Equity Ownership Survey
New Zealand 2019

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Investment Strategy Group:

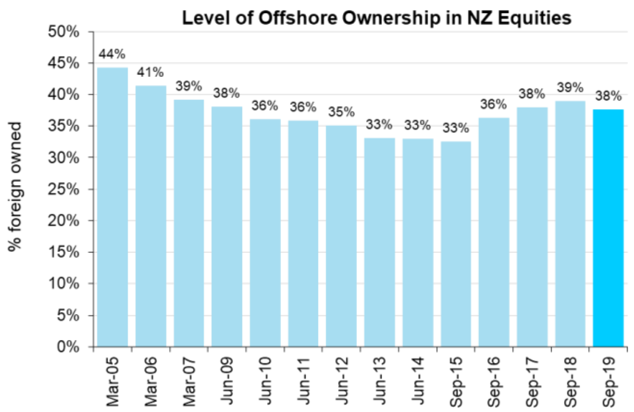
Senior Strategist	Asset Allocation	NZ Equities	Analyst	Analyst	Analyst
Philip Borkin	**Hayden Griffiths**	**Rickey Ward**	**Andrew Thompson**	**Harrison Knapp**	**Katie Thompson**
+64 9 365 0884	+64 9 365 0895	+64 9 365 8902	+64 9 365 0884	+64 9 365 8903	+64 9 365 0887
philip.borkin@jbwere.co.nz	hayden.griffiths@jbwere.co.nz	rickey.ward@jbwere.co.nz	andrew.thompson@jbwere.co.nz	harrison.knapp@jbwere.co.nz	katie.thompson@jbwere.co.nz

Aussies head home but internationals from further abroad increase

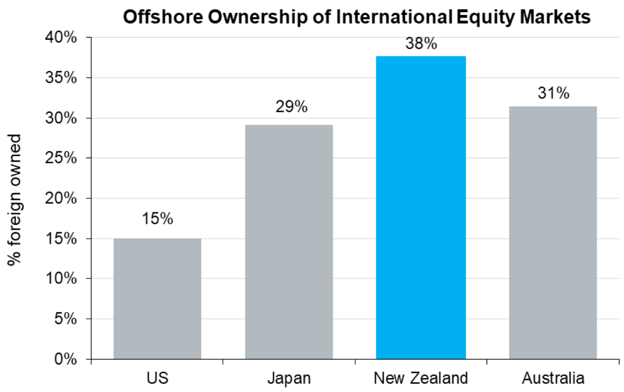
- **The New Zealand market saw aggregate offshore equity ownership fall by 1.7%, from 39.4% to 37.7% of the total float of the S&P/NZX All Index, consistent with the level back in 2017.**
- **The most significant driver of the decrease in offshore ownership was a reduction in Australian participation. Excluding Australia, offshore ownership increased modestly.**
- **The proportion of NZ equity ownership increased due to a greater level of representation of utilities and port assets in the overall market (given price performance and Napier Port listing), and a number of these assets having majority or significant ownership stakes by the NZ Government or by local government investment funds.**
- **Despite a lack of IPOs and increased M&A activity which has led to delistings, the NZ market reached another record high.**

Offshore ownership pulls back to 37.7%

The New Zealand market saw aggregate offshore equity ownership retract by 1.7% from 39.4% to 37.7% of the total float of the S&P/NZX All Index. This means offshore ownership has returned to 2017 levels. The move was primarily driven by a reduction in Australian investor ownership and strong returns leading to an increased representation of utilities and port assets in the survey. Offshore investors excluding Australian investors increased, partially offsetting the reduction in Australian ownership, demonstrating that the appeal of the NZ equity market continued to resonate well with investors further abroad. The 2019 JBWere Equity Ownership Survey consisted of 64 companies, which accounts for 97% 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 JBWere surveyed, 18 saw offshore ownership decreases by more than 1%, five more than last year. 17 saw increases of above 1%, half the amount that increased last year. The remaining 24 were recorded as essentially unchanged (i.e. within a +/-1% range). There were five additional companies included in this year's survey that were not included in the 2018 survey.

Offshore Investors Offset Australian Decrease

The most significant driver of the decrease in offshore ownership was a reduction in Australian participation in the NZ market. The 3% reduction in Australian ownership, from 16% down to 13%, can be linked to a combination of both Australian investors effectively trimming their NZ positions to lock in profits and a reduction /exit of some significant holdings.

Defensives Large Cap Outperformance Effects Composition

On a like-for-like basis offshore ownership would have increased by 1% to 40% since last year

Driven by their remarkable relative performance this year, there was a material increase in defensive-style companies (utilities sector & infrastructure assets) representation within the market (and hence the survey). Their performance was predominately a result of the dramatic drop in bond yields this year and potential structural growth opportunities, making NZ equities – and their associated sustainable dividends – relatively attractive to investors.

