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To Whom it May Concern

Submission to ASIC – Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets

Introduction

I am involved in both public and private markets so I have firsthand experience on the topic at hand.

This submission outlines the key reasons behind this trend, including short-termism in public markets, excessive compliance burdens, declining investor engagement, and structural inefficiencies that disproportionately impact smaller companies. As a result, private markets have become the preferred source of long-term, patient capital.

1. Short-Termism in Public Markets

Public markets are fundamentally geared toward quarterly earnings cycles, forcing companies to prioritize short-term performance over long-term strategic growth. The investment banking and broking community reinforces this dynamic, as analysts are either unwilling or unable to make long-term price forecasts, limiting a company's ability to plan effectively.

• Impact on Companies: This short-term focus discourages capital-intensive, multi-year investment decisions, particularly in sectors such as agriculture, infrastructure, and industrials.

• Private Market Advantage: Private capital investors, particularly institutional funds and family offices, take a longer-term view, enabling businesses to execute growth strategies without the distraction of short-term market pressures.

• Recommendation – Broker analysts should be forced to take a 3 & 5 yr share price target on companies that they cover.

2. Cost and Compliance Burdens

The regulatory and compliance requirements for listed companies have grown exponentially, making public listings increasingly uneconomical. While some regulation is necessary for investor protection, the burden on listed entities—particularly smaller companies—is excessive.

• Burdensome Disclosure & Compliance: Companies face escalating reporting obligations, corporate governance requirements, and shareholder activism that can detract from operational focus.

• ASX Listing Costs: Compliance, legal, and governance expenses associated with maintaining a public listing are disproportionately high for smaller companies.

• Private Market Advantage: In contrast, private markets allow businesses to allocate capital more efficiently, with fewer regulatory distractions and lower overhead costs.

3. Barriers to Entry & Declining Market Coverage

The declining coverage of small and mid-cap stocks further exacerbates the challenges for companies considering an ASX listing.

• Lack of Analyst Coverage: Small listed companies often struggle to attract broker research or institutional interest, leading to low liquidity, undervaluation, and volatility.

• Market Access Issues: Many high-growth companies find that public markets offer little capital-raising support, particularly outside of large-cap stocks and major sectors such as mining and banking.

• Private Market Advantage: In contrast, private equity and venture capital funds actively support emerging companies with capital, strategic expertise, and access to networks, making them a more attractive source of funding.

4. Social Policy & Non-Financial Pressures

Listed companies are increasingly subject to regulation and public scrutiny around social policies and shareholder activism. While social responsibility is important, these initiatives often create bureaucratic burdens and additional reporting requirements that detract from core business performance.

• Investor Activism & Social Mandates: Large institutional investors now dictate corporate policies on ESG and social issues, often overriding management decisions.

• Private Market Advantage: Private investors, by contrast, provide capital with fewer non-financial constraints, allowing businesses to focus on operational and financial performance rather than responding to external pressure.

Conclusion: Private Capital is a Superior Funding Source

The growing imbalance between public and private markets is driven by fundamental structural flaws in the listed market: short-termism, analysts that might have academic qualifications but often have never successfully invested on their own behalf, excessive compliance costs, declining coverage for smaller companies, and increasing social policy mandates.

As a result, private markets attract the smartest, most patient capital, offering companies greater strategic flexibility, better alignment with long-term growth objectives, and a more efficient pathway to unlocking value.

The challenge for regulators is clear: if Australia's public markets do not evolve, they risk becoming irrelevant for high-growth businesses, further accelerating the migration to private capital.

Kind regards
Tim McGavin