

THEY COME FROM A LAND DOWN UNDER

Ten years ago the total reported Australian investment in the S&P 500 was less than \$10B. Now that stands at \$115B. About half of the total reported EAUM of \$377B is invested abroad. The attractiveness of this growth, however, is somewhat tempered by the geographic location that makes planning an NDR for issuers, particularly North American and European, challenging from an ROI standpoint. A flight from New York, or London, to Sydney takes nearly a full day. In comparison, the total flying time for a New York-London-Paris-Amsterdam-Frankfurt-New York itinerary is less than 24 hours.

Last year saw quite a few of our clients, particularly in the United States, telling us about increasing interest from Australian investors and seeking our advice on what they should do.

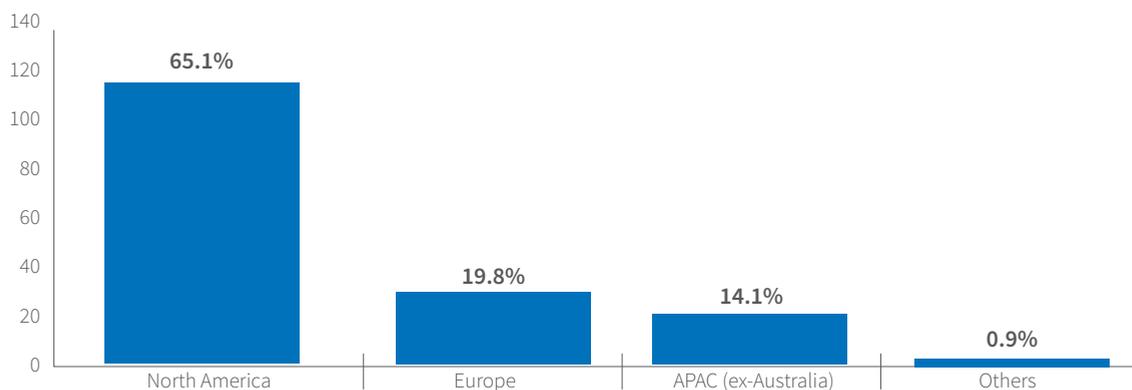
DRIVERS OF THE GROWTH

A highlight of the Australian investment management industry is the pension system. With over \$2T under management, the superannuation system, as it's called, primarily consists of pension funds run by private fund management firms and pension funds set up by various industry sectors. Among the latter is UniSuper, which was set up to manage the pension funds of university employees and workers from other education-related fields. It is compulsory for employers to make pension contributions for their employees on top of the employees' wages and salaries. The employer contribution rate, which has been 9.5% since July 2014, is planned to increase gradually to 12% in 2025. This mandate has created a predictable flow of capital to these funds each year. The amount of assets held by these funds is forecasted to grow to \$3.5-5.0T by 2025. Altogether, the funds are part of the 4th largest such pension system in the world.

As the AUM has increased, so has international investment. The rate of international allocations accelerated in the last five years as the Australian dollar sank and the country's resources investment boom, led by demand from China, waned. The relatively small and concentrated Australian stock market has been another key driver for expanding foreign investment as investors seek diversification.

