

Equity Strategy

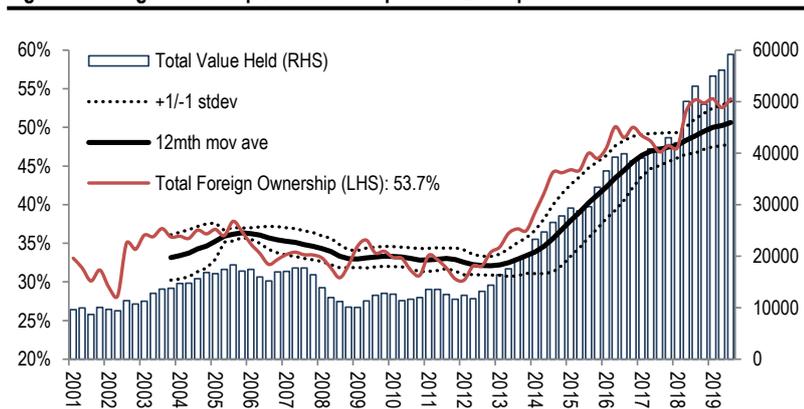
Foreign Ownership — Flows Rebound

Foreign ownership has recovered ground lost in the prior quarter rising to its previous record high as at the end of the September 2019 quarter. The majority of this rise can be attributed to inflows by international (ex Australia) investors, in light of continued profit taking by Australian investors. Signals for the current quarter are mixed with substantial shareholder activity for foreign investors having risen, while ETF flows appear balanced over the quarter to date.

Foreign ownership rises in September 2019 quarter

As at the end of the September 2019 quarter, on our estimates, foreign investors now own approximately 53.7% of the New Zealand equity market. This has risen +112bp from 52.6% as at the end of the June 2019 quarter.

Figure 1. Foreign ownership rose in the September 2019 quarter



Source: Forsyth Barr analysis, Stats NZ, Refinitiv

Australia vs other Internationals

International (ex Australia) inflows were the sole driver of the rise, with buying activity appearing to be focussed in stocks other than The a2 Milk Company (ATM). In contrast, Australian investors have continued to take profits, selling across the broader market, with selling activity most heavily concentrated in ATM.

Signals for the December 2019 quarter

The December 2019 quarter will encompass the MSCI November Semi-Annual review which saw Mercury NZ (MCY) enter the headline MSCI NZ Standard Index, with no stocks exiting. The resulting passive buying in MCY at the implementation of index changes was ~NZ\$246m.

Substantial shareholders notices for the December quarter to date are larger in aggregate than the prior quarter, albeit with a large portion of total activity attributable to a few large trades. Net flows were positive but small for both the Australian and International investor groups.

Activity in the US listed MSCI NZ IMI ETF offers minimal signal as to any significant change in US investor sentiment toward New Zealand equities, with inflows and outflows appearing balanced over the quarter to date.

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Investor movement

Internationals dominate

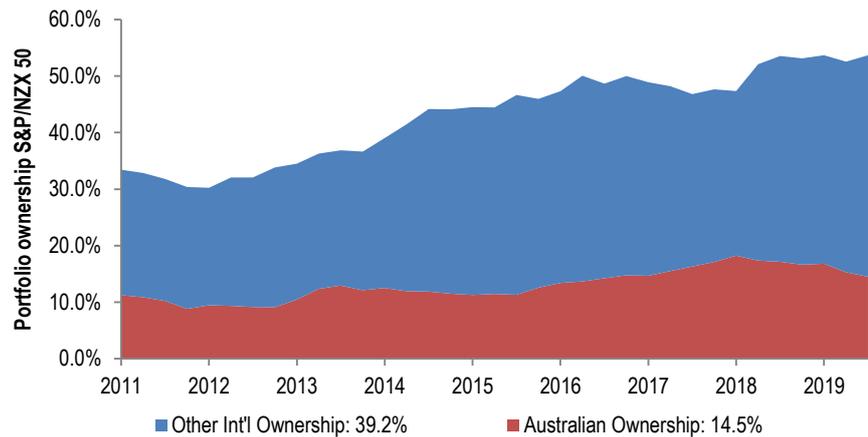
Foreign ownership changes in the September 2019 quarter have been dominated by international investors' inflows, which more than offset outflows for Australian investors over the same period. International buying activity appeared to be focussed in stocks outside The a2 Milk Company (ATM), while Australian selling activity was mostly concentrated in ATM, although Australians were still sellers across the market more broadly.

Figure 2. Quarterly ownership movement by Australian and Int'l components

	Int'l.		Aust.		Total	
	Actual	Excl. ATM	Actual	Excl. ATM	Actual	Excl. ATM
Dec 2018	36.5%	39.1%	16.6%	13.0%	53.1%	52.0%
Mar 2019	36.9%	40.0%	16.8%	12.6%	53.7%	52.6%
Jun 2019	37.3%	39.2%	15.3%	11.2%	52.6%	51.6%
Sep 2019	39.2%	42.0%	14.5%	10.8%	53.7%	52.9%
Change Sept Qtr	+1.89%	+2.83%	-0.77%	-0.37%	+1.12%	+1.28%

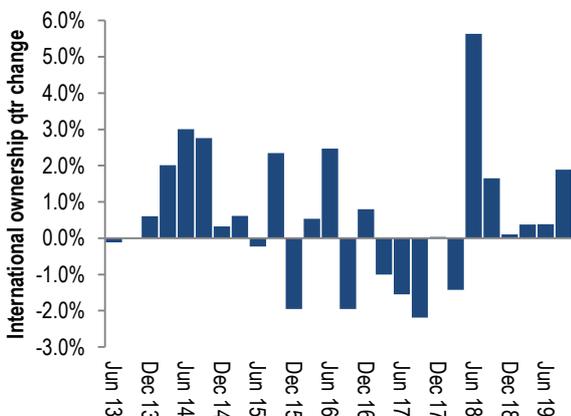
Source: Forsyth Barr analysis, Stats NZ, ASX, Refinitiv

