
Product disclosure statements: understanding investors' information needs

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Introduction

Purpose

The purpose of this report is to help issuers and their advisers think about how they can make disclosure information more useful for investors.

In the report we summarise feedback from investors about how they use disclosure information, and what other types of information they seek out.

We want issuers and their advisers to act on this feedback, so they can continue to improve their product disclosure statements (PDSs) and supporting information. To assist with this, the following page covers some key points for issuers to focus on.

This report should be read alongside our other guidance on effective disclosure.

Information sources and investor profile

This report summarises feedback from investors who had recently invested in an equity initial product offering (IPO), a bond offer or property scheme offered as a managed investment scheme – investment products we view as more complex than KiwiSaver. Choosing and using investment products is a focus in our [Investor Capability Strategy](#).

Interviews

Most of the findings come from a series of interviews conducted by Colmar Brunton in 2017. Interviewees had different levels of knowledge, but all had portfolios of at least two investment products. Throughout this report we have included quotes from these interviewees.

Survey

We validated key findings from the interviews with an online survey. Survey participants were members of the New Zealand Shareholders' Association (NZSA). The NZSA represents the interests of investors and shareholders.

ASIC research

This report also refers to qualitative research by the Australian Securities and Investments Commission (ASIC). Their interviews and focus groups were with investors who had recently invested in an IPO. Their findings were largely consistent with what we learned in our interviews.

Find out more about the investors in this research in the Methodology section on page 10.

Focus for issuers

Our research (see the following section) showed that PDSs are used by investors. However, even though these investors had experience investing, they struggled with some aspects of the PDS.

When preparing disclosure and wider investor information, we recommend issuers and their advisers think about the following:

What investors told us	What issuers can do to improve
<ul style="list-style-type: none"> • The PDS can be repetitive and long • The language can be academic, with too much legal terminology they may not understand • They struggle to find the key information to help their decision-making 	<ul style="list-style-type: none"> • Use simpler language and shorter sentences • Avoid repetition where possible • Use less jargon • Consider using headings and 'plain language' summaries to signpost key information
<ul style="list-style-type: none"> • They see financial information as a critical part of the PDS, but technical terms and fine print cause unnecessary complexity 	<ul style="list-style-type: none"> • Include analysis and commentary a non-expert can understand • Focus on key measures • Move more complex, expert-oriented information to the Disclose Register
<ul style="list-style-type: none"> • Risk information is too broad and generic 	<ul style="list-style-type: none"> • Focus on drafting risks that are specific to the offer or issuer • Be as comprehensive and objective as possible about the risks
<ul style="list-style-type: none"> • They value detailed information about management 	<ul style="list-style-type: none"> • Think about including more information about management in the supporting information section • Include information about qualifications, skills, experience and remuneration for the board of directors and senior management
<ul style="list-style-type: none"> • They typically access a PDS online 	<ul style="list-style-type: none"> • Tailor your PDS for online use – include hyperlinks and chapters so users can navigate the document without having to scroll
<ul style="list-style-type: none"> • They want to know if companies are acting in a socially responsible way. This extends to the company's governance approach and culture 	<ul style="list-style-type: none"> • Consider how to disclose information such as ESG (environmental, social and governance) reporting to investors
<ul style="list-style-type: none"> • They are happy to do additional research 	<ul style="list-style-type: none"> • Make sure that non-material information on your website and other channels complies with the 'fair dealing' provisions of the Financial Markets Conduct Act 2013

Findings

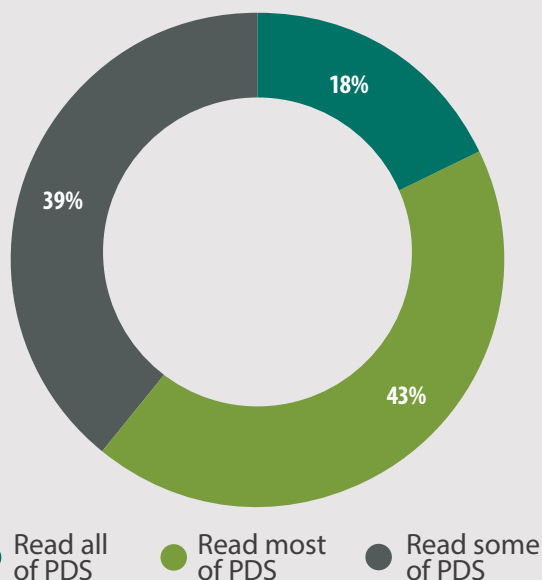
A PDS provides an investment snapshot and guides further research

From the interviews, we learned the PDS is read and valued by investors. It is often the first thing they look at when seriously considering investing in a particular product.

