Equity Ownership Survey
New Zealand 2020

15 December 2020

JBWere

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NZ Equities Continue to Attract Inbound Interest

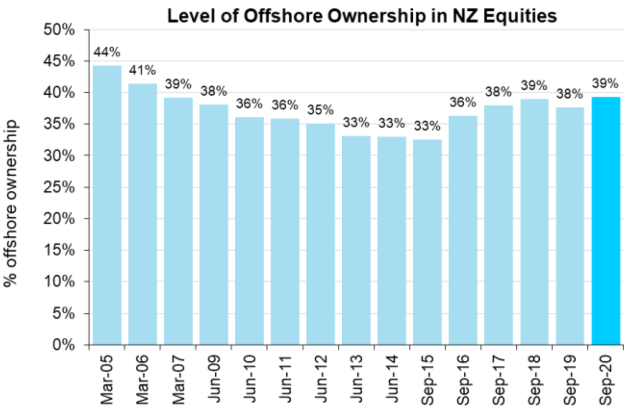
- **2020 aggregate offshore ownership in NZ equities increased by 1.6% pts to 39.3% of the float of the S&P/NZX All Index, its highest level since 2006.**
- **Within the survey, increased representation of companies with relatively higher levels of offshore ownership contributed the most to the total foreign ownership increase, rather than actual increases at an individual company level.**
- **If we adjust the overall constituent weightings back to 2019 weights, eliminating the impact of changes in market capitalisation, then overall NZ offshore equity ownership would have decreased 0.2% pts to 37.5%.**
- **KiwiSaver inflows are continuing to drive an increase in managed fund participation.**
- **The investment trend toward the global clean energy thematic has seen Contact and Meridian Energy observe a significant increase in passive ownership.**

Offshore ownership lifts further to 39.3%

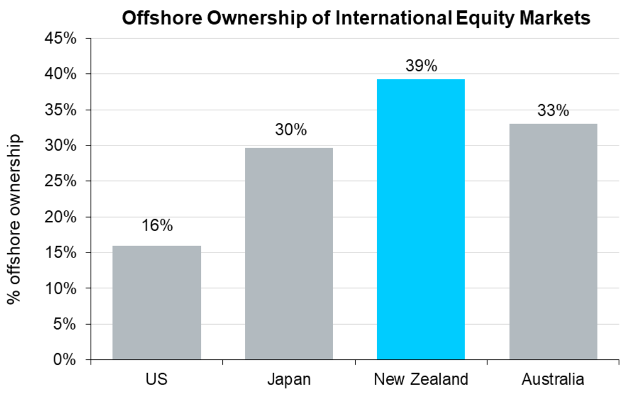
The New Zealand market saw aggregate offshore equity ownership lift to 39.3% of the total float of the S&P/NZX All Index, the highest level observed since 2006. The Australian component of offshore ownership accounted for over 90% (1.4% pts) of the overall increase of 1.6% pts, which is largely due to compositional change in the survey constituents (further discussed on page 2). This is contrary to the move that occurred last year, which saw an overall decrease in Australian ownership.

The 2020 JBWere Equity Ownership Survey consisted of 60 NZX listed companies, which accounts for 96% of the S&P/NZX All Index market capitalisation.

These survey results demonstrate that the NZ market remains attractive to offshore investors who wish to share in the success of the NZ market alongside local investors.



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



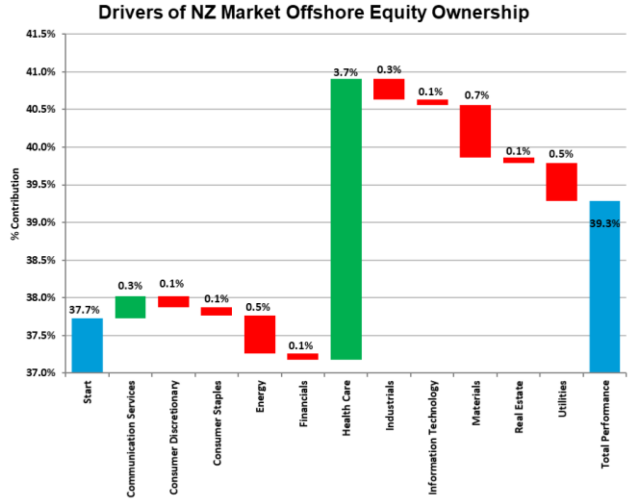
Source: JBWere ISG, Company data, Computershare, Merlin IR, Japan Exchange Group, UBS

