

Equity Ownership Survey New Zealand 2018

20 December 2018

Investment Strategy Group:

Asset Allocation: **Hayden Griffiths**
+64 9 365 0895
hayden.griffiths@jbwere.co.nz

NZ Equities: **Rickey Ward**
+64 9 365 8902
rickey.ward@jbwere.co.nz

Analyst: **Andrew Thompson**
+64 9 365 0884
andrew.thompson@jbwere.co.nz

Analyst: **Harrison Knapp**
+64 9 365 8903
harrison.knapp@jbwere.co.nz

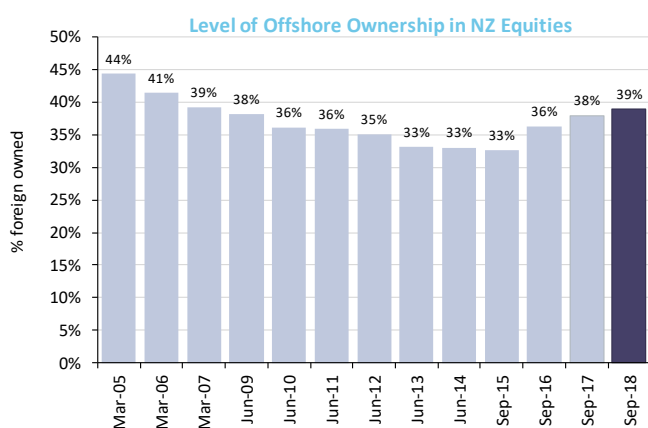
Analyst: **Katie Thompson**
+64 9 365 0887
katie.thompson@jbwere.co.nz

Inbound Investment Continues on an Upward Trend

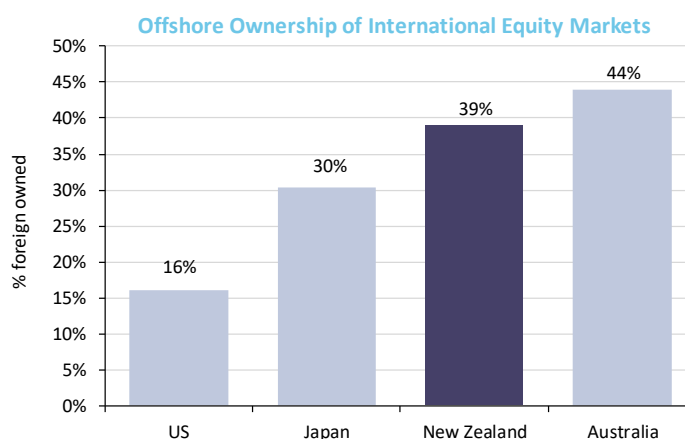
- The New Zealand market has remained an attractive destination for offshore investors over the past year, with overall offshore ownership rising by 1% to 39%, which remains the highest level since 2007.
- Positive offshore investor sentiment towards the New Zealand market was reflected with offshore investors increasing their holdings across the board of constituents within the S&P/NZX All Index.
- JBWere analysis suggests that the large global shift towards passive investing in equities has also had an influence on the NZ Market over the last year.
- The loss of a number of listed companies throughout the year from the exchange, including Xero has not been a setback for the market achieving another record level of market value.

Offshore ownership increases to 39%

The New Zealand market has remained an attractive destination for offshore investors over the past year, with overall offshore ownership rising by 1% to 39% (bottom, left), which remains the highest level since 2007. The aggregated offshore ownership level includes Australian investors owning approximately 16% of the total float of the S&P/NZX All Index. This year the JBWere Equity Ownership Survey consisted of 64 companies, which accounts for 95.6% of the S&P/NZX All Index based on total market capitalisation.



Source: JBWere ISG, Company data, Computershare, Merlin IR



Source: JBWere ISG, Company data, Computershare, Merlin IR, Japan Exchange Group, UBS

Offshore Ownership Breakdown

Of the 64 companies we surveyed, 13 companies saw offshore ownership decreases of greater than 1%, 34 saw increases above 1%, and 14 were recorded as essentially unchanged (i.e. within a +/-1% range). There were 3 companies included in this year's survey that were not included in the 2017 survey.

