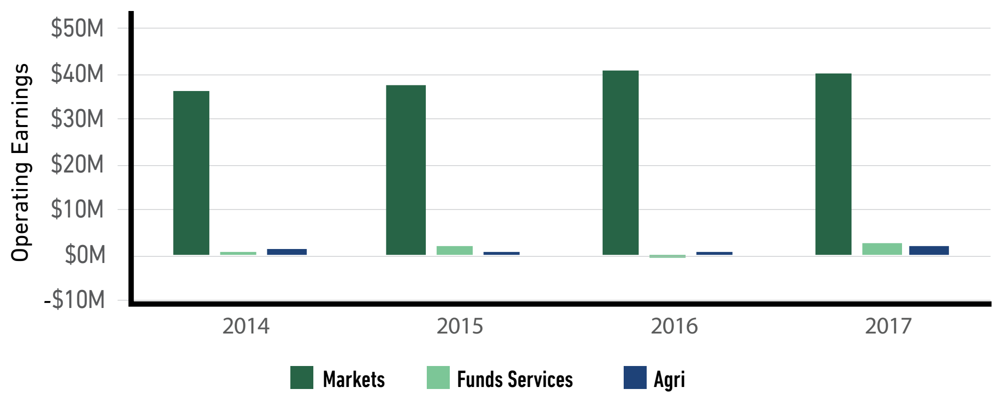
BUSINESS SEGMENTS – SUMMARY

- NZX core "markets" business is the "jewel in the crown". It generates ~90% of the operating earnings and has significant higher operating margins than the other two business segments.
- **Accordingly in our opinion, Management should focus on its Markets business and spin-off/partner and/or divest the other lower margin businesses that has required (and continues to require) significant investment (in terms of time and capital) to achieve scale.**

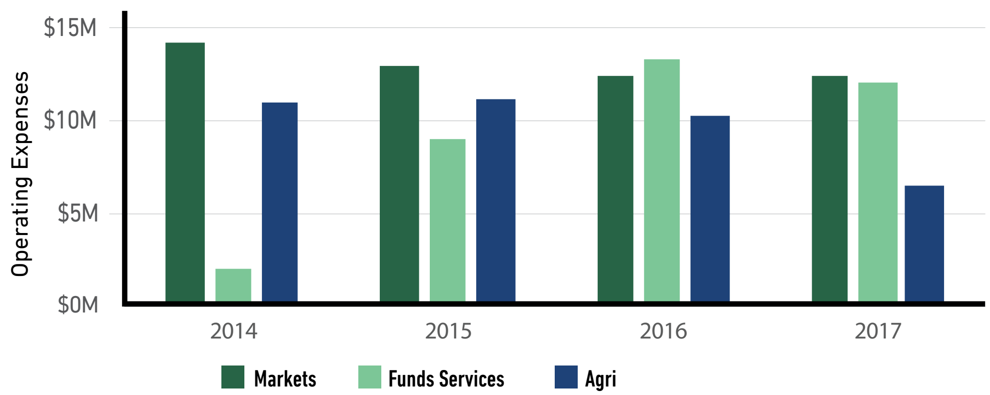
NZX SEGMENT OPERATING REVENUE



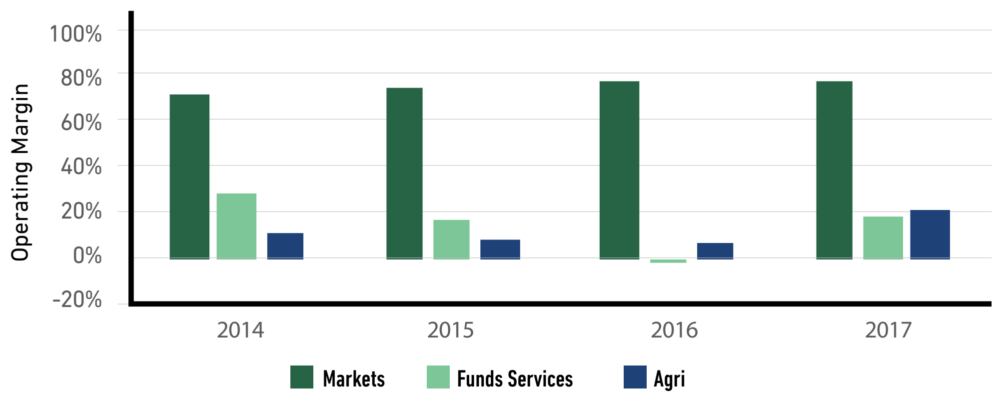
NZX SEGMENT OPERATING EARNINGS



NZX SEGMENT OPERATING EXPENSES



NZX SEGMENT OPERATING MARGINS



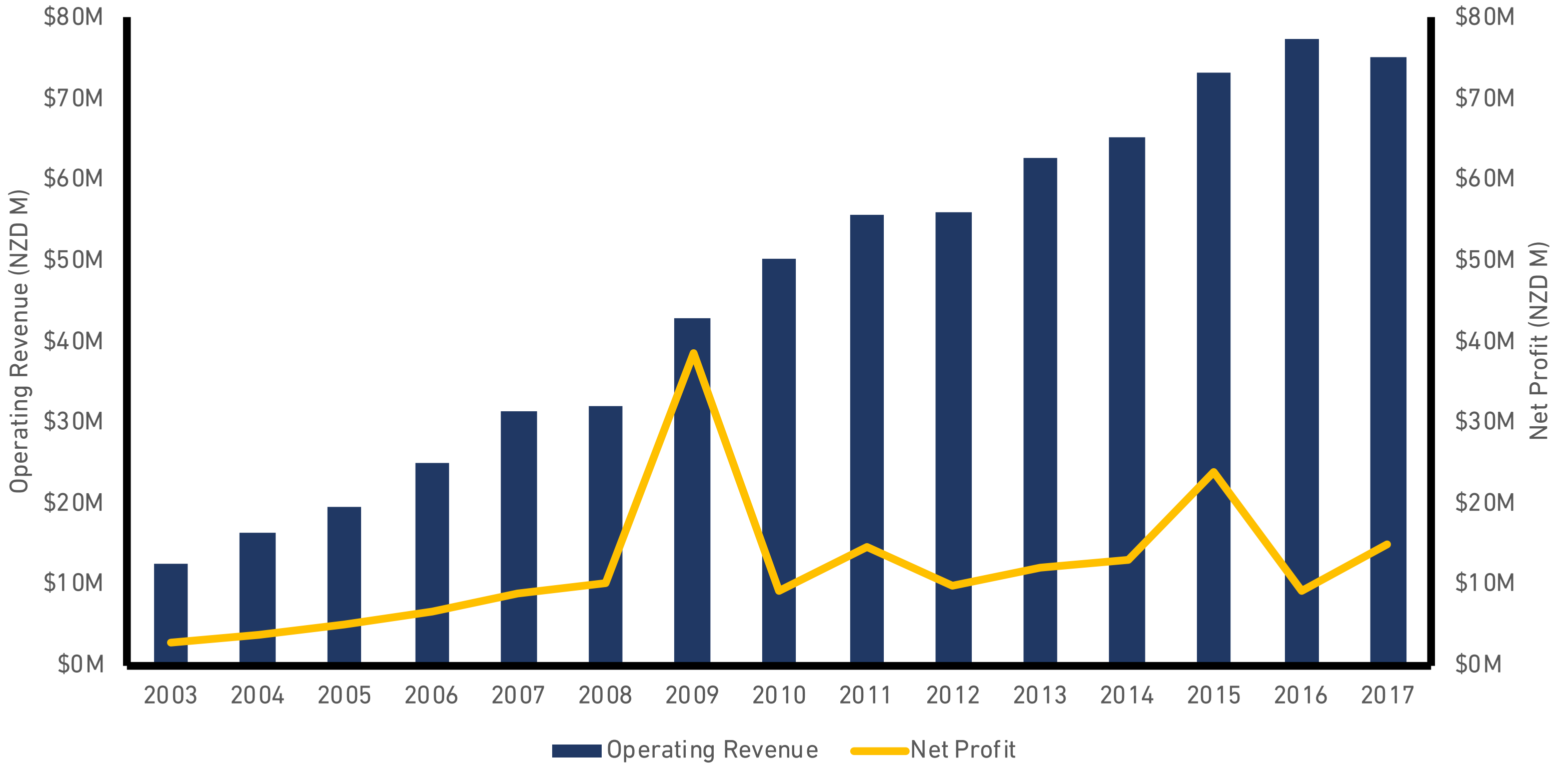
** Source: NZX Annual Reports*

FINANCIAL DATA, FINANCIAL STRUCTURE & DIVIDEND HISTORY

HISTORICAL REVENUE & NET PROFIT DATA

- Since 2003, NZX has grown its revenue at a compound rate of +13.6%, and its net profit at +15.8%.
- The growth rates slowed significantly from 2012 when Tim Bennett took over as CEO, with the annualised revenue & profit growth rates slowing to +5.2%, and +0.4% respectively.
- **We attribute the recent weakness in revenue growth to poor corporate strategy, compounded by weak execution that delayed revenue generation.**

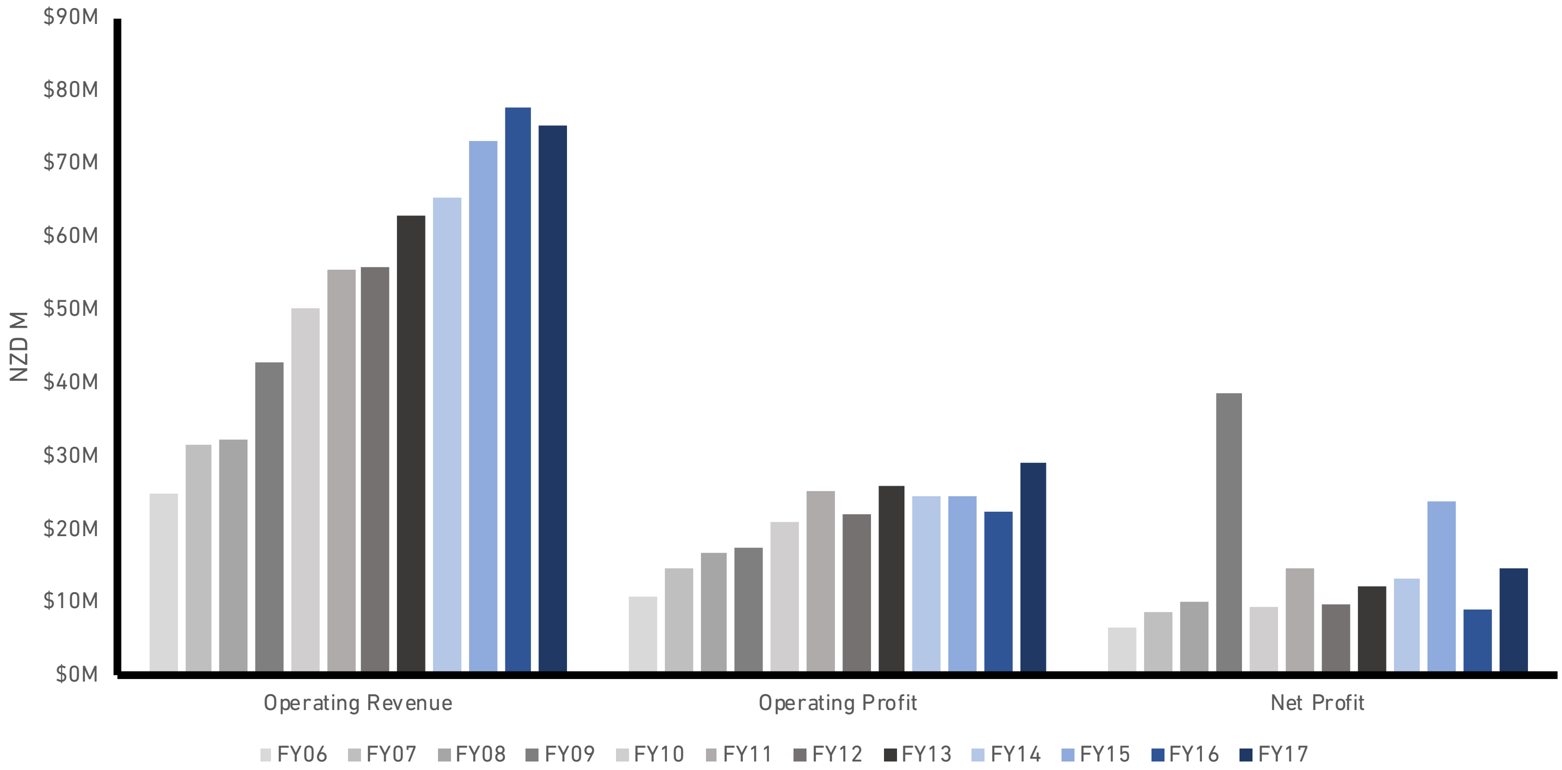
OPERATING REVENUE & NET PROFIT SINCE 2003



PROFIT WEAKNESS IN RECENT YEARS…

- The key issue on NZX shareholders' mind/s in recent years has been NZX's very weak profit growth amid the slowdown of revenue growth.
- The chart below illustrates the profit weakness, especially in operating profits starting from 2012, with an annualised growth rate of +2.3% only. A positive annualised growth rate was only achieved via a large improvement in 2017. Excluding 2017, the annualised growth was -2.25% from 2012 to 2016.
- **This was the direct result of a lack of cost discipline that compressed margins and stalled profit growth.**

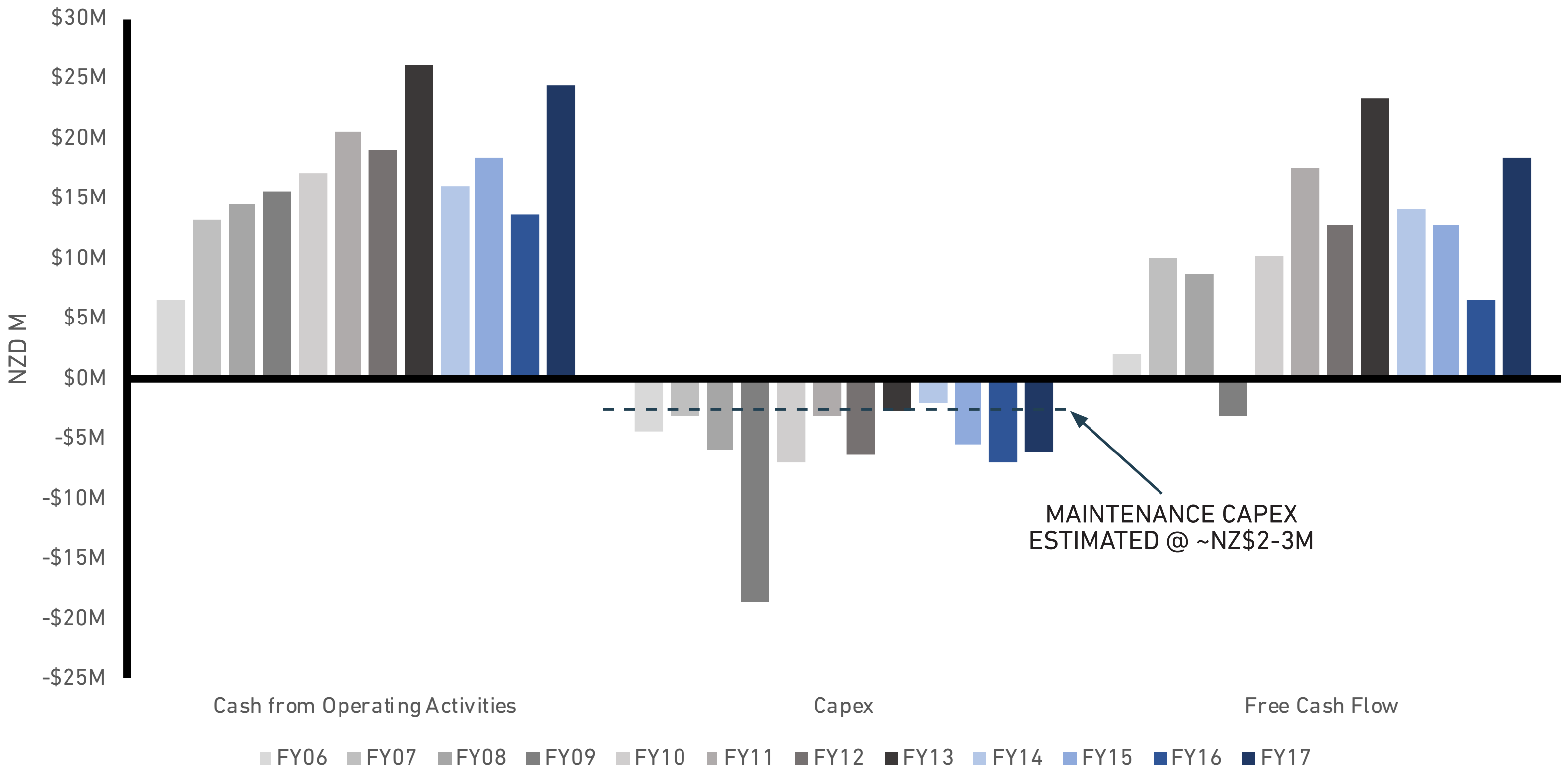
OPERATING REVENUE, OPERATING PROFIT & NET PROFIT SINCE 2006



CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- At its core, NZX owns a business that is able to generate strong Free Cash Flow (“FCF”).
- For the last five years, the Company only needed to invest on average 26% of its Cash from Operating Activities on Capex. Which means the Company has significant leeway to utilise Free Cash Flow generated to create value for shareholders.
- As NZX has a high payout dividend policy, most of the cash generated by the business each year has been returned to shareholders via dividends.
- To create additional value for shareholders, we suggest the Board should introduce a multi-year share buyback program to utilise market volatility to opportunisitically buy back shares from the market.

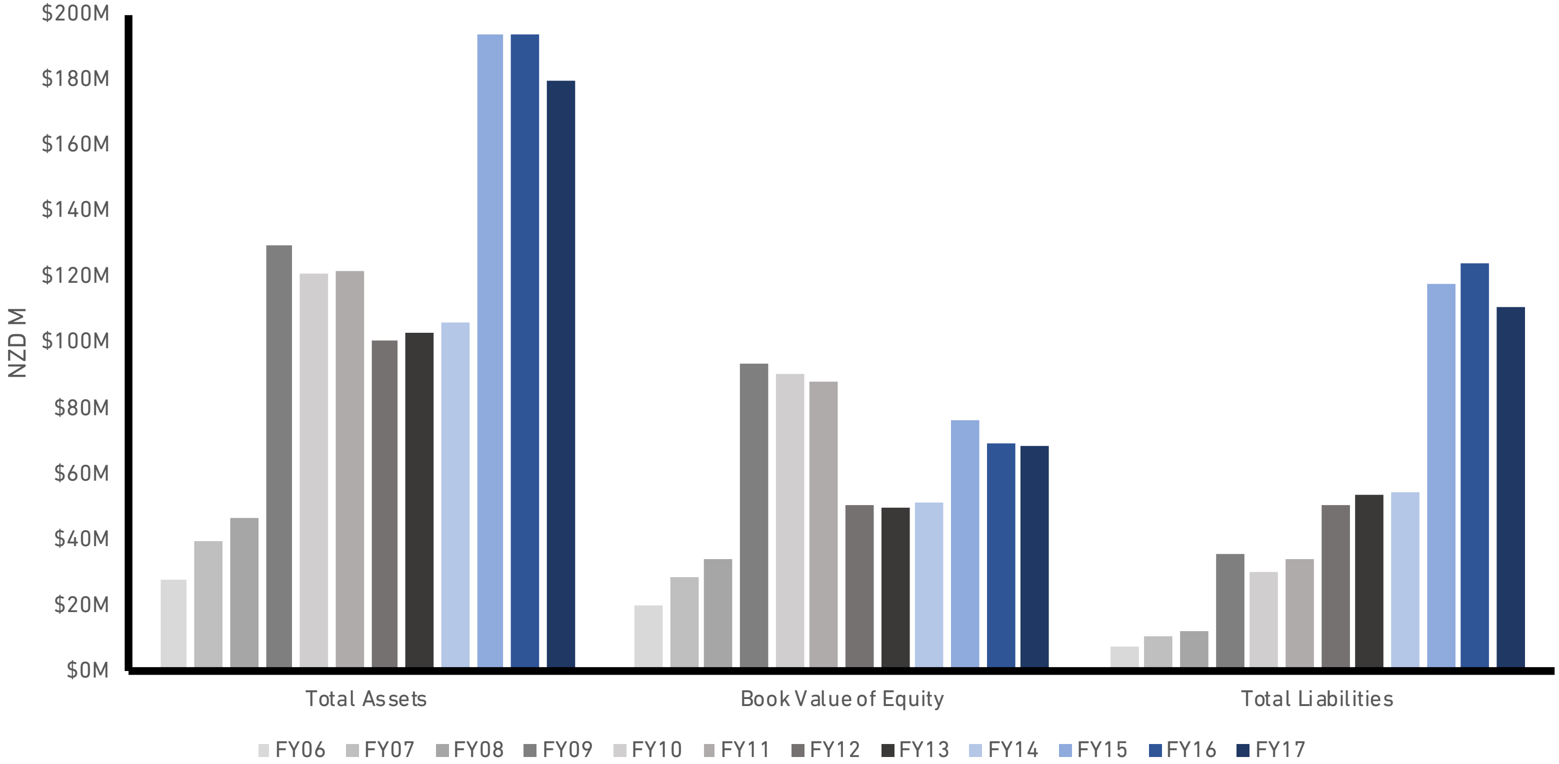
CASH FROM OPERATING ACTIVITIES, CAPEX AND FREE CASH FLOW SINCE 2006



BALANCE SHEET

- The chart below illustrates the effect of the SuperLife acquisition in 2015 on NZX's balance sheet.
- NZX added NZ$39M of goodwill and other intangible assets from the SuperLife acquisition.
- The Company also drew NZ$20M of term loans in 2015. NZ$10M was used to fund the acquisition of SuperLife, with the remaining $10.0 million deployed to the Clearing House.