Increase in offshore ownership driven by change in composition

The greater representation within the index of companies with relatively higher levels of offshore ownership contributed the most toward the overall 1.6% pts increase in offshore ownership, rather than actual increases at an individual company level. This shift is well demonstrated by the significant contribution that Fisher & Paykel Healthcare (FPH) has in this year's survey, accounting for ~8% of the entire market offshore ownership versus 4.2% in the 2019 JBWere Equity Ownership Survey. This increase is entirely due to its relative outperformance over this period where its weight in the survey has risen from 6.7% to 12.4%. This outperformance reflects the vital role that FPH products have had in treating COVID-19 patients with their primary respiratory therapies, along with investors increasing their conviction in the long-term growth strategy. It is important to note that FPH remains well held by local investors who continue to benefit from its success.

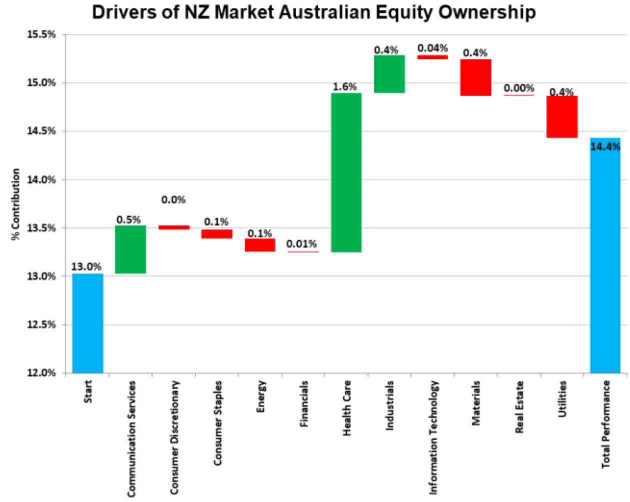
The top two charts below show the aggregated offshore ownership (incl. Australian) and split out Australian equity ownership for each GICS (Global Industry Classification Standard) sector within the NZ market. This is essentially the representation of each company within the survey multiplied by any change in the composition of offshore or Australian ownership to show what sectors have been the key drivers for the overall change in offshore ownership vs. the previous period. Healthcare followed by Communication Services have been the largest drivers for increasing overall market share, while the remaining sectors have created a drag on offshore ownership, except for Industrials in Australia. **Interestingly, our analysis suggests that if we adjust the overall constituent weightings back to 2019 weights, eliminating the impact of the change in representation, then the overall NZ offshore equity ownership would have decreased 0.2% pts to 37.5%.** The bottom two charts demonstrate this, as they show the actual change within each sector, prior to overlaying any change in representation for the overall sector within the survey. This analysis suggests that there has been an increase in offshore ownership in Industrials, Information Technology and Real Estate, while Healthcare, Utilities and Consumer Discretionary remained relatively flat compared with the previous period. The remaining GICS sectors have observed a decrease. Referring specifically to the Australian component, this has outweighed the otherwise resulting overall decrease. However, there has still been some material decreases within some sector and specific companies by Australian investors. On the other hand, the NZ Information Technology sector saw a material increase in offshore ownership, combined with an increased level of prominence within the survey given their success, particularly Pushpay.

