

# Equity Ownership Survey New Zealand 2017

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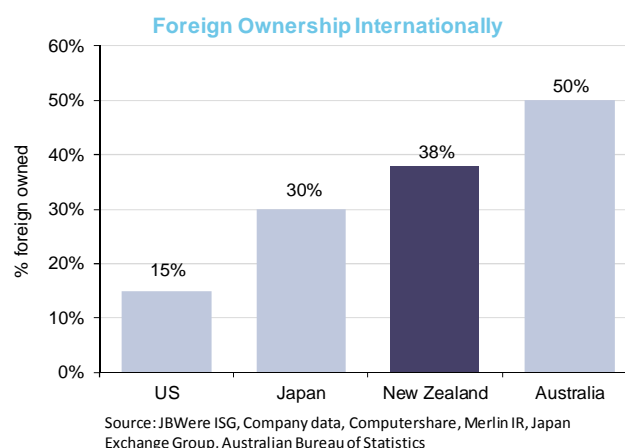
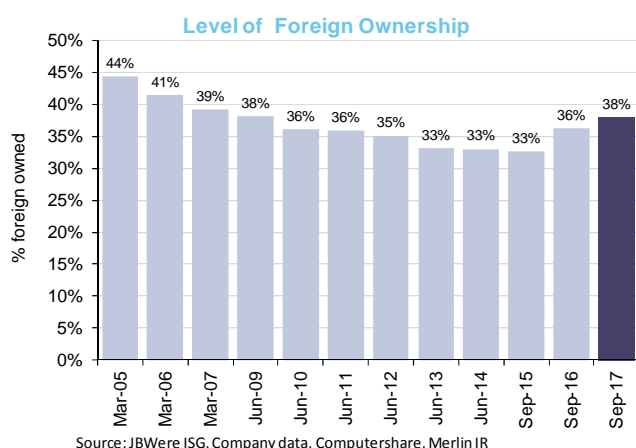
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## Offshore Ownership Continues To Grind Higher

- The New Zealand market has maintained its appeal to offshore investors during 2017 with ownership increasing to 37.9%, from 36.3% in 2016. This is the highest level since 2009.
- The remarkable uptake of both a2 Milk and Xero (now majority owned by offshore investors) has had a notable influence on the overall proportion of foreign ownership in NZ. The effect on the JBWere Equity Ownership Survey is significant; if we exclude the impact of these two constituents we would have seen a 0.60% decrease in the level of foreign ownership in NZ, with bond-like equities generally less well owned.
- Initial Public Offering (IPO) activity has remained subdued in 2017 with Oceania Healthcare being the only company to come to market. Despite the supportive market environment the pipeline is anticipated to remain relatively quiet heading into 2018 with Vodafone NZ being the only known potential float at this stage.
- The most significant change in this year's survey was the total New Zealand market capitalisation to GDP ratio which increased by 4% to 46% on the back of strong returns that have surpassed the increase in GDP over the same period. This level of market capitalisation to GDP is the highest level since 2000 and significantly above the historical 39% average.

### Foreign ownership increases to 37.9%

The New Zealand market has maintained its appeal to foreign investors during 2017 with the level of foreign ownership increasing to 37.9%, from 36.3% in 2016 (below, left). This is the highest level since 2009. This year, our survey covered 65 companies, which accounts for 94.4% of the S&P/NZX All index.



Offshore investors' significant holdings in a2 Milk and Xero, combined with the higher weighting of these two constituents within the NZ market has offset the general theme of offshore investors rotating their funds away from large capitalisation bond proxies as the 'hunt for yield' thematic loses some appeal. That said, versus international peers NZ offshore ownership remains relatively high (above, right).

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### Offshore ownership significant movers since 2016

