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Australian equity capital markets could be better used to generate wealth and opportunities for all

By Patrick Salis, CEO, AUSIEX

Public capital markets remain the primary forum to raise capital, provide liquidity and price transparency for companies and investors. They are a vital ingredient in the chemistry of a modern integrated economy, playing a critical role in moving ideas beyond the start-up crucible to the furnace of capital markets which drive economic growth.

But increasing competition from private markets and more innovative global exchanges means Australian public markets must adapt if they are to be fully utilised and continue to generate wealth for Australians.

One measure of whether equity capital markets are performing their role effectively is whether public company listings are growing in line with the growth in company and capital formation.

Australian Securities and Investments Commission figures show Australians are demonstrating entrepreneurial spirit and starting new companies at a solid clip of 4.5% new registrations a year.

Figure 1: Comparison of Australian Stock Exchange (ASX) Entity Type Geometric Growth Rates 2017-2023

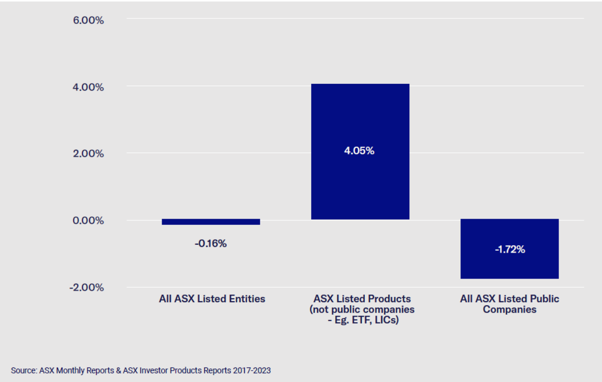
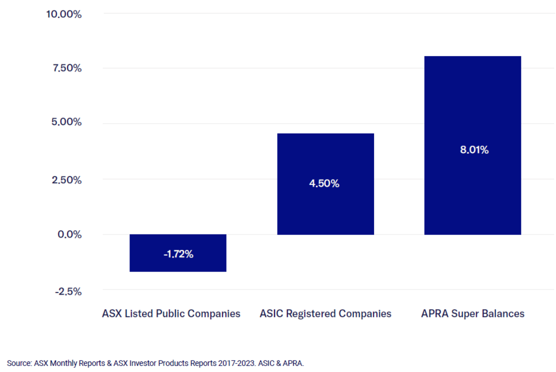


Figure 2: Comparison ASX Public Company Listings vs Company Registrations and Superannuation System Geometric Growth rates



Meanwhile, the pool of potential investment capital – in the form of Australian's $3.5 trillion superannuation savings – continues to grow at an impressive and consistent annual rate of around 8%, according to Australian Prudential Regulation Authority data.

Yet, the number of companies listing on public markets is falling.

Australian Securities Exchange reports show that over the five years to 2023, the number of public companies listed on the ASX (excluding ASX-listed products, such as exchange traded funds and listed investment companies) reduced at an average rate of 1.7% a year. There are just over 160 fewer publicly listed companies than there were in 2017.

This suggests new good-quality businesses are no longer seeking the local public bourse as their best source of capital. Our public capital markets could be better utilised to benefit the economy, companies and investors.

Australia's concentrated economy

If we look at the environment in which equity capital may be utilised, we see that over the past two decades, Australia's economy has become increasingly concentrated on the 'grow up or dig up' areas of resources, agriculture and energy sectors, and less reliant on manufacturing. In terms of economic output, manufacturing has decreased by 50% over the past two decades, while mining has increased 330%.

In 2023, around 70% of Australia's national income and wealth was derived from resource and agricultural exports, Reserve Bank of Australia data shows. Only 20% was from manufactured goods.

Opportunities for reinvigoration

Two key shifts now occurring in the economy present opportunities to better utilise Australia's public markets.

One, of course, is the well-documented desire from governments to re-engineer the Australian economy away from fossil fuels and towards green energy.

The second, and arguably less widely understood shift however, is the recent and urgent emphasis toward bolstering Australia's defence and national security requirements in the face of global challenges.

These initiatives are a source of real goals and real projects.The AUKUS agreement for instance commits Australia to $A368 billion of projected expenditure into the mid-2050s. A raft of other programs announced focus on future-orientated industries such as energy transition technology, artificial intelligence, cyber, hypersonic capabilities and quantum computing as well as re-homing other advanced manufacturing capabilities to rebalance our economy.

The desire by the government to include superannuation funds and private capital in the programs signals to equity capital markets the opportunity for them to be pivotal participants in the raising of required capital, creating a once in a generation opportunity to 'fire up' the capital furnaces of Australia.

We see three ways this could occur.