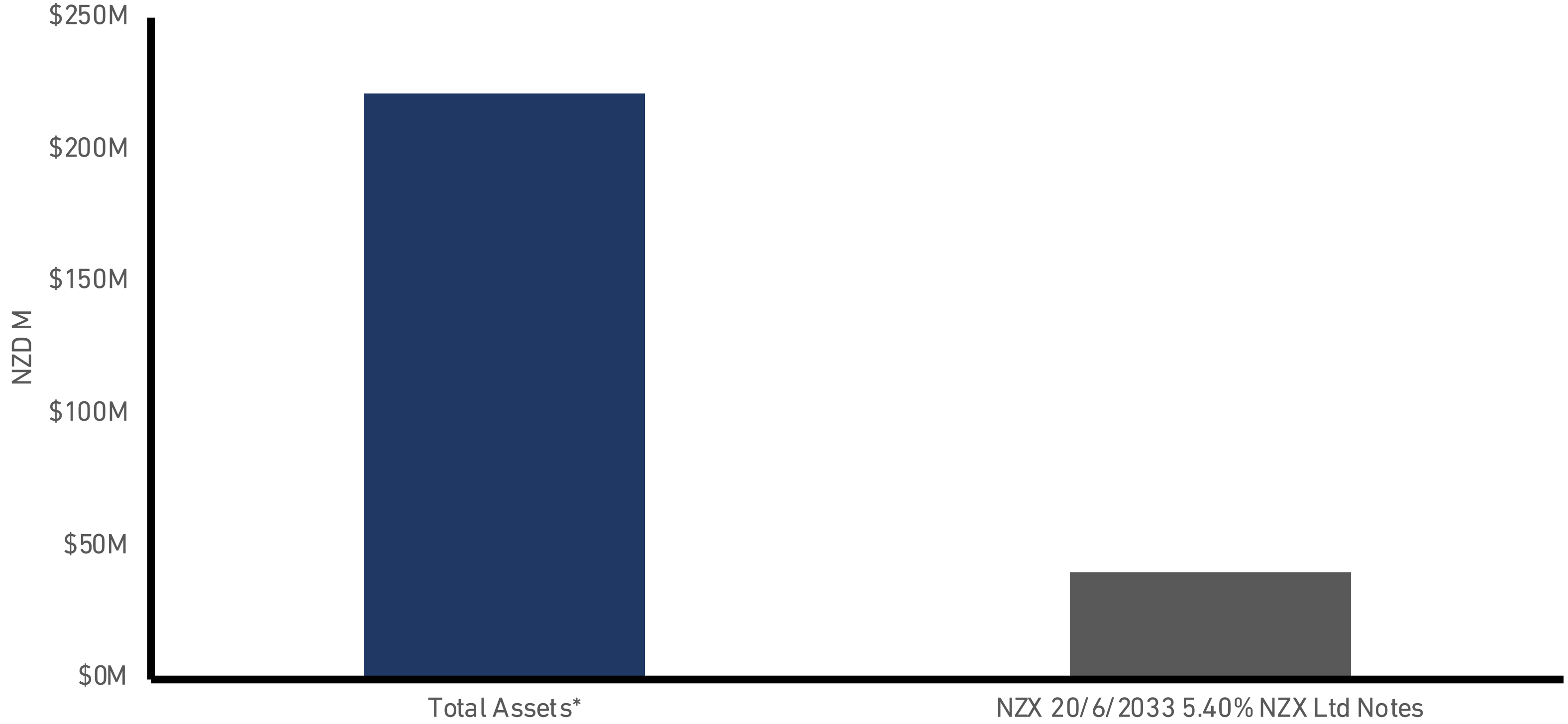
BOOK VALUE VS TOTAL LIABILITIES



TERM STRUCTURE OF DEBT

- On 15 May 2018, NZX announced an offer of up to NZ$40M of unsecured, subordinated 5.40% notes (Maturity Date: 20 June 2023). The proceeds of the offer will be utilised to repay existing debt, provide funding for general corporate purposes, and to diversify NZX's funding sources and extend the tenor of its borrowings.
- **We believe the issuance is a sound move by the Management/Board as it delivers improved terms by swapping senior bank loan with subordinated notes at a lower rate, longer duration and lighter covenants.**

NZX BORROWINGS vs TOTAL ASSETS*



* *As at 30 June 2018*

EQUITY OWNERSHIP

- # of Shares Outstanding = 269.0M* (Market Capitalisation = NZ$ 290M*)
- By law, NZX has a "control limit" of 10% of the voting rights.
- Elevation Capital currently holds approximately 6.2M** shares of NZX on behalf of clients and the Elevation Capital Value Fund - which equates to approx. 2.3% of outstanding shares.

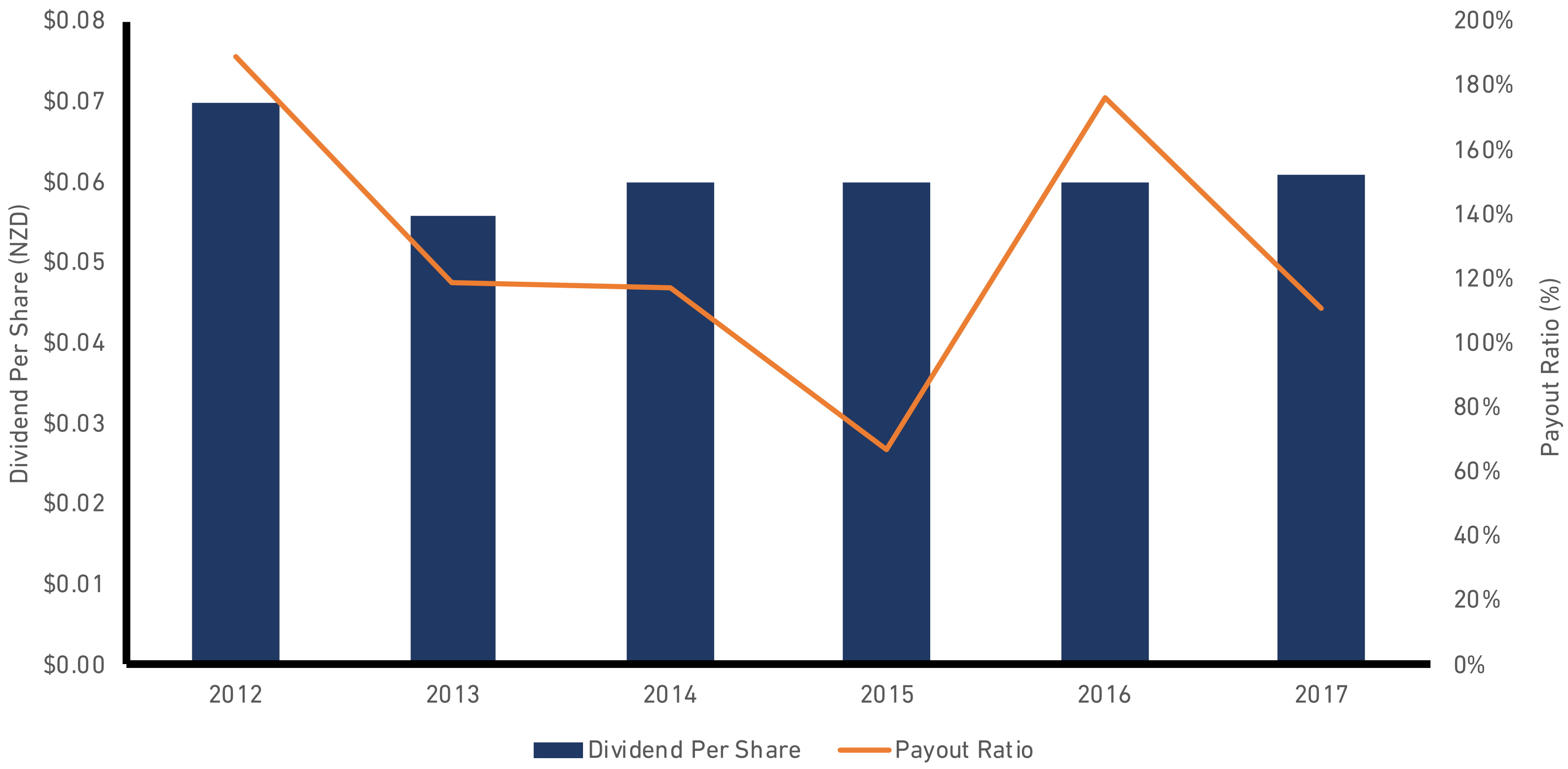
Top 10 Shareholders	%*
Highclere International Investors	6.02%
Aberdeen Asset Management (Asia)	5.44%
Accident Compensation Corporation (ACC)	4.84%
Rome Partnership	4.61%
ANZ New Zealand Investments	4.61%
Nigel Babbage	4.35%
Aberdeen Asset Management (Australia)	3.63%
Elevation Capital Management Limited on behalf of clients	**2.30%**
David Odlin	2.17%
New Zealand Permanent Trustees	1.46%
Total 10 Shareholders	**39.43%**

** 268,955,693 shares - Data Source: Thomson Reuters Eikon and Elevation Capital calculation as at 12 September 2018*
*** As at 12 September 2018*

DIVIDENDS

- Dividend growth has stalled since 2012 when the policy of built-in growth each year was removed, and the payout ratio has exceeded 100% in four of the last six years, which clearly limits the scope for growing dividends.

DIVIDEND PER SHARE & PAYOUT RATIO SINCE 2009



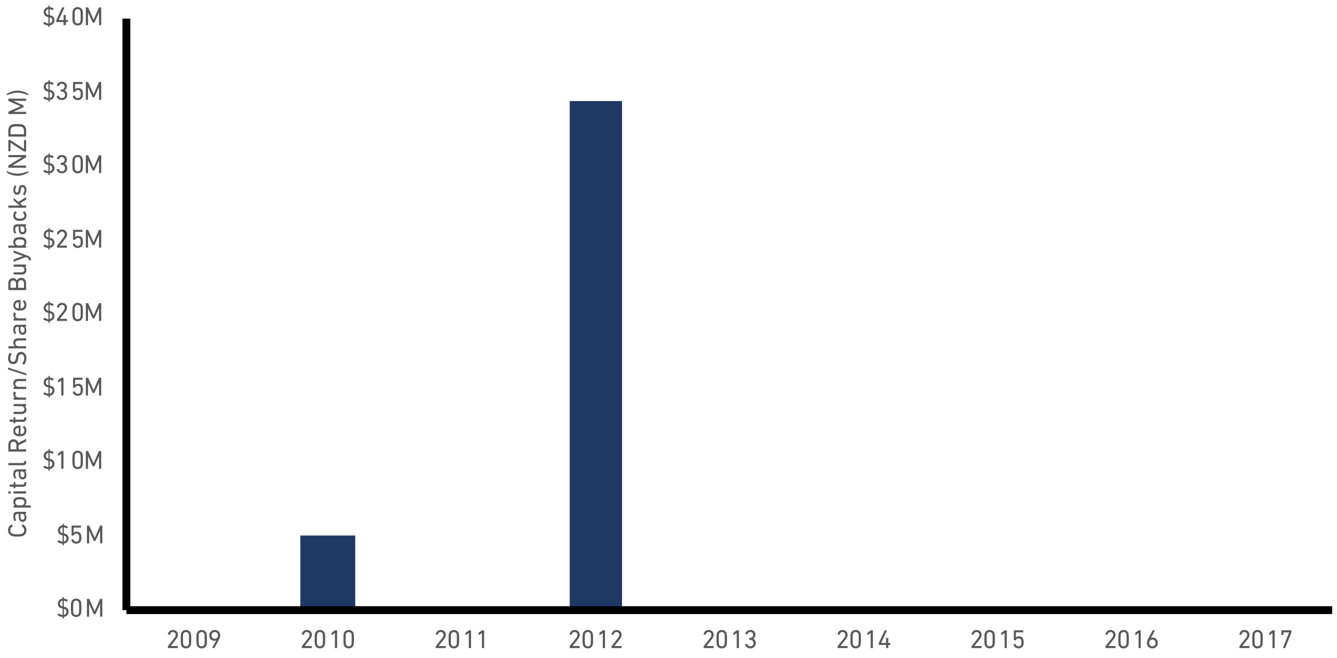
"The board has determined that it is appropriate to introduce a new dividend policy which will come into effect for the 2018 financial year onwards. The new policy is to pay between 80% to 110% of adjusted Net Profit After Tax, subject to maintaining a prudent level of capital to meet regulatory requirements. The board considers that a policy based on Net Profit After Tax is comparable with peers, and provides sufficient headroom to manage the ongoing capital structure requirements of the exchange, and pursue future relevant opportunities should they arise."

NZX 2017 Annual Report

CAPITAL RETURN HISTORY

- NZX has returned capital to shareholders via share buybacks twice since 2009.
- 2010: NZX Board approved an on-market buyback, where a total value of NZ$4.97M of shares were acquired and cancelled.
- 2011: NZX Board approved a 10% pro-rata compulsory share cancellation, which in 2012 was executed and NZ$34.4M were returned to shareholders, representing ~10% of NZX's market capitalisation at the time.
- Note both of these capital returns were undertaken when Mark Weldon was CEO. We believe current management need to emulate the past and companies like Travelers Companies Inc (refer page 68) by simplifying NZX to once again be in the position to utilise share buybacks/cancellation to create value and return capital to shareholders.

NZX CAPITAL RETURN/SHARE BUYBACK HISTORY



"NZX is now in the fortunate position of having both strong growth prospects from our current business portfolio, some confirmed business extensions to that portfolio adding to that strength (including the forthcoming listing of some state owned enterprises), and having structured the business to generate very strong free cash flow. In recognition of this, your Board has resolved to return to shareholders, on a pro rata basis, surplus capital of between $32.5 million and $35 million and to cancel, in the process, one in every ten shares held."

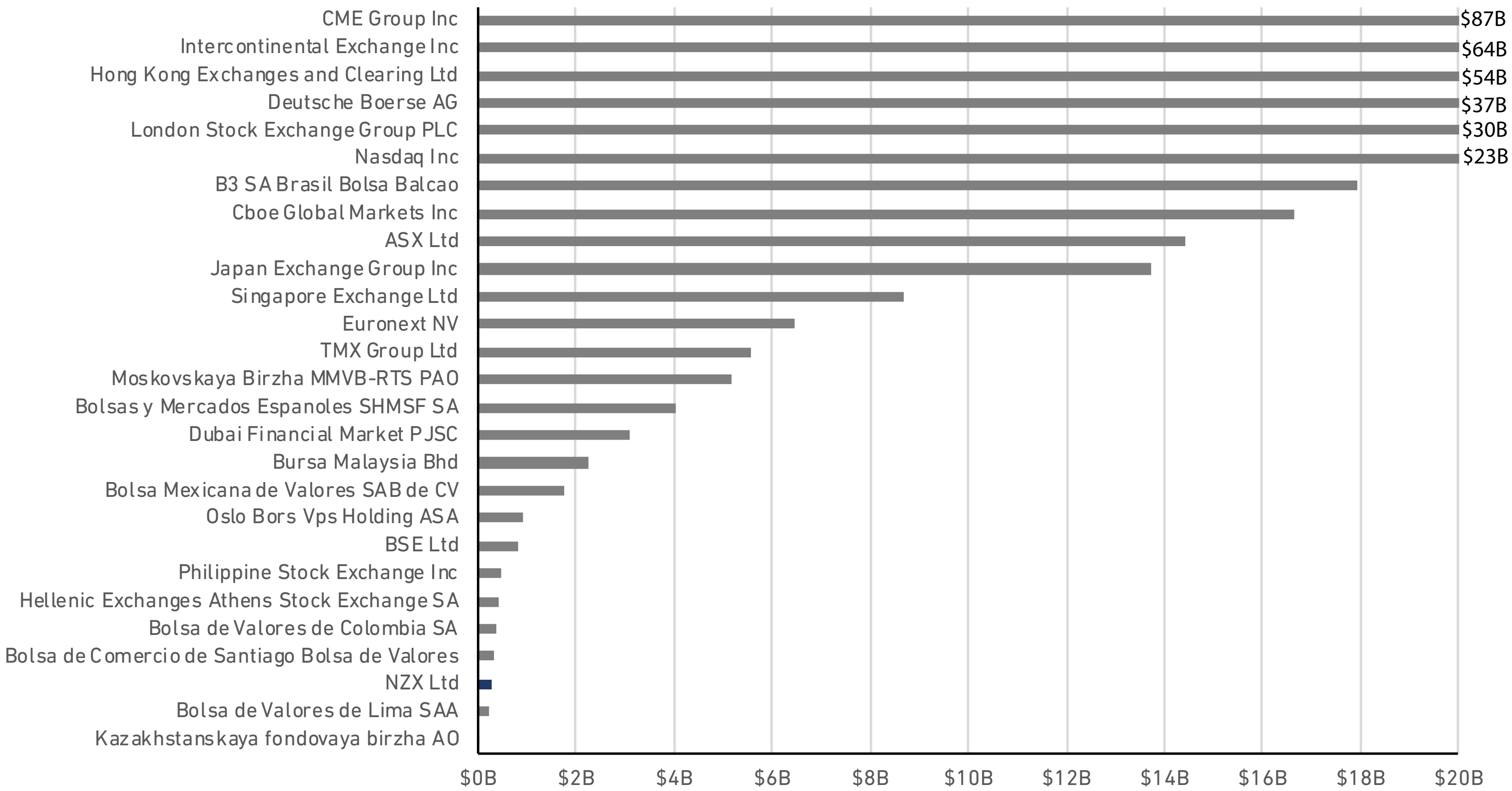
NZX 2011 Annual Report

NZX VS. GLOBAL EXCHANGES

MARKET CAPITALISATION

- NZX is one of the smallest listed stock exchange operators - Market Capitalisation = NZ$290M (as at 12 September 2018).

MARKET CAPITALISATION (NZ$ BILLION)

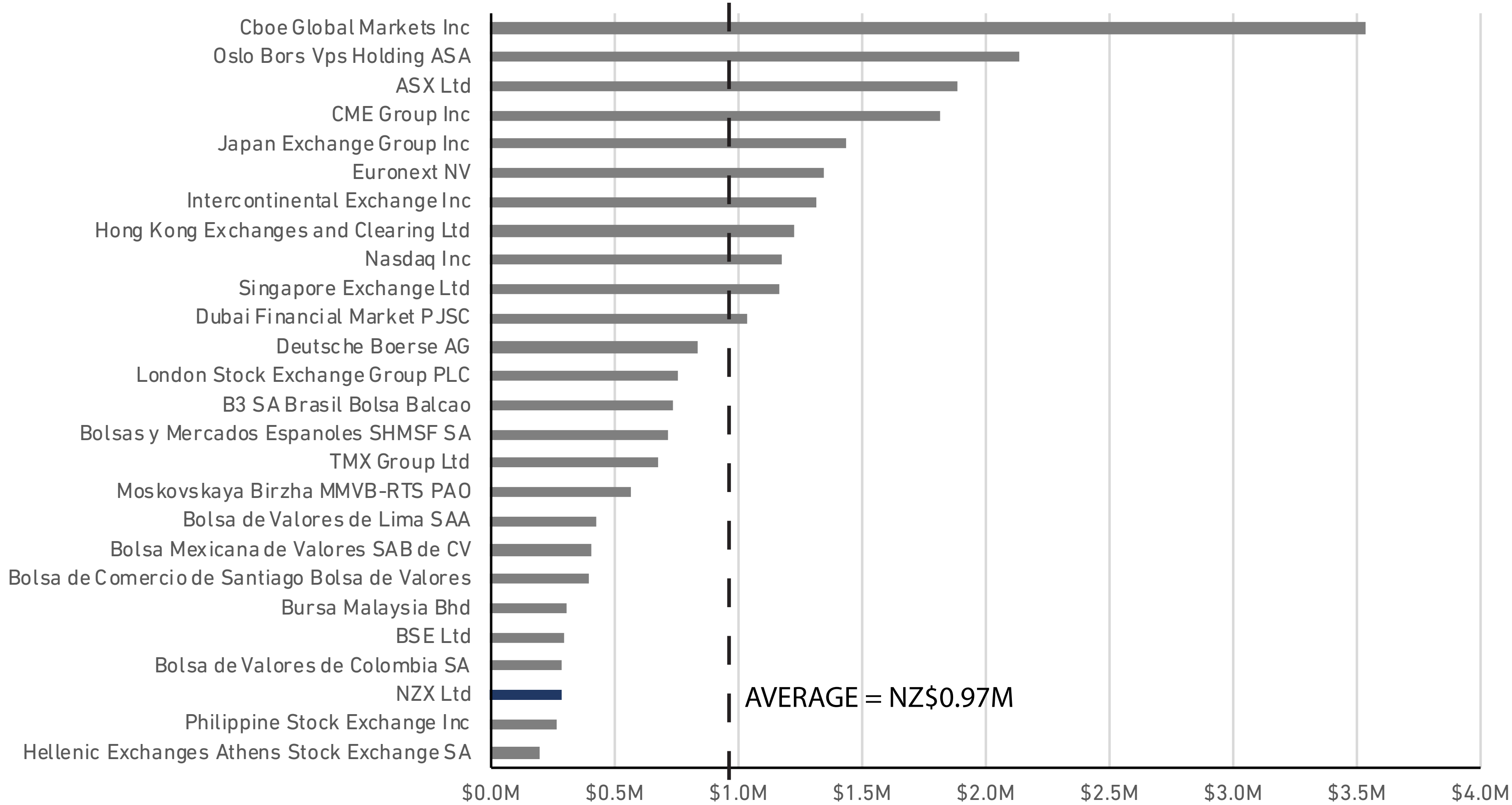


** Data Source: Thomson Reuters Eikon as at 12 September 2018*

EMPLOYEE PRODUCTIVITY

- Based on last Fiscal Year Revenues, NZX is amongst those exchanges with low employee productivity measured by Revenue per Employee.
- We acknowledge Management's effort in 2018 to divest non-core businesses which have resulted in the transition of 41 staff.
- **We believe NZX can become "best-in-class" amongst the regional exchanges in terms of employee productivity if it spun-off its non-core funds services business.**

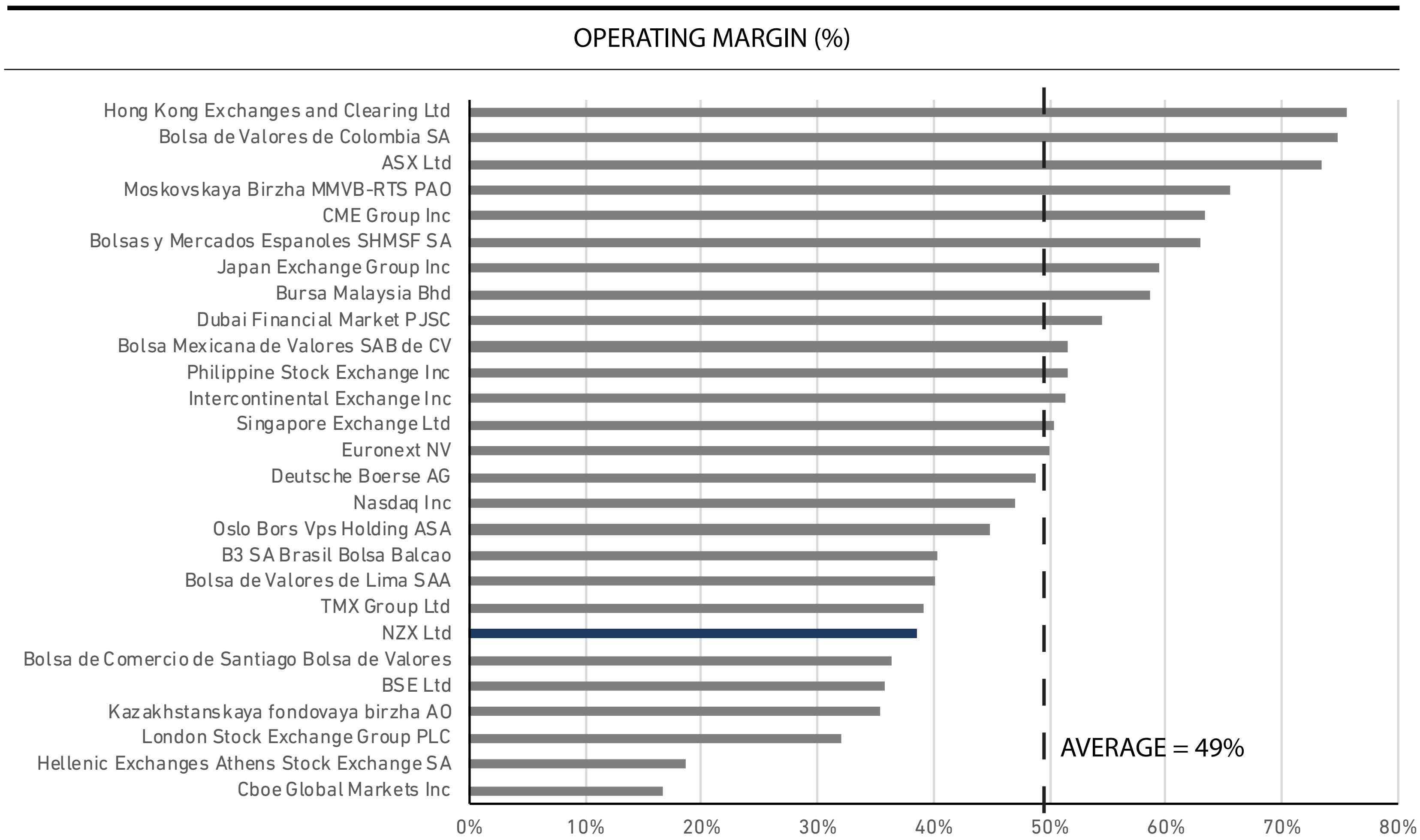
TOTAL REVENUE / # OF EMPLOYEES (NZ$ M)