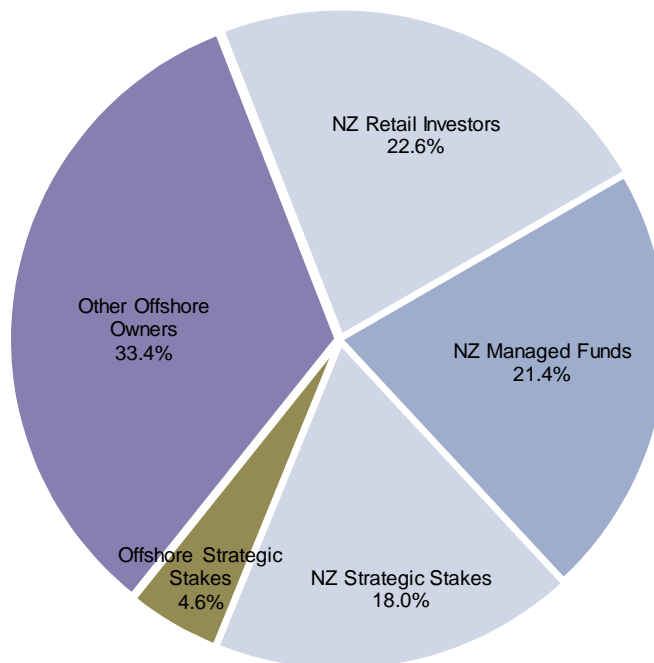
Of the 65 companies we surveyed, there were 14 companies that saw foreign ownership decreases of greater than 1%, 19 that saw increases over 1%, and 26 that were recorded as essentially unchanged (i.e. within a +/-1% range). There were 6 companies included in this year's survey that were not included in the 2016 survey.

Aside from the remarkable level of traction that a2 milk and Xero obtained during the year from foreign investors, a handful of large caps that had fallen out of favour with local investors due to poor performance also saw a modest increase in offshore ownership. However that was offset somewhat by the drift away from yield-plays described above. Even though an overall headline increase in offshore ownership occurred, a general theme emerged with a marginal decrease in foreign ownership in many of New Zealand's largest companies.

*Marginal foreign ownership decrease in many of New Zealand's largest companies emerged*

### Market Structure: Offshore and portfolio- style up, NZ managed funds flat

Ownership structure of the New Zealand Market



Source: JBWere ISG, RBNZ, ACC, IRESS, Company data, Computershare, Merlin IR

#### Ownership structure of NZX primary listed stocks since 2005

	Mar-05	Mar-06	Mar-07	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Sep-15	Sep-16	Sep-17
NZ Managed Funds	15.6%	16.7%	15.8%	19.1%	20.5%	22.3%	23.5%	23.2%	22.1%	22.4%	21.5%	21.4%
NZ Strategic Stakes	17.1%	16.0%	16.6%	21.1%	21.3%	18.4%	18.0%	17.9%	18.5%	18.1%	19.0%	18.0%
Offshore Strategic Stakes	15.9%	12.0%	13.2%	15.2%	13.1%	13.2%	13.0%	8.6%	7.3%	4.9%	4.9%	4.6%
Other Offshore Owners	28.4%	29.4%	25.9%	22.9%	23.0%	22.7%	22.1%	24.4%	25.8%	27.7%	31.4%	33.4%
NZ Retail Investors	23.0%	26.0%	28.4%	21.7%	22.1%	23.4%	23.3%	25.9%	26.4%	26.9%	23.2%	22.6%
<b>Total Foreign Ownership</b>	<b>44.3%</b>	<b>41.4%</b>	<b>39.1%</b>	<b>38.1%</b>	<b>36.1%</b>	<b>35.9%</b>	<b>35.1%</b>	<b>33.1%</b>	<b>33.0%</b>	<b>32.6%</b>	<b>36.3%</b>	<b>37.9%</b>

Source: JBWere ISG, RBNZ, ACC, IRESS, DataStream, Company data, Computershare, Merlin IR

## Offshore investors absorb NZ strategic stakes

**Offshore ownership (non-strategic) increases, while offshore strategic ownership marginally decreases**

We have seen offshore ownership (non-strategic) increase to a record high of 33.4% representing a 2% increase over the last year. This increase appears to have absorbed the decrease in NZ domiciled strategic stakeholders (i.e. >10% ownership in a company) as the proportion of ownership fell by 1% to 18%. However even though offshore ownership materially increased we did not see the same underlying trend occur with offshore strategic stakes, which marginally decreased. We do note that prominent strategic holdings continue to have an influence on the report; examples include: Synlait Milk (Bright Dairy & Food Company), Precinct (Abu Dhabi Investment Council) and Tower (Suncorp).

## NZ managed funds ownership remains flat

**NZ managed funds ownership remain flat at 21.4%**

During the year the proportion of market ownership by NZ managed funds remained reasonably flat at 21.4% (see table on the previous page). This is a little surprising given the increasingly material effect of KiwiSaver inflows and the increase in the level of funds that the NZ Super Fund has invested in the market. We expect this trend to change as the momentum of KiwiSaver inflows continue on the back of a growing population, increased penetration and higher member contributions. In addition, the new Labour government intends to resume contributions to the NZ Super Fund starting in June 2018, contributing a planned total of \$7.7bn by June 2023.