1. Attract companies to list in Australia

Australia can already point to a successful small-cap mining industry ecosystem. Public markets have also created some large biotechnology companies, such as Cochlear and Resmed.

To encourage greater participation, groups such as the Stockbrokers and Investment Advisers Association could expand their work with government and participants to build awareness and tools to bring innovators and creators together with capital market participants and institutional customers to understand the rapidly changing manufacturing environment. In doing so, they may help manufacturing businesses to accelerate growth by listing on the ASX.

Offshore companies could also be attracted to list in Australia. Around 8% of ASX company listings are outside of Australia, with the largest share in New Zealand and the USA. ASX could expand its focus to find

“

If Australian capital markets do not innovate at the rate of their global peers, who are also competitors, they risk becoming technologically moribund and uncompetitive.

new manufacturing customers in new markets and could also work with its participants and others, who may like Nomura Research Institute, have a global footprint and could help make introductions for them.

2. Develop more diverse financial structures

Manufacturing, energy, defence, and high-tech industries are capital-intensive and require diverse financial structures and products.

Australia has a strong and mature equities market; however, it may be argued that it does not have a 'mission fit' corporate bond market. In a 2021 paper on the development of the Australian corporate bond market, the House of Representatives Standing Committee on Tax and Revenue stated this was due to "ongoing regulatory failure and institutional obstructionism" and has led to Australia having a smaller and less liquid corporate bond market than New Zealand, which has a significantly smaller economy.

Government and regulators have been slowly developing the local corporate bond market, with ASX as a leading participant in the process. However, the fact that ASX itself was recently unable to use its own platform to raise debt shows there is still work to be done.

3. Revise regulations to foster innovation

Improving the technology infrastructure of Australian capital markets is essential to maintaining Australia's competitiveness on the world stage. However, following the failure of ASX's ambitious re-engineering project, which was shelved in November 2022, the emphasis on technology infrastructure in Australian equity capital markets has shifted from supporting market innovation to sustaining regulatory compliance and stability.

This risk aversion needs to be balanced against the need for international competitiveness.

If Australian capital markets do not innovate at the rate of their global peers, who are also competitors, they risk becoming technologically moribund and uncompetitive. Opportunities will simply go to other markets. For example, the US, Canada and the UK all have exchange-backed pathways to make it easier for smaller companies to access public capital markets. The UK and Canada also have bourses with a specific focus on junior markets.

Stakeholders here need to work together to remove obstacles to market innovation and improve the utilisation of Australia's public capital markets. This could support growth and the wealth creation prospects for future generations of companies and investors.

Access the full article '*Forging ahead: Revitalising Australia's Equity Capital Market*' here.

About AUSIEX

With over 25 years of experience in the market and the backing of NRI, a global powerhouse in technology and operations services, we have a depth and breadth of knowledge within the Australian equities market, enabling us to understand the world our clients operate in and the challenges they face.

Supporting all segments of the Australian wholesale market, we provide choice and flexibility across the entire trade lifecycle. Our offering covers domestic and international trade execution, clearing and settlement services, online corporate actions, portfolio administration, tax reporting, fully supported B2B platforms and everything in between.

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Founded in 1965, NRI is a respected and innovative global powerhouse in technology and operations services. With a strong balance sheet and presence in major financial centres worldwide, NRI is a world leader in innovative, cross-asset, multi-currency, front and back-end financial IT solutions for investment banks, asset managers, and insurance providers.

For more information, visit https://www.nri.com/en

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Bull and bear case for Australian shares in the new financial year

By By Vinay Ranjan, Senior Equities Analyst, Airlie Funds

Ignore 'market noise' and focus on investing in quality companies.

Key points

- Reasons to be bullish on shares include corporate balance sheets and earnings, and Australian competitiveness.
- Reasons to be bearish include company valuations, living costs and persistently higher inflation.
- Airlie's view is that investors should ignore short- term market ups and down and focus on longer-term trends.

It's coming to that time of year when equity market strategists and the financial media will start issuing their forecasts for the performance of the stock market in FY25. Airlie's view is to ignore them. Their predictions (like most predictions) are usually wrong.

The list below (while not exhaustive) is a reminder of some of these challenges:

- FY20 – COVID-19 pandemic shuts down many parts of the economy and sees cuts to interest rates globally.
- FY21 – COVID-19 crisis continues as states implement various degrees of lockdown. Similar disruptions globally morph into a supply-chain crisis.
- FY22 – Russia invades Ukraine and inflation fears emerge.
- FY23 – Central banks, including the Reserve Bank of Australia (RBA), embark on an aggressive rate- tightening cycle.
- FY24 – Hamas and Israel conflict intensifies and inflation moderates but remains sticky and above central bank targets.

Despite all these events, global equity markets have risen. The S&P/ASX 200 Accumulation index (which includes dividends) has delivered a total return of 47% or 8% per annum[1].