* *Data Source: Thomson Reuters Eikon as at 12 September 2018*

MARGINS

- Based on last Fiscal Year data, NZX has a below-average operating margin when compared to its international peer group.
- **NZX can achieve +50% operating margin if NZX spun-off its non-core funds services business and focused solely on its core markets business.**

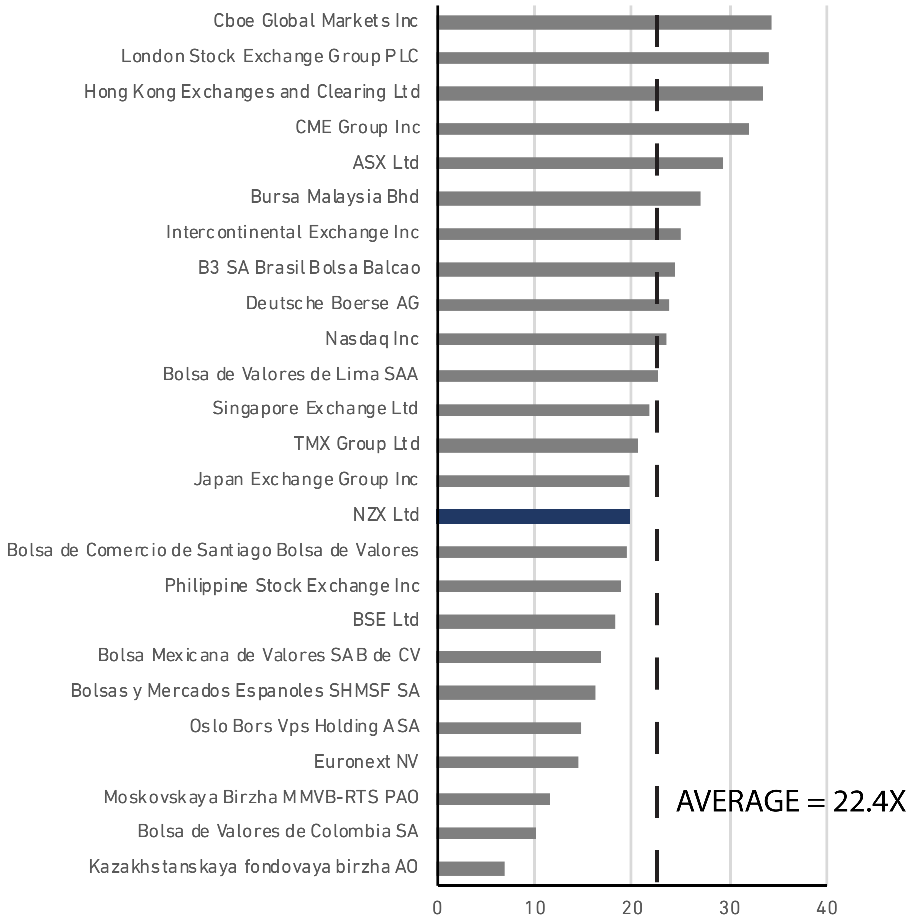


** Data Source: Thomson Reuters Eikon as at 12 September 2018*

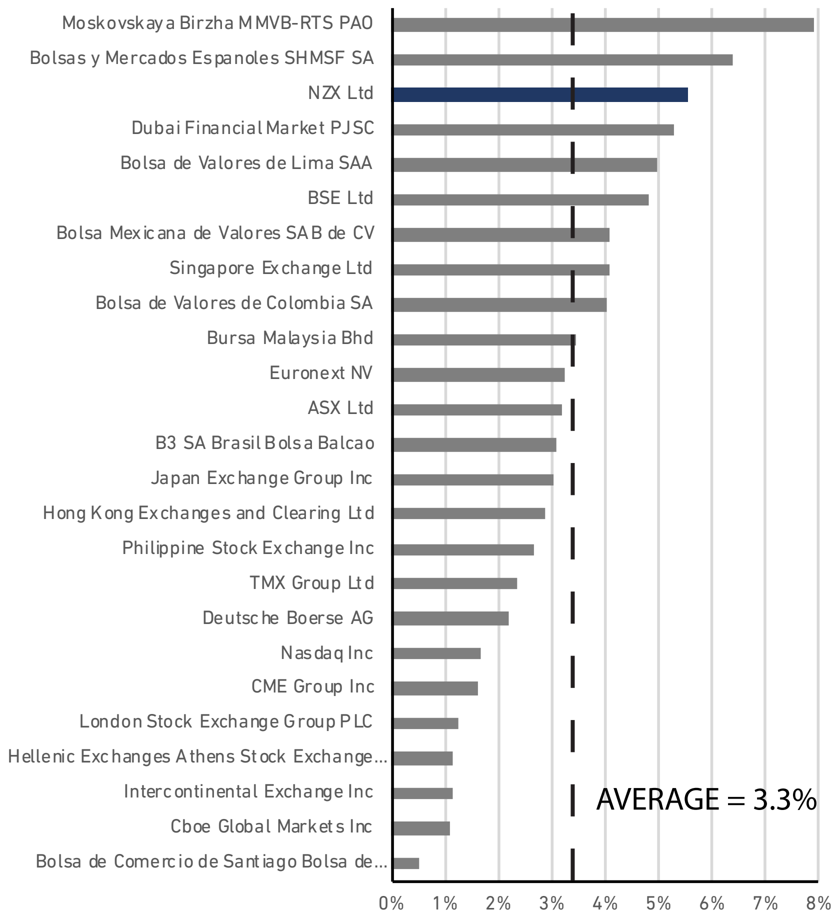
VALUATION AND DIVIDEND YIELD

- NZX is currently trading at a 19.6x P/E (TTM) valuation, with a gross dividend yield of 5.6% (excluding special dividends)*.
- **NZX's relative high dividend yield and below average P/E ratio vs its exchange peers illustrates the market's pessimism towards NZX's near-term prospect vs its peers and the market.**

PRICE TO EARNINGS (TTM) RATIO*



DIVIDEND YIELD (%)*



* *Data Source: Thomson Reuters Eikon as at 12 September 2018*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RATING

- As a regulator and issuer of guidance notes to its issuers, we are disappointed by NZX's own ESG rating as calculated by Thomson Reuters.
- We were surprised that NZX is willing to issue an ESG Guidance Note without attaching its own ESG report to set an example for other issuers. As noted in the table below, NZX has one of the lowest ESG scores** amongst a selection of listed global exchanges at present with a rating of C+ as at 31 August 2018 on Thomson Reuters Eikon (refer Appendix 4).

Environmental, Social and Governance Guidance Note (ESG Guidance Note)

NZX has published a guidance note relating to environmental, social and governance (ESG) reporting designed to accompany the NZX Corporate Governance Code (the Code). This guidance note provides a resource to NZX issuers to understand the benefits of ESG reporting, provide information about global frameworks, and support the effective communication of ESG opportunities and risks to investors and other stakeholders. The guidance note also includes information on green bonds and can be read here.

Selected Global/International Exchanges	ESG Rating*
Deutsche Boerse AG	A-
Singapore Exchange Ltd	B+
Hong Kong Exchanges and Clearing Ltd	B+
Intercontinental Exchange Inc	B+
ASX Ltd	B+
London Stock Exchange Group PLC	B
Euronext NV	B
Bolsas y Mercados Espanoles SHMSF SA	B
CME Group Inc	B
Nasdaq Inc	B
Dubai Financial Market PJSC	B
Japan Exchange Group Inc	B
Bursa Malaysia Bhd	B-
CBOE Global Markets Inc	C+
NZX Ltd	**C+**
TMX Group Ltd	C
Average:	**B**

** Data source: Thomson Reuters*
*** https://s3-ap-southeast-2.amazonaws.com/nzx-prod-c84t3un4/comfy/cms/files/files/000/002/940/original/Amended_NZX_ESG_Guidance_Note_-_11_December_2017_%28final_for_publication%29.pdf*

BOARD, MANAGEMENT, COMPANY CULTURE & EMPLOYEE EFFICIENCY

BOARD OF DIRECTORS

NAME	BIO
James Miller (Chairman of the Board)	James was appointed a director in August 2010 and NZX's Chair in May 2015. He spent 14 years working in the share-broking industry, with Craigs Investment Partners, ABN AMRO, Barclays de Zoete Wedd and ANZ Securities. He is a qualified chartered accountant and is a Fellow of the New Zealand Institute of Chartered Accountants, a Certified Securities Analyst Professional, a member of the Institute of Directors in New Zealand, and is a graduate of the Advanced Management Program at Harvard Business School in the United States of America.James is a director of the Accident Compensation Corporation, Auckland International Airport and Mercury NZ. He was an inaugural director of the Financial Markets Authority, and previously a member of the ABN AMRO Securities, INFINZ and Financial Reporting Standards Boards.
Jon MacDonald	Jon was appointed as a director in May 2013. Jon is CEO of NZX/ASX listed Trade Me Group and has an extensive background in engineering and technology. He joined Trade Me in 2003 and was appointed CEO in 2008. Under Jon's stewardship over the last 10 years, Trade Me has grown from revenues of $80 million to $235 million, and now has a market capitalisation of approximately $2 billion. Prior to joining Trade Me, Jon worked in London for HSBC Investment Bank in a variety of technical and management positions, and has worked for Deloitte Consulting with a focus on telecommunications and financial services. He is a Trustee of NZ Technology Training Charitable Trust, which runs the Summer of Tech programme. Jon is a Chartered Member of the Institute of Directors.
Lindsay Wright	Lindsay was appointed as a director in February 2018. She has more than 30 years' financial services and fund management experience locally and globally. Lindsay is currently Head of Distribution and Co-Head of APAC at BNY Mellon Investment Management, one of the world's largest financial services companies, and prior to this, was Regional Head Institutional, Alternatives and Investment Solutions Business, Asia Pacific with Invesco Hong Kong Limited, CEO of Harvest Alternatives Investment Group, and Co-CEO of Harvest Capital Management Limited. Lindsay started her career with the Bankers Trust (now Deutsche New Zealand) where she became CFO/CIO before moving to Deutsche Asset Management. Lindsay is Deputy Chair of the board of the Guardians of the New Zealand Superannuation Fund.
Dr. Patrick Strange (retiring at 2019 NZX AGM)	Dr Patrick was appointed as a director in May 2015. Patrick has spent 30 years working as a senior executive and director in both private and listed companies, particularly in the energy sector, including more than six years as Chief Executive of Transpower, where he oversaw $3.8 billion of essential investment in the National Grid. Previously, he had also been Chief Executive of Vector. Patrick holds a doctorate in civil engineering from the University of Auckland, and worked in senior roles in Europe and the USA before returning to New Zealand. Patrick is Chair of Chorus, a director of Mercury NZ, Auckland International Airport and Essential Energy in Australia.
Richard Bodman	Richard was appointed as a director in April 2017. Richard has spent more than 25 years working in the financial services sector, including 17 years at FNZC (previously First NZ Capital) where he held several executive roles, such as Managing Director, Head of Compliance. Prior to this Richard spent seven years as an inspector for the Securities & Futures Authority in London. Richard is an independent director of Forsyth Barr Custodians Limited and Forsyth Barr Cash Management Nominees Limited, and a member of the GRC (Governance Risk Compliance) Institute and the Institute of Directors. He is a trustee of the Scots College Foundation. Richard has been a director of FNZC Securities and a NZX registered Compliance Manager.
Frank Aldridge	Frank was appointed as a director in May 2017. Frank has an extensive understanding of New Zealand's capital markets having spent more than 20 years working for Craigs Investments Partners where he is now Managing Director. He is currently Chair of Australian-based Wilsons Advisory and Stockbroking, former member and Chair of New Zealand Securities Association, and sits on several of Craigs Investment Partners' subsidiary Boards. Frank is an accredited NZX Advisor, Authorised Financial Adviser (AFA), and a Chartered Member of the Institute of Directors.
Nigel Babbage	Nigel was appointed as a director in December 2017. Nigel has spent more than 30 years' working in financial and capital markets locally and globally, and brings to NZX extensive clearing and derivatives experience. Nigel previously held executive roles with British Petroleum (now BP) and Citibank, managing the New York currency derivatives desk, and worked for BNP Paribas, where he took on the joint role of Global Head of Currency Derivatives Trading and Head of North American Foreign Exchange. He served on the Foreign Exchange Committee of the Federal Reserve Bank of New York for three years. Nigel is currently CEO of Christchurch-based investment company Mohua Investments Limited.

Source: https://www.nzx.com/about-nzx/organization-structure/overview/board-of-directors

THE BOARD IS TOO LARGE AND COMPOSITION IS WRONG

- We believe that for a company with a market capitalisation of < NZ$300M, a board of seven directors is too large for what we believe should be a focused and efficient company. The board of the NZX should reduce its size to send a clear signal from the top.

NZX

MARKET CAPITALISATION = NZ$290M*
OF DIRECTORS = 7

ASX

MARKET CAPITALISATION = A$12.50B* (47.1X THE SIZE OF NZX)
OF DIRECTORS = 9 (1.3X THE SIZE OF NZX)

- At the same time, we believe the composition of the Board should also be reconsidered.
- We concur with Mr. Brian Gaynor's comments on the biases that exist in the NZX Boardroom:

"One of my criticisms of the stock exchange is it hasn't had any fund managers or anybody on the other side being represented on the board. So it's been dominated throughout my time, which is 40 years in the market, by the brokers… The interest of the client, which is the general public investing in the market, has been secondary to the interests of the brokers."

*Brian Gaynor – NBR – 13 June 2017****

- It is interesting to reflect on 2017, Tony Falkenstein, the founder of Just Water International, a growing small capitalisation company that is listed on NZAX nominated himself for the board of NZX on the premise he believed that NZX had become too bureaucratic and did not do enough to encourage new listings. *(Note: Elevation Capital did not support Mr. Falkenstein in his efforts to seek election to the Board, as we wanted to provide the current Chairman (James Miller) a chance to appoint a permanent CEO and deliver a new strategy.* **We are no longer providing our support to the Chairman in this regard - refer our #NZXNOW presentation.)**

* As at 12 September 2018
** http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11873388
*** https://www.nbr.co.nz/article/who-runs-stock-exchange-db-p-204062

MANAGEMENT & ORGANISATIONAL STRUCTURE POINTS TO INEFFICIENCY

- NZX has a market capitalisation of <NZ$300M, and yet it has an executive team of sixteen, while ASX which is 46 times larger in market capitalisation, has twice as many employees, only has fifteen members in its executive team.
- **When looking at the statistics below – one can only conclude that NZX is grossly inefficient.**

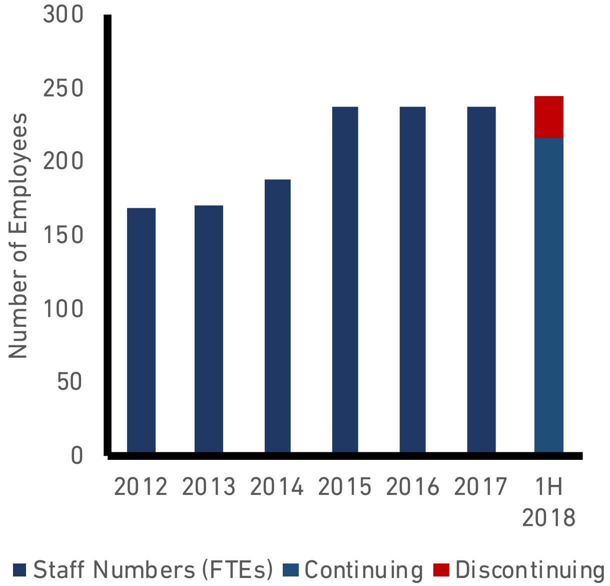
NZX		ASX
MARKET CAPITALISATION = NZ$290M*	VS	MARKET CAPITALISATION = A$12.50B*
# OF SENIOR EXECUTIVES = 16**		# OF SENIOR EXECUTIVES = 15#
# OF EMPLOYEES (FTE) = 238***		# OF EMPLOYEES (FTE) = 587
# OF EMPLOYEES / SENIOR EXECUTIVE = 14.9		# OF EMPLOYEES / SENIOR EXECUTIVE = 39.1
REVENUE / # OF EMPLOYEES = NZ$316K		REVENUE / # OF EMPLOYEES = NZ$1.7M##

** As at 12 September 2018*
*** Source: NZX 2017 Annual Report - p29*
**** NZX 2017 results presentation - p22*
 # ASX Wesbite https://www.asx.com.au/about/executive-team.htm as at 27 September 2018
ASX 2018 Annual Report - p91
Note: If we take the latest NZX staff numbers (continuing operations) of 217 (From NZX 1H 2018 results presentation - p17), and assume status quo annual revenue of NZ$75.325M, it will generate a revenue per # of employees of NZ$347K

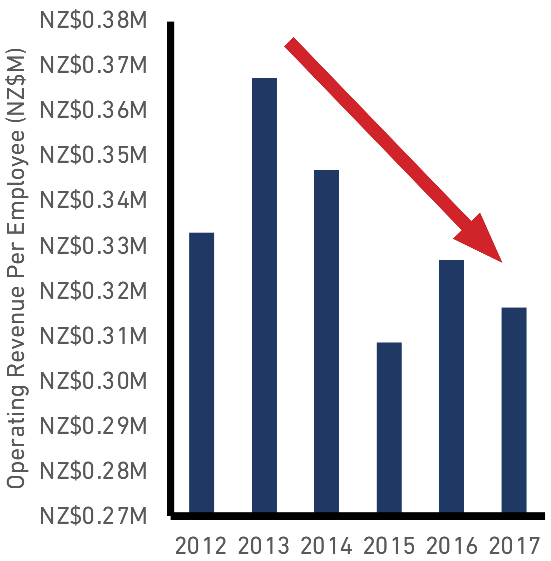
DETERIORATING EMPLOYEE EFFICIENCY/PRODUCTIVITY CONFIRMS OUR VIEW

- NZX's employee numbers increased 26% after it acquired SuperLife and Apteryx (now called NZX Wealth Technologies) in 2015.
- The charts below illustrate that the KiwiSaver business and funds administration business that NZX acquired failed to reverse NZX's declining employee efficiency/productivity. Revenue per employee continued to decline from NZ$367,000 in 2013 to NZ$316,000 in 2017 (Operating Revenue per employee for ASX was AUD1.38M in FY2017, up from AUD1.17M in FY2013).
- **Management should target a Revenue / Employee ratio of above 0.40 (NZ$400,000 per employee) by 2020.**

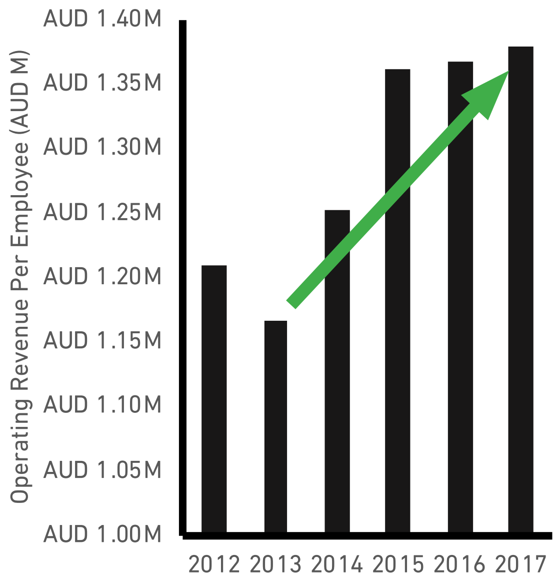
NUMBER OF NZX EMPLOYEES (FTE)



NZX OP. REVENUE PER EMPLOYEE (NZ$M)



ASX OP. REVENUE PER EMPLOYEE (AUD M)



Source: NZX Annual Reports

EMPLOYEE INCENTIVES / REMUNERATION

We are deeply concerned that Management and the Board lack the skills to motivate their employees outside of monetary incentives. It is evident that the current incentive/remuneration schemes are not working, by the increasing costs and declining employee productivity.

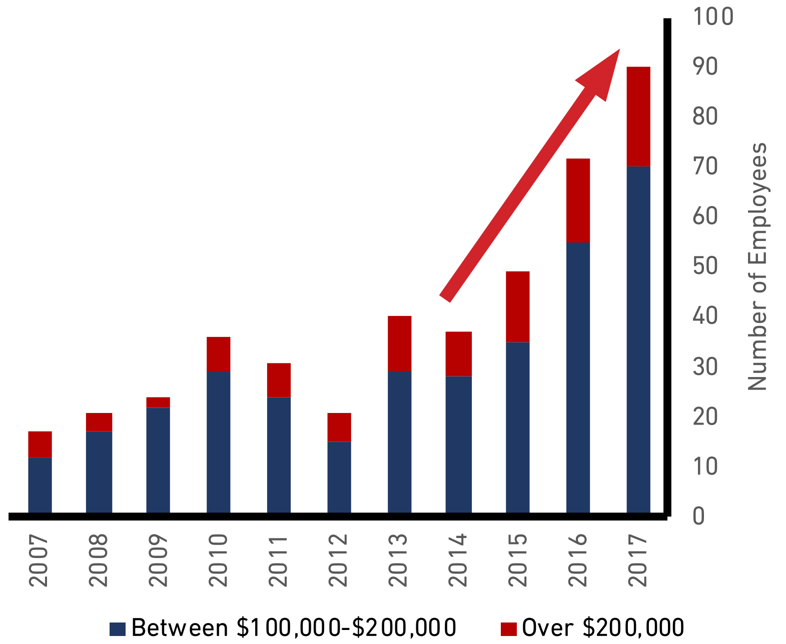
REMUNERATION HAS OUT-GROWN REVENUE BY A SIGNIFICANT MARGIN

- Number of NZX employees with remuneration over $100,000 per annum increased by +429% from 2007 to 2017 (over $200,000 - +300%) when operating revenue increased by only 139%.

MOST RECENT SCHEME - $1,000 OF NZX SHARES PER EMPLOYEE IS ANOTHER WEALTH TRANSFER

- NZX Board recently introduced a one-off grant of $1,000 of NZX shares when employee starts at NZX "*to ensure that all employees are shareholders*". Based on NZX's 238 staff numbers, it is costing $238,000 to the NZX shareholders and results in dilution.
- We question the effectiveness of this grant because as far as we can tell is unconditional. An analysis of employee shareholdings in NZX shares at the end of 12m/24m/36m periods will reveal the effectiveness of this scheme.
- Obviously we would have preferred NZX to include restrictions to these issued shares to ensure that all employees are and remain shareholders during their employment at NZX.