Sharp Contrast to last year's result

Broad Increase in Offshore Ownership

Positive offshore investor sentiment towards the New Zealand market was reflected with offshore investors increasing their holdings across the board of constituents within the S&P/NZX All Index. The general theme observed from the results of this year's survey saw offshore investors upweight their positions in large cap names considerably and more aggressively in small cap names in the S&P/NZX All Index. This is in sharp contrast to last year's result which saw the level of offshore ownership increase due to the remarkable foreign buying in both a2 Milk and Xero.

There were material differences to this year's constituents within the survey with a number of stocks exiting the NZX, which included Xero migrating through to the ASX. This had a material effect on the overall offshore ownership level as in past years, as Xero was majority owned by offshore investors and also had a significant representation within the sample. In addition to this a2 Milk's robust performance saw its representation within the survey materially increase.

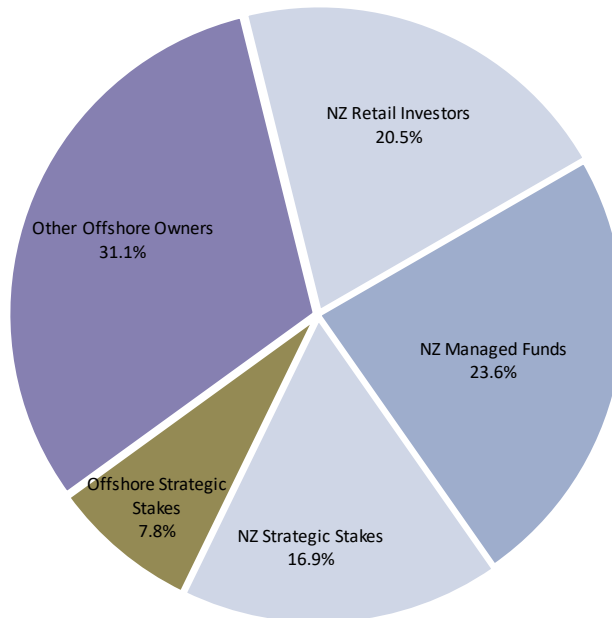
Recent takeover activity with Trade Me Group and the partial takeover of Restaurant Brands has not been taken into consideration in this year's survey. JBWere analysis suggests that the successful takeover of Trade Me Group would see the total offshore ownership percentage decrease by ~0.5%, while the successful partial takeover of Restaurant Brands would increase offshore ownership by ~0.3%.

Shift towards passive offshore ownership in the NZ market

Passive Investments Influence Offshore Ownership

JBWere analysis suggests that the large global shift towards passive investing in equities has also had an influence on the NZ Market over the last year. Despite only having limited visibility on the proportion of offshore funds that are actively managed here in NZ, analysis suggests that there has been a significant rise in passive ownership from offshore passive investment funds. JBWere analysis highlights notable yoy% changes in passive ownership in the NZ market, including an approximate 125% rise in passive ownership of a2 Milk, Fisher and Paykel Healthcare 26% and Spark 15%, while notable decreases were in Fletcher Building (-19%) and Mercury (-26%).

Market Structure: NZ Managed Funds & Offshore Strategic Stakes Increase
Ownership structure of the New Zealand Market



Source: JBWere ISG, RBNZ, ACC, DataStream, Factset, Company data, 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	Sep-18
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%	23.6%
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%	16.9%
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%	7.8%
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%	31.1%
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%	20.5%
Total Foreign Ownership	44.3%	41.4%	39.1%	38.1%	36.1%	35.9%	35.1%	33.1%	33.0%	32.6%	36.3%	37.9%	38.9%

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

Strong NZ fund manager inflows & reinstatement of NZ Super Fund contributions

NZ Managed Funds Ownership Rebounds

The overall market ownership by NZ managed funds increased from 21.4% to 23.6% over the past year (see table on previous page) on the back of significant inflows into NZ based fund managers, combined with an increase in the level of funds that ACC and the NZ Super Fund have deployed within the NZ market. As highlighted in last year's report we expected this trend to play out due to the continued momentum of KiwiSaver having an increasingly material effect on inflows and the Labour coalition government reinstating contributions to the NZ Super Fund over the past year. The current government intends to increase contributions over the next four years with \$1b in contributions planned for the Fund in 2019, \$1.5b in 2020 and \$2.2b in 2021.

