orient capital

Understanding ownership trends in Australia

2018 Key insights

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Part of **Link Group** | Corporate Markets

Set within a dramatic global landscape, 2018 saw the continuance of a number of major changes in the Australian equities market, including several large mergers and takeovers, as well as an eventful AGM season.[1]

As part of this ongoing change, there is inevitably an acceleration of key trends which directly impact a range of players; including ASX listed companies, institutional investors, superannuation funds, as well as retail investors.

For the Investor Relations (IR) professional, deeply understanding what your shareholder base looks like, how it changes over time and compares to peers within an index/sector provides important insight into how your register may develop in the future or where specific targeting opportunities may lie.

Part of Link Group, Orient Capital assists Investor Relations Officers (IROs) and the C-Suite from more than 2,000 listed companies worldwide to identify, track, manage and engage with investors, potential investors and the wider investment community. In the Australian market, we are proud to serve, on average, 84% of the ASX 300 as clients over the past five years, during which time we have also undertaken nearly 70,000 unique registry analysis reports globally.

Our market leading position means that we have access to significant and unique historical market data, allowing us to identify several key trends.

Highlights from these trends include:

- 68% of market capital in the average ASX 200 share register is held by Australian investors.
- Investment in the ASX 200 from North America has increased by 22% over the last five years, predominantly due to index investors.
- Direct investment by superannuation funds in the ASX 200 has doubled over the last five years, with funds continuing to bring investment management capabilities in-house.

1 Link Group, AGM Snapshot – https://linkgroup.com/agmsnapshot/2018-meetings/index.html

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Understanding the average ASX 200 register

Understanding the make-up of your shareholder base is a critical foundation for a strong investor relations program.

Along with identifying who your top shareholders are, it is particularly important to know the location and the types of shareholders that invest in your company.

In the average ASX 200 register[2], 68% of market capital is from Australia, with 35% institutional and 33% retail investors. North America makes up the next largest share at 16% *(Figure 1)*.

The distribution by market capitalisation can however, be skewed towards the largest listed companies on the ASX who hold more weight. With the data aggregated based on percentage of issued capital rather than market capitalisation, Australia still remains the largest holder base in the average ASX 200, totalling 70%, but institutional investors now make up 43% and retail falls to 27% *(Figure 2)*.

North America still represents the largest share outside of Australia at 15% of issued capital.

Figure 1 – % Market Capital

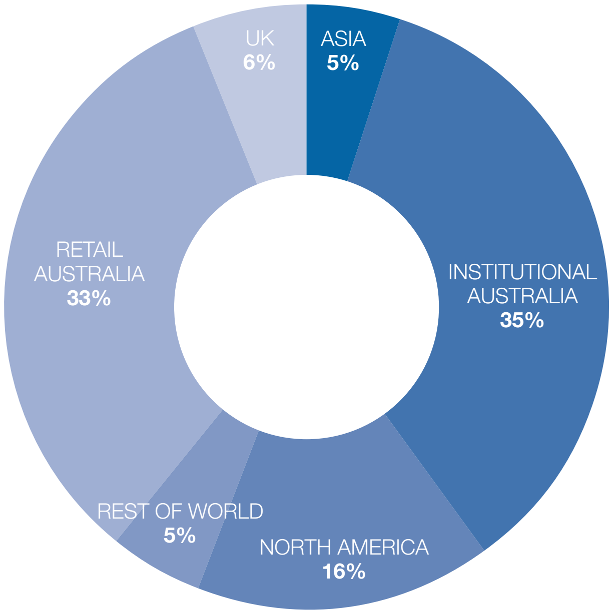
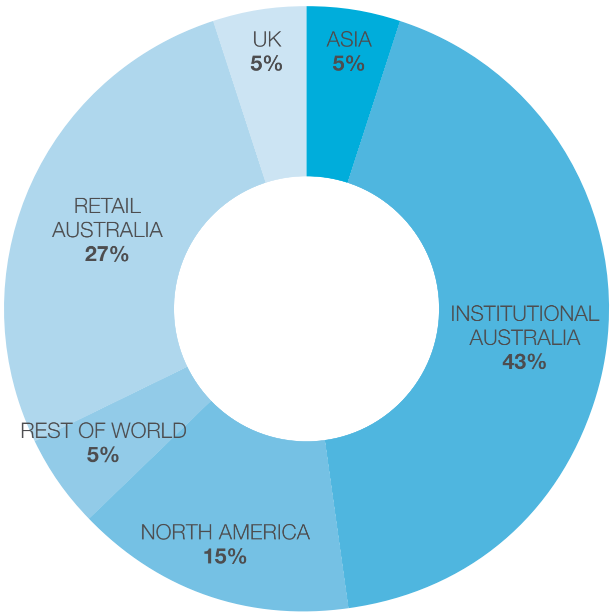


Figure 2 – % Issued Capital



2 Based on aggregated 2018 Orient Capital data

Investment in the ASX 200 by region (%)

As the Australian equities market continues to evolve, so does the exposure for investors across the globe. With many companies increasingly needing to monitor changes in their own specific domestic vs. international holders, the ability to compare against the broader global geographical landscape is growing in importance, together with understanding how this investment changes over time.