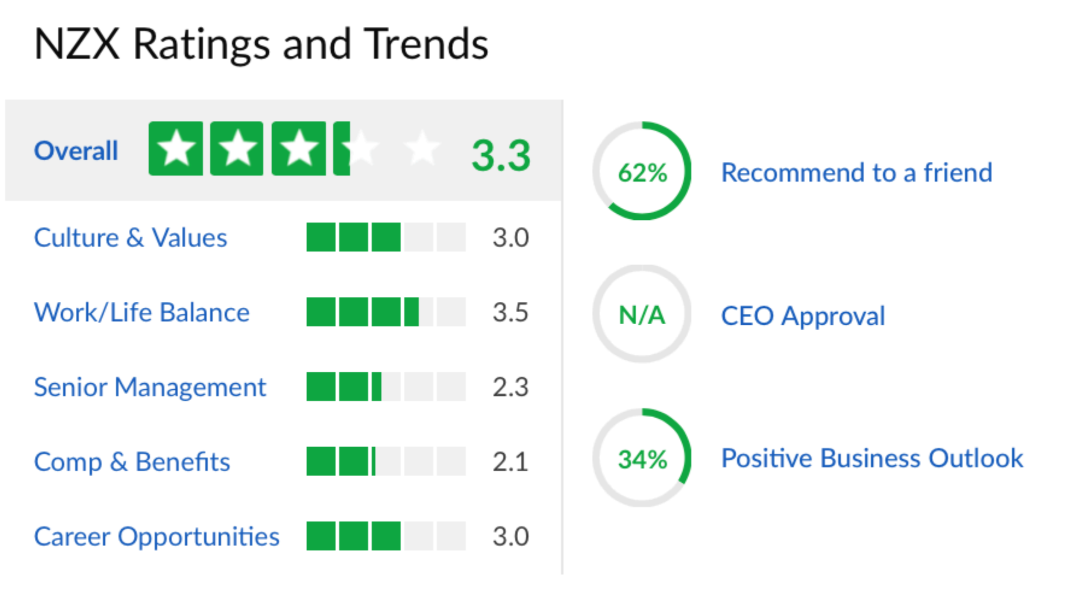
NZX EMPLOYEES WITH REMUNERATION OVER $100,000 PER ANNUM

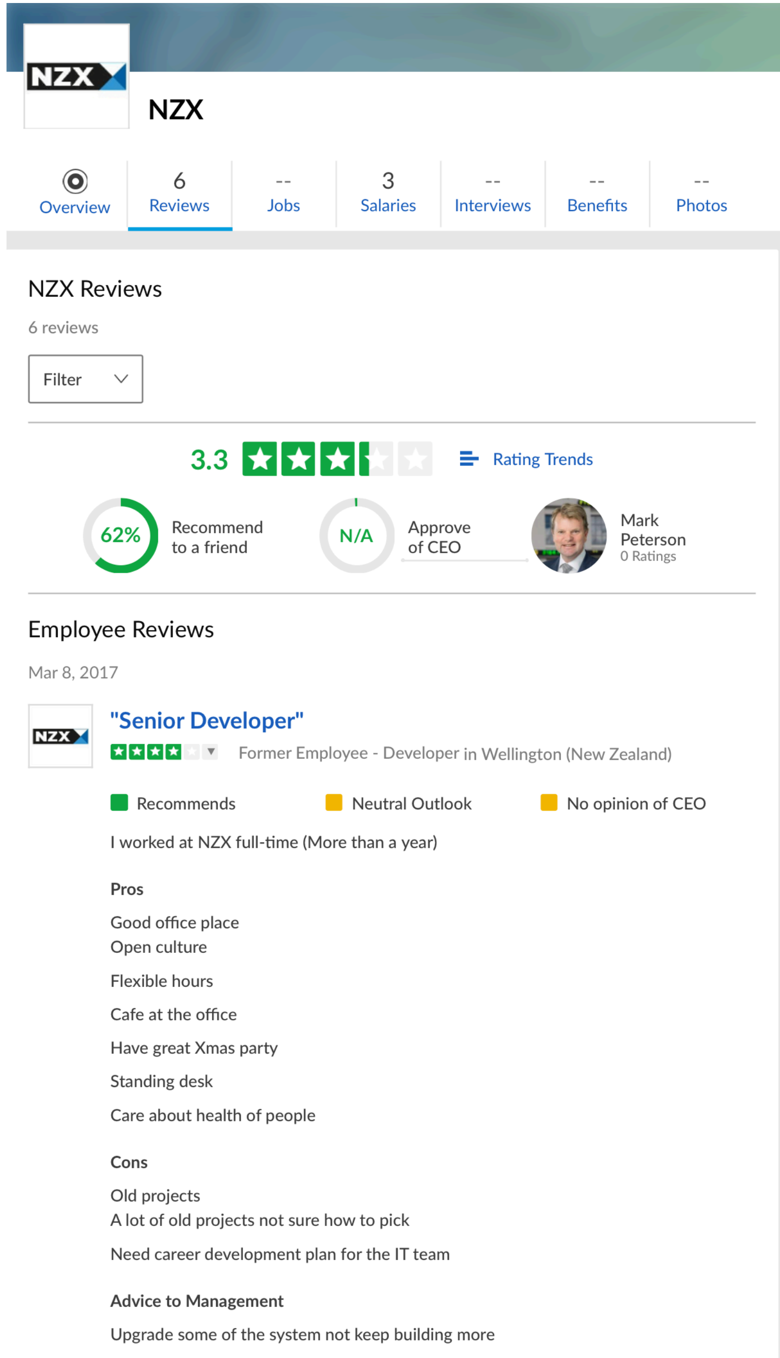


Source: NZX Annual Reports

COMPANY CULTURE / WORKPLACE

- We investigated Glassdoor (www.glassdoor.com) where employees and former employees anonymously review companies and their management*.
- NZX has relatively few data points on Glassdoor. Despite this, it is still interesting to see how its employees/former employees view the Company/Management.
- An overall score of 3.3 is not exactly a ringing endorsement. Additionally, the low score of 2.3 for Senior Management is a potential warning sign.





Source: *https://www.glassdoor.com/Overview/Working-at-NZX-EI_IE494692.11,14.htm#*

* *As at 28 September 2018*

POOR MANAGEMENT AND CAPITAL ALLOCATION HAS SEEN NZX SHAREHOLDERS FOREGO NZ$235M IN TOTAL RETURN FROM 2012 TO 2017 VS THE NZ MARKET

NZX vs. ASX AND OTHER EXCHANGES – BEFORE 2012

- Mark Weldon in his last CEO report in NZX's 2011 Annual Report stated that "*shareholders should be very satisfied with the decision to reject the ASX's takeover offer a decade ago. A small part of a bigger pie would have been a lot less appetising than the NZ owned and operated recipe our shareholders have enjoyed*".
- The chart below from the same Annual Report illustrates NZX's significant **outperformance** versus ASX, Nasdaq and LSE during Weldon's tenure.

NZX vs ASX/NASDAQ/LSE - TOTAL RETURN

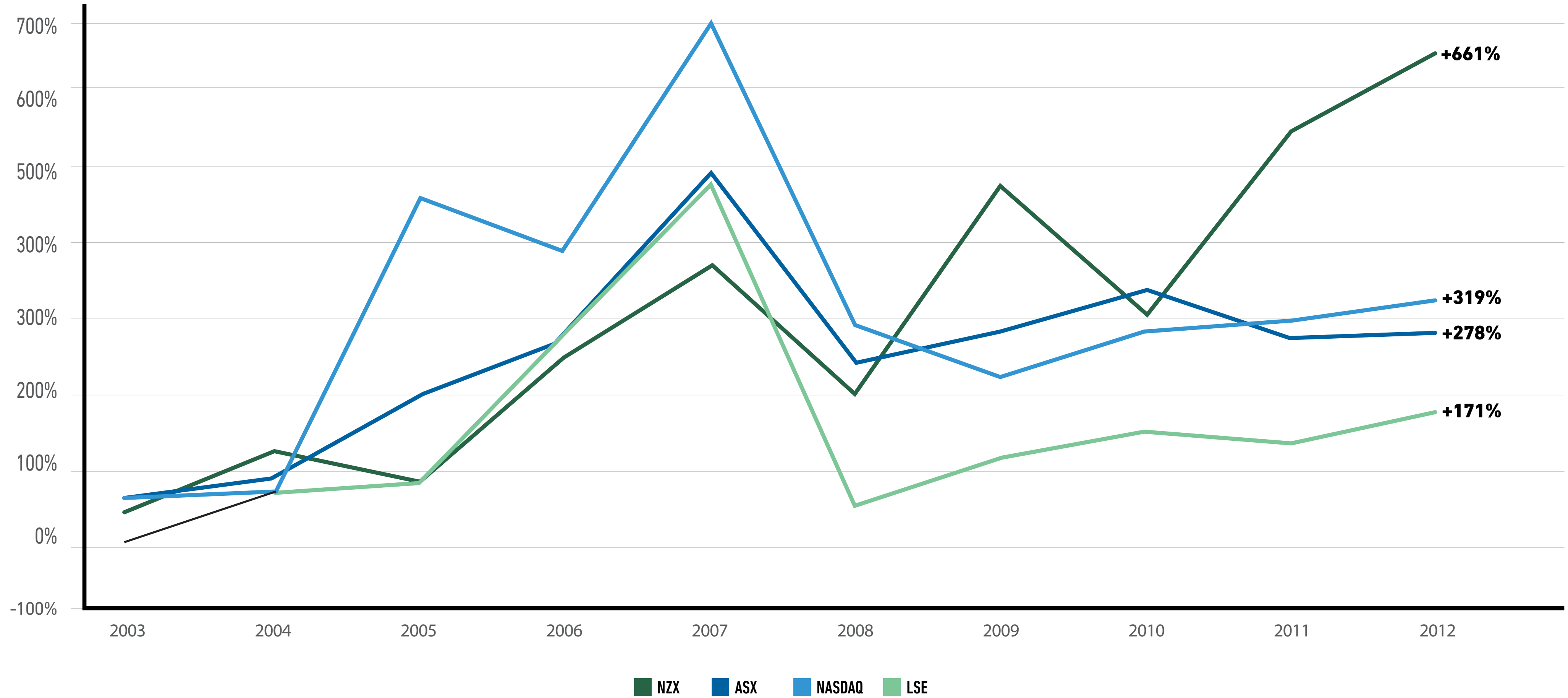


Chart Source: NZX 2011 Annual Report

NZX vs. ASX AFTER WELDON DEPARTED…

- Since Weldon's departure at the end of 2011, the ASX has outperformed the NZX in the last six years by a huge margin.

NZX vs ASX - TOTAL RETURN FROM 2012 TO 2017

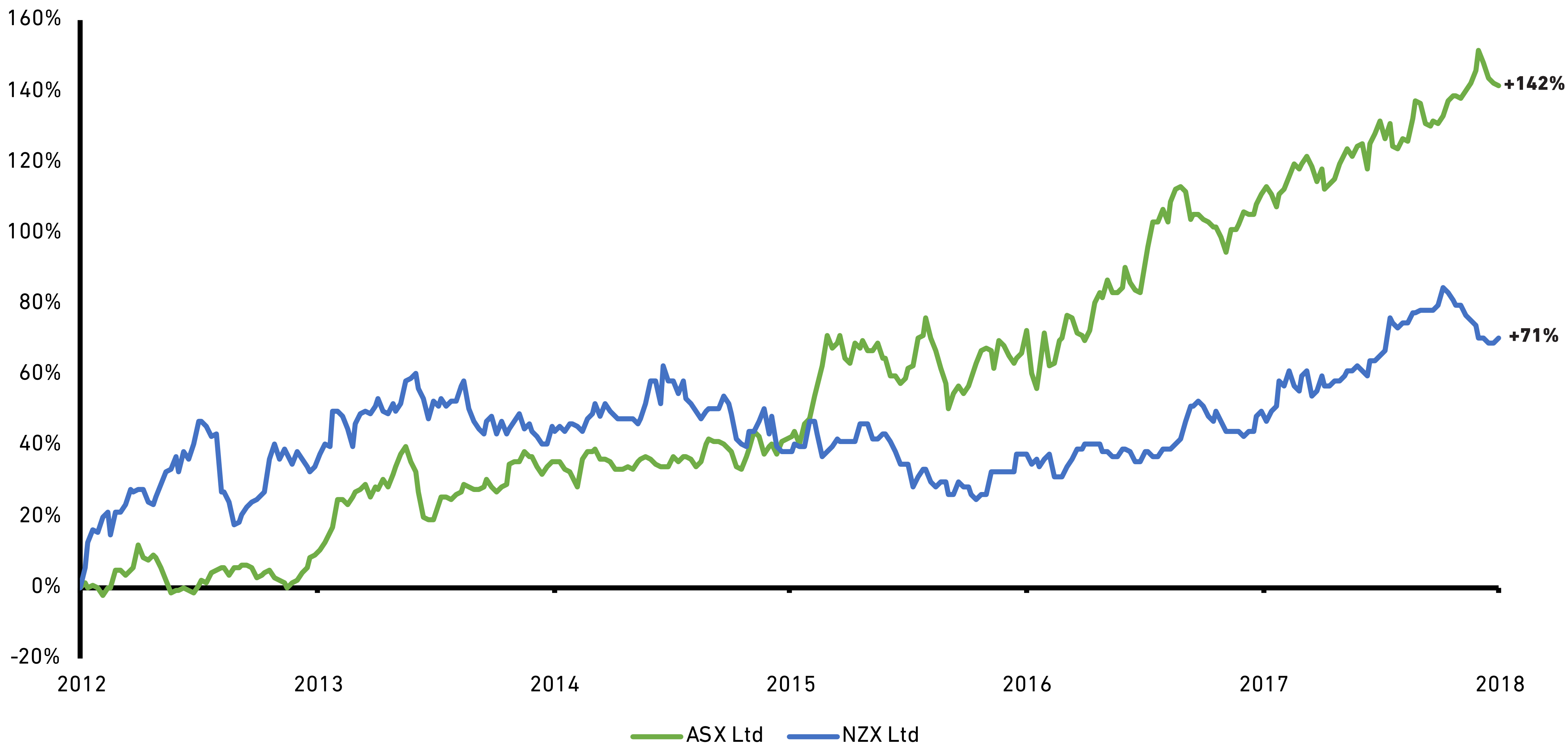
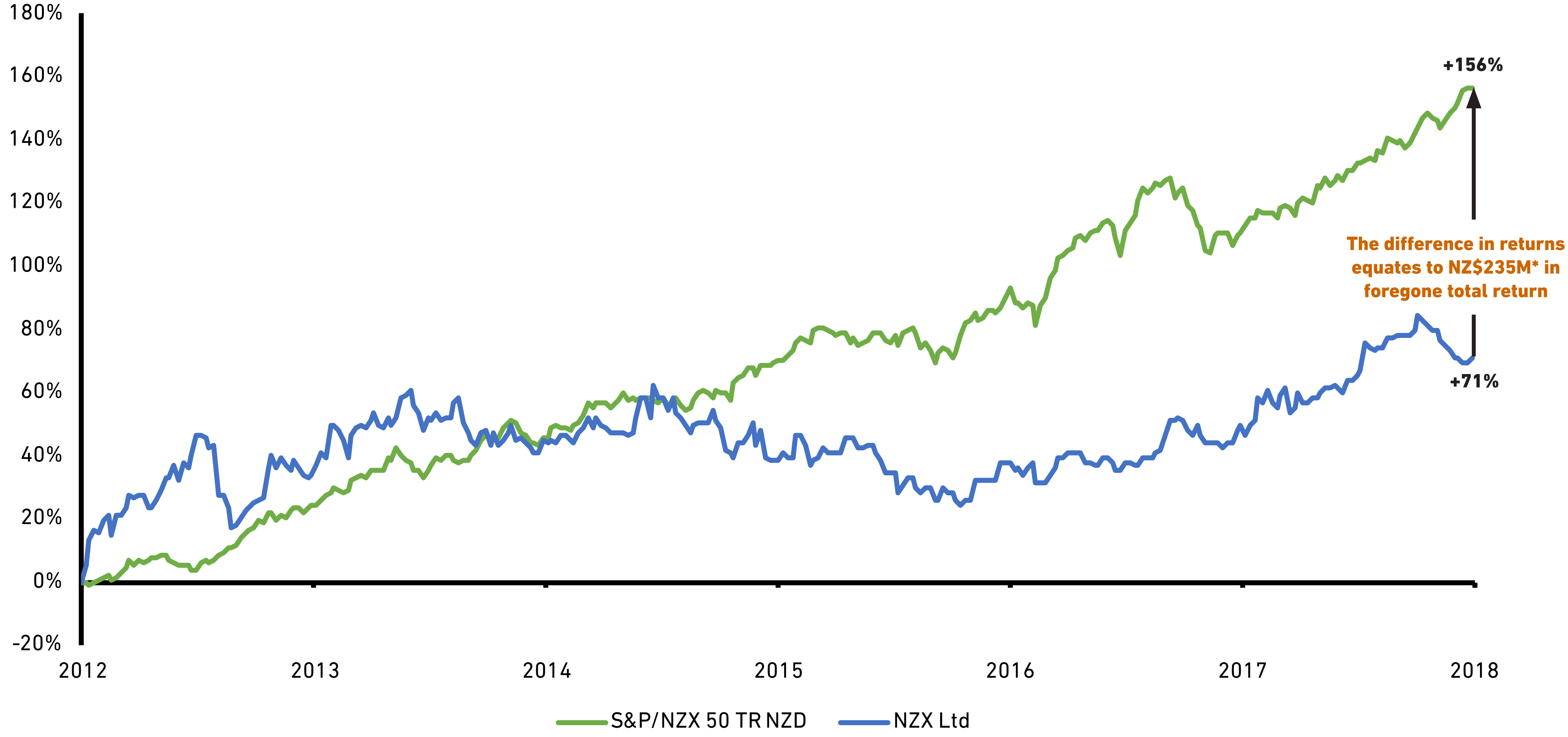


Chart Source: Thomson Reuters Eikon

NZX vs. S&P/NZX50 INDEX

- There is also a significant performance discrepancy between the S&P/NZX50 index and NZX's own stock performance during the same period.
- **Despite favourable market conditions NZX failed to keep pace with its own index and this has seen shareholders forego an estimated NZ$235M in total return.**

NZX vs S&P/NZX50 INDEX - TOTAL RETURN FROM 2012 TO 2017

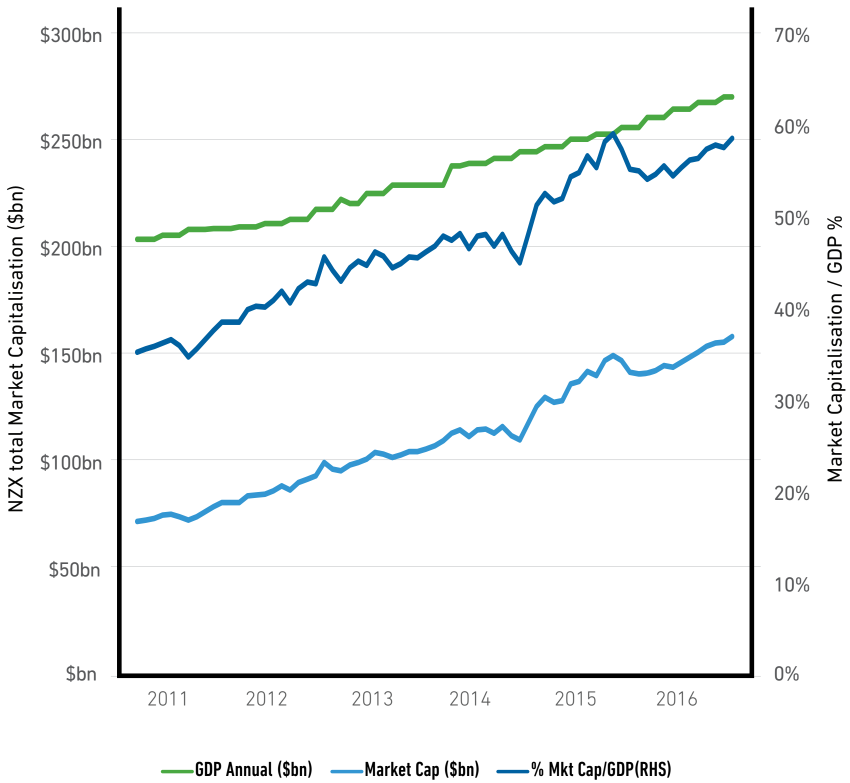


** Source: Thomson Reuters Eikon – 31/12/2011 - 31/12/2017, based on NZX market capitalisation of NZ$274M on 31/12/2011 - Total Return includes dividends and imputation credit*

NZX MARKET CAPITALISATION TO GDP, TRADING VOLUME & SHARE PRICE

- In recent years, NZX listed issuance market capitalisation has outgrown New Zealand GDP, with the Market Capitalisation to GDP ratio fast approaching 60%.
- Similarly, the number of trades on NZX increased by 177%, from 0.74M trades in 2011 to 2.05M trades in 2017.
- **These figures illustrate NZX's financial underperformance during a favourable environment of prolonged positive market sentiment/s, and with strong growth in the number of trades within this time period. None of the improved fundamentals have been reflected in NZX's financial performance.**

NZX LISTED ISSUANCE MARKET CAPITALISATION AND GDP



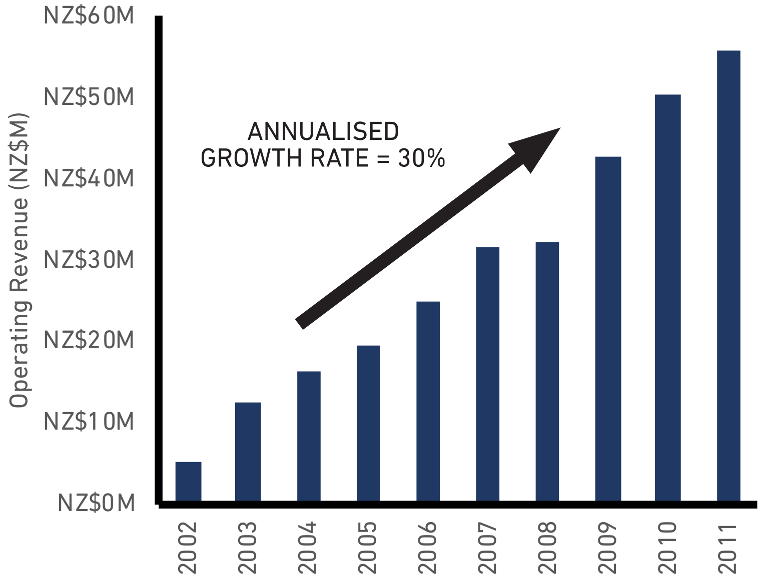
CASH MARKET TOTAL TRADES VS NZX SHARE PRICE

Chart/Data Source: NZX, Thomson Reuters

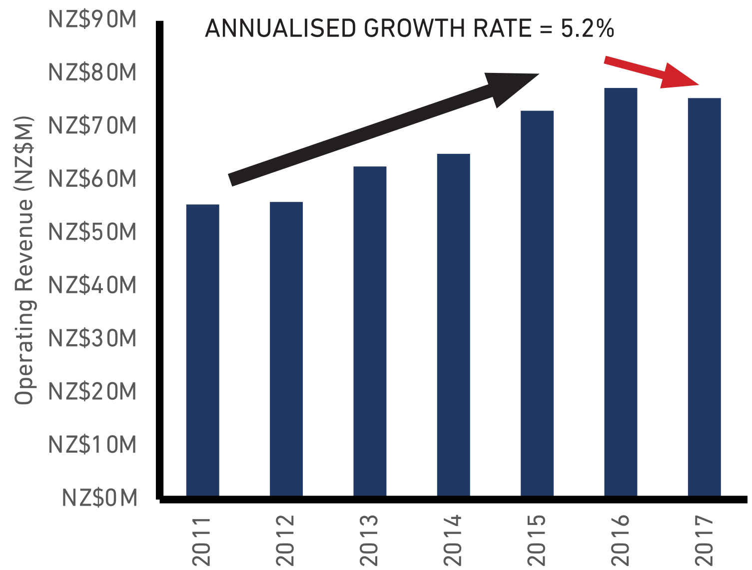
MANAGEMENT SINCE 2012 UNABLE TO DUPLICATE EARLY SUCCESSES