Drivers of NZ Market Offshore Equity Ownership



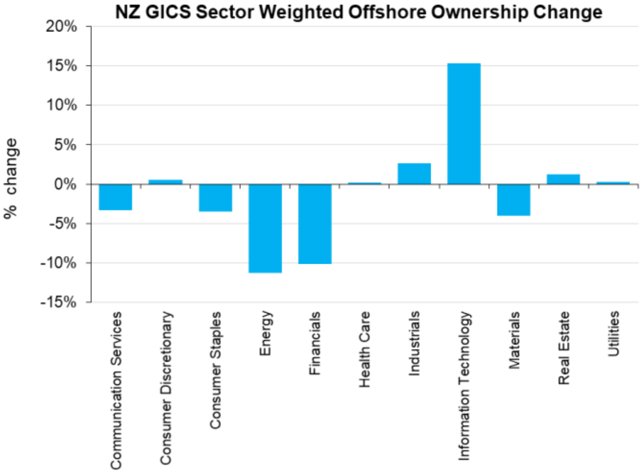
Source: JBWere ISG, Company data, Bloomberg, Merlin IR, UBS

Drivers of NZ Market Australian Equity Ownership



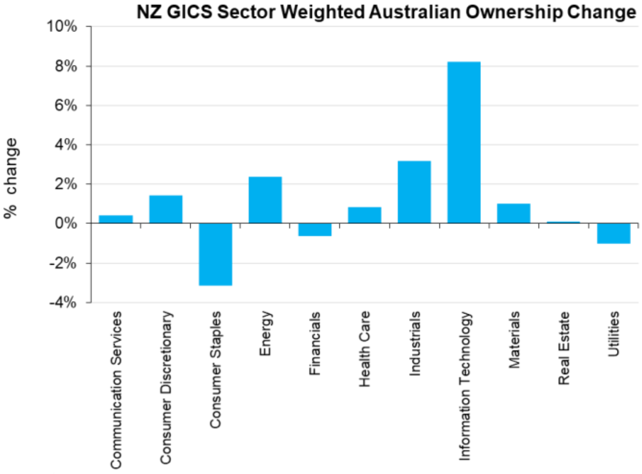
Source: JBWere ISG, Company data, Bloomberg, Merlin IR, UBS

NZ GICS Sector Weighted Offshore Ownership Change



Source: JBWere ISG, Company data, Bloomberg, Merlin IR, UBS

NZ GICS Sector Weighted Australian Ownership Change



Source: JBWere ISG, Company data, Bloomberg, Merlin IR, UBS

Offshore ownership breakdown

Of the 60 companies JBWere surveyed this year, 18 saw offshore ownership decrease by more than 1%, while 20 saw increases of above 1%. The remaining 22 were recorded as essentially unchanged (i.e. within a +/-1% range).

Within the Australian ownership, 12 saw ownership decreases of more than 1% and 20 saw increases of more than 1%, while the remaining 28 were unchanged.

Global clean energy thematic drives passive influence

Contact and Meridian Energy have both been the biggest benefactors of passive flows