It is best practice to closely track key IR activities to more effectively assess their impact on your register and the wider industry.

Focusing on the last five years and on the larger geographies, we saw decreased average exposure for investors in Asia, while the UK and Europe have remained relatively steady. North America increased by approximately 22% over the period, from 12.0% to 14.6%

Change driven by North American index investors

North America has stood out as having both increased their exposure in the ASX 200, along with becoming the second largest region represented on an average ASX 200 register.

This change is largely due to an increasing trend towards index investments *(Figure 4)* which has increased from approximately 2.9% to 5.4%.

For context, North American index investors holding in the ASX 200 as at July 2018 was approximately $A130Bn based on our market data.

The majority of this investment is held through the big three managers, Vanguard, BlackRock and State Street which together account for almost 90% of the North American position.

It is clear from the analysis so far that there is a multitude of factors that should be considered when planning engagement with investors – having already touched on location, shareholder type and investment style.

Figure 3

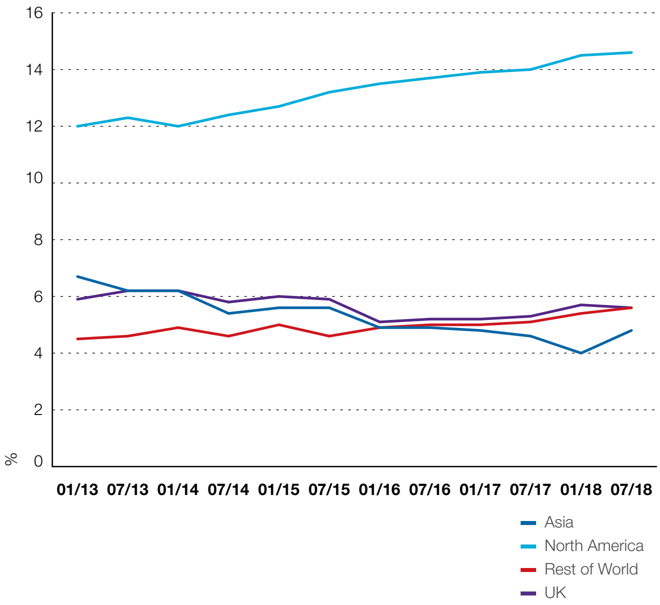
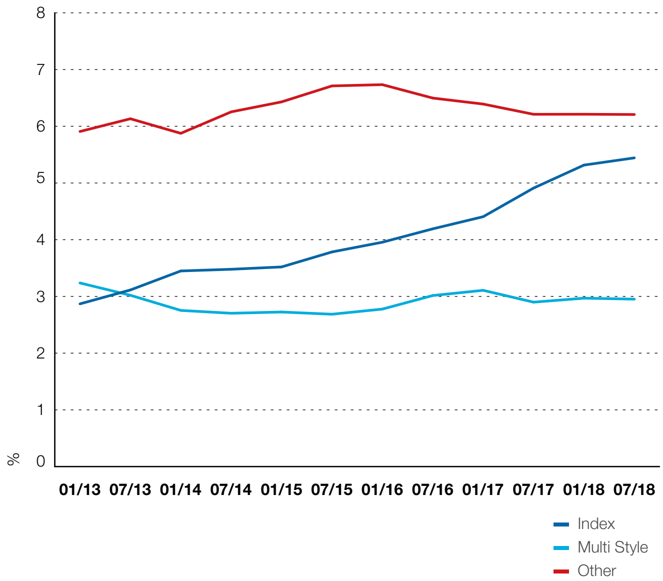


Figure 4



Pension and sovereign wealth funds in the ASX 200

Pension and sovereign wealth funds represent significant pools of potential funds, and our data showed some interesting trends.

According to Willis Towers Watson research[3] the top 100 asset owners around the world, represent approximately US$19 trillion of capital – majority of which were pension and sovereign funds. Many of these have the discretion to place their capital into any country and asset class that suits them. The research also showed that Asia-Pacific (APAC) is the largest region in terms of assets under management (AUM), accounting for 36% of all assets in the ranking.

Based on their size and investment mandates, we anticipated Norges Bank, which invests on behalf of the Government Pension fund of Norway, and the Government Pension Investment Fund of Japan (GPIF) to have a significant proportional share of the ASX 200.