NZ Retail ownership decreases to historical low

NZ Retail & Strategic Stakes Decrease, Offshore Strategic Stakes Increase

NZ retail ownership continued to trend 2.1% lower to 20.5%, a historical low. While NZ strategic stakes also decreased another 1.1% to 16.9%, despite some material strategic transactions occurring, such as a2 Milk Company acquiring a further strategic stake in Synlait. Offshore strategic stakes have significantly increased to 7.8% following several offshore fund managers increasing their positions in NZ listed companies. Prominent strategic holdings that have had a material influence on this year's report include: Chorus (L1 Capital), Ebos (Sybos Holdings & Fidelity Management) and Z Energy (Lazard Asset Management & Airlie Funds Management).

Portfolio-style investors' ownership increases to a record level

Portfolio-Style Investor Ownership Increases

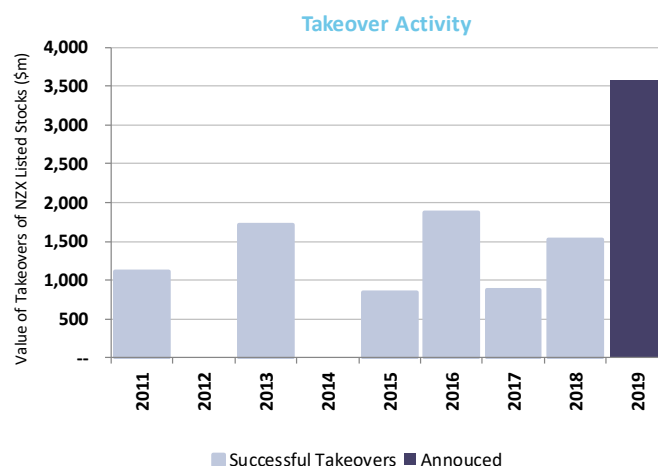
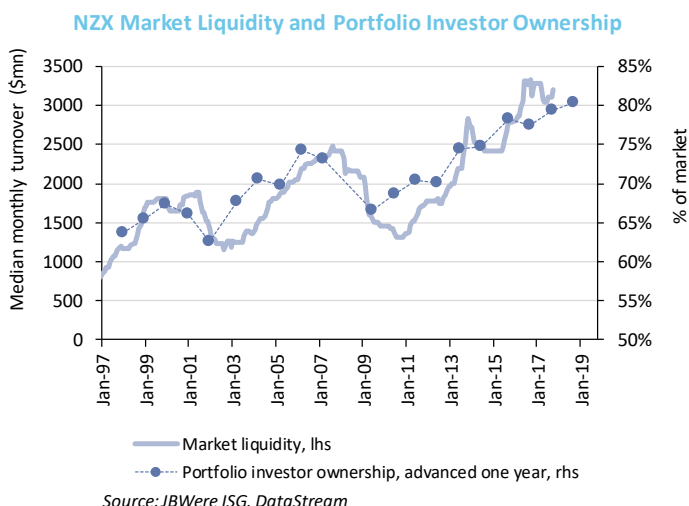
Portfolio-style investors' (managed funds and NZ retail investors, a measure of non-strategic holders who are likely to trade more actively) ownership has continued to increase over the last year, reaching an all-time high of 80.1% (see table below). Despite this the median monthly market turnover has marginally decreased and is now sitting at around NZ\$2.9bn for the period (see chart bottom, left).

Portfolio-style investor breakdown of NZX 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	Sep-18
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%	4.8%
Other Offshore Owners ¹	28.4%	29.4%	25.9%	22.9%	23.0%	22.7%	22.1%	24.4%	25.8%	27.7%	31.4%	33.4%	31.1%
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%	1.2%
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%	22.4%
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%	59.6%
Managed Funds + NZ Retail	70.0%	74.2%	73.2%	66.6%	68.6%	70.4%	70.1%	74.4%	74.7%	78.3%	77.5%	79.4%	80.1%

¹ Mainly managed funds, but a small portion are retail investors.