It is not read cover to cover; the whole thing is 'reviewed', allowing investors to obtain the information that is most valuable (see page 5). Once the investor has a sense of the product and the issuer, the PDS gives them points of interest they can dig into further through their own research and conversations with financial advisers.

How much of the PDS did you read?

The online survey supports the finding that investors read the PDS.



"I went to the PDS first when I heard about the XYZ IPO. Skimmed through it then took it to my adviser and had a chat with him. Looked online at the company and its management team..."

- Investor, XYZ IPO

Prior experience leads to more trust in the PDS

Most investors know the PDS is the issuer's sales document. There is an understanding that caution and scepticism need to be applied.

However, those who had successfully invested with a company in the past placed more trust and confidence in its PDS. This meant they used the PDS as their primary information source during decision-making, and relied less on other sources of information to supplement the PDS.

ASIC's research on IPO prospectus documents showed similar results. Many investors said, as it was a marketing document, the prospectus could not be relied on to tell the whole truth about an IPO.

This reinforced our findings that investors have a more positive reaction to information if they are already familiar with the brand or company.

ASIC's research observed that "it is possible that some of the retail investors paid more attention to, or were more positively predisposed towards, an issuing company they felt they had some affinity or familiarity with". ASIC noted this is an 'availability' bias – a tendency to develop a preference or positive predisposition toward things you are familiar with. Their research also showed that, for some, a positive predisposition towards a particular IPO may have coincided with further biases such as confirmation bias, where people can give more weight to information that confirms their initial judgment. This may lead to investors either searching for information that confirms their bias, or discounting or trivialising information that contradicts their position.

"I pretty much just used the PDS and a quick chat with my broker. Had a quick look on Sharetrader and that's it. I've invested in them before; a very well-run company. They've always delivered so I had no problem going along with the bond offer."

- Investor, bond offer

The PDS is an improvement over previous disclosure documents

Our interviewees told us the PDS format is an improvement over investment statements and prospectuses. It offers detailed information on the company, giving investors a better context of the product.

However, the PDS can be repetitive and long, and the language can be academic, with a lot of legal terminology. Investors often struggled to pick out the information most relevant to their decision-making.

Most don't plan to return to the PDS after investing, but in general they thought it was good to keep the PDS as a record, to refer to in future if necessary.

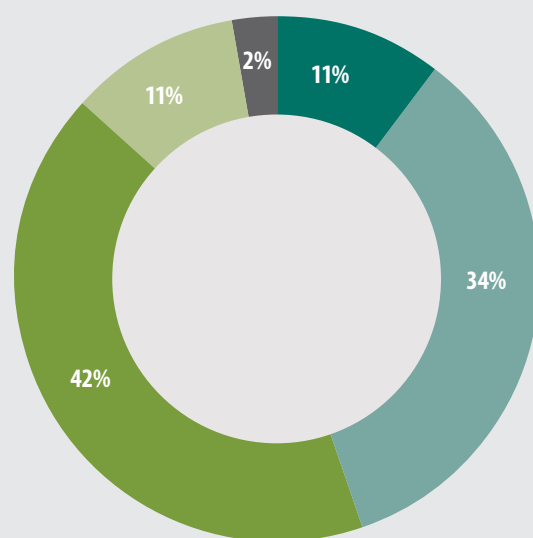
Results from the survey suggest the PDS was seen as either more relevant or about the same as investment statements and prospectuses. However 73% of survey participants did agree the PDS was very easy or fairly easy to understand.

74% of survey participants read and reviewed the PDS online. In the interviews, participants told us that in its current form, the PDS is not designed for a good online user experience. It is hard to navigate and requires a lot of scrolling between sections.

"I only ever used it online. It's much better than those prospectuses they had before."

- Investor, XYZ IPO

How relevant is the PDS to your decision-making compared to previous forms of offer documents such as the investment statement and prospectus?



- A lot more relevant
- Somewhat more relevant
- About the same
- Less relevant
- Don't know

Social responsibility information is valued

Many investors want to know that the investment product is backed by principles of social responsibility. This is a factor in their decision-making.

Disclosing policies and performance relating to ESG (environmental, social and governance) issues can help investors to assess the relationship between a company and the communities it affects.

ESG issues should also be factored into the identification and disclosure of risks.

Investors rely on certain key sections

The five sections that help investors make informed investment decisions are:

- the key information summary
- information about the company and management
- financial information
- terms of the offer
- key risks.