In Airlie's view, the past five years have shown that buying and selling stocks based on a view of the market's impending movements is a fool's game.

In this article, Airlie avoids predicting where the market is going to be in 12 months and instead focuses on three reasons for investors to be bullish on Australian equities in FY25 and three reasons to be bearish.

Bull case for Australian equities

1. Corporate balance sheets in good shape

Many Australian investors have lived in a period of declining and ultra-low interest rates. Before the RBA's first interest-rate hike in May 2022, the public had not experienced an increase in interest rates since November 2010, and that cycle only saw the cash rate increase from 3% to 4.75%. To find a rate-hiking cycle of equivalent magnitude today, investors would have to go back more than 30 years.

According to Airlie, the rise in interest rates over the last two years could be seen as a reminder for investors of the opportunity cost of capital and the value of conservative capital structures.

Airlie's view is that when rates were low, debt was considered 'free' and helped prop up risky companies as investors chased greater returns in speculative companies, while other companies were encouraged to take on large amounts of debt to fund acquisitions and growth with no consequence of increasing financial risk. This era of 'free money' is over and balance sheets now matter.

Airlie's view is that corporate balance sheets across the ASX 200 in general look in good shape. Figure 1 shows the leverage ratio of the average industrial company in the ASX 200 today versus previous economic cycles. At less than 1.0x Net Debt/EBITDA, corporate balance sheets look healthy to Airlie. Airlie considers this suggests that Australia's largest companies could be well placed to handle any adverse bumps the economic cycle, competitors or internal issues may throw at them.

2. Domestic profit pools often supported by a handful of players

In contrast to other global markets, the size of Australia's population and its distance from the rest of the world has resulted in several domestic industry oligopolies with substantial barriers to entry. The smaller population in particular means industry profit pools often cannot support a third or fourth entrant. Some notable oligopolies include the following.

The grocery sector, where two major supermarket chains account for about 65% of the market. Contrast this with the UK, where the top two grocers account for 43% of the market, and the US, where the four largest supermarket chains have a combined share of 34%[2].

The airline sector, where our national carrier, Qantas Group (ASX: QAN) (including Jetstar), has a 62% share of domestic air travel[3]. This has possibly been enhanced following news that recent market airline entrant Bonza has gone into voluntary administration.

The banking sector, where the four major banks account for over 70% of the home-loan market in Australia[4].

Airlie's view is that this concentration can potentially be a positive for investors in large-cap Australian equities in that they can put their money behind industry-leading companies that have a low risk of being disrupted by competition. Historically these businesses tend to have a track record of stable returns and market-share gains versus their smaller rivals.

Figure 1: Leverage ratio of the average industrial company in the ASX 200

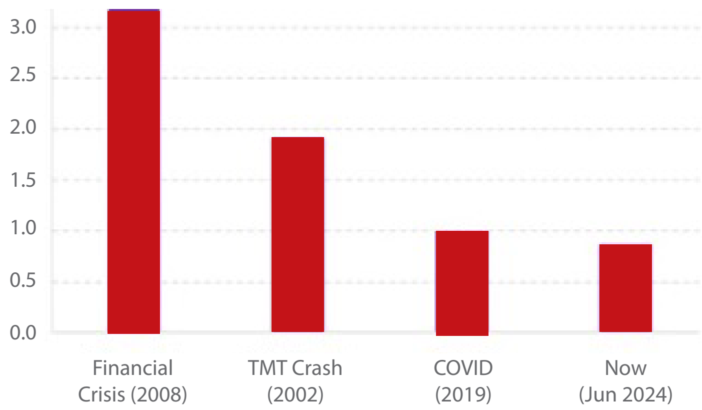

Figure 2: Australia total employed persons ('000) – Last 20 years

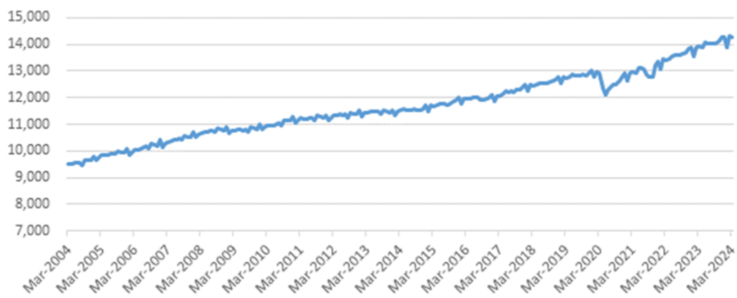

Figure 3: Total retail turnover (Seasonally adjusted) ($ Millions)

3. Australia's place in the world only getting better

When we look through a global lens, Australia has a lot going for it – a beautiful place to live, a safe, strong rule of law, and high-quality education.

