



## **Market Announcement**

28 June 2021

### **Communication to Fonterra Shareholders' Fund Unit Holders**

The attached communication was provided to Fonterra Shareholders' Fund Unit Holders by the Chairman, John Shewan, on 28 June 2021.

#### **For further information contact:**

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## Fonterra Capital Structure Review – Update for Unit Holders

### **Background**

FSF Management Company Limited (NZX, ASX: FSF), manager of the Fonterra Shareholders' Fund (the **Manager**, and the **Fund**), has noted Fonterra's recent update to the market that Fonterra is continuing to progress farmer consultation on the proposals Fonterra announced on 6 May 2021.

To enable this consultation to occur, Fonterra imposed a temporary cap on the size of the Fund by suspending shares in the Fonterra Shareholders' Market from being exchanged into units in the Fund from 6 May 2021. The Manager and its independent directors had no role in this decision, other than to be briefed by Fonterra about it in strict confidence before it was implemented.

Fonterra's communications with its farmers are at [www.fonterra.com/capitalstructure](http://www.fonterra.com/capitalstructure) and its most recent market announcements are at <https://www.nzx.com/companies/FCG/announcements>.

### **Actions of FSF Management Company Limited as Manager of the Fund**

As noted in a market announcement from the Manager on 6 May 2021, the Manager has formed a subcommittee comprising solely its independent directors to consider the implications of the review for the Fund and its unit holders.

The Manager has also retained specialist corporate finance adviser Simmons Corporate Finance, and specialist legal advisers Chapman Tripp, to assist the subcommittee's consideration of the impact of Fonterra's proposals on the Fund, and on unit holders of the Fund.

Fonterra senior management provided a further confidential briefing to the Manager's board (including both the Fonterra appointed and independent directors) on initial feedback from their consultation at the Manager's board meeting on 14 June 2021.

The independent director subcommittee then met with its specialist advisers on 14 June to further discuss the review process, and consider the expert advice, following on from the subcommittee's earlier meetings in March and May 2021.

### **Further comments of Manager subcommittee**

At the time Fonterra released its proposals on 6 May 2021, the Fonterra chair said *"I want to be clear with you that we expect this change to impact the price at which shares in our Co-op are traded, and that there may not be as much liquidity in the market"*.

The Manager notes that both the traded price of shares in Fonterra, and traded price of units in the Fund, have dropped materially since Fonterra's consultation announcement, and trading continues to be volatile.

The Manager can give unit holders no assurance about the price or liquidity of trading in the Fund as these are matters the Manager has no control or influence over. The Manager's role is to manage compliance with regulatory requirements and ensure that unit holders' interests are managed in accordance with the constituent documents that underpin the Fund.

The Manager reiterates that Fonterra's consultation process is expected to take several months. Detailed aspects of the proposal remain fluid, with farmers expressing a range of views, as described in Fonterra's recent updates to the market on 11 June and 25 June 2021.

Farmer support seems mixed on Fonterra's consultation on whether farmers would prefer the Fund to be bought back, or continue with a permanent cap.

Removing the Fund would involve an offer by Fonterra to unit holders to buy back their units at a fixed price. The approval of at least 75% of unit holders entitled to vote and voting would be needed for the offer to be accepted.

Fonterra's consultation documents says that any Fund buyback offer amount *"would need to be acceptable to unit holders, fair to farmers and would need to make more sense to the Co-op than the Capped Fund alternative."*

If there are indications of sufficient farmer support for a refined proposal, Fonterra aims for it to be voted on by Fonterra shareholders at their annual meeting of Fonterra shareholders at the end of the year. The annual meeting of unit holders of the Fund is likely to be held a few days later.

Implementation of a supportive farmer vote is expected to be conditional upon necessary changes to the Dairy Industry Restructuring Act 2001 (**DIRA**) being passed.

A buyback would therefore require a buyback price to be negotiated between the Manager subcommittee and Fonterra, for the Manager to make a recommendation to unit holders, and the approval of 75% of votes of voting unit holders at a meeting called for that purpose. However, any buyback would not be completed until the associated DIRA amendments are passed.

The Manager subcommittee will continue to monitor the situation and consult its advisers as the Fonterra Capital Structure proposals evolve over coming months.

Yours faithfully.



John Shewan

*Chair*

FSF Management Company Limited, Manager of the Fonterra Shareholders' Fund