



21 May 2015

## Chairman's Speech to NZX Annual Meeting 2015

### Introduction

Our equity markets again captured the headlines in 2014, with 16 companies listing during the year, \$4.7 billion in new capital listed, and total equity market capitalisation to GDP increasing from 37.8% in 2013 to 42.1% at 31 December 2014.

NZX's financial performance during the financial year was satisfactory. We delivered fully imputed dividend returns of 6 cents per share, equivalent to a gross yield of 6.7% based on a volume weighted average price for the 2014 calendar year of \$1.2449.

The imperative of growth - particularly in shareholder return - is at the front of our minds. We are conscious that our recent share price performance has been sub-optimal.

NZX has invested heavily in what matters to our capital market's growth, and in response to growth opportunities we've identified. The Board and management are committed to driving those investments to deliver the enhanced shareholder returns that we foresaw when making them. We remain very confident that this growth will be delivered - our suite of opportunities and businesses has never looked better.

### Strategy

So, what is the strategy that underpins our growth aspirations?

At our core, NZX is a markets business. But not any market. We build and operate markets that are a critical part of the economies in which we operate.

Markets - and our business - are more than exchanges - they are networks that include the underlying infrastructure, the products that trade, the intermediaries and investors that trade them, and the data and information that drives activity.

They include other things as well - and like any network - a weakness in any component affects the functioning of the whole. These components include a strong economy with good prospects for growth - otherwise why raise capital, and why invest? Stability and predictability in regulation; investor confidence, sufficient savings and a coherent savings policy to provide funds for investment; financial literacy: and so the list goes on.

Our focus is on building and operating capital, agricultural commodity and energy markets in New Zealand and Australia, and investing sensibly in the adjacencies they rely on to succeed. Each of these markets is at a different stage of development and our position within each is different. But they all share common characteristics: they are all core to the economies in which we operate, have high growth potential - and they all rely on similar network components to work effectively.

Our decision to invest in the passive Exchange Traded Funds management sector, that has been an under-developed product set in New Zealand, will contribute strongly to NZX's future growth strategy and performance.

That sector has shown enormous growth abroad as demand for low cost, low maintenance, efficient, liquid and diversified investment solutions gathers momentum for investors at all levels of sophistication.



There is almost no limit to the product range that can be offered via this medium, and NZX is ideally placed to lead the development of this offering in New Zealand. The keys to success will be good products, good distribution and education of investors.

While we have tremendous opportunities to grow the NZX businesses, we have to prioritise appropriately and focus on a smaller set of the most attractive opportunities. We have limited resources, and by their nature, markets take a long time to develop. I will touch briefly on agricultural commodity and capital markets - I won't dwell on our involvement in electricity, where our team is hard at work on ensuring a compelling response to the tender process for the various market operations contracts we have with the Electricity Authority.

### **Agricultural Commodity Markets**

A number of prerequisites are in place for the emergence of financial agricultural commodity-based markets in New Zealand and Australia. This includes high growth, increasing complexity, rising capital investment, global investor interest and price volatility.

There is now a real sense that NZX's dairy derivatives market is on the cusp of shifting from a niche commodity market into a developing financial market. Signs of this are the demand for real-time GlobalDairyTrade price data, the increased number of participants trading the market, and increased financial media coverage globally. Volume growth is exponential - this market has left its competitor markets in the dust. Its growth trajectory and the opportunity to grow into sensible adjacencies (such as the recently launched butter contract) suggest that it will become a strong financial contributor to NZX.

### **Capital Markets**

The capital markets are at the early stages of a 20-year growth journey. New Zealanders are increasingly investing in the equity market directly and indirectly through KiwiSaver, and correspondingly, small and medium sized businesses now see an IPO as a real option for a capital raising. Despite this, there remain a number of risks and vulnerabilities - and the capital markets remain in a building phase.

The supply of local companies looking to raise capital is insufficient to meet the growing demand from investors. In addition, the ASX and crowdfunding are providing other options for New Zealand companies and investors.

While a new and much stronger regulatory environment is rebuilding trust in the markets, this does not come without increasing costs for brokers, fund managers and advisors. As a result, the minimum size or scale required to operate in the New Zealand market is increasing. As financial markets participants look for efficiencies, it's an easy decision for those of them that are offshore owned to take their New Zealand representation back to home base. While our view is that this provides them only with a short term cost palliative and in the long term damages their own competitiveness - that's not usually a welcome message and nor does it provide an answer to short term cost or headcount pressures. So, we have to grow the scale of the market to meet demand. A lack of scale in New Zealand combined with a similar regulatory environment in Australia and an already high level of foreign ownership of distribution and funds management, risks large parts of our market being owned and operated from offshore. This is as serious an issue for our economy as it is for NZX as a company.

This has been why in 2014 we have worked to 'put more products on the shelf - a systematic IPO pipeline management process, approval to launch a new and innovative growth market, NXT, the launch of equity futures are examples. This is also where the Exchange Traded Fund strategy I mentioned earlier fits in.



### **Defend and strengthen the NZX franchise**

Over the past two years, we have overhauled the governance of our regulatory function, as well as its organisation and processes. We have also continued to develop a world-class operations and technology infrastructure.

That enables us to continue to strongly advocate for the need to ensure efforts to grow the capital markets are coordinated and to ensure the economics of the market are not eroded by offshore competitors - this is consistent with the key role NZX plays in the New Zealand economy.

While, as we have said on many occasions, our businesses and our capital markets are in the best shape they have been in for some time - and with strong prospects - we need to defend the position they are in.

We will respond to competitors that have the potential to erode the most attractive parts of our business, erode the economics of the industry and limit the market's ability to grow and prosper going forward.

Behind many of the buzzwords of the day - such as integration of our economy with Australia - there are dangers and risks of unintended consequences. We will respond strongly to matters that threaten our critical role as a national exchange to the economy. Australia feels these threats also, but from different sources. ASX has been strong in advocating for retention of clearing facilities in Australia, and likewise we will do here. Again, like ASX, NZX has a low appetite for the long-term risks from outsourcing of ownership and governance of key market infrastructure to non-resident operators and regulators, and for actions that have the consequence of reduction of choice, scale and liquidity in our markets.

These themes are reflected in all that NZX does - our values and the choices we make.

### **Farewell**

While the future is what matters most - and the environment we are in all too often draws us into short term metrics - it's the consistent delivery of long term performance that should attract most interest, and be valued most highly.

Since demutualisation in 2002, shortly before which I joined the board, the company has undergone huge change and growth. I do not claim credit for this - there have been a large number of very talented people who have contributed in many capacities and levels.

The company is in great hands with the continuing board under the leadership of James Miller and management team under Tim's leadership. My thanks go to all of you for your support as shareholders and to the broader NZX team: few in this organisation regard their roles here as simply a job - and none underestimate the importance of the organisation to the health of our economy and the well-being of New Zealanders.

There remains much to do and achieve - I am confident that under the leadership of James and Tim, our aspirations for continued growth and strong and vibrant capital markets will be realised.