In Airlie's view, even the much-grumbled-about house prices still means some people can buy a house and not a shoebox apartment in capital cities. Australia continues to attract people and capital, both providing a long-term tailwind for the economy.

This is best reflected in Australian Bureau of Statistics (ABS) data (see figures 2 & 3) showing that compared to pre-COVID-19, an additional 1.35 million people are employed in the country (a 10% increase)[5]. This compares favourably to other developed economies like the UK, where the total

Figure 4: S&P/ASX 200 – Foward P/E ratio

labour force has increased by just 1% over the same period[6].

Airlie's view is that growth in employed persons translates directly into spending and this has provided a tailwind for Australia's consumer-facing sectors despite cost-of-living pressures. Total retail sales have increased by 30% over the last five years[7]. According to Airlie, the looming tax cuts for individual workers in Australia in FY25 are likely to bolster retail spending and support those companies relying on the domestic consumer.

The bear case for Australian equities

1. Valuations for publicly listed companies have re-rated higher

In Airlie's view, higher company valuations reduce the prospect of near-term upside for investors. The rally in equity markets over the past 12 months reflects a level of optimism about 'peak' interest rates and the need to see further evidence for the market to continue re-rating higher.

The ASX 200 is currently trading above its long-term median Price Earnings multiple of 14.6 times[8]. This suggests to Airlie that companies in general are valued positively and it's clearly not the "cheap" market witnessed in March 2020 and July 2022 (see figure 4).

Within this aggregate, however, there may still be individual businesses that look attractive, and investors could have to dig for mispriced opportunities.

2. High cost of living is gaining political attention

In Airlie's opinion, concentrated domestic oligopolies can potentially be good for investors. But in an environment where consumers are under pressure, some oligopolies could come under threat from politicians.

For example, there have been recent accusations of profiteering levelled at the domestic supermarkets. Airlie would not be surprised if the government turned its attention to other concentrated sectors, so as to be seen to be tackling the cost-of-living crisis. Even if there is no immediate change to regulation of these sectors, Airlie has seen this kind of political pressure hurt returns as companies respond by pulling back on pricing power.

3. Sticky inflation

In Airlie's view, interest rates may well remain elevated, or worse – they may even increase in the coming year. The optimism embedded in sharemarket valuations is predicated on a narrative of peak rates. Any evidence of inflation persisting above the RBA's target range of 2-3% may lead investors to reprice securities lower to reflect a higher cost of capital.

To date, the Australian economy has been strong with elevated migration and record-low unemployment supporting demand. And on the supply side, the cost of the energy transition and the restructuring of global trade (away from China) could continue to act as inflationary forces that may well be structural.

Conclusion

While Airlie doesn't have a crystal ball for what 2025 will have in store for the Australian sharemarket, we believe investing in companies with strong balance sheets, and that are market leaders with pricing power, may help drive returns over the long term.

History tells us that attempting to profit from a view of the market's ups and downs in what has otherwise been an upward journey is likely to detract from returns rather than add to them.

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1 FactSet – ASX 200 total return 5 years to 3 May 2024
2 Independent Review of the Food and Grocery Code of Conduct 2023- 24 – Consultation Paper (February 2024)
3 ACCC Report – Airline Competition in Australia (March 2023)
4 Commonwealth Bank of Australia 1H24 Results Presentation
5 ABS 6202 – Labour Force, Australia (Total employed persons – original) March 2024
6 Office for National Statistics – Employment in the UK
7 ABS 8501 – Retail Trade, Australia (Retail Turnover by Industry Group) March 2024
8 FactSet at 10 May 2024

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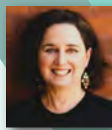
Future of payments – what you need to know in the Australian financial markets

Wednesday 10 July from 1.00pm to 2.00pm AEDT



JENNIFER HARRISON
Reputation Edge

AMANDA MARK
Complii

JOHN RYAN
PayEd

Join this expert panel exploring payment trends in stockbroking. They'll discuss recent shifts, future trends, and regulatory impacts from Treasury, RBA, ASIC, ACCC, and APRA. Learn strategies for enhancing payment adoption and explore digital currency and identity trends.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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Cryptoasset insights: Navigating opportunities and risks

Wednesday 24 July from 1.00pm to 2.00pm AEDT

IAN LOVE
Blockchain Assets

Ian Love will delve into Bitcoin and cryptoassets highlighting both risks and opportunities of these emerging assets. He will also outline how to incorporate these assets into a traditional portfolio safely and securely, and in compliance with regulations.

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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VanEck's Investment Playbook: Top strategies in focus

Wednesday 14 August from 1.00pm to 2.00pm AEDT

JOHN CAULFIELD
VanEck Australia

The first half of 2024 was strong for many assets. Inflation, central bank actions, and over 50 global elections will shape the second half. Join VanEck John Caulfield for insights on Australian equities, commodities, and key strategies in the current macro environment.