Figure 3. Foreign ownership of the S&P/NZX 50



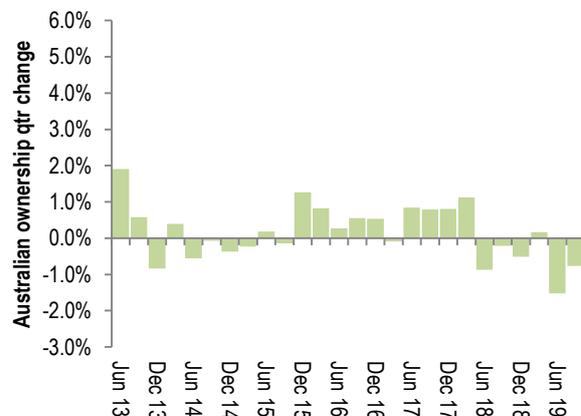
Source: Forsyth Barr analysis, Stats NZ, Refinitiv

Figure 4. Quarterly change in International (ex-Aus) ownership



Source: Forsyth Barr analysis, Stats NZ, ASX, Refinitiv

Figure 5. Quarterly change in Australian ownership



Source: Forsyth Barr analysis, Stats NZ, ASX, Refinitiv

Shareholder notices heightened yet lumpy

Substantial shareholder notices for the December 2019 quarter to date indicate a higher gross level of foreign investor activity relative to the prior quarter. Flows were concentrated to a smaller number of larger value trades. Within the international investor group outflows due to a significant liquidity event in EBOS Group (EBO) were largely offset by significant trades in The a2 Milk Company (ATM) and Fisher & Paykel Healthcare (FPH). Which, alongside a number of smaller transactions, saw net flows balanced.

Aside from an increase in Pental Group’s position in ATM, activity by Australian investors was relatively muted and centred on a select few companies.

Figure 6. International investor SSH notices – December 2019 quarter to date

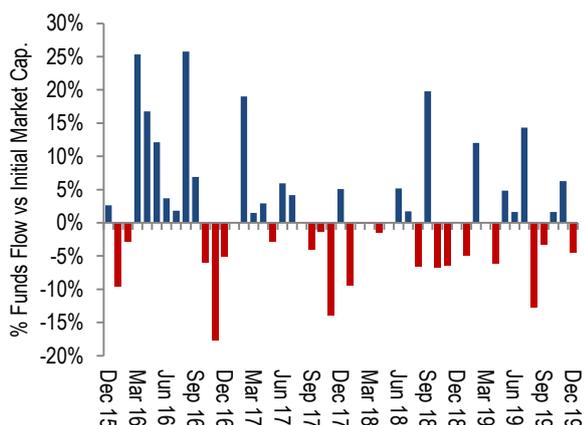
Code	Shareholder Name	Before	After	Change	Value (\$NZDm)
ATM	Mitsubishi UFJ Financial Group	7.5%	10.2%	+2.7%	+262.1
	Morgan Stanley	5.0%	5.5%	+0.5%	+52.2
	Pental Group Limited	5.3%	6.3%	+1.0%	+104.9
CNU	Commonwealth Bank of Australia	5.0%	5.0%	+0.0%	+0.9
EBO	Sybos Holdings	40.0%	28.1%	-11.9%	-440.8
FPH	The Capital Group Companies	5.1%	6.4%	+1.3%	+128.2
GTK	BlackRock Investment Management	5.1%	5.0%	-0.2%	-1.0
NZR	Wellington Management Company	8.3%	9.3%	+1.0%	+6.5
PPH	Mitsubishi UFJ Financial Group	5.9%	4.4%	-1.5%	-13.9
	Morgan Stanley	5.9%	5.0%	-0.9%	-8.2
SKC	Lazard	7.5%	8.5%	+1.0%	+26.6
SKT	Harris & Associates LP	5.1%	5.0%	-0.1%	-0.5
	Kiltearn Partners	10.4%	8.9%	-1.5%	-5.4
Australian Investors					+105.8
International Investors					+5.9

Source: Forsyth Barr analysis, NZX

Passive flows

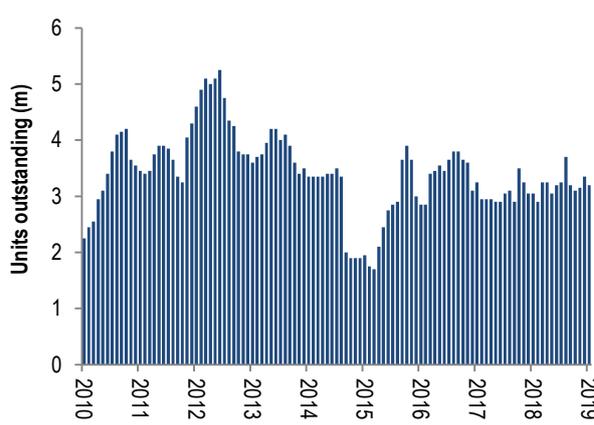
Using investment flows in the US listed MSCI NZ ETF as a proxy of US investor interest in the New Zealand equity market, sentiments appear unchanged. With inflows and outflows equally balanced, and units on issue subsequently largely unchanged.

Figure 7. iShares MSCI NZ ETF funds flow



Source: Forsyth Barr analysis, Refinitiv

Figure 8. iShares MSCI NZ ETF trend in units on issue



Source: Forsyth Barr analysis, Refinitiv

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