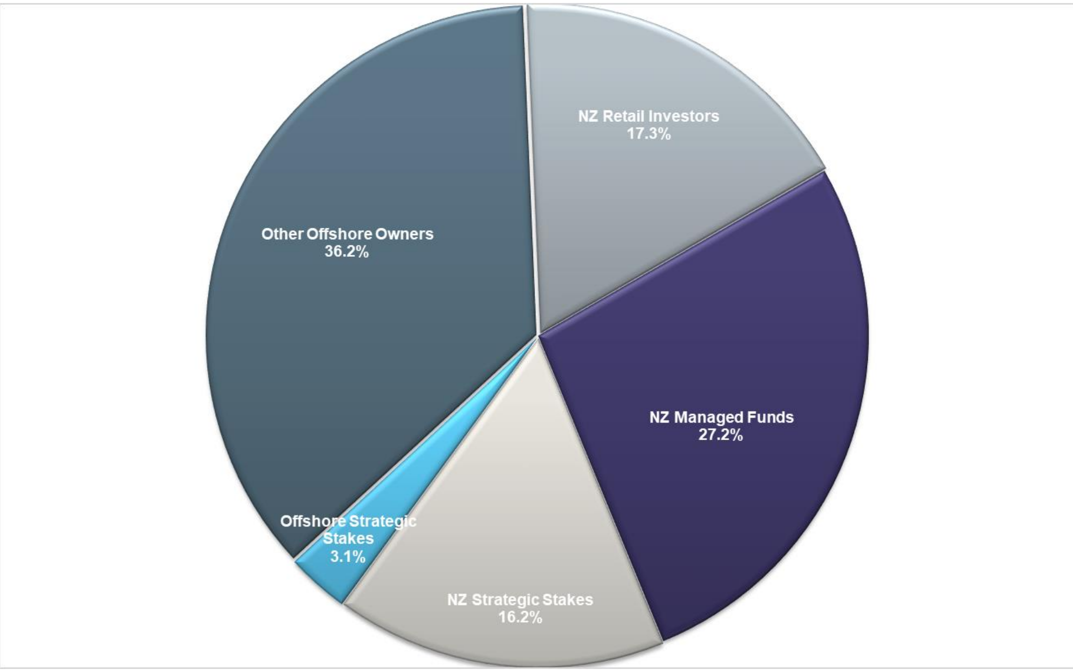
Passive flows have continued to have a growing presence within the NZ market during 2020, ultimately driving pricing higher as they quickly soak up liquidity. The significant investment trend toward the global clean energy thematic has seen Contact and Meridian Energy experience a significant increase in passive ownership. The trend toward this thematic has accelerated recently as investors expect that a reasonable amount of the global COVID-19 response stimulus will be directed toward clean energy initiatives, combined with Biden's presidential win paving the way for him to enact his pro-renewable energy agenda.

JBWere analysis indicates that Contact and Meridian Energy have been the largest benefactors of passive flows over the last year, with their passive exposure increasing ~40% and ~30% on a like for like basis respectively. Surprisingly, Mercury has only seen a 5% increase in passive ownership. This is most likely due to both Contact and Meridian Energy being constituents within the iShares Global Clean Energy ETF, while Mercury currently isn't a constituent. The ETF has grown from US$360mn a year ago to now US$3.2bn. Meridian is currently #2 in the index with a weighting of 5.8%, while CEN is at #4 with a weighting of 4.8%, respectively implying a value of NZ$260mn and NZ$220mn.

It is important to note that this analysis only tracks the large passive players, and as such has a significant margin of error. There is no way to accurately assess the overall passive ownership within each company. What makes this even more difficult, is that there are other players which broadly construct their own basket of securities off the back of the ETF thematic and/or potentially speculate on whether certain companies are going to be included/excluded into specific ETF's, potentially having a material impact.

Market structure:

Ownership structure of the New Zealand Market



Source: JBWere ISG, RBNZ, ACC, Refinitiv Eikon, Factset, Company data, Merlin IR, UBS

	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	Sep-19	Sep-20
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%	24.7%	27.2%
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%	20.0%	16.2%
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%	5.3%	3.1%
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%	32.3%	36.2%
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%	17.7%	17.3%
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%**	**37.6%**	**39.3%**

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

NZ retail ownership falls, NZ managed funds ownership increase

NZ managed funds ownership increase to a new high, while retail investors trend lower

The composition of NZ managed fund participation increased to an all-time high of 27.2%, while NZ retail participation continued its downward trend, decreasing another 0.4% pts to an historic low of 17.3% (see table on previous page).

The continued momentum for NZ managed funds implies that the weight of money going into managed funds has outpaced the rate which direct retail investors are transitioning from cash and term deposits into equities or up the risk curve. Over the next year it will be interesting to observe the extent to which domestic fund managers and NZ retail investors deploy further funds into the market. According to RBNZ figures, close to $150bn of bank non-market funding (largely deposits) is due to mature within the next 12 months, which would have been originated at least one percentage point above current term deposit rates. We suspect that the new prospective term deposit rates may be unpalatable for some, forcing investors up the risk curve as they look elsewhere for income, and the NZ equity market should continue to benefit from this.