Material inflows into the market from the ongoing momentum of KiwiSaver and the resuming of contributions to the NZ Super Fund may place further pressure on market liquidity (see chart below, left). This positive demand environment puts the onus on supply (IPO, secondary issuance) to continue growing the role of the listed sector in NZ.

## Portfolio-style investor ownership increases

**Portfolio-style investors ownership increases to a record level**

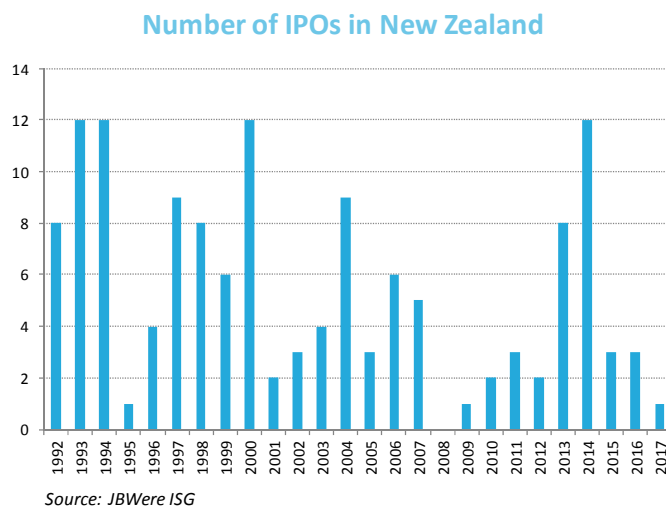
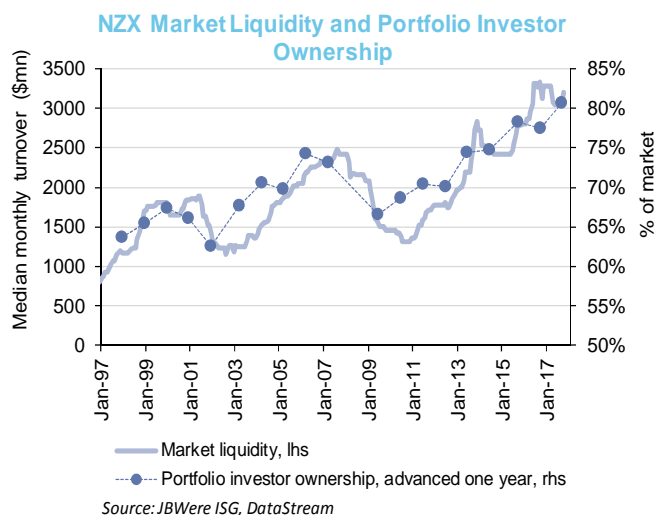
Portfolio-style investors' (managed funds and NZ retail investors, a measure of non-strategic holders who are likely to trade more actively) ownership has rebounded from its decrease last year to an all-time high of 79.4% (see table below). This has resulted in the median monthly market turnover continuing to improve, and it is now sitting at around NZ\$3.2bn for the period (see chart bottom, left).

Portfolio-style investor breakdown of NZ primary listed stocks

	Mar-05	Mar-06	Mar-07	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Sep-15	Sep-16	Sep-17
Strategic Stakes: Offshore Managed Funds	3.0%	2.2%	3.1%	2.9%	3.0%	2.0%	1.2%	0.9%	0.5%	1.2%	1.4%	2.0%
Other Offshore Owners <sup>1</sup>	28.4%	29.4%	25.9%	22.9%	23.0%	22.7%	22.1%	24.4%	25.8%	27.7%	31.4%	33.4%
Strategic Stakes: NZ Managed Funds	1.4%	2.1%	2.6%	1.3%	0.7%	0.8%	1.1%	0.7%	1.2%	3.3%	0.6%	1.0%
Other NZ Managed Funds	14.3%	14.6%	13.3%	17.7%	19.7%	21.5%	22.4%	22.5%	20.9%	19.1%	20.9%	20.5%
Total Managed Funds	47.0%	48.2%	44.8%	44.9%	46.5%	47.0%	46.8%	48.5%	48.3%	51.4%	54.3%	56.8%
<b>Managed Funds + NZ Retail</b>	<b>70.0%</b>	<b>74.2%</b>	<b>73.2%</b>	<b>66.6%</b>	<b>68.6%</b>	<b>70.4%</b>	<b>70.1%</b>	<b>74.4%</b>	<b>74.7%</b>	<b>78.3%</b>	<b>77.5%</b>	<b>79.4%</b>

<sup>1</sup> Mainly managed funds, but a small portion are retail investors.