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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Wholesale clients: The do's and don'ts

Wednesday 21 August from 1.00pm to 2.00pm AEDT

JAMES DICKSON
OCG Consulting

By attending this webinar you gain a greater understanding of the needs of these sophisticated clients and their requirements from regulators, particularly relating to ongoing monitoring and the documents issued to clients.

Professional Standards CPD: Professionalism and ethics 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Financial planning 1.0 hour

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Understanding direct indexing – enabling true personalisation at scale

Wednesday 28 August from 1.00pm to 2.00pm AEDT

JOSH PERSKY
Briefcase

GEOFF KELLETT
Briefcase

Growing faster than ETFs in North America and once limited to institutional and ultra-high net worth investors, direct indexing is now accessible to many. Join Josh Persky and Geoff Kellett as they explore its opportunities and benefits for Australian investors.

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Financial planning 1.0 hour

Cost: Member FREE | Non-member $75

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Introduction to stockbroking workshop Tuesday 10 September from 11.00am to 1.15pm AEDT

RUSSELL McKIMM

This workshop outlines stockbrokers' vital role in retail and institutional markets, covering operations like order taking, transactions, and settlement. Gain insights into the different systems involved and allow for a discussion of the different business models in stockbroking today.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Technical competence 0.5 hour, Professionalism and ethics 0.5 hour | **ASIC Knowledge Area:** Generic knowledge 2.0 hour

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Digital engagement practices – Marketing and the use of Influencers

Wednesday 11 September from 1.00pm to 2.00pm AEDT

This webinar will discuss key considerations for financial firms using digital engagement practices like social trading, including prohibitions on misleading conduct, the use of emojis, tips for appointing influencers, and ensuring influencers comply with financial services laws to avoid unauthorised activities.

Professional Standards CPD: Client care and practice 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Financial planning 1.0 hour

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A day in the life of a trade workshop Monday 16 September from 11.00am to 1.00pm AEDT

ROB TALEVSKI
Webull

Ideal for experienced and auxiliary staff in legal, IT, HR, and related roles, this workshop explores the trade lifecycle. Gain insights into client onboarding, share and derivative trade processes, settlement, sponsorship/HINS, CHESS messaging, and registries.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Technical competence 1.0 hour
ASIC Knowledge Area: Generic knowledge 2.0 hour

Market manipulation and other prohibited conduct workshop

Tuesday 17 September from 10.00am to 12.15pm AEDT

PROFESSOR
MICHAEL ADAMS

Focused on prohibiting artificial price creation in financial products, this workshop benefits all seeking market understanding and obligation consequences. Tailored for financial professionals, it covers obligations, self-protection, and discerning manipulation from market forces.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Professionalism and ethics 1.0 hour
ASIC Knowledge Area: Generic knowledge 2.0 hour

Cost – Webinars: Member FREE | Non-member $75

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Is your client's portfolio designed to weather the new geopolitical era?

By Peter Garnry, Saxo Head of Equity Strategy

The difference between risk and uncertainty might sound subtle but it is not. Risk relates to things we can quantify based on a reasonable data sample size, whereas uncertainty is about things that cannot be quantified. Geopolitical events are inherently about uncertainty and have a wide range of unknown outcomes.

The picture that is emerging from everything that has happened since Russia invaded Ukraine is that of a war economy, especially for Europe, with the natural outcome of fiscal expansion and likely persistent inflation. Trade policies are part of a changing geopolitical landscape and the growing friction between Europe/US and China is also a source of uncertainty and inflation. China's intense export-driven economy means it is pursuing policies that are inconsistent with national security in Europe and the US. Predictably, tariffs and industrial policy will increase in importance over time. China's export-driven economy also means it is sensitive to FX levels against competitors, particularly the Japanese yen.

What should investors consider in their portfolio to weather the future?

Asset allocation was easy in the past, with 40 years of falling bond yields, a relatively stable geopolitical landscape, positive demographics, no climate disasters, and low inflation. Going forward, the clever investor - and the industry players who support them - will need to take the changing world into consideration.

Could investors simply retain 100% equity portfolios and hope history repeats itself? Given the emerging picture of the many structural breaks in our global economy across the factors described above, it would be naïve to simply do what worked in the past.

Below are some of the components investors and industry members should consider to strengthen portfolios for a wide range of outcomes in the era of the war economy and severely negative demographic trends. These suggestions deviate from the traditional "60/40" portfolio (60% in equities and 40% in long-term bonds):

- **Equity themes:**
    i. Semiconductors/AI technology, which will be a determining factor for power in the future.
    ii. Defence, because Europe has a significant deficit in military capabilities and needs new

technologies to address the threat of drone swarms.

iii. Cybersecurity, because this is the new key operating system for any government or company.

iv. Renewable energy, as it reduces risk from a national security point of view (there is no fuelling source, and energy assets can be spread out in a decentralised manner).