INVESTMENT DESTINATIONS

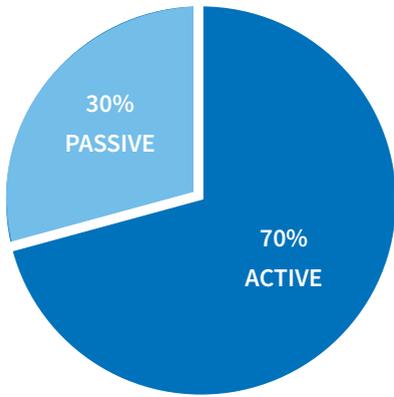
FIGURE 1: DISTRIBUTION OF AUSTRALIAN EQUITY INVESTMENTS ABROAD



Source: Ipreo Research; Dec 2017

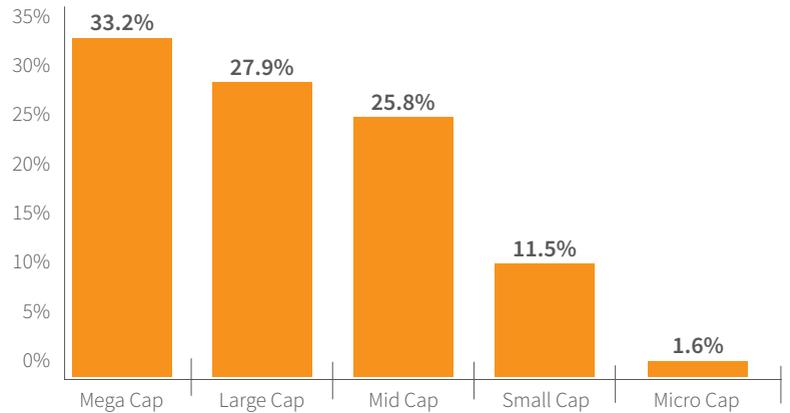
65% of the reported international equity investments from Australia target North America, with Europe and APAC in distant second and third place.

FIGURE 2: ORIENTATION OF INTERNATIONAL EQUITY INVESTMENTS BY AUSTRALIAN INVESTORS



Source: Ipreo Research; Dec 2017

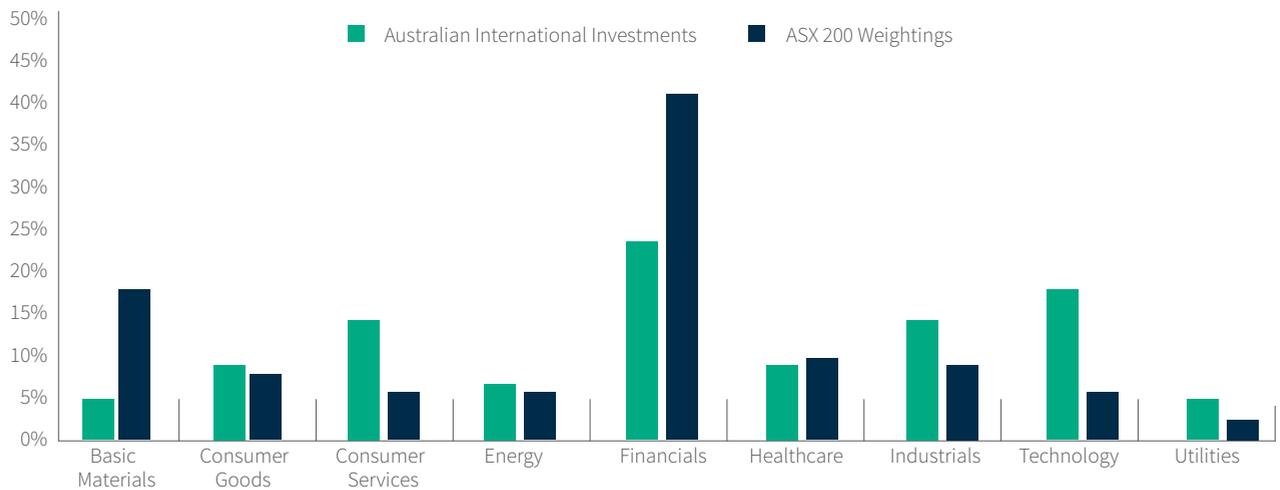
FIGURE 3: DISTRIBUTION OF INTERNATIONAL EQUITY INVESTMENTS BY CAP SIZE



Source: Ipreo Research; Dec 2017

70% of the total investment is actively managed. In comparison, the total international (ex-US) shareholding in the S&P 500 is about 84% active. So Australian shareholding, at least in US issuers, is more passively oriented than investments from Europe and Asia. International investment is fairly well-distributed across issuers of various sizes.

