[redacted]

From: [redacted]@questap.com.au>
Sent: Friday, 23 May 2025 3:00 PM
To: [redacted]
Subject: RE: Australia's evolving capital markets discussion paper [SEC=OFFICIAL]

[redacted] [redacted]

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[redacted]

[redacted]

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Money Management Fund Manager of the Year Awards Finalist 2023, 2019, 2018 & 2017

From: [redacted]@asic.gov.au> **On Behalf Of** markets consultation
Sent: Friday, 23 May 2025 2:03 PM
To: Michael Evans [redacted]@questap.com.au>; markets consultation <markets.consultation@asic.gov.au>
Subject: RE: Australia's evolving capital markets discussion paper [SEC=OFFICIAL]

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[redacted]@questap.com.au>
Sent: Friday, 23 May 2025 12:26 PM
To: markets consultation <markets.consultation@asic.gov.au>
Subject: Australia's evolving capital markets discussion paper

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EXTERNAL EMAIL: Do not click any links or open any attachments unless you trust the sender and know the content is safe.

I am writing because I believe you will be interested in my observations of the Australian listed equity market.

I am one of the few Investment Managers still working who has been working long enough in Australian equities to straddle back to the previous time the ASX was very crowded.

When I joined AMP Capital in 1990 (it was then called the AMP Asset Management division), AMP was the largest investor on the ASX, on average owning more than 5% of every company. Institutional stockbrokers from that time were well aware that AMP, BT, Colonial and National Mutual were the big four in the market. Their flows and actions determined stock performance.

A story I remember well from that time involved the split up of CSR and Rinker. We really liked the Rinker businesses, had a valuation target providing an attractive return and started buying. AMP were active in buying Rinker for about six weeks before abandoning the portfolio change. At the end of the six week period the share price had risen to our target price but we had only been able to acquire about 10% of the desired holding. Rinker was a major listed entity. I'm pretty sure both CSR and Rinker post the split were in the Top 20.

That market impact was one of the reasons we established Quest. It was the opportunity to deliver the same investment ideas to clients and actually get the ideas fully into the clients' portfolios. Quest has operated as a boutique investment manager in Australian equities for two decades. We weren't the only Investment Managers who established boutiques. This story argues against the benefit of scale for retirees. I started the second ASX small cap's investment team whilst at AMP. I think there are now more than 75. Quest started in 2004. Fragmentation was well under way. The reverse is now true.

I now see some fundamental changes are shifting the market back to the old days. I refer to it as the APRA Bubble.

Two key regulatory decisions are concentrating the market. I believe these two actions together are *materially to the long term detriment of retirees*.

The first is APRA's desire to reduce the number of Superannuation funds. Having watch APRA's regulation of the Australian banks for decades, that didn't surprise me (and I am complementary of their regulation of our banks) but it must be easier to regulate 4 majors rather than 444.