- **Equity Sectors:** The four most strategically attractive sectors for the long term are currently: i) health care, ii) technology, iii) financials, and iv) energy. These sectors have the best probability (with the information we have today) of delivering strong real rate returns over the next 10 years.
- **Gold:** Gold historically has been a good risk-diversifying component in times of war and inflation, and the recent geopolitical period has once again proven that point.
- **Commodities:** The most severe inflation shocks in history have been associated with rapidly rising commodity prices, so an allocation to commodities makes sense for the war economy and to hedge against inflation shocks. The green transformation could also trigger sustained trends in key commodities, including copper.
- **Short-term and inflation-protected bonds:** With inflation stickier than estimated, inflation-protected bonds are worth considering as their principal value is increased in line with the CPI index. Short-term bonds create optionality and basically act like cash, as the short-term bonds have little duration and are thus less risky under inflation uncertainty.

There are numerous brokers across Australia, such as Saxo, that can facilitate access to these investment opportunities, both domestic and global. However, our view remains that access needs to be accompanied by information that assists investors to decide which opportunities are right for them - and to build an investment philosophy aligned to modern times, with all its promises and pitfalls.

It is thus Saxo’s belief that the industry must seek to prioritise education alongside execution. Ongoing learning and information dissemination are essential for investors to navigate the evolving geopolitical landscape effectively, as is providing comprehensive resources, such as research reports and expert analysis.

However, education should go beyond information provision. It should foster a proactive mindset that embraces flexibility, diversification, and openness to new opportunities. By cultivating a culture of continuous learning, brokers can equip clients with the tools needed to navigate uncertainty and construct resilient portfolios for the long term.

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[1]Best Platform Overall, Investment Trends 2023 Platform Competitive Analysis and Benchmarking Report.

The Direct Indexing opportunity has now reached Australian shores

Geoff Kellett, Head of Distribution, Briefcase

From the introduction of the 'modern' mutual fund in the 1920's, to the first index fund in the 1970's, investing innovations born in North America often point to the next evolution of investing for Australia. The pattern has continued with Exchange Traded Funds and Separately Managed Accounts exploding. Today in the USA, the fastest growing financial product is Direct Indexing, the benefits of which can now be accessed by Australian investors.

The rise of passive investing

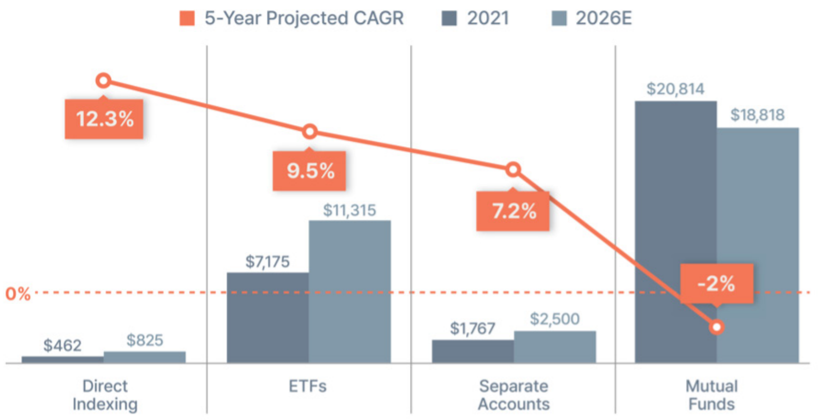
For the first time in history, index tracking exposures control more money than their actively managed counterparts.[1] Driven by the lower cost of ownership, convenience and ever-growing evidence that active management struggles to outperform passive in the long run, it's no surprise that all types of investors are increasingly allocating to index-based strategies. In the United States, less than one-in-five active large cap funds managed to outperform the S&P500 index over a five-year period to December 2023. The Australian equity market is not much better, with only one-in- four managers outperforming the ASX 200 over the same period.[2]

This trend is also linked to the growth in the market for Exchange Traded Funds (ETFs), whereby investors gain exposure to the performance of broad-based share market indices by buying units in a fund listed on a stock exchange. In Australia alone, there are now 370 different ETFs listed with a combined market capitalisation of almost $200bn – growing at over 33% for the year to April 2024[3]. In the US, the ETF universe is far larger, with more than three thousand ETFs on exchanges, representing over US8.8tn in assets.[4]

The next evolution is true personalisation

Whilst ETFs are a useful tool for investors, they fall short for many investors demanding more flexibility and customisation. Like the rise of streaming services that allow you to personalise your playlist, or insurance policies tailored to how you drive your vehicle, technology is enabling a new wave of investment customisation for every individual. For investors, it is Direct Indexing that allows them to enjoy the

Figure 1: USA Assets under Management in Direct Indexing (USD Billions)



Source: https://www.bloomberg.com/news/articles/2022-12-06/direct-indexing-boom-could-hit-825-billion-in-four-years?embedded-checkout=true

benefits customisation via a portfolio designed and managed, just for them.

