

From: [REDACTED]@martincurrie.com.au>
Sent: Tuesday, 1 April 2025 2:13 PM
To: markets consultation
Cc: [REDACTED]
Subject: Feedback on Australia's evolving capital markets

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Dear ASIC,

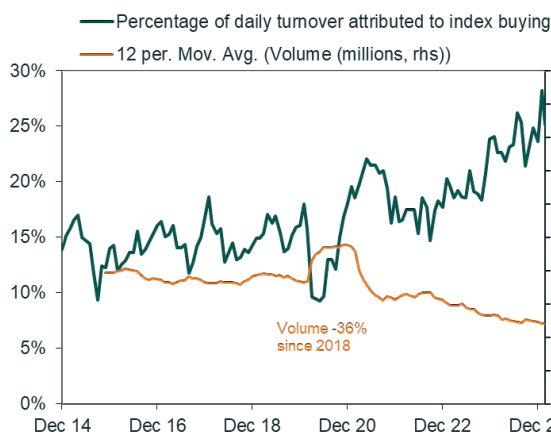
Thank you for the opportunity to provide our thoughts on Australia's evolving capital markets.

Martin Currie, a specialist investment manager within Franklin Templeton, manages approximately \$6 billion in Australian equities. With over 40 years of experience in Australian equities and Listed Real Assets, the health of the equity markets is of paramount importance to us.

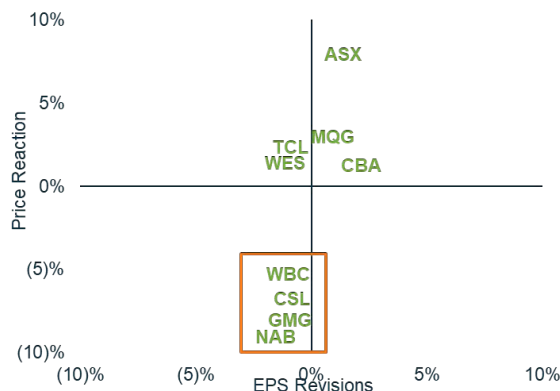
We see the following areas for further investigation that concern us about the current state of the equities market:

1. **Reduced turnover of large stocks relative to market capitalisation (turnover velocity)**
 - The trend in Australian turnover velocity is lagging certain global markets and may reflect a lack of active price-discovering players in the market; this could place the Australian market at a disadvantage for primary and secondary listings.
 - For example, CBA's turnover velocity has fallen from 50% pre COVID to ~30% today. For Australia's largest stock this is an unhealthy signal vs the ASX average (~60%) and offshore markets (eg US >100%).
2. **Index concentration and calculation methodology**
 - The concentration and dominance of certain stocks in the index is of concern to us as it may lead to high index/passive buying and lower turnover (e.g. CBA has >10% weight but around 29% turnover velocity, which is much lower than typical stocks).
 - The S&P index weights are currently determined by a company's free float and market cap, without considering the company's liquidity, leading to potential squeezes on stocks and changes in market dynamics.
 - Index weights should take into account a company's liquidity reflected by a cap on index weighting.
 - Reducing the concentration of index weights at the large end of the market would free up capital for smaller companies, promoting diversification and incentivising more companies to list on the equities market.
3. **Passive investing**
 - The influence of high passive buying (i.e. due to higher index weighting) and low annual turnover as a fraction of their market cap has potential to distort price discovery. For example, we have observed such stocks exhibit four times the price reaction to earnings revisions compared to the market average of 0.6 times for other stocks. This suggests significant price distortion.
 - There are several academic studies (e.g. Haddad⁽¹⁾) published in recent years about the influences of passive investing on price discovery which has the potential to influence the Australian market given high concentration and Superannuation performance benchmarking.

Turnover and volume: CBA



February 2025 Reporting season: 2-day price reaction vs. EPS revisions for top index flow stocks*



Past performance is not a guide to future returns.

Source: Martin Currie Australia, FactSet; as of 12 March 2025. Expected next 12 Months (NTM) data is calculated using the weighted average of broker consensus forecasts of each portfolio holding – because of this, the returns quoted are estimated figures and are therefore not guaranteed and may differ materially from the figures mentioned. The figures may also be affected by inaccurate assumptions or by known or unknown risks and uncertainties. In respect of the broker consensus data the number of brokers included for each individual stock will vary depending on active coverage of that stock by a broker at any point in time. A median of brokers is typically utilised. All estimates avoid stale forecasts which are removed after a certain number of days. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the security transactions discussed here were, or will prove to be, profitable.

*Top index flow stocks: selected based on MCA analysis of expected daily percentage buy turnover attributed to index daily inflows. 2-day price reaction: difference between company reported results and the S&P/ASX 200 Accumulation index over the two days following result. Revisions: companies with a +/-2% change in broker consensus next 12-month (NTM) forecasts after companies have reported their results.

We would be happy to discuss should you have further questions.

Regards,



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^[1] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3821263