The large influx of Investor Plus applicants wishing to migrate to NZ following the pandemic will likely provide further support for the NZ managed funds and/or NZ retail investor participation levels. Reports suggest that there are a few hundred applicants with over $2bn in capital to be deployed. We believe that a large portion will be deployed into the local equity market as it provides an efficient mechanism to meet the Immigration NZ criteria. On the other hand, KiwiSaver is also continuing to drive an increase in managed fund participation, with overall inflows into managed funds increasing to $7bn for the 2020 financial year, materially higher than a decade ago, at $3bn. Inflows into NZ equities are only a proportion of this, however it still demonstrates the weight of money being deployed into the market. Further, managed fund participation is also highlighted by the increase in representation of both ACC and the NZ Super Fund with a combined representation of $6bn in the local market.

Both NZ and offshore strategic stakes materially decreased

NZ strategic stakes vs. offshore strategic stakes

Both NZ and offshore strategic stakes decreased as a result of Equity Capital Market (ECM) activity diluting some existing holders. In addition, a smaller relative representation in the survey from companies with strategic stakes and also takeover activity had an impact. Notable decreases included L1 Capital reducing their stake in Chorus, Briscoe Group's position in Kathmandu being diluted following the capital raising, a smaller representation of NZ Refining in the survey given its current issues overlaid with the stake the main fuel providers have in it, and also the takeover of Augusta Capital.

Portfolio-style investors' ownership hits a new record high

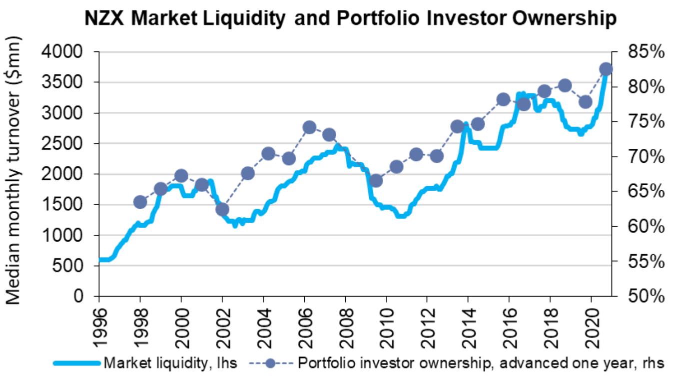
Portfolio-style investor ownership increases

Portfolio-style investors' (managed funds and NZ retail investors, a measure of non-strategic holders who are likely to trade more actively) ownership has increased by 5% pts (see table below) to a record high of 82.6%. The median monthly market turnover is around NZ$3.7bn for the period, a significant increase versus $2.7bn last year (see chart bottom, left). This is a reflection of the significant level of volatility observed this year following the COVID-19 sell off, which continue to remain at elevated levels since investors remain more active in response to ongoing developments. The Metlifecare takeover retraction from Asia Pacific Village Group during the pandemic and the reintroduction of a lower successful offer further elevated market turnover.

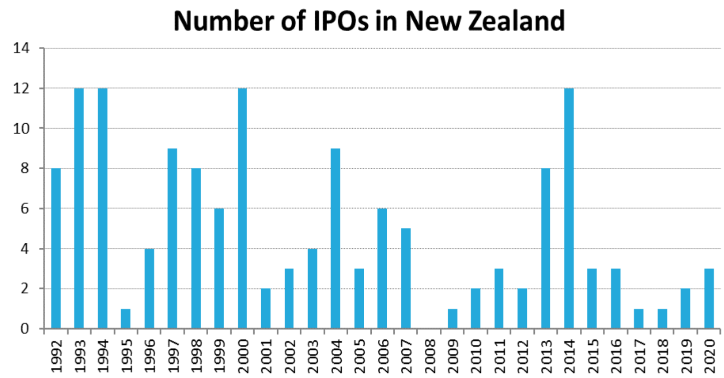
	Mar-05	Mar-06	Mar-07	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Sep-15	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20
Strategic Stakes: Offshore Managed Funds	3.0%	2.2%	3.1%	2.9%	3.0%	2.0%	1.2%	0.9%	0.5%	1.2%	1.4%	2.0%	4.8%	3.2%	1.9%
Other Offshore Owners[1]	28.4%	29.4%	25.9%	22.9%	23.0%	22.7%	22.1%	24.4%	25.8%	27.7%	31.4%	33.4%	31.1%	32.3%	36.2%
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%	0.7%	2.2%
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%	23.9%	25.0%
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%	60.2%	65.2%
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%**	**77.9%**	**82.6%**