Source: JBWere ISG, RBNZ, ACC, IRESS, DataStream, Company data, Computershare, Merlin IR



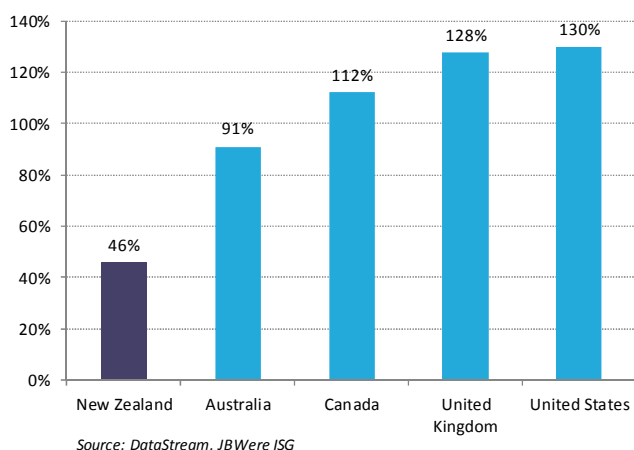
## IPO activity remains subdued, but increasing prominence of NZ's capital market is likely to be short lived

Only one equity IPO in 2017; market capitalisation to GDP increases significantly

Initial Public Offering (IPO) activity has remained subdued in 2017 with Oceania Healthcare being the only company to come to market. This low level of IPO activity has not been seen since the GFC (see chart above, right), despite a supportive environment with considerable market momentum over the last few years. Other corporate activity (e.g. separations of existing assets) has remained relatively subdued over the last year as well with Tilt Renewables being the only spin-off to occur during the latter part of 2016. Despite the supportive market environment the pipeline is anticipated to remain relatively quiet heading into 2018 with Vodafone NZ being the only known potential float at this stage.

The most significant change in this year's survey was the total New Zealand market capitalisation to GDP ratio which increased by 4% to 46% (see below chart, left) on the back of strong returns that have surpassed the increase in GDP over the same period. This level of market capitalisation to GDP is the highest level since 2000 and significantly above the historical 39% average. The New Zealand capitalisation of the stock market has remained traditionally low compared to its peers; however over the last year (as of 30<sup>th</sup> June) the gap has proportionally narrowed on all of its peers, except for the United Kingdom. This all-time record market capitalisation of c. \$122B and increase in the ratio to GDP will experience a set back next year with Xero's announced intention to delist from the NZX.

International Market Capitalisation vs. GDP



New Zealand Market Capitalisation vs. GDP



### Survey Methodology

<b>Construction of average</b>	The survey is done as a weighted average, i.e. treating the New Zealand market as a pool of generic equity supply apportioned amongst a group of investors. This means that even if no significant trading was done, changes in overall ownership levels could still be influenced by the changing prices of individual stocks.
<b>Survey coverage</b>	Weights for the headline offshore ownership estimate are based on the S&P/NZX All index. This index covers all companies that have NZ as their home exchange, ie it excludes Telstra, AMP and other offshore-based stocks. This year, 65 companies were included in the survey, comprising 94.4 % of the S&P/NZX All index.
<b>Layers of ownership</b>	We calculate "first round" levels of ownership only. For example, ZEL has partial offshore ownership as a stand alone company. ZEL in turn owns 15.4% of NZR (at the time of the survey). However, we treat this 15.4% as a domestic stake, rather than calculating through the "beneficial" offshore ownership in NZR via ZEL's holding in it.
<b>Data timeliness</b>	The data used to compile the overall averages comes from various sources with variable lags. In this respect it is appropriate to view the data as a September Quarter "weighted average", rather than as a precise point estimate.
<b>Revisions</b>	Revisions are made to historical estimates from time to time. Unless these are judged to have a material impact on the survey, we will not explicitly highlight historical revisions. These can be made available on request.
<b>Acknowledgements</b>	JBWere would like to thank Merlin IR Consulting for their assistance with the report.

Source: JBWere ISG, DataStream, IRESS

# New Zealand Investment Strategy

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