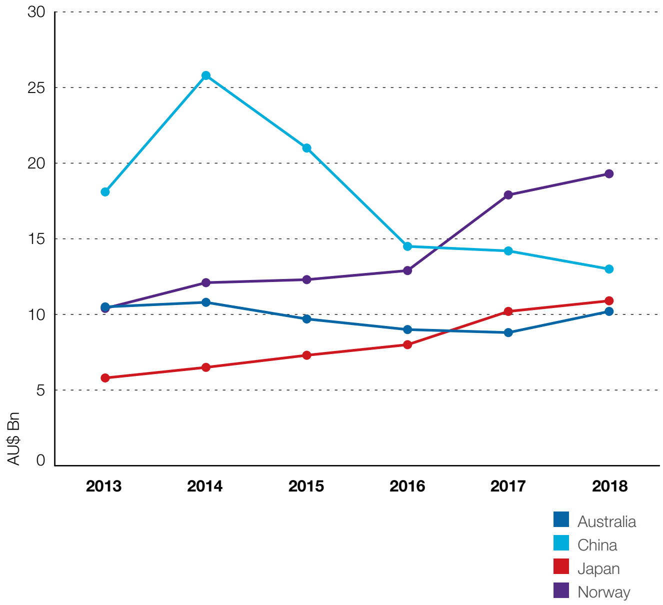
In line with our expectations, we can see *(Figure 5)* that from 2013 to 2018, there was a significant increase from Norges Bank, which has nearly doubled, as well as a large increase from Japan via the GPIF, reflective of it being the largest pension fund in the world, with approximately US$1.4 trillion in AUM as of 2018, while Norway's pension fund is second with over US$1 trillion in total assets.

Chinese funds, which were easily the largest in 2013, and despite including the China Investment Corporation and National Social Security Pension fund, have gone the other way, with the value of their holding falling significantly between 2013 and 2018. This is despite both funds ranking towards the top ten of the largest sovereign and pension funds globally.

Orient Capital has also seen increased demand from some large listed companies, especially in the resources sector, to assist with monitoring changes in foreign investment – particularly that from sovereign funds – which is something we expect to continue.

Finally, Australia's Future Fund, which is ranked 45th in the top 100, has maintained a reasonably stable investment in the ASX 200 over the period.

Figure 5



3 Willis Towers Watson – https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2018/10/AO_100_2018_research_paper

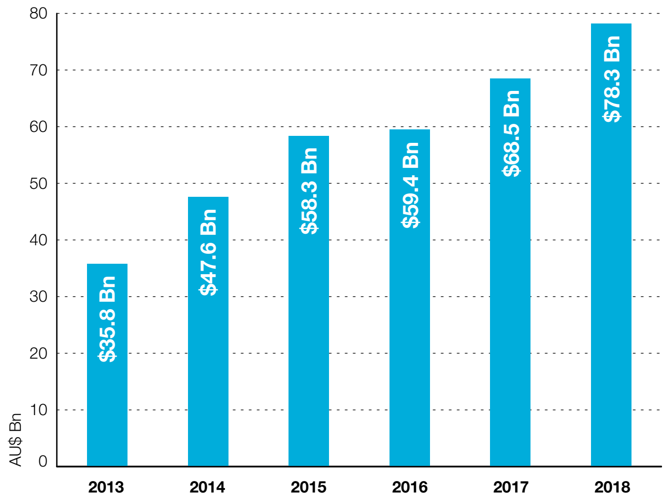
Direct Super fund Investments in ASX 200

Super funds are another increasingly significant investor in Australian equities, particularly in the ASX 200. Direct investment by super funds has continued to grow over the last five years, with the total amount from our analysis having doubled from $35.8bn to $78.3bn. By our estimates, direct super investments in the ASX 200 were only $16bn in 2008.

In other words, if this trend of doubling over the last two 5-year periods continues, by 2023 direct investment by superfunds in the ASX 200 would equate to $157bn.

While there are many factors that may affect the rate of change in super fund equity investments, this is clearly an important trend IR professionals need to be aware of. Given the recent recommendations of the Royal Commission report and related press, in addition to the already significant funds under management (FUM) movements towards industry funds over the past 18 months, the focus on this potential pool of investment must only increase.

Figure 6



Increased Internal Management

As well as the significant increase in the overall value of superfunds' investment in the ASX 200, another commented upon trend has been the expansion of funds' in-house investment management capabilities.

The decision for funds to manage investments internally can impact the way an IR professional approaches their engagement with these organisations. Many funds choose to manage investment strategies in-house when they feel they have, or can build and sustain, internal capabilities to do this well, and when external managers offer little comparative advantage.