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

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



Source: JBWere ISG, Refinitiv Eikon



Source: JBWere ISG

IPO prospects were put on hold while M&A activity heats up

There have only been three IPO's that have come to market during 2020. The first being the medicinal cannabis firm Rua Bioscience, Radius Care, and before the end of the year New Zealand Rural Land Company is expected to make its debut on the exchange. Several companies have presumably put listing plans on hold during 2020 as a result of the uncertainty the pandemic created.

One problem the NZX is facing, is the ability to attract (and retain) companies to the domestic exchange, especially sizeable offerings. Over the past year, Aroa Biosurgery and Harmoney were lured to the ASX, a trend that has existed over the past few years. The most notable company that has opted for the ASX over the NZX in recent years is Xero, which has increased c.350% following its remarkable success.

On the other hand, M&A activity has continued and is likely to continue given a strong projected earnings recovery, coupled with a cheap funding environment. Metlifecare, Abano Healthcare and Augusta Capital have been successfully taken over during 2020 with others subject to being taken over or in the process of being approached. At the time of writing, Infratil has just rebuffed the takeover approach by AustralianSuper as the Board believes that the proposed bid materially undervalues the assets held within its portfolio, despite the bid being significantly higher than the share price prior to the offer being made. It is quite easy to see how international suitors could view the likes of The a2 Milk Company, Fisher & Paykel Healthcare and Fletcher Building as other attractive takeover targets.

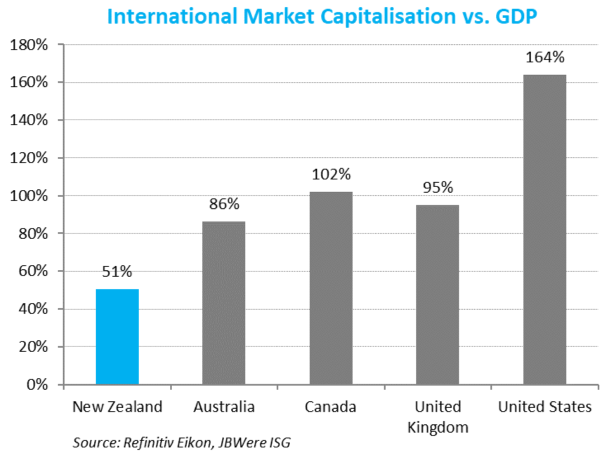
Greenshoots in the IPO pipeline for 2021

As we turn to 2021, the IPO pipeline appears to be showing some green shoots with several companies expected to come to market next year, such as integrated telecoms and energy provider Vocus and meal kit home delivery service My Food Bag. Others are speculated. Recent ECM activity has reinforced that investor demand dynamics are conducive to supporting attractive opportunities. Industry anecdotes further back this up with claims that recent capital raises have been oversubscribed multiple times over. The NZ investment industry will be forced to decrease their allocation in order to gain access to a greater opportunity set offshore, given the significant growth of funds under management, combined with limited growth in the NZ investment universe.

NZ market capitalisation vs. GDP continues to trend higher

Market capitalisation to GDP ratio reaches record high, partially due to COVID-19

The NZ market capitalisation vs. GDP increased to a record high of 51%, representing a 5% pts increase on last year. In fact, the NZ market was the fifth strongest developed economy equity market against other developed markets, despite COVID-19 and the delistings mentioned in the section above. It is important to note, however, that the overall market capitalisation vs. GDP for the period is somewhat misleading given the effect that COVID-19 has had on the data as the NZ market capitalisation reflects the defensive nature of the NZ market and forward-looking positive expectations from investors, while the GDP data is historical (30th June 2020).



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, 60 companies were included in the survey, comprising 96% 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, Bloomberg, Company Data, DataStream, Factset

General Disclaimer

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