In some cases these sections met investors' information needs, but others sections require more work to ensure clarity.

Key information summary

This section provides a snapshot of the product and a high-level summary of its key points of interest. Investors use this to find salient points they need to pay attention to and further analyse.

Investors liked this section overall, especially tables and bullet points. However, they commented that it can sometimes get crowded, with too much information crammed into a few pages, making it harder to read.

"That summary section is key. It's got everything I need in there so I can run an eye down and then check out bits I'm interested in."

- Investor, property syndicate

About the company and management

This section lets investors know about the leadership of the company and understand how it operates.

Investors value knowing about the qualifications, skills and experience of a company's management team, as it helps them assess how the company may respond to future opportunities or challenges.

They also valued knowing about the company's operational structures, to get an idea of the

company's value proposition and the source of its competitive advantage.

Investors want as much information as possible in this section, especially about a company's board of directors and senior management – including their remuneration packages.

A profile of each senior executive, preferably with photos, brings transparency to how the company is led. This information lets investors see who is ultimately responsible for handling their investment.

"You can see who is what and what they bring to the table. Sometimes you get these companies run by accountants and you think what does an accountant know about building and construction? Why's he there as a CEO when he probably can't even tell the difference between a hammer and a screwdriver? So it's good to see what the leadership actually looks like."

- Investor, bond offer

Financial information

This section is viewed by investors as critical for gauging the company's current financial health and potential future performance. There is a clear understanding that this information is needed for financial advisers to conduct their due diligence.

However, in the interviews, investors told us they feel companies use this section to comply with disclosure regulation rather than give investors useful financial information.

This section was viewed as overly complex for most investors, especially those with little financial knowledge.

The technical terms, fine print disclosing caveats to the numbers, and large financial tables mean many investors only skim-read this section, rather than understanding its meaning.

Most rely on their financial advisers to help them make sense of the numbers. This finding was repeated in the online investor survey.

"I always make a point of looking at the finances. I can fiddle around with the numbers a little bit but not much. P/E ratio, gearing I can do but nothing more. It gets a bit much after a while. I leave that to my broker."

- Investor, property syndicate

Terms of the offer

Investors use the terms section to figure out how the product fits into their portfolio and overall financial plans.

Investors generally look for information on interest rates or dividend yields, minimum application amounts, and any fees or charges associated with the investment.

"The terms section is where some of the critical information is. It's good to have it all there and fully disclosed. At least this way people can't say they weren't told everything from the start."

- Investor, bond offer

Key risks

Investors appreciate the description of key risks in the PDS. There is an understanding that the description of risk is not comprehensive or objective. Almost all investors read this section with some scepticism, and try to verify it with their own independent research.

Interviewees contextualised risks in terms of how likely they were to get an expected rate of return or capital gain. They commented that the current risk section details risks that are too broad and generic to be of much actual use in providing this context.

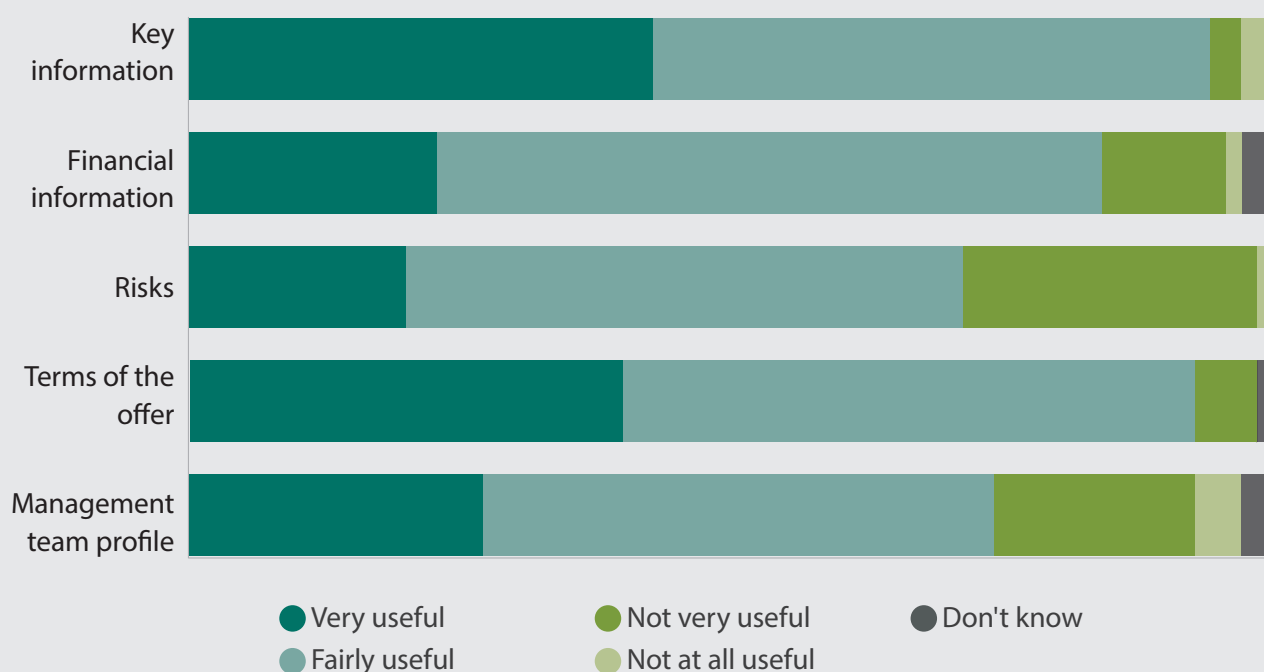
Investors want more product-specific information in this section. They want to know about any risks unique to the offer, and explicit detail on how these may affect their investment returns. Investors suggest this would help companies be more self-aware and transparent about their ability to deliver the returns they promise.