We found this very much reflected in our analysis – and have provided three examples for consideration.

Telstra Super was one of the earliest funds to take this approach, and while the overall amount of capital invested in the ASX 200 hasn't materially changed year on year, the relative size of the in-house managed issued capital has been steady.

We also examined **AustralianSuper**, who has over $140bn under management, and ranked 53rd out of the top 100 global asset owners. Interestingly they have significantly increased both the amount and the proportion managed in-house, especially over the past three years.

Finally, we looked at the trends at **Unisuper,** which by our analysis has nearly $24bn of its Australian equities portfolio managed in-house as at July 2018. Unisuper has not only increased the level of investment in the ASX 200 consecutively for the past five years, but importantly also the share managed in-house considerably.

Clearly the growing investment in the ASX 200 and doing so via in-house capabilities is a trend we all need to consider when planning future activities.

Figure 7 – Telstra Super

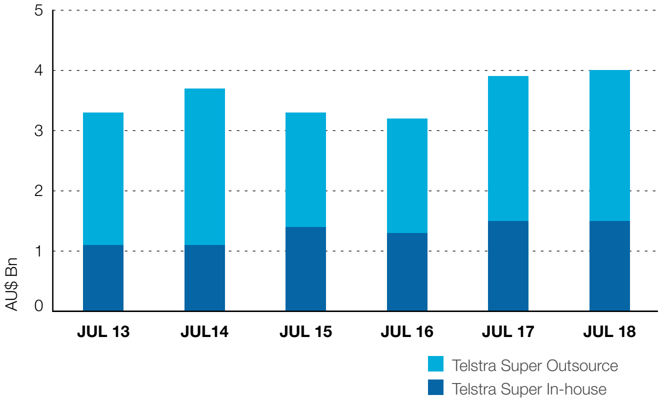


Figure 8 – AustralianSuper

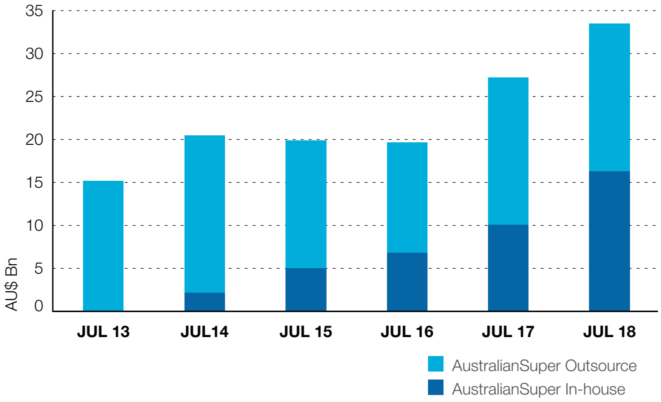
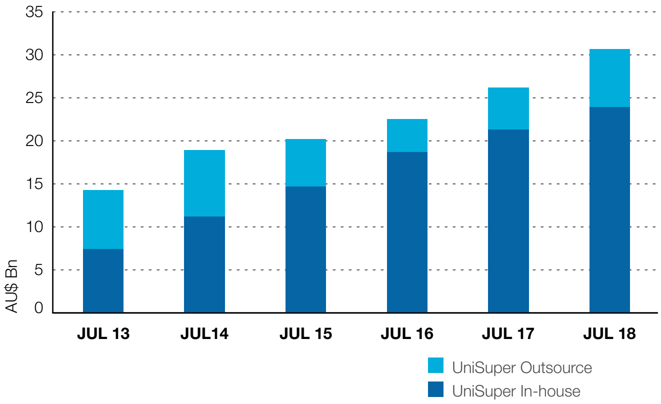


Figure 9 – UniSuper



Conclusion

We will be watching with interest how these trends continue into 2019, especially considering ongoing uncertainly in Europe and global trade tensions, as well as a Federal Election locally. We expect at a minimum, the power of industry funds to continue to grow, as well as the demands on IROs and the importance of their role, to only increase.[4]

More about Orient Capital

Orient Capital, the investor relations division of the Link Group, is a global leader in share ownership analytics, market intelligence, investor communication and shareholder management technology.

Orient Capital is the largest analyser of share registers globally and the dominant provider of equity ownership analytics to listed companies in multiple markets. miraqle, Orient Capital's unique web-based, capital markets' management platform, is the desktop investor relations solution of choice for approximately 2,000 listed companies in the UK, Europe, Australasia, Asia and Africa.

For more information, please visit: **www.orientcap.com**

4 Orient Capital, Change, challenge and opportunity: The impact of MiFID II on FTSE 350 investor relations – https://www.linkassetservices.com/our-thinking/mifid-ii-ratchets-up-pressure-on-investor-relations-teams-as-investors-go-direct

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