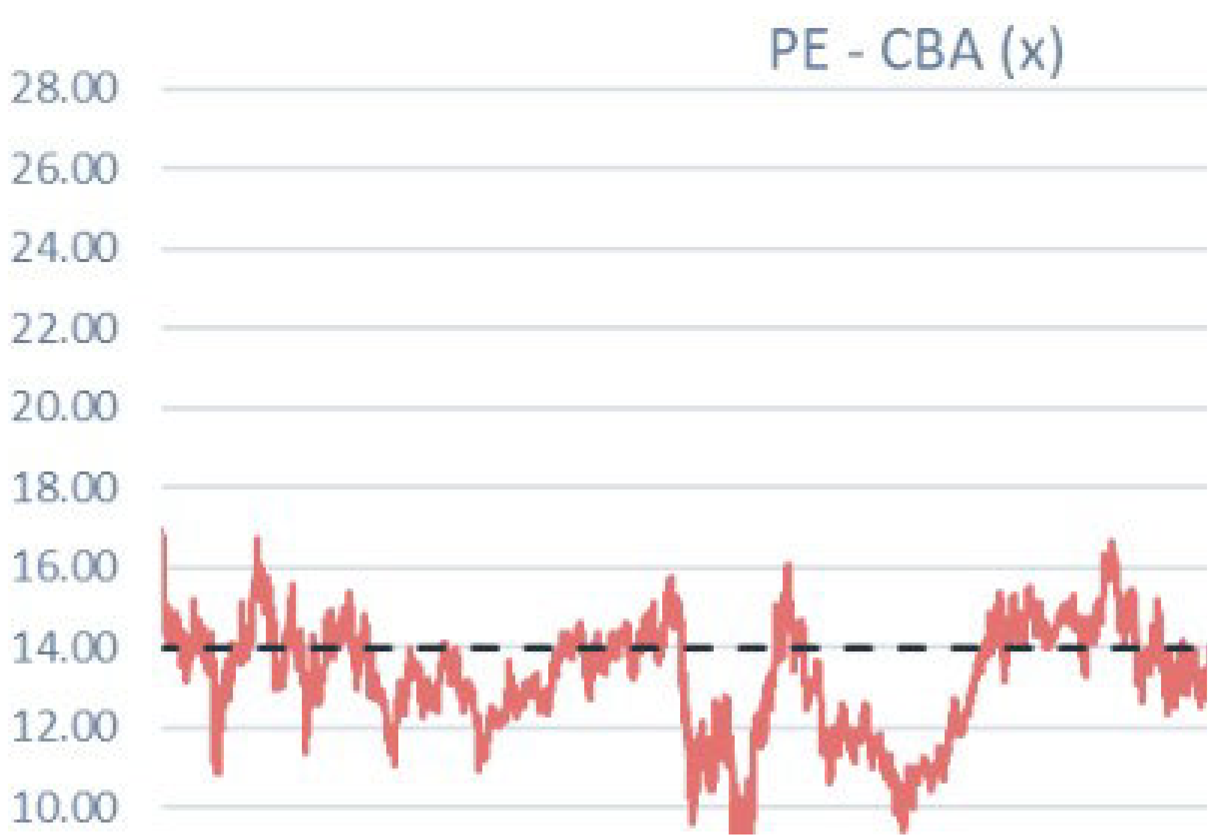
The minimum FUM for a Super Fund was to be $30bn. I subsequently heard from one of the parties involved that the merger of Christan Super effectively lowered the minimum. Quest has seen the impact of this policy amongst our clients. I remember one of APRA's leaders being quoted in the AFR with the statement that larger funds have lower fees and scale doesn't appear to lower returns. Nothing inherently wrong with that provided the second statement is correct.

The second I think is an unintended consequence of MySuper. The focus on removing poor Superfund performance will also remove good performance. This is a classic shifting of returns to the left on the risk/return trade off. Lower long term returns are obviously bad for retirees. My evidence for the shift is as follows. We call it *clustering*. The result of the focus on poor Super fund performance is smaller funds lose FUM and the flows go to larger funds. The larger funds at the same time are lowering their bet variations from the ASX Index to also avoid underperformance.

What we hear from competitors and stockbrokers is this is a process that keeps repeated. A Fund Manager underperforms due to not owning CBA. Their Superfund client sacks them and internalises the investment management. The next step is a buy order in CBA. The top rated CBA analyst has been saying CBA is extremely expensive. Now he is saying it's the most expensive bank in the history of the world! CBA's PE is four standard deviations above it's long term average. Current economic uncertainty is part of the story, but the clustering is a materially larger impact.

The following is a chart of the CBA PE. The chart is from a recent research paper by Matt Wilson, the bank analyst at Jarden. The title of his paper is "Eleven reasons CBA could halve".

Figure 8: CBA's PE (x)



Funds are clustering in a handful of extremely large index weights on the ASX. This is forcing others to match those index weights. CBA's index weight is up approximately 50% in two years. The clustering process repeats until eventually the bubble bursts. CBA's profits have been flat since 2017. The dividend yield has halved. This overvaluation won't be solved by profit growth. Retirees are being forced into CBA by the combined effects of the above two policies.

When the bubble bursts, which they always do, retirees will be worse off. CBA's market capitalisation is almost $300bn. Jarden think it could halve. That's a lot of losses for Australian retirees. As I said : Two key regulatory decisions are concentrating the market. I believe these two decisions are materially to the long-term detriment of retirees.

I am happy to discuss this issue.

I also have views about why local IPO's are dropping away. This data is being hidden by smaller overseas resources companies listing in Australia.

Michael Evans

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