"It's good they have the risks there. It's transparent and honest right? But you get the sense they're trying to cover their behinds. Some of that stuff is just so obvious you got to roll your eyes. It's good to have it there though I guess. In case things do go bad."

- Investor, property syndicate

How useful to your decision-making was each of these key sections of the PDS?

The online survey measured how useful each of the five key sections are to investors' decision-making. The results support our findings that these five sections were the most helpful to investors.



ASIC research

Australia still uses long-form prospectuses, so the ASIC research covered a different disclosure format. However, the IPO investors in ASIC's research had substantially the same feedback on the areas they liked and the limitations. In particular:

- a large number of the investors said information on the issuer's management was very important. Some conducted further searches to check whether any of the management team had a history of bad management. If they found such evidence they were unlikely to invest
- investors had varying ability in understanding financials. The more experienced investors tended to use prospectus financials as a starting point but conducted their own analysis
- risk disclosure is too generic – investors said they wanted information on risks specific to the issuer.

The PDS is not the only source of information

Where investors go for information about investments

	PDS	Conversations	Online research	Business publications	Online forums
Product-specific Returns, time period to maturity, fees	✓				
Company-specific Financial performance, governance and management	✓	✓	✓		
Industry-specific The company's competitive environment and overall industry trends	✓	✓	✓		✓
Market information Macro-level trends in the NZ financial markets, such as changes in tax policy or the property market				✓	✓

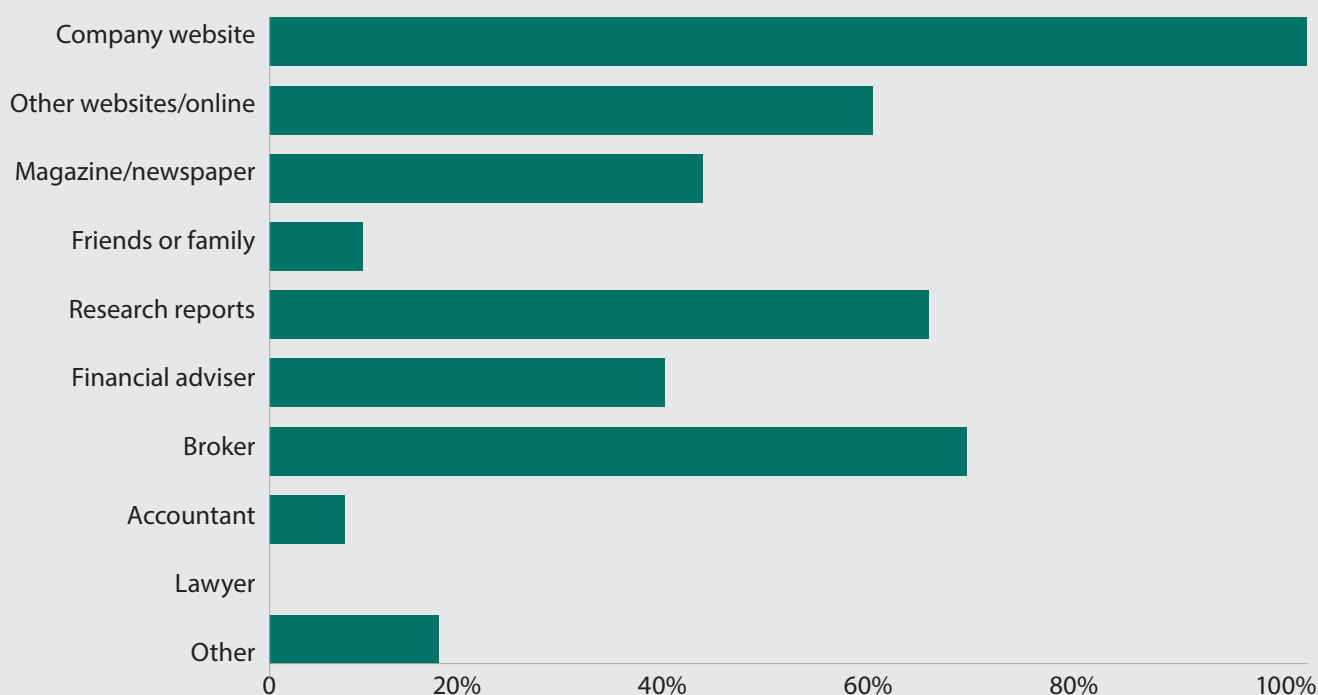
When deciding to invest, investors want information that helps them assess where the product could fit into their existing portfolio.