FIGURE 4: DISTRIBUTION OF INTERNATIONAL EQUITY INVESTMENTS BY SECTOR VS. ASX 200 WEIGHTINGS



Source: Ipreo Research; Dec 2017

Financial services dominate the Australian stock market. 42% of the market-cap weighted ASX 200 consists of issuers from this sector. But, this hasn't dampened the appetite for foreign investments in this sector with 23% of total international investments going there. Commonwealth Bank, which is the heaviest weighted stock on the ASX 200, is not the same as Goldman Sachs, so there are diversification benefits in investing in the financial sector outside Australia.

The comparison of investments in basic materials and technology stocks, with their respective sector weightings in the ASX 200, is less surprising. Australia is a major hub of basic materials mining and is the sector carries the second largest weighting in the ASX 200. Given this local investment option, we see little international investments here. It must be noted, however, that the 5% investment in foreign basic materials stocks is actually a bit higher than the sector's weight in the S&P 500. Issuers in the sector should not be dissuaded from engaging Australian investors. In fact, some of our clients in the space talk positively about the quality of the interactions given local familiarity of the business. Management of foreign issuers in the sector are often very familiar with Australian peers and that should make it easy for IR to convince management to tack on investor meetings to any business trips to Australia.

Technology attracts nearly 18% of all foreign investments from Australia, which is not surprising given that just 6% of the ASX 200 is in that space. Ipreo's bespoke work analyzing international investments in US issuers reveals technology as a favorite, which we believe is a result of the relative uniqueness of many in the US technology space.

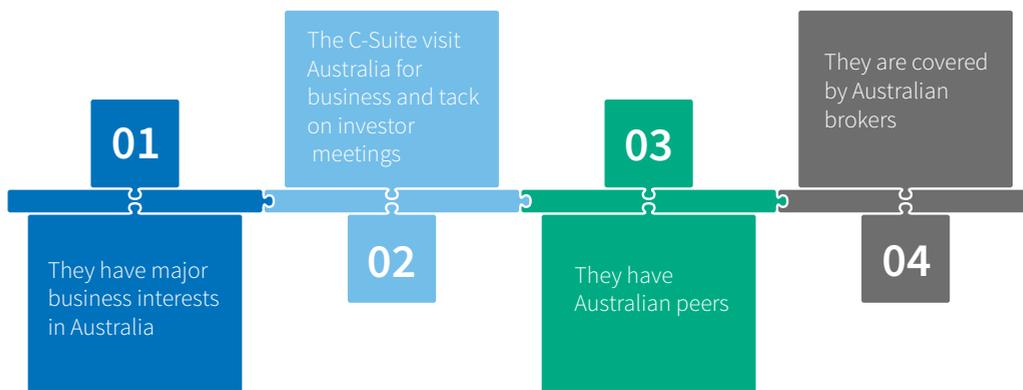
INVESTMENT DESTINATIONS

FIGURE 5: MOST POPULAR INVESTORS MET BY IPREO CLIENTS



Source: Ipreo Research; Dec 2017

Given the geographical constraints, interactions our clients have had with 75 investors have been mostly virtual. Australians have been pioneers in video conferencing, using the medium as far back as 2008, so it is common practice. The issuers that have done physical investor meetings have one or more of these characteristics:



Australian investor meetings also happen at key sector conferences that allow our issuer clients to see them without traveling to the country. In a few others cases, interactions came from reverse roadshows.

When it comes to virtual meetings, one-on-one is ideal and any group meeting must be limited to a small group to avoid the event becoming impersonal. The goal is for the event to resemble a meeting and not a video on YouTube.

If you are scheduling a trip to Australia, keep in mind that several international conferences are in March and September, so many Australian investors may be traveling during that time. The reporting seasons for Australian companies are February and August, so many managers may be occupied domestically. While most of the introductory meetings revolve around getting to know the issuer story, in meetings following the initial one, be prepared to discuss ESG performance too, as nearly half of Australian equity assets are managed based on some type of ESG criteria.



AUTHOR: Sudarshan Setlur

Sudarshan Setlur is a Director in Ipreo's Global Markets Intelligence Group