Direct Indexing enables an investor to gain exposure to the performance of a market index like the ASX 200 or S&P 500, via a portfolio of direct shares, without the need to buy into a managed fund or ETF. Direct Indexing technology also allows for customisation that investors cannot achieve with an ETF or managed fund structure.

Once the domain of institutional investors, innovations in portfolio optimisation technology and more affordable execution costs, mean that Direct Indexing is now within reach of the masses. In the USA, direct indexing investments now account for over $500bn USD and are growing faster than the ETF market. Many sophisticated, venture-backed firms are now offering this service to investors, and Wall Street has caught on. Recent acquisitions from firms such as Morgan Stanley, J.P. Morgan and Black Rock ensure that the rapid growth of Direct Indexing will only further gain pace.[5]

So why all the excitement about Direct Indexing? Direct Indexing offers some significant advantages that can be very meaningful to investors when compared with an ETF or index fund. These come about because the portfolio of shares is owned directly by the investor, removing the shackles of an ETF or managed fund wrapper. This subsequently provides investors the ability to customise the portfolio to meet their personal preferences and circumstances, potentially optimise for tax, all whilst providing a return similar to the index.

Diving a little deeper, Direct Indexing technology can enhance the capability of an advice firm to not only meet the growing demand for a personalised investment experience, but to also solve for a broad range of previously challenging scenarios. Considering just a few examples:

1. Executives and long-term employees are often compensated in company equity, building up concentrated positions over time. Direct Indexing can provide options to diversify such portfolios and potentially manage capital gains that are often built into the concentrated positions.
2. Many investors have specific investment restrictions that prevent them from holding certain securities. These can be religious foundations and charities whose investment policy prevent them from holding certain assets, or professionals restricted from trading or holding certain securities. Direct Indexing can deliver a portfolio that ensures these restrictions are respected.
3. Successful Investors and business owners often come with existing overweight positions in their portfolios. Examples include investors who have been active in the property sector or who have built up large positions in specific shares over time. Direct Indexing provides the flexibility to exclude these sectors or specific shares ensuring clients can build further diversification over time.

The Australian perspective

Here in Australia the opportunities offered by Direct Indexing are only now starting to be embraced. Direct Indexing requires investment management expertise, complex algorithms, and powerful computing power that until recently was inaccessible. Fortunately, this has changed thanks to the innovative technology platform developed by Briefcase. Using cutting edge technology, Briefcase provides the easy-to-use portfolio constructions tools to design, implement, monitor, and rebalance personalised Direct Index portfolios – all via your preferred broking or investment platform. It's a transparent and low-cost approach to investing but a powerful one, that combines the best of index investing and customisation to deliver truly personalised portfolios for every investor.

If you would like to understand more about Direct Indexing, and how our technology can enhance your advice offering, please contact us at enquiries@briefcase.au or join us at our upcoming webinar for SIAA members on Wednesday 28th August (see the events section of this newsletter).

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Nvidia: the company the world cannot live without, but Australians ignore

By Jessica Amir, Market Strategist, moomoo Australia

Nvidia has become the fastest-growing company in the world, with its shares surging 210% from June 26, 2023 to June 25, 2024, backed up by strong fundamentals with its revenue rising 208% year on year.

However, many Australian investors are missing out on this transformative company. Only 16% of Aussies invest directly in international stocks, often believing they lack sufficient funds to do so.

But now they can own Nvidia shares for a tenth of the cost due to its 10-for-1 stock split which took effect on June 7. Additionally, through platforms such as moomoo, Australians can buy only a fraction of a share, meaning they need very little in funds to start investing in some of the world's fast-growing companies.

Why is Nvidia an attractive investment?

Nvidia is a unique company, playing a pivotal role in the growth and innovation of mega-tech hyperscale companies such as Amazon, Meta and Alphabet (Google), which together account for 40% of Nvidia's revenue.

And its growth story is just beginning. It is expanding its client base beyond tech companies to include sectors such as healthcare, working with companies such as Novo Nordisk, GE Healthcare, and Johnson & Johnson.

This broadening client base is a key reason why most Wall Street analysts are bullish on Nvidia, rating it as a 'buy'. The AI-chip giant is projected to have strong forward-looking annual revenue growth of 98% for 2025 – an unprecedented figure for a US tech company.

