

4 October 2018

Dear Shareholders,

On behalf of the Board, which is responsible for acting in the best interest of all shareholders, I acknowledge the recent public commentary about NZX's strategy.

As a board, we are conscious of the need to improve returns to shareholders. This has been, and remains, a central focus of your board. It guided the vital reset of NZX last year, as the board established the right leadership, and implemented a renewed five-year strategy to ensure we maximised shareholder returns, while building a stronger capital market for New Zealand.

Committed to our strategy

Over the past 11 months we have advanced our business materially and are confident about the future. Our non-core businesses have been divested, customer service and business efficiencies improved, secondary market liquidity increased, and plans well progressed to simplify the New Zealand market's structure and rule set.

The board were also pleased to deliver a special dividend to shareholders as part of half year results utilising the proceeds of disposals of non-core businesses.

While the board welcome reasonable investor feedback, there is a small group of shareholders who are applying increased public pressure for NZX to sell its fund management and wealth technologies businesses. New Zealand's fund management sector has significant growth potential, and maximising the growth of our superannuation, KiwiSaver and exchange traded funds products is a priority. Growing these passive products underpins the development of NZX, and the broader public market, while supporting several of our key strategic initiatives. These businesses are important for delivering earnings growth.

Creating global scope and scale

Together, with this increased focus on shareholder returns, NZX has been considering ways to drive growth in its core markets business. This does require a level of investment, but we are conscious of the need to invest wisely and to operate efficiently.

An aspect of this, is a conscious effort by the board to move away from a domestic focused strategy and to develop global links, focused on New Zealand's key trading partners. So far these include the Singapore Stock Exchange, the Hong Kong Stock Exchange, the Nasdaq, and the Shanghai Stock Exchange. This approach is part of a broader change in mind-set for NZX to be more outward focused.

There are two approaches an exchange can take to developing their market and presence – go it alone and seek to build a dominating regional presence, or partner with like-minded exchanges to build scope and scale, while leveraging these relationships to deliver increased customer value and an enhanced product offering.



The board considers alliances to be an effective way to create scale for an exchange of NZX's size. They are an efficient investment and have a high degree of potential. To commercialise the memoranda of understandings the board wanted to invest in these relationships, and the response from our peers has been positive. The next step is to deliver on the commercial opportunities.

As part of this, the board decided to invest in its strategic relationship with Nasdaq. This partnership has two aspects. The first is creating value for our current and prospective listed customers by exploring opportunities to develop our products and services.

The second is technology. Nasdaq is recognised as a leader in its field and NZX is a long-standing customer of its trading platform and market surveillance systems. In a time of rapid technological change, where disruption is likely to be a key future factor, it is important we explore opportunities to meet these challenges. Again, given NZX's size and scale, partnering and fast adoption of new technology is likely to be the best option, so it is important we explore ways to achieve this.

It is important we acknowledge shareholders who have expressed concern at the board's visit to the Nasdaq. NZX is always willing to engage with shareholders on reasonable concerns which are raised. As a fellow shareholder, the board is always mindful of costs. This visit had a strong focus on listed customers, data, surveillance and technology, and both exchanges invested significant effort to ensure a long lasting partnership is developed.

The path forward

We too are impatient to deliver results for shareholders. We are working hard, and remain on track to deliver on our clear strategy.

Actions achieved to date will support our customers' growth, our shareholders' growth, and our countries growth, and we look forward to updating you on progress, and providing more detail on our plans at NZX's full year results in February 2019.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J Miller'.

James Miller
NZX, Chair