- The principal concern faced by NZX management since 2012 is how to maintain the early growth momentum.
- Since Mark Weldon left NZX in 2011, NZX's annualised revenue growth rate has declined from 30% to only 5.2% per annum. During this period, S&P/NZX 50 Index performed strongly, with an annualised return of +17%.
- We suggest NZX's deteriorating revenue growth is partially due to Management's lack of cost discipline and strategic failure/s in NZX's core market businesses. In particular, the strategic failure/s of the NZAX and NXT that caused complexity, uncertainty and confusion for potential listing candidates which negatively impacted the IPO pipeline (albeit we acknowledge that globally the IPO pipeline is challenged).
- **Exacerbating the problems, Management attempted to "buy" revenue by acquiring sub-scale businesses in adjacent markets and attempt to grow these businesses. Successive Management teams (and Boards) have continually underestimated the time, costs and expertise required in executing on these plans at the considerable expense to the shareholders.**

NZX OPERATING REVENUE 2002-2011
(WELDON)



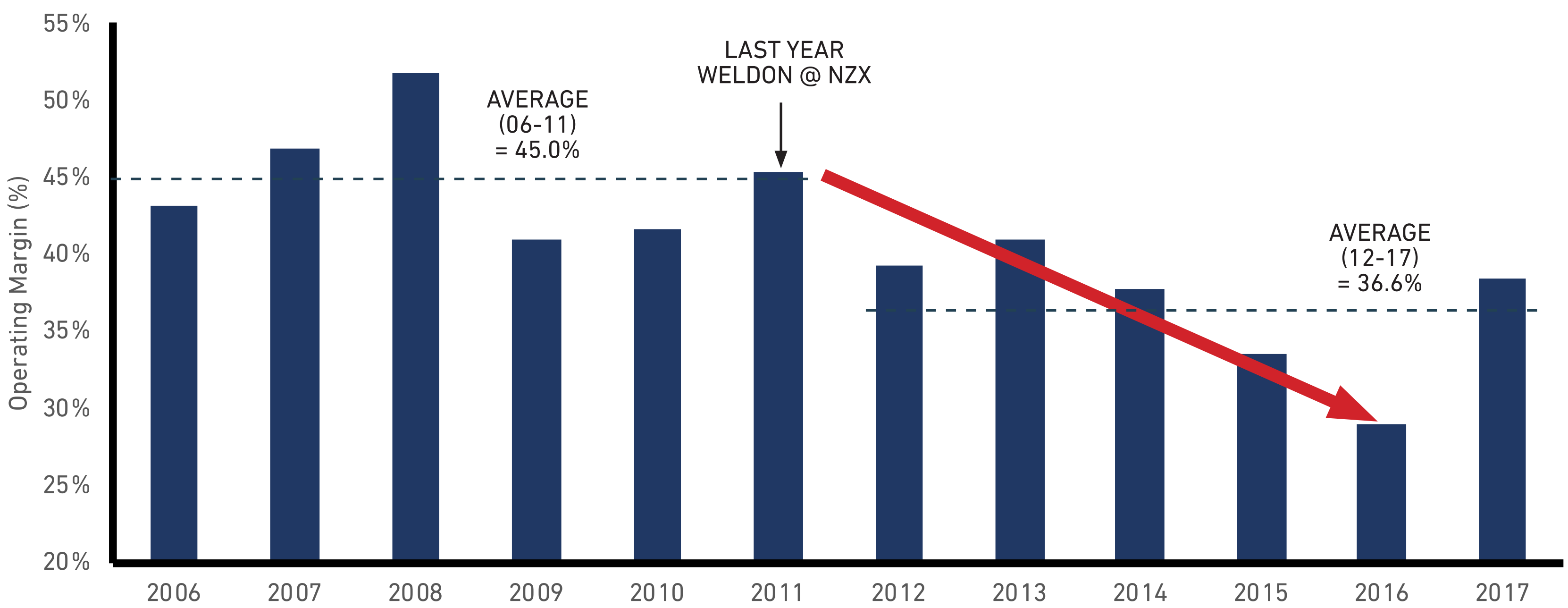
NZX OPERATING REVENUE 2011-2017
(BENNETT, PETERSON)



TO COMPOUND THE ISSUE/S NZX DELIVERED DECLINING MARGINS…

- The issue/s referenced in the previous slide resulted in the reduction of NZX's operational leverage and margins.
- Management has not been able to achieve a +40% operating margin for the last four years.
- The recovery in unadjusted operating margin in 2017 is mainly due to the completion of non-capital major projects, the Ralec litigation, and the FMCA transition project, as well as the absence of costs associated with the former CEO transition, and the duplication of rents incurred in 2016.
- **We believe with the appropriate strategy and swift execution, NZX should deliver +45% operating margins in the short term, and target (establish) a long-term sustainable operating margin target of +50%.**

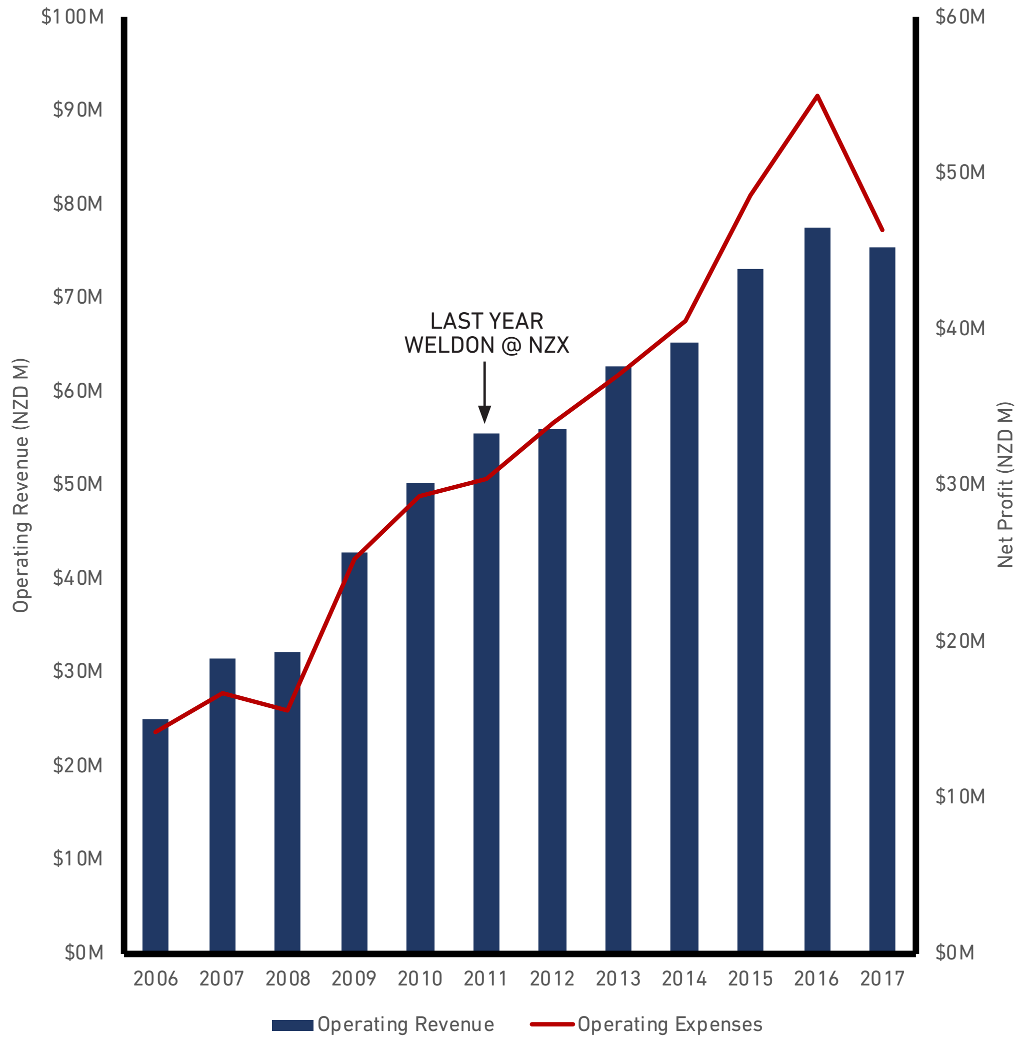
DECLINING UNADJUSTED OPERATING MARGIN



BALLOONING COSTS – OPERATING EXPENSES...

- By analysing the historical operating expenses, we gain a clearer view of the issue/s at hand in terms of the deteriorating margin/s trend.
- The growth of operating expenses were very much under control up to 2011 in tandem with the growth of operating revenue.
- Since then, operating expenses have ballooned much faster than the growth of operating revenue.
- On a positive note, Management was able to reduce operating expenses by 15.8% in 2017 (11.6% on a like-for-like basis).
- **We believe further reduction/s in operating expenses are still required to improve efficiency, margins and deliver improved returns to shareholders.**

OPERATING EXPENSES HAVE GROWN FASTER THAN REVENUE

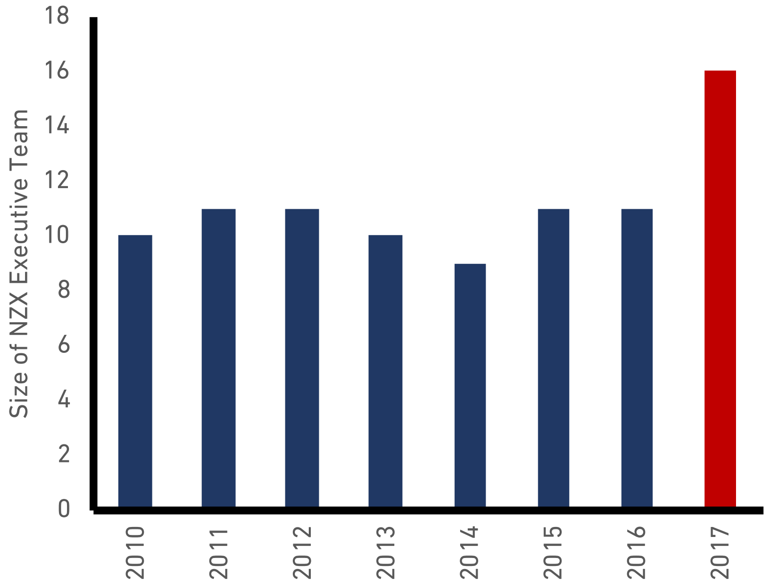


Source: NZX Annual Reports

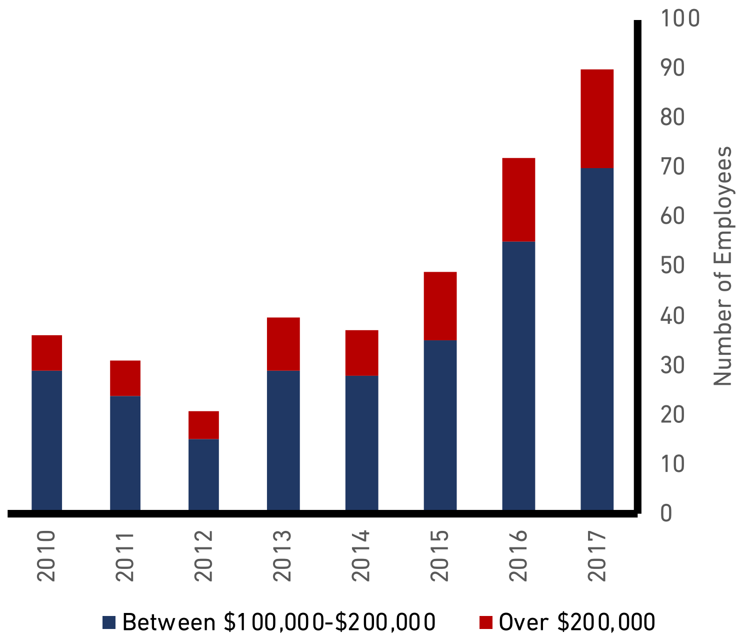
BALLOONING COSTS – CORPORATE HEADCOUNT & COSTS

- One of the more alarming statistics on the cost front is the number of members in the executive team. The size of the team jumped 45%, from 11 in 2016 to 16 in 2017* - We struggle to reconcile the CEO's statement at the NZX Strategy Day that "*NZX is too small to be fat*".
- **Another concern is the number of NZX employees with remuneration over $100,000 per annum. The number has increased 329% since 2012, while the market capitalisation of NZX has actually shrunk – it is very clear to us the Company is being run for the "agents" not the "owners".**
- Once again, Brian Gaynor's observation on 7 May 2016** that "*NZX share price peaked just after Weldon's departure, partly because he had kept an extremely tight lid on costs, particularly staffing*" are completely accurate.

NZX EXECUTIVE TEAM SIZE



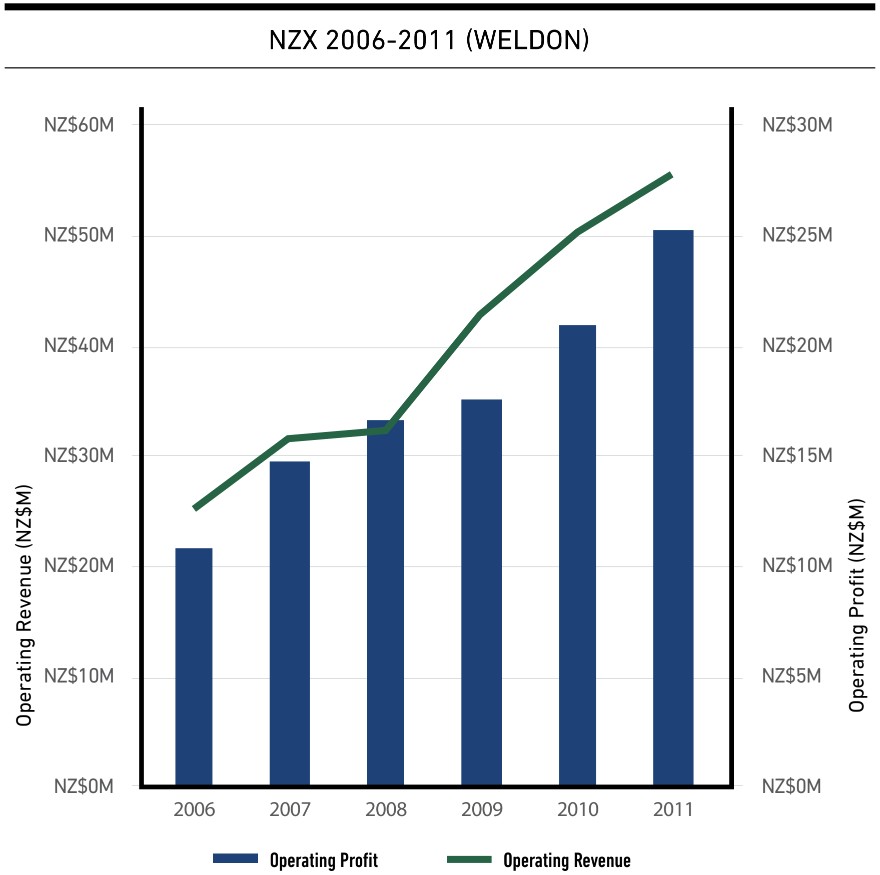
NZX EMPLOYEES WITH REMUNERATION OVER $100,000 PER ANNUM

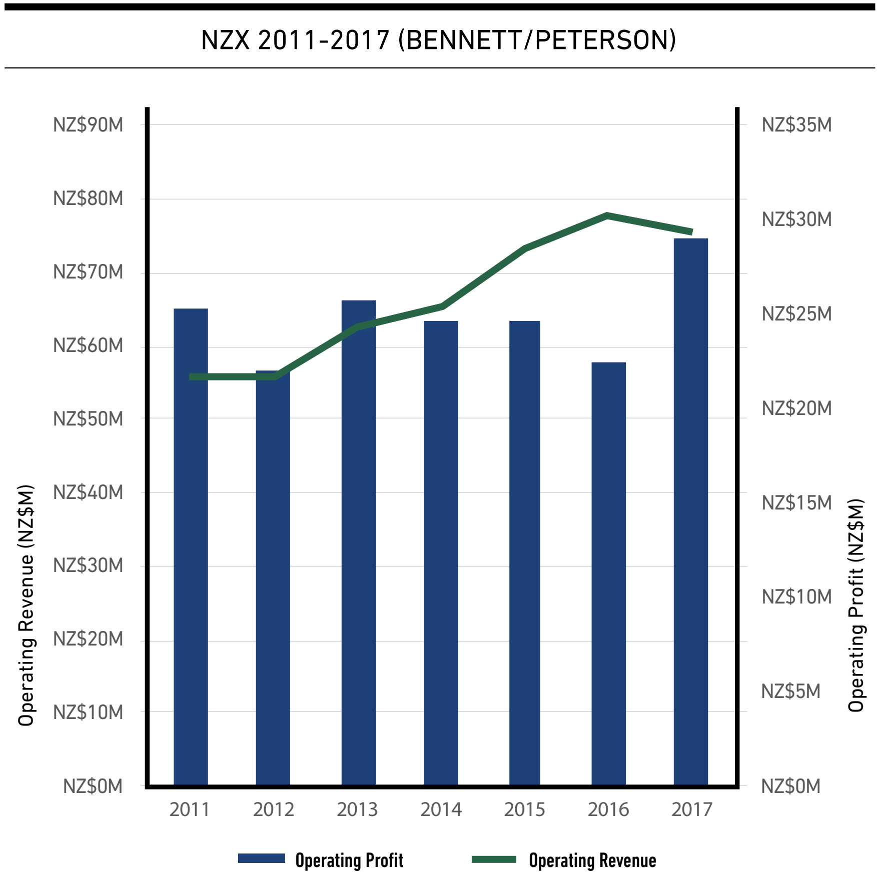


Source: NZX Annual Reports
** Source: NZX 2017 Annual Report - p29*
*** http://www.nzherald.co.nz/brian-gaynor-on-business/news/article.cfm?c_id=1503237&objectid=11634836*

POOR PERFORMANCE FINALLY LED TO MANAGEMENT CHANGE/S IN 2016/17

- As illustrated in the charts below, during the post Weldon era (2011), revenue growth slowed down significantly (and turned negative in 2017), while operating profit stagnated and then declined three years in a row during 2014-2016 (recovering in 2017).
- After many years of unsatisfactory results, Tim Bennett departed the NZX at the end of 2016.
- The NZX Board appointed Mark Peterson (Head of Markets at the time for one year and nine months) interim CEO, effective from 1 January 2017, he was appointed permanent CEO in April 2017.
- **Despite this new appointment the challenges remain and the pace of change is too slow.**





NEW MANAGEMENT'S FIVE-YEAR PLAN TO RETURN TO GROWTH

NEW MANAGEMENT'S FIVE-YEAR PLAN

- After leading the Company for eleven months, Mark Peterson announced NZX's Five-Year Plan at its 2017 Investor Day on 16 November 2017*
- As a NZX shareholder, we were extremely disappointed with this 106 page five-year plan presentation that Management presented to shareholders after a "rigorous review by Board and Leadership".
- The plan did not provide any indication where such terms as "build out", "refine", "enhance", "extend" etc. will take the Company to in five years time.
- **There are no measurable goals and targets, no financial metrics that shareholders could utilise to evaluate the performance of the business and the Management (and implicitly the Board).**
- **In our opinion, this was a political document versus a strategic plan. If this is the work of a sixteen person executive team it is wholly unacceptable from a shareholders' perspective.**
- **We believe this raises a serious concern of whether NZX shareholders have the right people on the Board (and within the Management team).**

ISSUER RELATIONSHIPS	FIVE YEAR PLAN
Customer Engagement	• Enhance and refine
Framework	• Focus on broader issuance ecosystem efficiency and effectiveness
Product Suite	• Optimise product / market footprint

SECONDARY MARKET	FIVE YEAR PLAN
Marketing the market	• Build out
Participation	• Seek licensing, equivalence and partnering in international jurisdictions
Pricing	• Periodically review pricing • Engage on wider participant cost landscape
Tools and Functionality	• Upgrade trading system • Review tools and functionality • Extend points of presence in other jurisdictions
Efficient Regulation	• Refine
Post Trade	• Continue to enhance and develop in line with customer needs

DATA & INSIGHT	FIVE YEAR PLAN
Internal	• Support core growth with data and insight
B2B	• Extend
End user	• Upsell/cross-sell • Align insights with all growth opportunities • Piggy-back dairy growth with a PRA
Capability	• Automate analytics for self-service • Build out channel capability

GROWTH OPPORTUNITIES	FIVE YEAR PLAN
Continue to build a vibrant debt market	• Create adjacent investable products (e.g. ETFs, indices etc.) • Grow secondary market transparency
Grow dairy to scale	• Drive for clearing partner/software vendor scale • Lead growth with market/demand coverage • Extend products to cover global demand
Collaborate to grow environmental and energy markets	• Build out

SMARTSHARES AND SUPERLIFE	FIVE YEAR PLAN
Grow Smartshares ETF end users	• Grow scale • Share the benefits • Cement low-cost passive leadership
Cross-sell and innovatively market KiwiSaver	• Ride the growth escalator • Participate in industry rationalisation
Target corporate superannuation with cross-sell	• Consolidate

WEALTH TECHNOLOGIES	FIVE YEAR PLAN
Go live with platform	• Continual improvement • Regulatory changes
New clients	• Extend pipeline • Target medium large adviser groups • Target Broker trading models
Extend capability to widen offering	• Extend capability for the new innovative business models

THE LACK OF DISCIPLINED FINANCIAL TARGETS IS COMPLETELY UNACCEPTABLE.

http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/NZX/310461/269911.pdf

NEW MANAGEMANT (AND BOARD) FAILED TO PROVIDE CONCRETE FINANCIAL TARGETS vs. GLOBAL PEERS

London Stock Exchange Group

INVESTOR UPDATE
12 JUNE 2017
2019 TARGETS

FTSE RUSSELL
- Double digit growth 2017-2019

LCH (LONDON CLEARING HOUSE)
- OTC double-digit revenue growth 2017-2019
- EBITDA margin from 35.6% (2016) to 50% by 2019

LSEG (LONDON STOCK EXCHANGE GROUP)
- Operating expenses held at 4% p.a. 2017-2019
- Next phase cost saves of GBP50M p.a. by exit 2019
- EBITDA margin from 46.5% (2016) to 55% by 2019

Nasdaq

INVESTOR PRESENTATION
MAY 2018
3-5YR TARGETS

ORGANIC REVENUE GROWTH
- 5%-7% non-trading segments (3-5yr)

OPERATIONAL FOCUS
- ~3% avg annual organic expense growth (3-5yr)

RETURN ON INVESTED CAPITAL
- >10% target on new investments (3-5yr)

TOTAL SHAREHOLDER RETURN
- Double Digit TSR by deliver strong EPS growth and dividend yield

JPX JAPAN EXCHANGE GROUP

2ND MEDIUM-TERM MANAGEMENT PLAN (2016-2018)

- Increase capex by JPY 15B
- Increase ETF holders by +500,000 or more
- Increase AUM tracking new JPX indices by +JPY 1 trillion or more
- Increase Listed NAV (ETF) by +JPY 5 trillion or more
- Increase Listed NAV (REIT) by +JPY 1 trillion or more
- IPO ~100 companies per year
- Operating revenue increase by +JPY 15 billion (+13%)
- Net income increase by +JPY 8 billion (+20%)
- ROE target = 17%
- Payout ratio target = 60%

EURONEXT

2017 AGM PRESENTATION
2019 TARGETS

- Core business revenue +4.3% CAGR (2017-2019)
- Incremental revenue of €55M
- Incremental costs of €27.5M
- EBITDA of incremental revenue = 50%
- -€22M Gross Savings
- EBITDA Target = 61-63%
- Payout ratio = 50%, with €1.42 per share floor