This had the impact of lifting the proportion of NZ equity ownership, as a number of defensive large-caps have either majority or significant ownership stakes held by the NZ government or by local government investment funds. Examples include, Auckland International Airport, Genesis Energy, Mercury, Meridian, Port of Tauranga and Napier Port Holdings following its IPO. In aggregate, their representation within the survey has increased to 27% from 22% last year.

If we adjust for this, our analysis indicates that offshore ownership would have increased by ~1% to 40%.

Passive Ownership Continues to Dominate

Continual shift towards passive investment in the NZ market

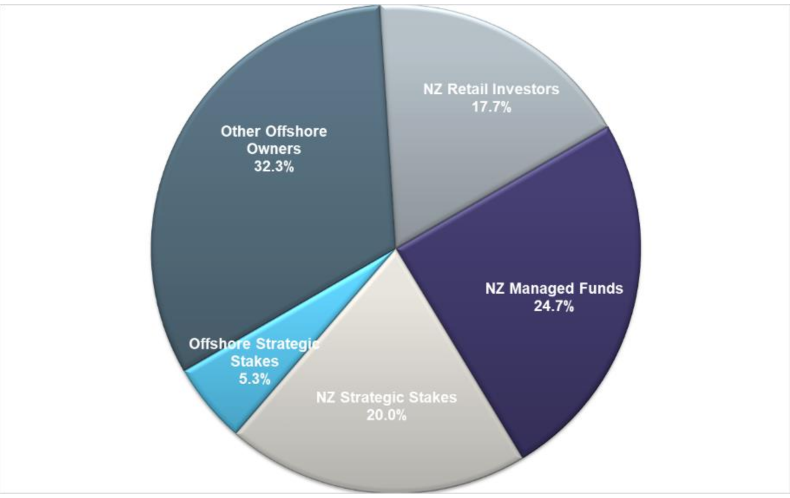
With passive investment strategies growing in importance, globally fund flows that replicate indexes that these funds follow continue to have a material influence on our local market. Passive funds tend to purchase large cap momentum stocks. This means that the larger a company gets due to its continued success, the more passive inflows it receives, ultimately further driving upside price action. If this current trend continues, it may potentially prove challenging for some companies to raise capital as passive investors traditionally don't participate in raisings or vote. Ironically, they could also prove to be a barrier for M&A for the same reason. <u>We view this shift toward passive investment as a significant driving force behind our market reaching all-time highs</u>. Given its growing importance, it is an area worth watching.

Across all the NZ constituents within the MSCI All Country World Index (AIA, ATM, FBU, FPH, MEL, RYM, SPK, MCY) we observed an average increase in offshore ownership of ~2.5%. All the constituents saw a modest increase in offshore ownership, except for Fletcher Building which decreased. These passive fund flows have partially offset the reduction in Australian ownership and are considerably more material for constituents with only a limited free float.

At an individual company level, our analysis indicates some notable changes which include another ~20% rise in passive ownership of a2 Milk, ~40% in Fisher and Paykel Healthcare and ~20% in Mercury. However, it is important to note that estimating the total level of passive ownership is incredibly difficult. It is extremely hard to track and obtain accurate data on all the providers as well as the level of ownership following these passive index providers. The trend though is that we are seeing increased passive ownership of NZ companies.

Market Structure: NZ retail participation hits an historic low

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	Sep-19
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%
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%
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%
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%
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%
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%**

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

NZ retail ownership falls, NZ managed funds increase

NZ retail participation hits historic lows, while NZ managed funds increase to a new high.

NZ retail participation decreased another 2.8% to an historic low of 17.7%, (see table above). This decrease signals an acceleration of a three-year downward trend, likely the result of an increased level of NZ retail flows entering managed funds and significant inflows into KiwiSaver funds. This level of decrease is somewhat surprising given the remarkable performance of utilities, port assets and REITs, combined with investors allocating further into equities as they hunt for yield. These utility and port assets were strongly taken up by retail investors during the NZ government and local government mixed ownership sell downs.

On the other hand, the overall market ownership by NZ managed funds continued to increase from 23.6% to 24.7% over the past year (see table above). This was expected considering the amount of traction that KiwiSaver funds are continuing to receive with material inflows, and the overall FUM increasing for both ACC and the NZ Super Fund.

NZ strategic stakes vs offshore strategic stakes

Port of Napier listing increases NZ strategic stakes

NZ strategic stakes increased at the expense of offshore strategic stakes. Domestic strategic stakes increased due to the prominence of the utilities sector, a greater representation of founders' stakes and the successful Napier Port listing, which is majority owned by the Hawkes Bay Regional Council. Notable offshore strategic stake decreases were observed in Ebos Group, Z Energy and the impact from the takeover of Trade Me Group, an investment which was predominately Australian owned.