Leadership is particularly important for many investors. The feedback was that a poorly led company is riskier than one with below-average financial performance.

Investors also want information on the company's operations and how they fit into its industry landscape. This serves as a good indicator of a company's ability to maintain and grow its market share and deliver long-term financial performance. Investors also look at market information to see what long-term risks the company might face.

Other than the PDS, what sources of information did you use to find out about the offer you invested in?

The survey results suggest that investors seek information from a range of additional sources.



Investors use different sources for different types of information.

Conversations with friends, brokers and advisers

These conversations act as sounding boards for investors to test their thinking and analysis of new investment opportunities. In line with research conducted by the Ministry of Business, Innovation and Employment¹ (MBIE), the relationships underpinning these conversations have a strong bearing on the trust investors place in the advice and information received, particularly for brokers and advisers.

Online research on the company and the wider industry

There is a sense that any information released by the company needs to be assessed with some degree of

scepticism, as companies are often selective in what they choose to say.

Business publications

Business pages in the New Zealand Herald and Dominion Post, and the National Business Review, help investors monitor developments in the wider financial markets.

Online forums

Forums let investors stay up to date with what others are thinking, and any emerging opportunities that may have flown under the radar of mainstream news outlets.

¹ These findings corroborate MBIE's research in 2012 and 2017 undertaken by Colmar Brunton into New Zealanders' experiences in seeking and receiving advice

Methodology

Interviews

Colmar Brunton conducted 12 in-depth interviews with people who had invested in either an equity IPO, a bond offer or a property syndicate. The interviews were conducted in September and October 2017. Each interview lasted up to 1.5 hours. Interviewees were from either Auckland or Wellington. The sample consisted of 11 men and one woman. Only two of the 12 had a household income below \$70,000. The age range was split as follows:

- 21-35 years: 2 investors
- 36-50 years: 4 investors
- 51-65 years: 3 investors
- 66-70 years: 3 investors.

The interviewees could be classified as at least prudent but non-expert investors. They displayed the following attitudes:

- They see investing as a good way of growing their money. They primarily focus on achieving a mix of safety, income generation and capital growth from their investment portfolios.
- They are acutely aware they need to balance risk with potential returns. Most tend to mix high-risk and low-risk investments across their portfolios.
- New Zealand is seen to have a relatively stable financial market. Therefore, they mainly look at product-specific risks when making investment decisions.

Survey

The survey was developed by the FMA and sought to test the qualitative interview findings with a wider sample of IPO, bond, and property syndicate investors. The survey was distributed to New Zealand Shareholders' Association members in February 2018. 89 members completed the survey. The majority of these investors were male and over 60 years of age. Just over three-quarters of them had a gross personal income over \$70,000. Respondents from across New Zealand participated in the survey.

The survey results have a relatively high margin of error of +/- 10%. Therefore the results are indicative, but not necessarily representative of how the wider population of IPO, bond, and property syndicate investors would respond.

ASIC research

ASIC Report 540: [Investors in initial public offerings](#) reports on qualitative research with both institutional and retail investors in recent IPOs. We have quoted from the research with retail investors.

52 retail investors in Sydney, Melbourne, Brisbane and Perth participated in interviews and group discussions. The participants had a broad range of investment experience but most were more experienced.

The research was conducted in late 2016 and early 2017.



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