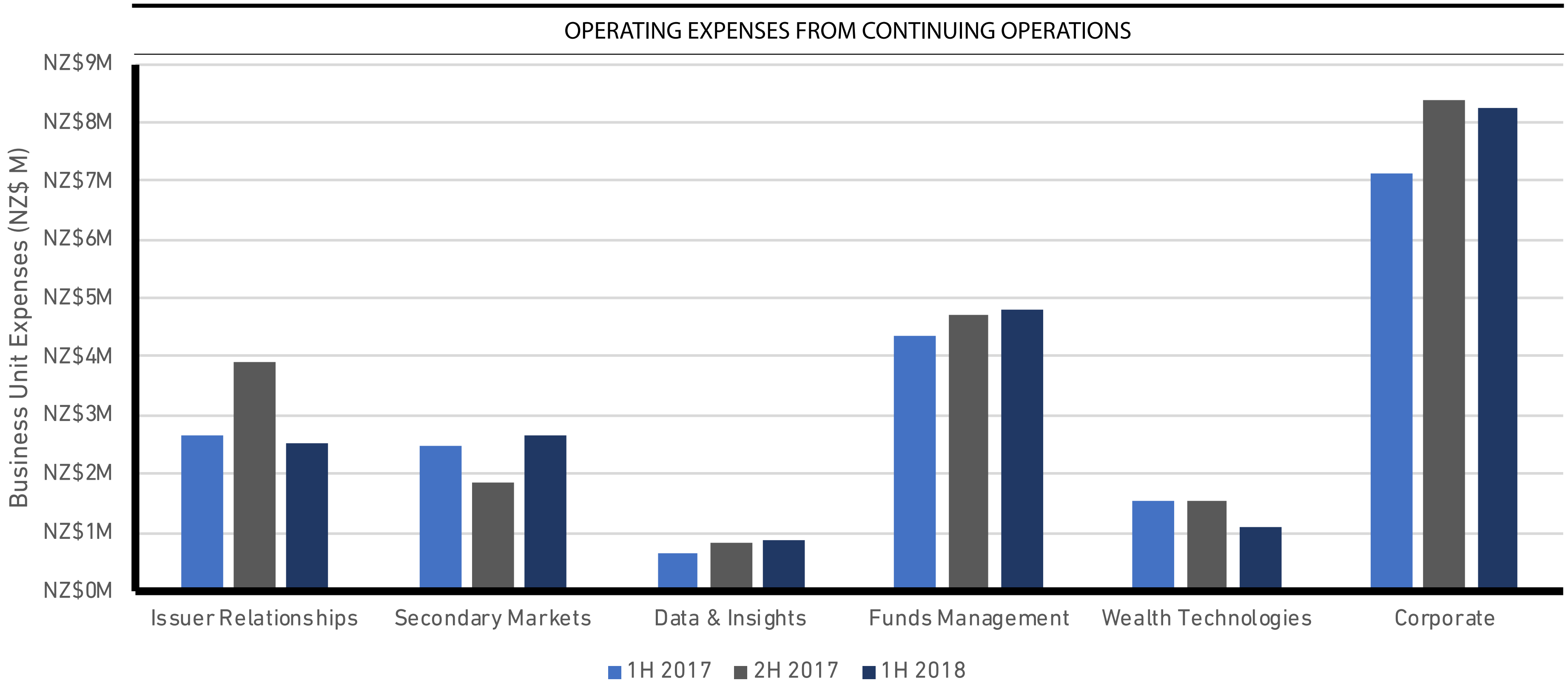
REFER APPENDICES FOR ALL OF THE ABOVE PRESENTATIONS

THREATS & OPPORTUNITIES

THREATS (1)

COSTS STILL NOT DECLINING

- As we review the latest 1H 2018 results*, we are disappointed in Management's lack of efforts in cost control.
- Compared to 1H 2017, operating earnings from continuing operations declined by 5.2%. This is the direct result of a 7.3% increase in total expenses from continuing operations. Notably, expenses from Corporate increased by 15.6%.
- Shareholders have been patient with Management since the release of NZX's five-year strategic plan to allow time to illustrate their seriousness in controlling/managing cost/s. Unfortunately, the results have proved less than conclusive and points to the need for more focus on costs across the business.
- This underperformance early on undermines Management's credibility to deliver on the five-year strategic plan.



* *NZX Interim Report 2018*

THREATS (2)

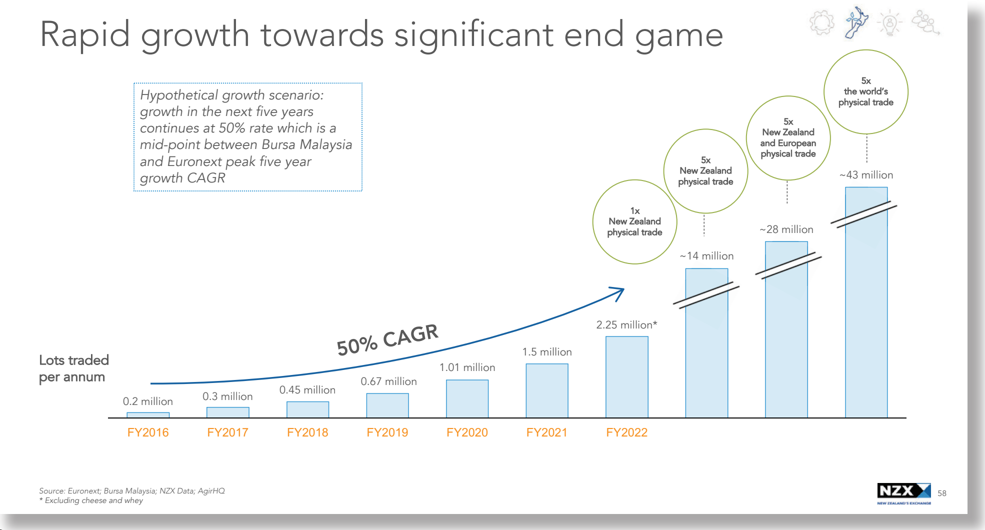
MANAGEMENT'S WEAKNESS IN ANALYSING BUSINESS OPPORTUNITIES AND ABILITY TO EXECUTE/IMPLEMENT

CASE #1 - NZX WEALTH TECHNOLOGIES (FOR DETAIL SEE SLIDES 19-20)

- Acquired in July 2015 for NZ$1.5M. Estimated capex since acquisition = NZ$6.8M. FUA declined by 14% since acquisition (as at 30 June 2018).
- Project to onboard first client has been delayed by an estimated 18 months (from 31 March 2017 to a projected Q3 2018).
- We also suggest Management's recent comments that "*future clients may require degree of customisation*". in the NZX 1H 2018 results presentation is to prepare shareholders to accept the continuation of significant capex into this business.

CASE #2 - DAIRY DERIVATIVES

- NZX actually did provide a clear and measurable target (# of lots traded per annum) for its dairy derivatives business in its recent investor presentations.
- 2017 Investor Presentation presented a "*rapid growth towards significant end game*" case for NZX's dairy derivatives business. NZX suggested a hypothetical growth scenario of 50% CAGR for the next five years (2018-2022), with the chart below illustrating 2018 projected volume at 0.45M lots.
- NZX confirmed its expectation in its Investor Roadshow 2018 presentation (released on 21 March 2018), a 2018 volume target range of 400,000 -500,000 lots.
- NZX **downgraded** its expection in its 1H 2018 results presentation (released on 15 August 2018), with a 2018 volume target range of 300,000 - 400,000 lots.
- Assuming NZX achieved the mid-point of its target range - 350,000 lots in 2018, this implies a growth rate of only 12.3% vs 2017. While we acknowledge this is a short time period it does point to risks in the current "go-it-alone" strategy for this business.



https://www.finextra.com/news/fullstory.aspx?newsitemid=15699

Source: NZX 2017 Investor Day Presentation

THREATS (3)

STRATEGIC GLOBAL ALLIANCES MAKE FOR "NICE HEADLINES" BUT HISTORY SHOWS THEY COME WITH SIGNIFICANT CHALLENGES

- In March 2018, NZX announced it intends to progress strategic alliances with other exchanges to increase its connectivity and global scale.
- Year-to-date, it has signed memorandum of understanding (MOUs) with HKEX, SGX and Nasdaq.
- NZX believes these potential strategic alliances will ultimately lead to connectivity of "*trading and clearing systems to offer a seamless experience for customers*".
- Unfortunately, based on past failed joint projects by other exchanges in NZX's region, we do not hold out the same hope that these bilateral MOUs/alliances will lead to improved connectivity and scale for NZX customers in any reasonable time frame:

  - September 2006 – A trading link between SGX and ASX, introduced in 2001, was discontinued due to poor demand.

  - October 2017 – After five years, the ASEAN Trading Link that connects to three of Southeast Asia's biggest stock markets – Malaysia, Singapore and Thailand was closed down.

  - The trading Link between TWSE and SGX continues to be one way only (TWSE to SGX only) since its introduction in 2016.
- The shutting down of the ASEAN Trading Link in 2017, and ASX/SGX Trading Link in 2006 suggests that even if trading links are established with NZX's partners, it may not bring with it significant additional liquidity to listed companies on NZX as hoped. Especially when direct investing/holdings by individuals is in decline, replaced by global passive funds that already can/do invest globally.

SGX and ASX to shut down co-trading link

09 August 2006 | 6848 views | 0

The Singapore Exchange (SGX) says it is shutting down the securities co-trading link it established with the Australian Stock Exchange (ASX) following poor demand for the service.

The SGX-ASX trading link service will be discontinued at the close of business day on Friday 29 September 2006.

The link was introduced in 2001 to enable brokers on the respective exchanges will be able to conduct trading via their existing desktops. Australian investors being able to invest directly in Singapore-listed companies, and vice versa.

But in February 2006, the Australia Stock Exchange (ASX) discontinued the inbound service from ASX to SGX, although the Singapore exchange kept the outbound service (from SGX to ASX) operational and under review.

However due to persistently low demand, SGX says it has decided to discontinue the outbound service and both exchanges have agreed to close the SGX-ASX trading link.

https://www.finextra.com/news/fullstory.aspx?newsitemid=15699

Bloomberg Markets | Markets | Tech | Pursuits | Politics | Opinion | Businessweek

Southeast Asian Stock Markets Quietly Kill Their Trading Link

By **Andrea Tan**

October 13, 2017, 1:54 PM GMT+13

A system that connected stock markets in Malaysia, Singapore and Thailand has closed down, five years after its high-profile debut.

The Asean Trading Link started with Bursa Malaysia and Singapore Exchange Ltd., with The Stock Exchange of Thailand also joining. It was heralded at its launch as breaking the barriers to cross-border trade and offering a single entry-point to three of Southeast Asia's biggest stock markets, with thousands of listed companies. Bourses in Vietnam, the Philippines and Indonesia were expected to eventually take part.

The link's end was announced quietly, with Singapore Exchange's only statement on the move made in a consultation paper on rule changes that was published on Tuesday. "With effect 6 October 2017, the Asean trading linkage will no longer be in operation," the company said.

3.3 ASEAN EXCHANGE INTERCONNECTIONS *

In Asia, stock exchange interconnections are not common. The domestic laws and capital market rules among the largest stock exchanges — the Tokyo Stock Exchange (TSE), Shanghai Stock Exchange (SSE), Hong Kong Stock Exchange (HKEX), Korea Stock Exchange (KRX), and Taiwan Stock Exchange (TWSE) — remain very different. There is no regional consensus on standards in terms of listing prospectuses, disclosure obligations, or cross-border enforcement. As a result, Asian capital markets remain fragmented, and there have been no significant developments in terms of creating a common legal framework for financial market infrastructures. Cross-border securities transactions rely heavily on intermediaries, increasing transaction costs.

Singapore has taken the lead in terms of forging the ASEAN Exchange interconnections that connect Singapore, Thailand, and Malaysia.[31] The three countries have signed an agreement to create a Trans-Tasman Mutual Recognition of Securities Offerings (MRSO) regime, whereby companies complying with the agreed-upon prospectus regime can have their shares traded on a common trading platform.[32] Shares placed on the Thai order book are routed to this trading platform and can be matched by orders placed on the Singaporean order book. However, because of a lack of EU-style legal regimes such as the Prospectus Directive[33] — giving rise to passporting rights[34] — and a lack of an effective college of regulators, as is the case for Euronext,[35] the ASEAN interconnection model has not been successful. In addition to a lack of regulatory frameworks that facilitate interconnections, Thailand and Malaysia fear that such interconnections may cause liquidity fragmentation, limiting the depth capital pool needed to support their domestic markets and raising the question of whether stock exchange interconnections reduce the liquidity of less developed exchanges.

* *"Synergies, Risks and the Regulation of Stock Exchange Interconnection" by J Lee, https://journals.muni.cz/mujlt/article/download/7047/7349*

THREATS (4)

MARGIN COMPRESSION A VERY REAL PROSPECT FOR THE FUNDS MANAGEMENT BUSINESS

- NZX and market participants have, and are celebrating the continuing strong revenue/profit growth in NZX's Funds Management business, which is based on a Passive/ETF Index investment model.
- However, we observe a worrying trend of accelerating margin compression for the funds management industry, with global players such as Fidelity announcing new no-fee index funds in August 2018.
- Closer to home, in April 2018, Simplicity launched its NZ Share Fund at 0.10% management fees with an administration fee of $30 per year*. This versus NZX/Smartshares' NZ Top 50 Fund which charges 0.50% management fees.
- **We have concerns about the medium/long-term future of this sub-scale funds management business unit within the NZX. The business needs to be spun-off, raise capital and allowed to expand its offerings without the potential conflict/constraints that NZX ownership presents.**

Bloomberg Businessweek

Fidelity Bets on Zero-Fee Index Funds

August 9, 2018, 9:00 PM GMT+12

● It's a threat to high-cost money managers but can also be a way to sell other products.

By Charles Stein and Annie Massa

Free mutual funds. It sounds fishy–something that might be advertised on a late-night infomercial. But when Fidelity Investments unveiled two index funds without annual expense charges on Aug. 1, it was the real deal. And if you've been watching the money management industry closely, it felt almost inevitable. Several index mutual funds and exchange-traded funds from Fidelity and others were already charging less than a dime for every $100 invested. Why not let the last pennies drop?

https://www.bloomberg.com/news/articles/2018-08-09/fidelity-bets-on-zero-fee-index-funds

28 August 2018

BERNSTEIN

Fund Management Strategy

Fund Management Strategy: Zero fee future - Is anything NOT going to zero fee in fund management?

* *https://simplicity.kiwi/simplicity-news/simplicity-launches-low-cost-nz-share-and-bond-funds/*

THREATS (5)

LACK OF ENGAGEMENT & INTELLECTUAL PARTICIPATION ONCE AGAIN POINTS TO MANAGEMENT WEAKNESSES

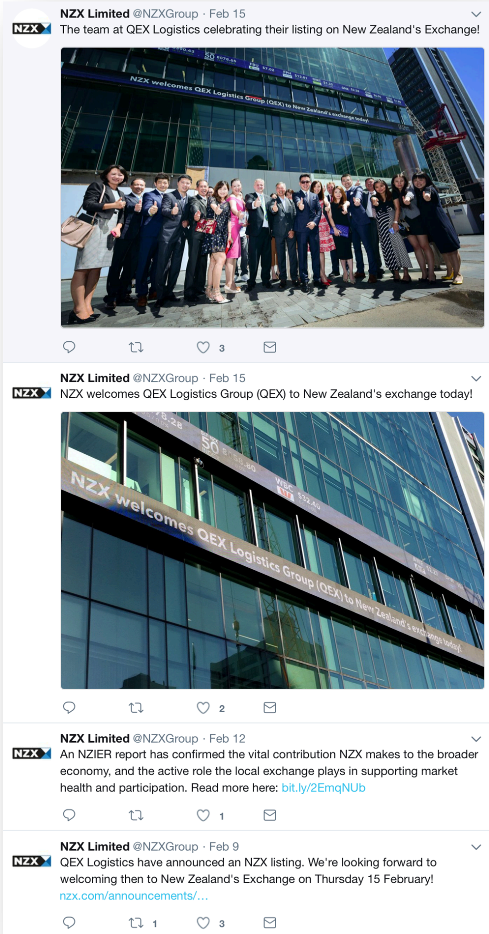
- We are disappointed by the lack of engagement from NZX in terms of involving itself in investor education in New Zealand - especially given the number of employees within the organisation. We do acknowledge that the NZX is stepping up its engagement but for the quantum of staff within the organisation we still believe it to be poor.
- An example of what we are touching on is the lack of NZX presence on Banqer's website (www.banqer.co). Banqer describes itself as a team "*made up of passionate New Zealanders all looking to improve the financial capabilities of our towns, cities, country and eventually our world*".
- We were surprised to discover that Banqer currently does not have "Equity/Shares" investment module in its curriculum*. Also, NZX is absent from the list of sponsoring partners, when it should be one of the first to champion such a curriculum in young New Zealander's*.
- We do acknowledge that in 2015 NZX launched a retail investor education website called invested.co.nz with the Commission for Financial Capability (CFFC). However, we see the content (17 videos so far) as limited in range and depth. Notably missing is the topic on ETF investing, which NZX is trying to grow.
- We also observe that in recent years there has been a lack of NZX headline participation in the important debates of the day, especially on the topics concerning NZ's economic/taxation policies and business/investment environment. The lack of engagement does not serve its customers or its shareholders at all well and in our view points to a lack of depth, experience and intellectual rigour within the business.
- Lastly, we note that as a member of World Federation of Exchanges (WFE), NZX has not utilised WFE research and distributed such research to the local market to facilitate engagement/education and international experiences. For example, the recent research on Small and Medium-Sized Enterprises and SME Exchanges that was released in July 2017 in conjunction with the Milken Institute.

* As at 28 September 2018

THREATS (6)

POOR MARKETING TO PROMOTE SUCCESS STORIES

- Following on from the last slide on poor engagement is the fact that NZX is not at all strong in promoting the listing success stories to the local/global markets, the wider business community and investors (particularly domestic retail investors).
- It is important for NZX to provide and facilitate this function to/ for its listed customers - we cite here as an example the NASDAQ presentation of Redfin at: https://www.youtube.com/watch?v=NtNjLIPMXas


NZX Limited @NZXGroup · Feb 15
The team at QEX Logistics celebrating their listing on New Zealand's Exchange!
3

NZX Limited @NZXGroup · Feb 15
NZX welcomes QEX Logistics Group (QEX) to New Zealand's exchange today!
2

NZX Limited @NZXGroup · Feb 12
An NZIER report has confirmed the vital contribution NZX makes to the broader economy, and the active role the local exchange plays in supporting market health and participation. Read more here: bit.ly/2EmqNUb
1

NZX Limited @NZXGroup · Feb 9
QEX Logistics have announced an NZX listing. We're looking forward to welcoming then to New Zealand's Exchange on Thursday 15 February! nzx.com/announcements/...
1 3

www.youtube.com/watch?v=NtNjLIPMXas

OPPORTUNITIES (1)

BECOME THE #1 REGIONAL EXCHANGE OPERATOR IN THE WORLD

- NZX is in an enviable position with a core markets business that has three business reporting units all with operating margins of 70% and above.
- We believe if Management is able to truly focus on its core markets business, and work to achieve the following financial target/metrics that we have set out below, we believe that NZX would be able to deliver consistent double digit returns for its shareholders (over the market cycle).

50%

EBITDA MARGIN (BY 2020)

- Divest non-core businesses

$0.4M

REVENUE/EMPLOYEE (BY 2020)

- Improve employee productivity and efficiency

1%-2%

ORGANIC REVENUE GROWTH

- Focus on high quality revenue and earnings

0%-1%

ORGANIC EXPENSE GROWTH

- Expand operational leverage

TSR

- DOUBLE DIGIT TOTAL SHAREHOLDER RETURN

OPPORTUNITIES (2)

BECOME A "BEST-IN-CLASS" CAPITAL ALLOCATOR

- We believe that present NZX Management does not need to seek outsized growth to create value for its shareholders.
- Below we compare NZX Limited and Travelers Companies Inc, as an example of how a financial services company can consistently create value for shareholders through cost/headcount/margin control, a value-accretive share buyback program, all with limited topline/revenue growth.
- In short, we believe NZX can be a great long-term investment for its shareholders if and only if Management/Board evolved and become great capital allocators.
- If the Management and Board fail to acknowledge this, we fear shareholders will face another five years of underperformance.

TRAVELERS

OPERATING MARGIN (2017) = +10.4%
NET MARGIN (2017) = +7.1%

OF SHARES OUTSTANDING:
2012: 377M; 2017: 271M (REDUCED BY 28%)

OF EMPLOYEES
2012: 30,500; 2017: 30,800 (INCREASED BY 1%)

FROM 31/12/2012-31/12/2017
REVENUE GROWTH = +12.3% (CAGR = +2.4%)
OP. PROFIT GROWTH = -15.1% (CAGR = -3.2%)
NET PROFIT GROWTH = -16.9% (CAGR = -3.6%)
EPS GROWTH = +16.3% (CAGR = +3.1%)

DPS GROWTH = +55.3% (CAGR = +9.2%)
SHARE PRICE CHG = +88.9% (CAGR = +13.6%)
TOTAL RETURN = +111.8% (CAGR = +16.2%)

NZX NEW ZEALAND'S EXCHANGE

OPERATING MARGIN (2017) = +38.5%
NET MARGIN (2017) = +19.7%

OF SHARES OUTSTANDING:
2012: 255M; 2017: 268M (INCREASED BY 5%)

OF EMPLOYEES
2012: 168; 2017: 238 (INCREASED BY 42%)

FROM 31/12/2012-31/12/2017
REVENUE GROWTH = +34.5% (CAGR = +6.1%)
OP. PROFIT GROWTH = +31.6% (CAGR = +5.6%)
NET PROFIT GROWTH = +50.5% (CAGR = +8.5%)
EPS GROWTH = +49.1% (CAGR = +8.3%)

DPS GROWTH = -12.9% (CAGR = -2.7%)
SHARE PRICE CHG = -6.7% (CAGR = -1.4%)
TOTAL RETURN = +31.3% (CAGR = +5.7%)

** Data Source: Thomson Reuters Eikon as at 12 September 2018, NZX Annual Reports (2012, 2017), Travelers Companies Annual Reports (2012, 2017)*

OPPORTUNITIES (3)

STRATEGIC JOINT-VENTURES/COLLABORATIONS THAT ENABLE NZX TO REDUCE COST BASE & ACCESS GLOBAL SKILL-SETS & DISTRIBUTION NETWORKS

- NZX made a strategic decision in 2015 to enter a deal for S&P Dow Jones “*to calculate, publish and disseminate NZX indices as well as distribute and market the indices offshore*”*.
- We believe through this deal, NZX has successfully leveraged S&P Dow Jones’s network to promote its indices and “*to lure more international investors to the local bourse*”*.
- Another example is when NZX sold its wholly-owned registry business TZ1 Registry to Markit in 2009. The deal was structured such NZX sold Markit 100% of the shares of TZ1 in exchange for consideration payable in Markit shares. We note the comments by NZX’s CEO Mark Weldon at the time: “*the opportunity to cement a transaction with Markit that retained a meaningful economic interest for NZX in the TZ1 Registry business, and to combine that with Markit’s global reach and distribution networks...*”**.

EXAMPLE: NZX’S DAIRY DERIVATIVES BUSINESS

- Given NZX’s recent downgrade to its Dairy Derivatives business growth for FY2018 (see Key Risks section), we strongly suggest that NZX must “*rinse and repeat*”, and seek a JV partner from global commodity powerhouses such as ICE, CBOE or CME to lower the cost/s, increase volume/s and to hasten the development and marketing of NZX’s Dairy Derivatives business globally.
- We recommend the JV should involve a sale of 50% of the NZX’s Dairy Derivatives business to one of these international players which would enable a further capital return to NZX shareholders and a potential reduction in headcount and costs within the NZX.

ice

Cboe Global Markets

CME Group
A CME/Chicago Board of Trade Company

* *https://www.nbr.co.nz/article/nzx-and-sp-dow-jones-enter-indices-deal-bd-169348*
** *https://uk.reuters.com/article/nzx-text-idUKWLF00123720090128*

OPPORTUNITIES (4)

SPIN-OFF THE FUNDS SERVICES BUSINESS

- We believe it is in the best interest of NZX to spin-off its Funds Services business for the following reasons:
  1. It allows NZX and the spun-off company to access capital and implement strategies in ways that make sense for their respective needs;
  2. It also allows the two companies to be priced appropriately by the market.
  3. The two businesses (exchange market operator vs funds service business) are clearly different in business nature. An optimised wide-moat core markets business can be highly profitable while remaining nimble. The funds service business (both the funds management and administration businesses) require economies of scale just to be competitive.
  4. Lastly, the two businesses clearly require different Management/Board skills.