Over the past 12 months Nvidia has become a favourite stock for investors with its shares scaling higher as the company's revenue and profits continued to blowout. Its recent quarterly revenue surged 262% year-on-year, marking its third quarter of more than 200% revenue growth. While its operating income surged 690% year-on-year.

Longer term, Nvidia's revenue increased 2260% over the past decade, and its net income soared 11,530%. These results have driven its stock price up 29,729%, while the S&P has gained just 176% in that time.

Not ready to invest big? Try fractional shares

Before Nvidia's stock split in June, Aussies may have been intimidated bty its share price which rose to a high of US$1220. But after its June stock split, one share became 10, its price was adjusted down 90%. And as of close of market June 25, Nvidia shares were valued at US$126.09.

For those wanting to increase their investing confidence or start small investing in one of the fastest-growing companies in the world, they can use fractional shares to buy Nvidia if they so wish. Investors can buy into Nvidia or other US companies for that matter, with as little as US$5.

In addition to investing in fractional shares via moomoo, investors can determine the quality of the investment for themselves. They can do this by using moomoo's share-trading platform to access analyst price targets; their ratings ('buy', 'hold' or 'sell' calls); and look at forward consensus projections for earnings, revenue, cash flow and profits.

We know gaining confidence plays a big part in Aussies' willingness to invest, so seeing visualised market (known as consensus) projections, as well as how the company has performed in the past, can assure investors, as they see for themselves if Nvidia or other US stocks are worth their hard-earned capital.

To that end, on the moomoo platform you can not only view Nvidia's share-price performance and real-time market quotes. But keep track of the company's forward-looking growth to understand the market's opinion of its fundamentals and likely progression.

You can also identify more top-performing AI-related stocks by using the 'Industrial Chain' feature on moomoo to have a full picture of the AI industry, including the upstream, midstream, and downstream divisions.

Review super changes at start of new financial year

By Jason Spits, Senior journalist, Editor, *selfmanagedsuper*

With 30 June now in the rear-view mirror, most people will be taking a breather and filing away the end-of-financial-year to-do list until March or April next year, but for superannuation the start of a new financial year is a time to take stock as some thresholds, limits and caps increase.

The change that will have the most widespread impact is the ongoing increase in the superannuation guarantee (SG) rate, which has been increasing by 0.5 percentage points since 2021/22 as it heads to its target of 12 per cent, which it will reach in the 2026 financial year.

That means in this penultimate financial year, the SG will move to 11.5 per cent and the maximum super contribution base will rise to $65,070 of income per quarter after which an employer does not have to pay SG for earnings above this limit. For the 2025 financial year, the maximum SG amount an employer will be required to contribute is 11.5 per cent of $65,070 per quarter or $7483.05 a quarter.

These figures are important to ensure employers are paying staff the correct level of superannuation and for employees to be aware of their entitlements, but also because changes in the SG rate will occur as concessional contributions caps go up and most taxpayers will receive a stage three tax cut.

These topics have been addressed in the March and April editions of this column, but in brief the concessional contribution cap will rise from $27,500 to $30,000 after 1 July and the stage three tax cuts will return $804 to someone earning $45,000, rising to $3729 for someone earning $150,000.

Additionally, the non-concessional contribution cap will also rise from $110,000 a year to $120,000, since it is defined by applying a multiple of four to the concessional cap, and these changes open up a range of contribution strategies for individuals and their partners.

One thing not covered in previous columns has been the need to review salary-sacrifice arrangements for the coming financial year. Under these

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types of arrangements, part of an individual's pre-tax salary can be paid into superannuation rather than given to them as part of their take-home pay.

This pre-tax payment increases the level of retirement savings, but to be valid the arrangement needs to be in place before earning the income from which the sacrificed portion will be taken.

Given the correlation of the higher concessional contribution cap, increased SG and the tax cuts, all of which take effect from 1 July 2024, the amount available under a salary-sacrifice arrangement may also rise.

This may come about as lower taxes will mean individuals will have more in their pay packet, which could be redirected for that purpose and the higher cap will create more space to make concessional contributions, either via salary sacrifice or as a personal contribution. However, keep in mind that higher cap will also be impacted by any employer when they make their higher SG contributions.

"For those looking to make after-tax contributions, the government will continue to offer a co-contribution at a rate of 50c for every $1 contributed by an individual up to a maximum of $500, which means to receive the full government co-contribution entitlement of $500 would require a non-concessional contribution of $1000.

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This entitlement is paid automatically by the ATO to those who are eligible after lodging a tax return, with those on $45,400 a year or lower receiving the full entitlement, which then reduces to zero at $60,400 and above, even when a $1000 or higher non-concessional contribution has been made.

Separately these changes may not appear to be much, but collectively they will add up and remember to seek advice if you are concerned about the proper arrangement of your tax affairs.

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