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



IPO activity remains subdued

Market Activity Skewed To Secondary Offerings And M&A

Despite the prospects for a number of new listings occurring, 2018 proved to be another quiet year for initial public offerings (IPO). The only listing over the year was QEX listing in February, which subsequently migrated to the Main Board in September. The subdued level in listing activity is mostly driven by private equity funds continuing to aggressively absorb potential candidates, combined with equity capital being a relatively costly source of funding relative to debt, given historic low interest rates in NZ.

The lack of IPOs though did not mean there was a lack of equity capital market (ECM) business. The secondary market remained vibrant with no fewer than ten listed entities, led by Fletcher Building's (FBU) \$750m raise, collectively seeking ~\$1bn of capital through either rights issues or placements. There was also a notable trend toward the back half of 2018 of companies utilising the corporate bond market. For many this was a cheaper source of funding, especially while interest rates were low.

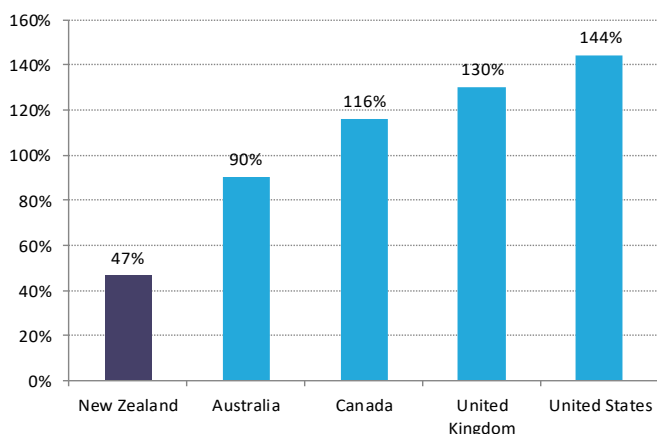
The disturbing trend of Merger and Acquisition (M&A) activity continued throughout 2018, being the busiest period for some time with the highest level of M&A since 2012. We estimate ~\$1.5bn in value was wiped from the NZX following successful takeovers. Looking ahead, 2019 looks set to dwarf this with ~\$3.5bn worth of transactions still subject to takeover approval (see right chart on previous page).

Market Capitalisation To GDP Ratio

Slight improvement in market capitalisation to GDP ratio

The loss of a number of listed companies throughout the year from the exchange, including Xero has not been a setback for the market achieving another record level of market value. The ratio of market capitalisation to GDP showed a slight improvement of 1%. This reflects the growth of the NZ market, outperforming GDP growth on a relative basis (30th June). However, NZ continues to trail our global peers considerably on this measure of size of equity markets (left chart below). The lack of 2019 prospects and potential loss of Trade Me Group means this is likely to remain the case, certainly in the near term.

Market Capitalisation vs. GDP



Source: DataStream, JBWere ISG

New Zealand Market Capitalisation vs. GDP



Source: Data Stream, The World Bank Group, JBWere ISG

Survey Methodology

Construction of average

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.

Survey coverage

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, 64 companies were included in the survey, comprising 95.6% of the S&P/NZX All index.

Layers of ownership

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.

Data timeliness

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 centred around the September Quarter "weighted average", rather than as a precise point estimate.

Revisions

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.

Acknowledgements

JBWere would like to thank Merlin IR Consulting for their assistance.

Source: JBWere ISG, DataStream, IRESS

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JBWere Offices

Auckland	T: 0800 555 555	Level 38, Vero Centre, 48 Shortland Street, Auckland, 1010
Wellington	T: 0800 555 554	Level 4, NZX Centre, 11 Cable Street, Wellington, 6011
Christchurch	T: 0800 555 553	Level 6, HSBC Tower, 62 Worcester Boulevard, Christchurch, 8013