New Co.

SMARTSHARES

# of ETF Funds = 23*

FUM – External = $818M*

FUM – from SuperLife = $1,730M*

Total FUM = $2,548M*

SUPERLIFE

FUM – KiwiSaver = $808M*

FUM – Other = $1,332M*

Total FUM = $2,140M*

NZX Wealth Technologies

FUA = $1,133M*

(0.9% market share of the NZ$130B New Zealand wealth platform market)

Combined FUM = 2,958M*

(1.8% of Total FUM of New Zealand Managed Funds Industry)**

** As at 31 July 2018*

*** RBNZ - Managed Funds Industry Quarterly Survey - March 2018*

OPPORTUNITIES (5)

REVIEW REGULATORY FUNCTIONS

- We recognise that self-regulation has its benefits, including an overall increase in regulatory resources and an ability to leverage inside knowledge/expertise of industry professionals.
- However, we suggest there exists significant benefits toward adopting a government/statutory model similar to that in Australia. Such a centralised approach promotes efficiency and reduces the duplication/layering of regulation, including supporting infrastructure and oversight activities.
- We further suggest that the FMA would be better positioned to deliver more effective regulation as a single agency, as it would have broad jurisdiction overall market participants; avoiding conflicts of interest between NZX's commercial functions as a "for-profit" entity, and their position as a regulator - we point to the significant costs associated with regulatory functions while disciplining your own customers counteracts relationship building activities essential to all businesses.
- We suggest that transferring more regulatory responsibilities to the FMA would rebalance NZX's competitive position relative to the ASX, which currently has a cost advantage due to their adoption of a government/statutory model in 2010.
- New Zealand is well suited to this model due to the small size of its market – traditionally, one of the major headwinds for large complex markets wanting to adopt centralised regulatory models has been the overwhelming resource required to do so; this is simply not the case for NZX.
- Finally, in the FMA's - NZX Annual Obligations Review (1 January - 31 December 2017) the FMA specifically highlighted a lack of expertise in the market surveillance function. This would seem an obvious place to start to us*.

ASX
AUSTRALIAN SECURITIES EXCHANGE

MEDIA RELEASE

8 July 2010

ASX and ASIC sign supervisory transfer arrangements

ASX Limited (ASX) and the Australian Securities and Investments Commission (ASIC) have reached formal agreement on the transfer of responsibility for the supervision of trading on ASX's licensed financial markets.

The transfer will take place on Sunday, 1 August 2010.

Upon the transfer:

- ASIC will assume responsibility for the supervision of domestic licensed financial markets and for participants (including the relationship between participants and their clients) on those markets;
- ASX will retain responsibility for ensuring participants admitted to its market comply with its operating rules; and
- 23 ASX staff will take up positions at ASIC in conjunction with the transfer of responsibility.

The new arrangements do not change the existing oversight of listed entities or the obligations on ASX's clearing and settlement facility operators.

The Australian Government announced the changes to the supervision of Australia's financial markets in August 2009 as the first step towards considering competition between market operators.

ASX is retaining a subsidiary company to fulfil the obligations of each of the licensed entities in the ASX Group to monitor and enforce compliance with the ASX operating rules after the transfer.

- The name of this subsidiary will change to ASX Compliance, as the existing name - ASX Markets Supervision - will no longer properly describe the subsidiary's role within the ASX Group or ASX's ongoing obligations.
- Kevin Lewis has been appointed to the role of Group Executive and Chief Compliance Officer. He starts on 19 July and his role supersedes the Group Executive role that Eric Mayne has held in his five years with ASX.
- Alan Cameron AM, a former chairman of ASIC, will remain chairman of the ASX Compliance subsidiary. As is presently the case, only one director on the board of ASX Compliance will also be a director of ASX.

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** https://fma.govt.nz/assets/Reports/_versions/11034/NZX-Obligations-Review-2018.1.pdf*

OPPORTUNITIES (6)

BECOME "NEW ZEALAND'S MARKETPLACE FOR CAPITAL"

- Apart from spinning off non-core businesses to focus on the current core markets business, we also believe NZX should aspire to become - "New Zealand's Marketplace for Capital" - rather then just New Zealand's Exchange.
- NZX should explore possible horizontal integration. i.e., entering into markets such as unlisted, crowd funding platforms, etc. to create an integrated funding ecosystem under the NZX banner.
- This should promote New Zealand capital market activities and improve both the size and visibility of NZX's IPO/listing pipeline.

NZX NEW ZEALAND'S EXCHANGE → NZX NEW ZEALAND'S MARKETPLACE FOR CAPITAL

NZX

USX

SNOWBALL EFFECT

ELEVATION CAPITAL CONCLUSION & ESTIMATED INTRINSIC VALUE RANGE

ELEVATION CAPITAL – CONCLUSION

BECOME THE #1 REGIONAL EXCHANGE OPERATOR IN THE WORLD

- NZX is in an enviable position with a core markets business that has three business reporting units all with operating margins of 70% and above. If Management focuses on its core markets business, and works to achieve the financial target/metrics that we have set out in this presentation, we believe NZX should be able to deliver consistent double digit returns for its shareholders (over the market cycle).

50%

EBITDA MARGIN (BY 2020)

- Divest non-core businesses

$0.4M

REVENUE/EMPLOYEE (BY 2020)

- Improve employee productivity and efficiency

1%-2%

ORGANIC REVENUE GROWTH

- Focus on high quality revenue and earnings

0%-1%

ORGANIC EXPENSE GROWTH

- Expand operational leverage

TSR

DOUBLE DIGIT TOTAL SHAREHOLDER RETURN

BECOME A "BEST-IN-CLASS" CAPITAL ALLOCATOR

- We also believe that NZX does not need to seek outsize growth to create value for its shareholders. NZX can be a great long-term investment for its shareholders if and only if Management/Board evolved and become great capital allocators. If the Management and the Board do not acknowledge this, we fear shareholders will face another five years of underperformance.

ELEVATION CAPITAL – CONCLUSION (CONTINUED)

STRATEGIC JOINT-VENTURES THAT ENABLE NZX TO REDUCE HEADCOUNT & ACCESS GLOBAL SKILL-SETS

- We suggest that NZX must "*rinse and repeat*" its past experiences (NZX Indices, TZ1, etc), and seek a JV partner from a global commodity powerhouse such as ICE, CBOE or CME to lower the cost/s, increase volume/s and to hasten the development and marketing of NZX's Dairy Derivatives business globally.

SPIN-OFF THE FUNDS SERVICES BUSINESS

- NZX should spin-off its Funds Services business, as it allows NZX and the spun-off company to access capital and implement strategies in ways that make sense for their respective needs. The two businesses (exchange market operator vs funds service business) are clearly different in business nature. An optimised wide-moat core markets business can be highly profitable while remaining nimble, while the funds service business (both the funds management and administration businesses) require economies of scale just to be competitive. Lastly, the two businesses clearly require different Management/Board skills.

REVIEW REGULATORY FUNCTIONS

- We suggest there exists significant benefits toward adopting a government/statutory model similar to that of the ASX. Such a centralised approach promotes efficiency and reduces the duplication/layering of regulation, including supporting infrastructure and oversight activities.

BECOME "NEW ZEALAND'S MARKETPLACE FOR CAPITAL"

- Lastly, NZX should explore possible horizontal integration. i.e., to enter into markets via unlisted, and crowd funding platforms, etc. to become "New Zealand's Marketplace for Capital".

ELEVATION CAPITAL – ESTIMATED INTRINSIC VALUE RANGE

- **If NZX implement the changes that we are suggesting in the Opportunties section, we estimate the intrinsic value range to be NZ$1.62 - NZ$1.89 per share.**
- **This does not include a 50% sale of the Dairy Derivatives business to a global player, or relinquishing more regulation to the FMA - these initiatives should be viewed as further potential upside.**

		NZX Core Markets + Corporate	NZX Funds Services	
		NZX NEW ZEALAND'S EXCHANGE	SMARTSHARES SUPERLIFE	NZX Wealth Technologies
FY2019 SCENARIO	Basic Assumptions:	Op. Revenue = NZ$54.3M Op. Earnings = NZ$27.9M Op. Margin = 51.3%	FUM = NZ$3.42B	FUA = NZ$3.45B
	Valuation:	13x EV/EBITDA	2% of FUM	Replacment Value (Purchase + Capex)
	Estimated Fair Value	NZ$361.6M (NZ$1.34 per share)	NZ$68.3M (NZ$0.25 per share)	NZ$8.3M (NZ$0.025 per share)
	Estimated Combined Fair Value = $438.3M ($1.62 per share)			
FY2020 SCENARIO	Basic Assumptions:	Op. Revenue = NZ$58.1M Op. Earnings = NZ$32.9M Op. Margin = 56.7%	FUM = NZ$3.76B	FUA = NZ$3.79B
	Valuation:	13x EV/EBITDA	2% of FUM	Replacment Value (Purchase + Capex)
	Estimated Fair Value	NZ$427.4M (NZ$1.59 per share)	NZ$75.2M (NZ$0.28 per share)	NZ$8.3M (NZ$0.025 per share)
	Estimated Combined Fair Value = $510.8M ($1.89 per share)			

ELEVATION CAPITAL – ESTIMATED INTRINSIC VALUE RANGE

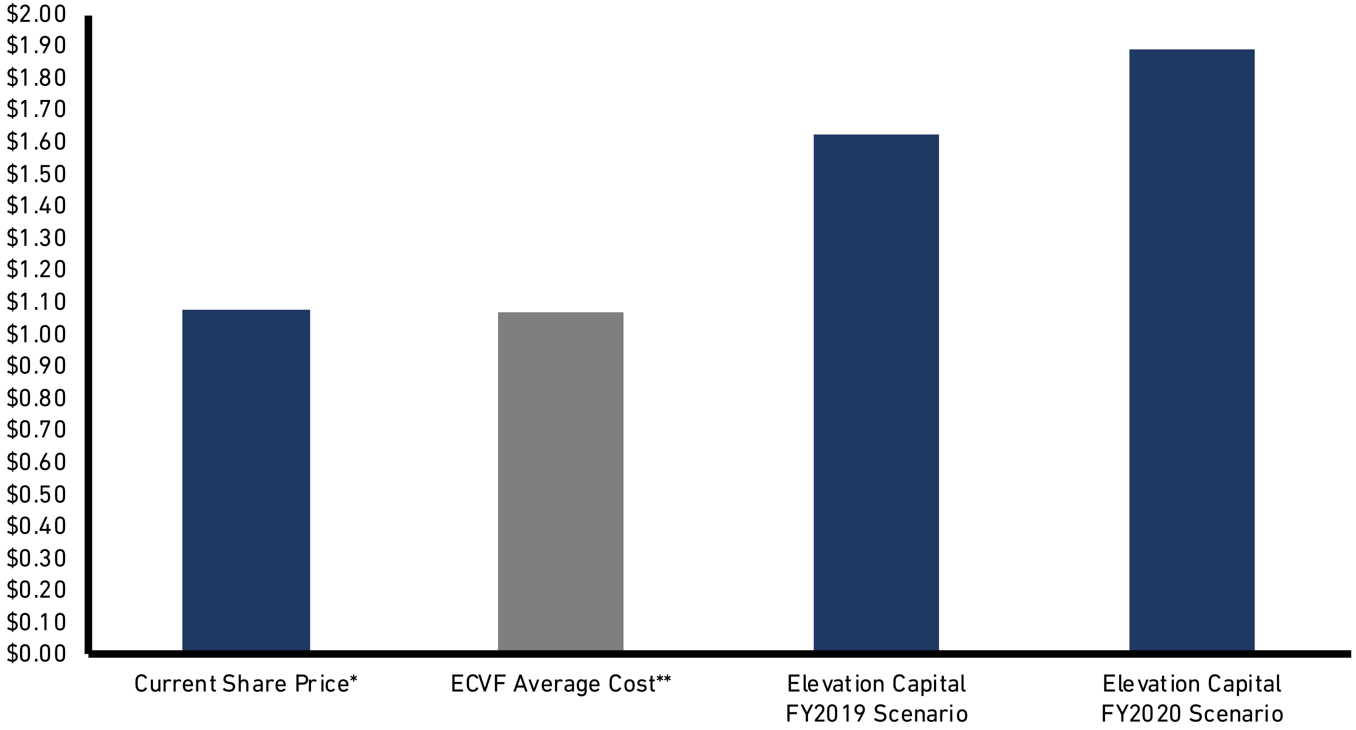
Elevation Capital
Estimated Intrinsic Value Range:

NZ$ 1.62 – NZ$ 1.89
Per Share

Downside/Upside
Potential Range:

+50.4% – +75.4%

VALUATION SUMMARY



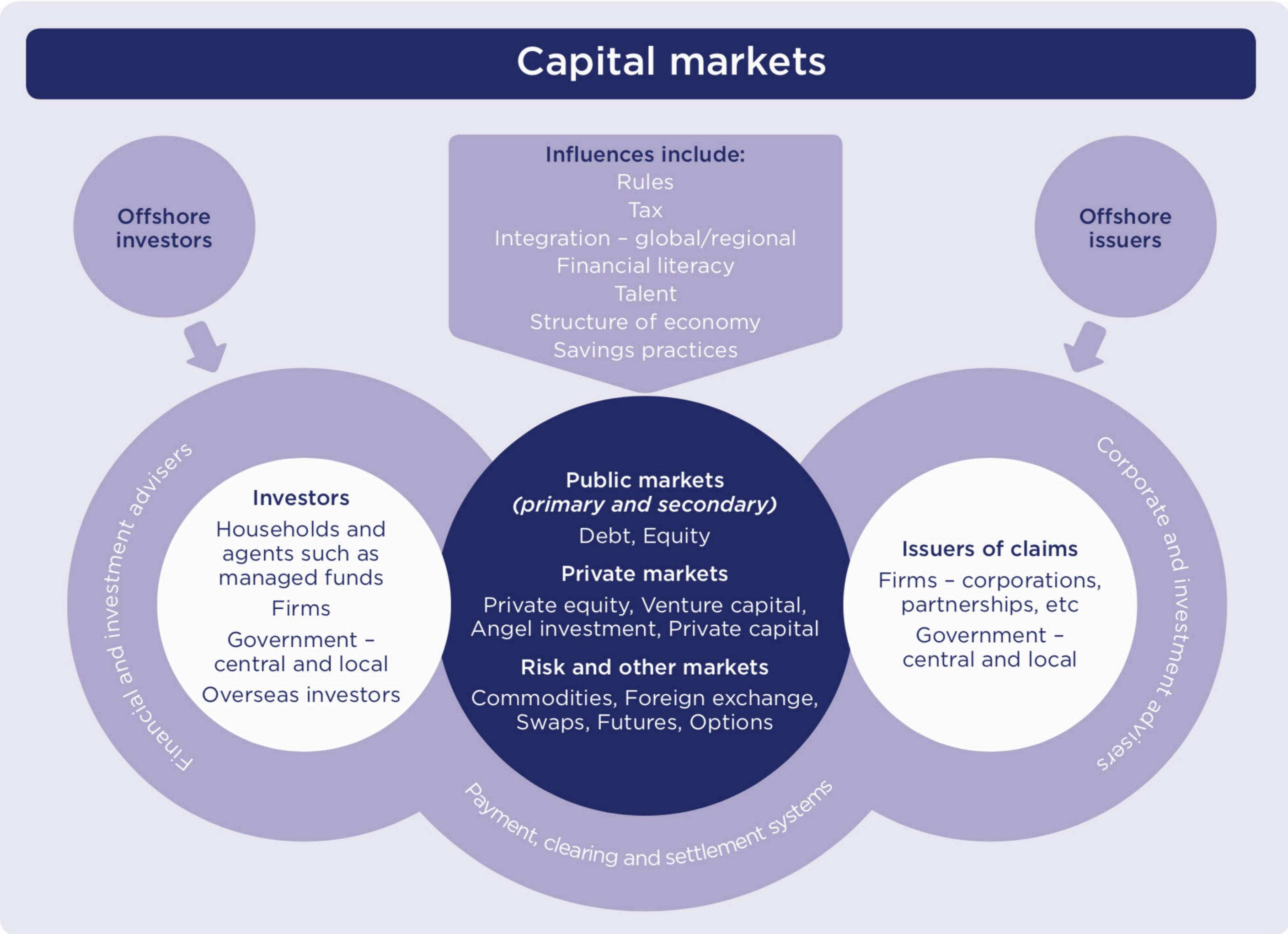
** Current Share Price = NZ$1.08 (as at 12 September 2018)*
*** Elevation Capital Value Fund ("ECVF") Average Cost = NZ$1.07 (as at 20 August 2018)*
EC = Elevation Capital, ECVF = Elevation Capital Value Fund

APPENDICES

APPENDICES

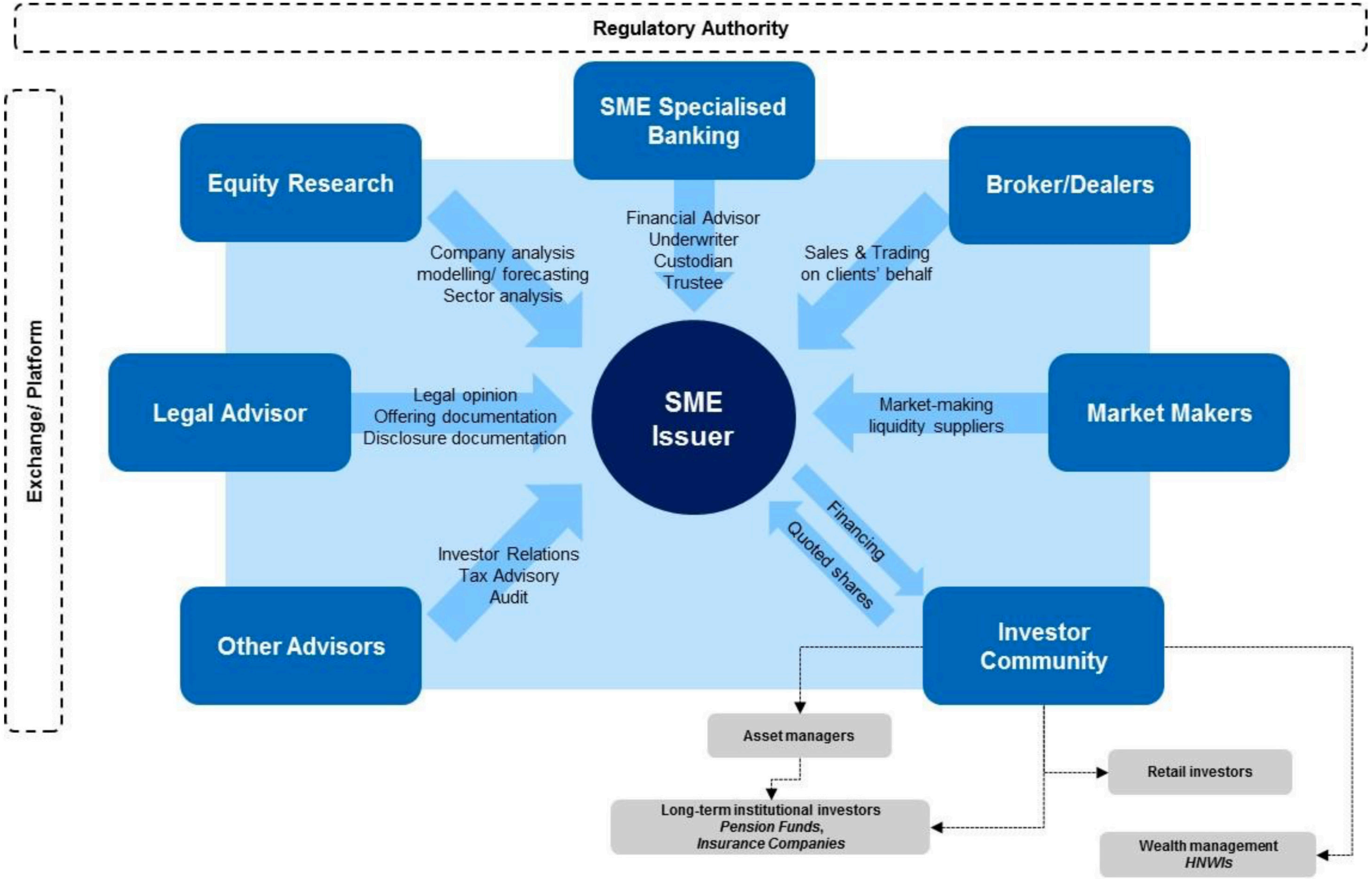
- Appendix #1 – New Zealand Capital Market/s Structure
- Appendix #2 – JPX 2nd Medium-Term Management Plan – 22 March 2016
- Appendix #3 – Euronext AGM Presentation – 19 May 2017
- Appendix #4 – LSE Investor Update - 12 June 2017
- Appendix #5 – Nasdaq Investor Presentation - May 2018
- Appendix #6 – Thomson Reuters Eikon ESG Score System
- Appendix #7 – Banqer - Cashed up Financial literacy for college students - Sunday Star-Times - 11 February 2018
- Appendix #8 – Brian Gaynor articles on NZX
- Appendix #9 – Liquidity Assessment
- Appendix #10 – M&A Valuation
- Appendix #11 – NZX at a Glance

APPENDIX #1: NEW ZEALAND CAPITAL MARKET/S STRUCTURE



Source: Capital Market Development Taskforce – Summary Report – December 2009

APPENDIX #1: NEW ZEALAND CAPITAL MARKET/S STRUCTURE (CONTINUED)



Source: Nassr & Wehinger, 2016

APPENDIX #2: JPX 2ND MEDIUM-TERM MANAGEMENT PLAN – 22 MARCH 2016

JPX
JAPAN EXCHANGE GROUP

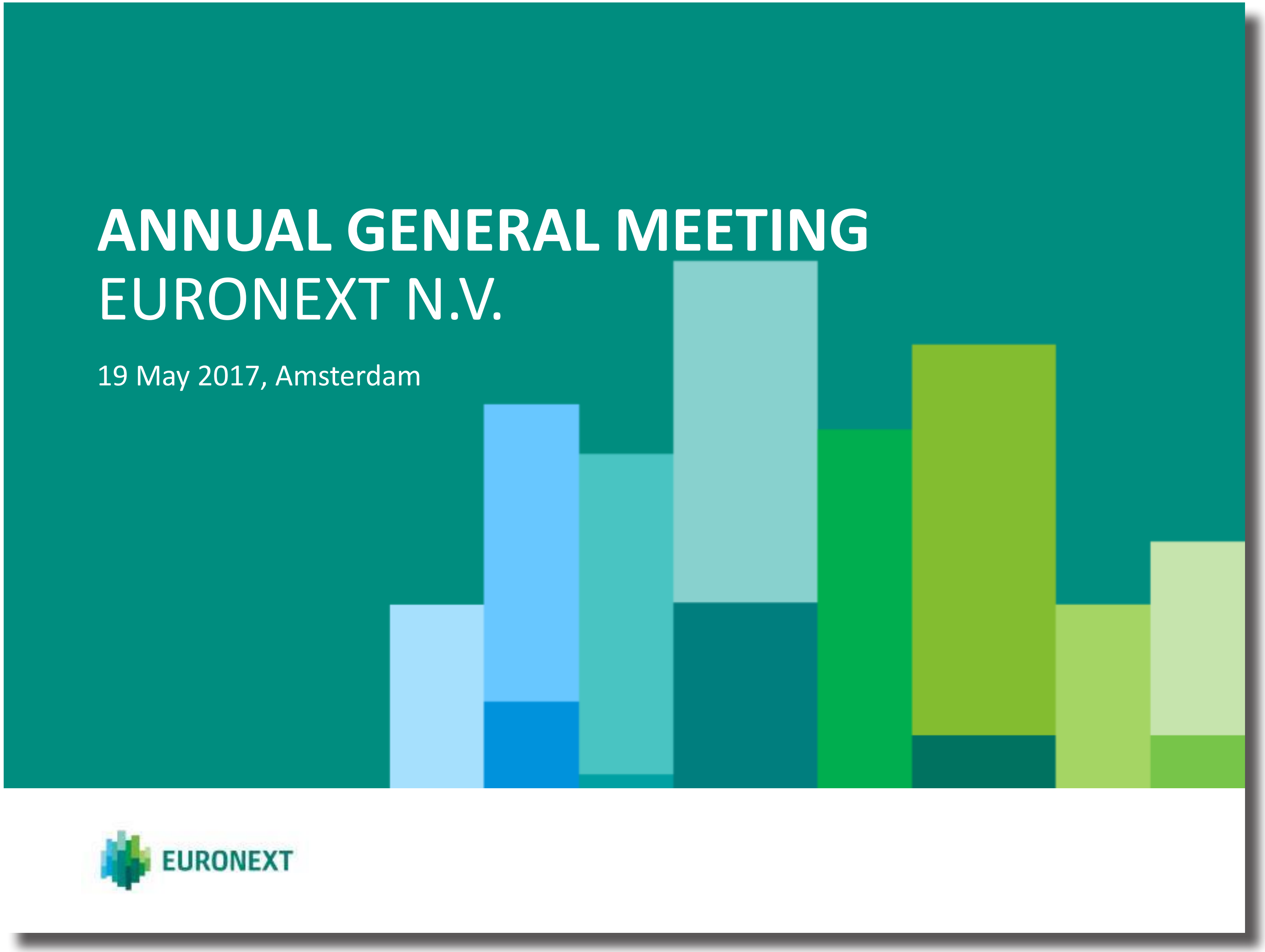
- Your Exchange of Choice -

2nd Medium-Term Management Plan

FY2016 FY2018

March 22, 2016 Japan Exchange Group, Inc.