Portfolio-Style Investor Ownership Increases

Portfolio-style investors' ownership falls from its record

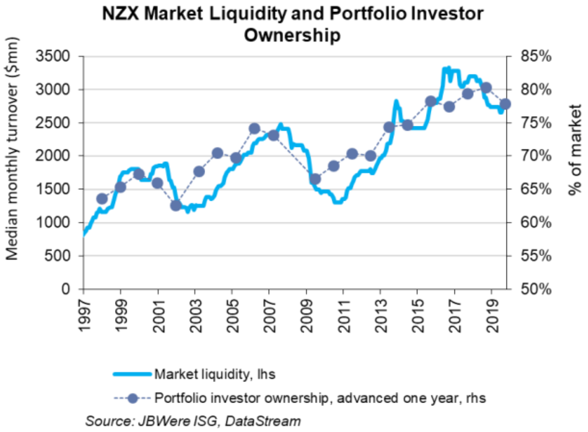
Portfolio-style investors' (managed funds and NZ retail investors, a measure of non-strategic holders who are likely to trade more actively) ownership has fallen by 2% from its recent high last year to 77.9% (see table below). The median monthly market turnover has modestly decreased and is now sitting at around NZ$2.8bn for the period (see chart bottom, left). This is surprising considering the significant amount of offshore passive flows. However, it could potentially reflect fund managers becoming less active and/or several constituents leaving the NZ market.

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	Sep-19
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%
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%
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%
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%
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%
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%**

[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



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Proving hard to attract and retain listed companies

IPO activity remains subdued

There has remained a shortage of IPO's coming to market. Despite the buoyant NZ market conditions and significant sums of cash seeking investment opportunities, we still haven't seen the uplift in IPOs that many were hoping for. Only two listings have occurred over the past year, Cannasouth and the Napier Port listing. Many potential candidates have been acquired either by private equity or by other M&A activity from listed or unlisted entities. Vodafone was perhaps the highest profiled name not to make listing. Furthermore, some haven't seen the appeal of listing on the domestic exchange, instead opting to list on the ASX.

Looking ahead, the story doesn't appear to one of improvement. The number of listed companies on the exchange looks set to shrink further over the next year if the current IPO pipeline doesn't improve. Low rates provide cheap funding for potential suitors meaning the number of companies which may potentially de-list could increase if takeover attempts are successful. Current names subject to M&A include Abano Healthcare, NZ Oil & Gas and potentially Metlifecare. Many more are rumored to be takeover candidates.

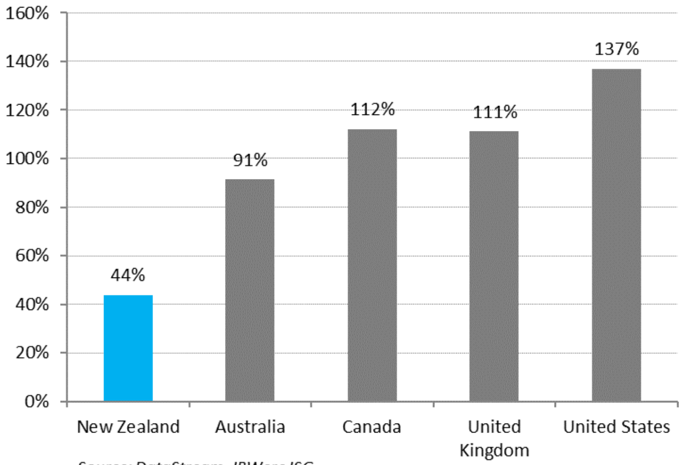
A continued shortage of IPOs, combined with the prospect of several companies de-listing, may encourage investors to allocate funds away from NZ equities. Improved liquidity and diversification are likely to become an appealing attribute for global equities over the local market.

Increasing Prominence of NZ's Capital Market

Market capitalisation to GDP ratio reaches record high

The strong performance of the NZ market over the past year has seen the market reach another record high, despite the ongoing IPO and de-listing headwinds listed above. This has resulted in a further 3% improvement in the market capitalisation-to-GDP ratio (as of 30th June). Relative to global peers, NZ in fact saw the greatest increase in market capitalisation to GDP. Yet despite this, it continues to trail global peers on this measure of size of equity markets (left chart below) by some distance. Apart from the prospect of potential market returns, capital market growth is unlikely to continue unless we see an improvement in both the number of companies coming to market and/or retention of existing companies.

International Market Capitalisation vs. GDP



Source: DataStream, JBWere ISG

New Zealand Market Capitalisation vs. GDP

Source: DataStream, 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 97% 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, 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