APPENDIX #3: EURONEXT AGM PRESENTATION – 19 MAY 2017



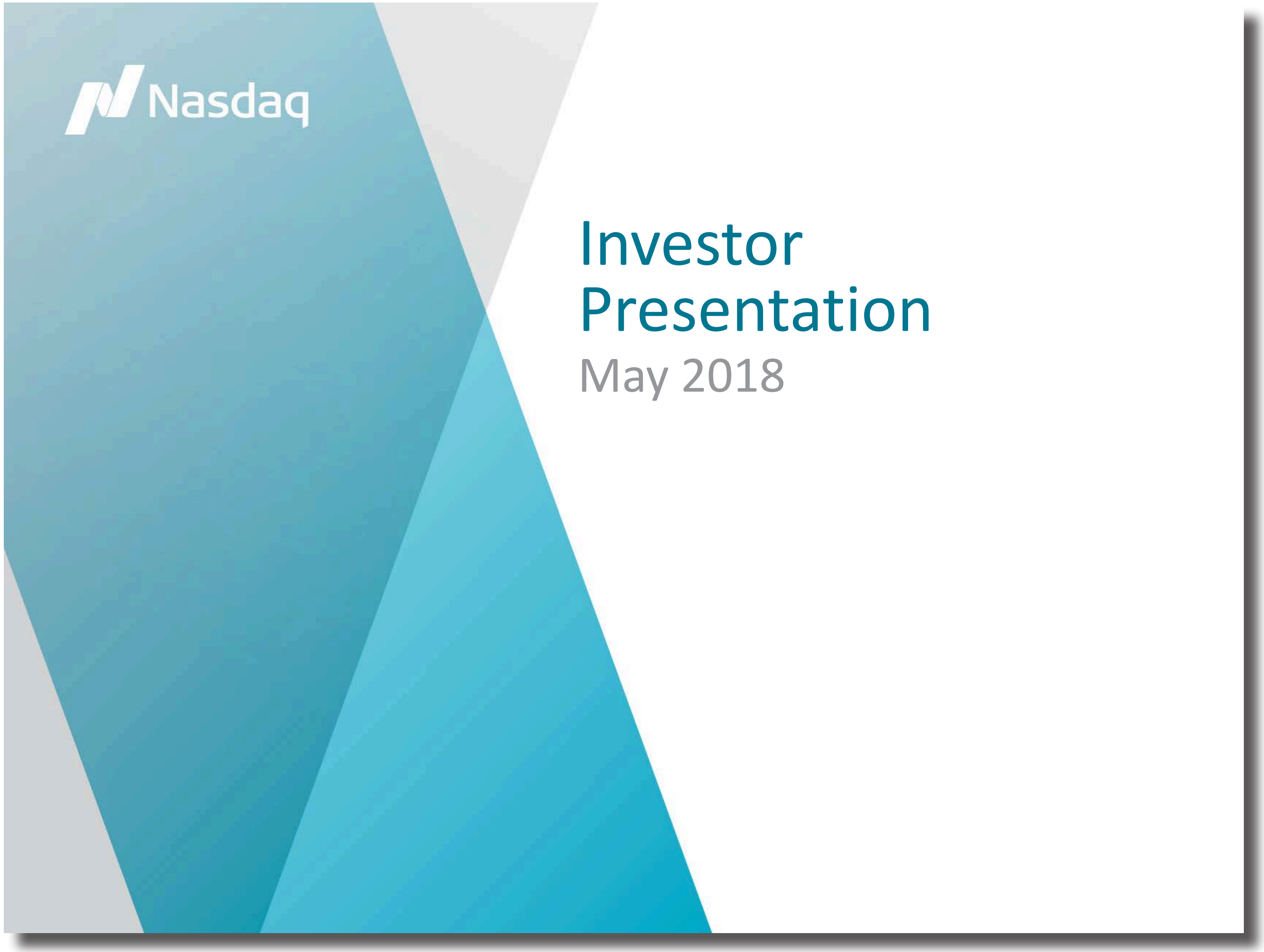
APPENDIX #4: LSE INVESTOR UPDATE – 12 JUNE 2017

DICTUM MEUM PACTUM

Investor Update

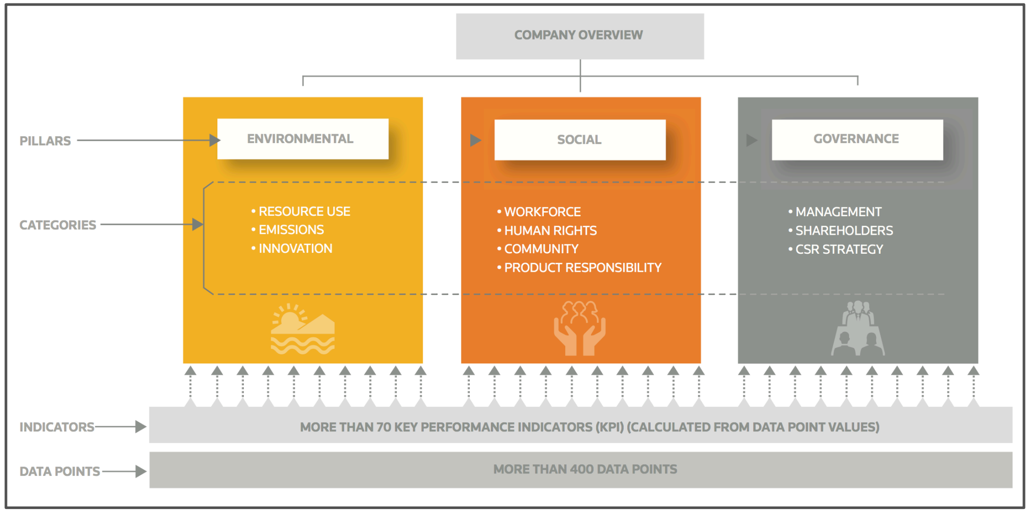
12 June 2017

APPENDIX #5: NASDAQ INVESTOR PRESENTATION – MAY 2018

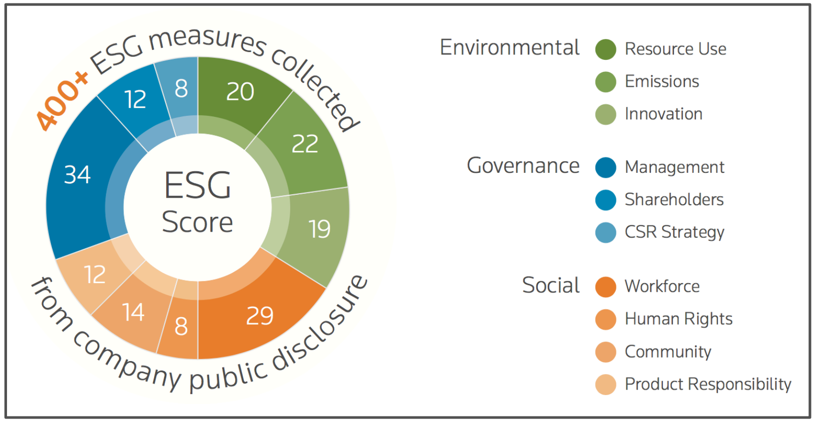


APPENDIX #6: THOMSON REUTERS EIKON ESG SCORING SYSTEM

- We utilise Thomson Reuters ESG scores to evaluate a company's ESG efforts.
- It offers one of the most comprehensive ESG databases in the industry covering over 6,000 public companies, across more than 400 different company level ESG metrics.



Thomson Reuters ESG Framework



400 company level ESG measures collected

Score Range	Grade
0.0 <= score <= 0.083333	D -
0.083333 < score <= 0.166666	D
0.166666 < score <= 0.250000	D +
0.250000 < score <= 0.333333	C -
0.333333 < score <= 0.416666	C
0.416666 < score <= 0.500000	C +
0.500000 < score <= 0.583333	B -
0.583333 < score <= 0.666666	B
0.666666 < score <= 0.750000	B +
0.750000 < score <= 0.833333	A -
0.833333 < score <= 0.916666	A
0.916666 < score <= 1	A +

Thomson Reuters ESG Framework

APPENDIX #7: SUNDAY STAR-TIMES ARTICLE ON BANQER*

Cashed up financial literacy for college students

A mission has begun to financially educate our teenagers. Rob Stock reports.

Sunday Star-Times · 11 Feb 2018

Secondary school children have a new way to learn about money with the launch tomorrow of Kohorts, a "sister" company to Banqer.

Banqer's virtual world of money is being used by children and teachers in around 500 primary schools around the country, and Kohorts aims to have a similar impact in secondary schools.

Like Banqer, Kohorts is a subscription-based service. Schools will pay $1 per student per month for the children to build their financial capability through a digital world which simulates the money lives of young adults leaving home, and entering the workforce. Founders Simon Brown and Alex Miller are both employees of Banqer.

Brown said New Zealand secondary students were at a disadvantage when it came to financial preparedness.

"Unlike certain European, North American and Australian students, Kiwi teens aren't required to partake in any financial education as a part of their secondary studies." Research in three US states had found that after making financial education compulsory in schools, the average credit score rose and the number of people missing loan repayments dropped.

"Studies show that 10 years after mandating financial education in high schools in the US, the states of Georgia, Idaho, and Texas are better o!," Brown said.

"All three states saw credit scores rise an average of 12 points.

"Similarly, 90-day delinquencies dropped, Texas seeing the biggest change with a 32.6 percentage point difference from pre-implementation levels."

Kohorts aimed to change New Zealand's situation, and had developed a charitable donations scheme to fund schools in lower socio-economic areas, where even a dollar a month could be a cost too high for parents.
That may be important, as the OECD has found that while many New Zealanders grow up to be financially knowledgeable, there's a large group who end up as adults with low levels of knowledge.

The OECD is a believer, having identified young adults in the world's most developed countries having a significant money skills deficit.

Ninety-three per cent of UK teenagers were worried about money on a daily basis.

Most parents want money education in schools too. In 2015, a survey by Westpac found 93 per cent of parents wanted children to be taught about money in the classroom.

Not everybody approves of classroom capitalist training.

"Some people think we should let kids by kids, and not worry them about this kind of thing," Brown admitted.

However, as children progress through their secondary educations, they drew closer to big finance decisions including, for many, going into debt to get a tertiary education. Even with Labour's fee-free first year of study policy, studying may well mean borrowing money to live in cities where rents have spiked as a result of chronic housing shortages.

The success of the Banqer model, which Kohorts is following, has been partly due to making life easy for teachers, who may be expert educators but not experts at money management.

The virtual world requires teachers to be involved, but does not require them to begin as money experts.

Brown said: "It's easy to say this should be taught in schools but the reality for schools to make this happen is a challenging one."

"Teachers currently face a number of constraints making it hard for them to teach this life skill. We simply hope to remove those."

Kohorts was tested in Taranaki schools, assisted by Taranaki Futures, which is a project aiming to prepare secondary school children for life in the workforce.

MONEY SMARTS OF OECD'S YOUNG ADULTS
US: Only 27 per cent of young adults know what inflation is.
UK: 52 per cent of young Brits have been in debt by the age of 17.
DENMARK: 73 per cent of young adults have little or no knowledge of interest rates.
CANADA: 63 per cent of young adults believe it is important to learn about personal finance at a young age.

* *https://www.pressreader.com/new-zealand/sunday-star-times/20180211/282428464646892*

APPENDIX #8: BRIAN GAYNOR'S NZ HERALD ARTICLES ON NZX

- NZX left in the dust (NZ Herald - 18 November 2017)

  https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11945219

- Xero sends a message to the market (NZ Herald - 11 November 2017)

  https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11942805

- Breakup best for lacklustre NZX (NZ Herald - 10 June 2017)

  https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11873388

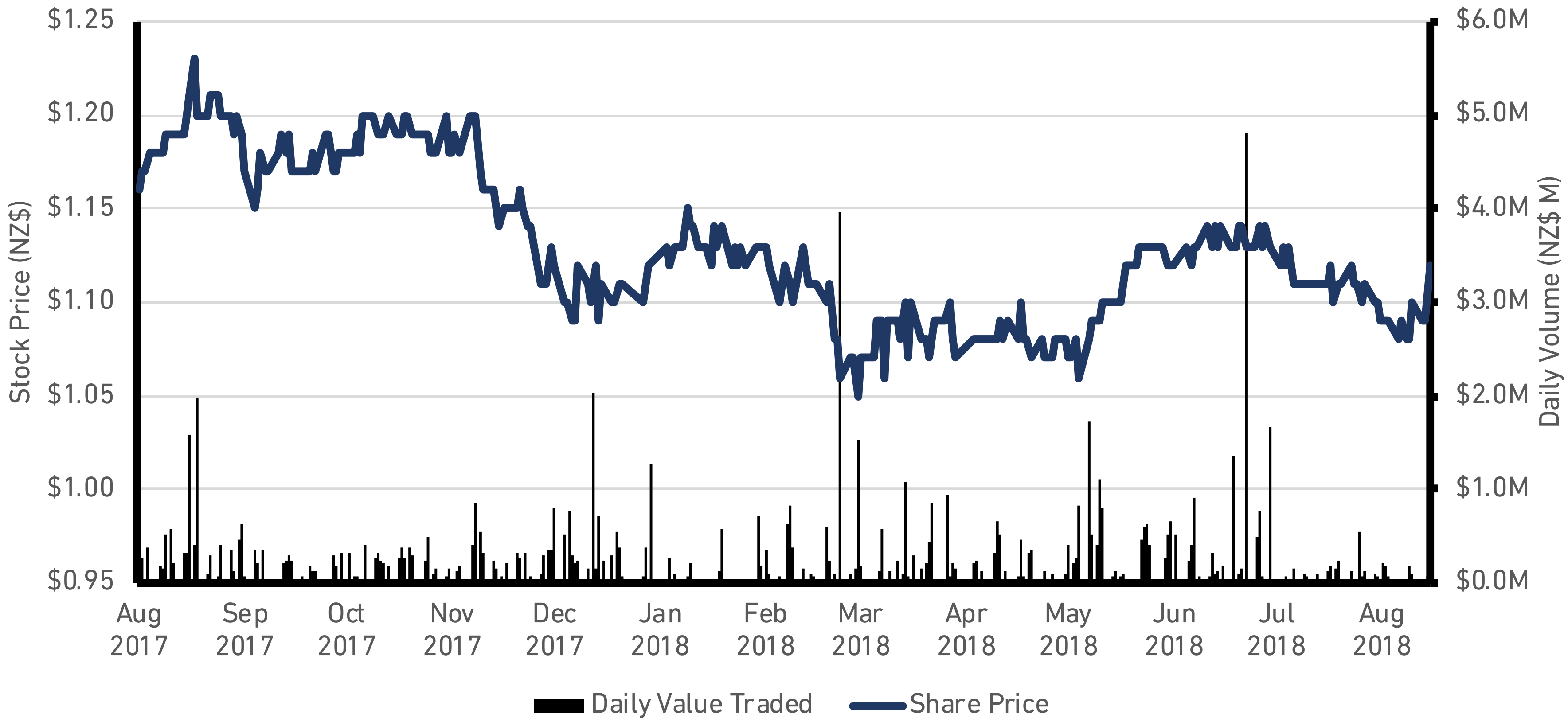
- Why does the NZX have so few IPOs and what does this mean for investors and the economy? (NZ Herald - 27 May 2017)

  https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11863859

APPENDIX #9: LIQUIDITY ASSESSMENT

- The one-year average daily trading volume in NZX totals NZ$0.31M (~0.11% of the current market cap of NZ$290M*).

NZX STOCK PRICE vs. DAILY VALUE TRADED



** As at 12 September 2018*
Data Source: Thomson Reuters Eikon

APPENDIX #10: M&A VALUATION

- While we are clearly not presenting/suggesting a takeover scenario of NZX, it is interesting to note that the NZX is currently is trading at 10.2 times of its 2017 EBITDA.Compare this to the 16.5x EV/EBITDA multiple Irish Stock Exchange (ISE) was sold at in December 2017.
- If NZX is valued at the same 16.5x EV/2017 EBITDA multiple, this implies a share price of NZ$1.76 per share, which offers a +60% upside from current market prices. If we assume 16.5x EV/2020 EBITDA (based on Elevation Capital scenario and estimates), this implies a value of NZ$2.38 per share.
- **While we understand that an acquisition of the NZX is highly unlikely given the Crown's right to veto (nor are we suggesting/recommending this as an option) it should not stop us from assessing the Management and Board based on this strategic alternative.**

"We needed brand and we needed technology and innovation capability. Neither of those two areas would have been possible to grow ourselves organically."

- ISE CEO Seirdre Somers

"The transaction will unlock significant growth potential and development opportunities for the Irish Stock Exchange"

- Euronext CEO Stéphane Boujnah

Business Irish

Will decision to sell and end Dublin independence see ISE's stock rise?

The Irish Stock Exchange came under new ownership last week when Euronext agreed a €159m takeover of the 224-year old market, writes Dan White

Euronext chief Stephane Boujnah and the Irish Stock Exchange CEO Deirdre Somers announce the deal she says will bring innovation capability. Photo: Bloomberg

Euronext is paying €137m, the equivalent of <u>16.5</u> times the Irish Stock Exchange's 2016 EBITDA

"The Irish Stock Exchange has successfully diversified away from its domestic market in recent years. Under chief executive Deirdre Somers and her predecessor, the late Tom Healy, it has become the world's number one destination for listing debt securities, investment funds and exchange traded funds (ETFs).

This diversification has transformed the ISE. What was as recently as the 1980s little more than a glorified gentlemen's club with old-school brokers gathering every morning and afternoon for sedate trading sessions across the exchange floor, is now a thriving Irish-based international financial services business. "

** Share Price of $1.08, as at 12 September 2018*

APPENDIX #11: NZX AT A GLANCE

MARKET CAPITALSATION	SHARE PRICE	SHARES OUTSTANDING	EPS (2017)	DPS (2017)	P/E RATIO	DIVIDEND YIELD
NZ$290M	NZ$1.08	269M	5.5 CPS	6.1 CPS**	19.6x	5.6%

OPERATING REVENUE (2017)	OPERATING EXPENSES (2017)	OPERATING EARNINGS (2017)	OPERATING MARGIN (2017)	HEADCOUNT (2017)	HEADCOUNT (30/6/18)
NZ$75.3M	NZ$46.3M	NZ$29.0M	38.5%	238	245

NET PROFIT BEFORE TAX (2017)	NET PROFIT AFTER TAX (2017)	NET MARGIN (2017)	TAX RATE (2017)	TOTAL RETURN (2018YTD*)	TOTAL RETURN (2017*)
NZ$20.9M	NZ$14.8M	19.7%	29.0%	+6.7% (S&P/NZX50 = +9.5%)	+14.9% (S&P/NZX50 = +22.0%)

NZX STOCK PRICE SINCE 2003

Source: NZX 2017 Annual Report and 1H 2018 Report
** As at 12 September 2018, performance data from Thomson Reuters Eikon and Morningstar Direct*
*** Ordinary dividend*

APPENDIX #11: NZX AT A GLANCE (CONTINUED)

2017 RESULTS	**OPERATING REVENUE**	**OPERATING EXPENSES**	**OPERATING EARNINGS**	**OPERATING MARGIN**
NZX GROUP	$75.3M	-$46.3M	$29.0M	38.5%
CORE MARKETS	$52.4M	-$12.3M	$40.0M	76.3%
AGRI	$8.2M	-$6.4M	$1.8M	21.5%
FUNDS SERVICES	$14.8M	-$12.1M	$2.7M	18.4%
CORPORATE	-	-$15.5M	-$15.5M	-
CORE MARKETS:				
ISSUER RELATIONSHIPS	$24.3M	$6.6M	$17.7M	73.0%
SECONDARY MARKETS	$16.6M	$4.3M	$12.3M	74.0%
DATA & INSIGHTS	$11.5M	$1.5M	$10.0M	87.2%

2018 1H RESULTS	**OPERATING REVENUE**	**OPERATING EXPENSES**	**OPERATING EARNINGS**	**OPERATING MARGIN**
NZX GROUP	$37.2M	-$23.3M	$13.9M	37.4%
ISSUER RELATIONSHIPS	$11.5M	-$2.5M	$9.0M	77.9%
SECONDARY MARKETS	$8.5M	-$2.6M	$5.9M	69.1%
DATA & INSIGHTS	$5.6M	-$0.9M	$4.7M	84.8%
FUNDS MANAGEMENT	$7.3M	-$4.8M	$2.5M	34.2%
WEALTH TECHNOLOGIES	$0.5M	-$1.1M	-$0.6M	-91.7%
CORPORATE	-	-$8.3M	-$8.3M	-
AGRI (DISCONTINUED)	$3.8M	-$3.1M	$0.7M	18.9%

Source: NZX 2017 Annual Report and 1H 2018 Report

‘INDEPENDENT THINKING – DISCIPLINED INVESTING’

INDEPENDENT THINKING

[In-de-pend-ent Think-ing] **ində’pendənt THiNkiNG** *verb*

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you’re several thousand miles away from Wall Street in a different nation, it’s easier to be independent and buy the things that other people are selling, and sell the things that other people are buying. We also believe that cash is sometimes the most attractive investment.

DISCIPLINED INVESTING

[Dis-ci-plined In-vest-ing] **disciplinəd inves’ting** *verb*

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. Our investments are premised on the concept of “Margin of Safety” which we believe reduces risk.

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