Column

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WHO WILL BUY?

It's worthwhile for local listed businesses to look offshore to broaden the shareholder base.

Companies are often satisfied with the current state of their share register, but the question of who is the next buyer of their shares, and whether they are ready to buy, is perennial.

Targeting new investors and diversifying the shareholder base is a goal many companies pursue. Academic literature suggests a more diverse shareholder base reduces price volatility, lowering the cost of capital. Having more informed investors also means a larger cohort of investors know your story and are in a position to buy shares when prices fall or when capital needs to be raised.

North America is a rich source of investors for Australian companies to target to diversify their register. Orient Capital data shows North American investors own 15.3 per cent of the S&P/ASX 200 as of June 2018. The proportion has been gradually increasing from 13.0 per cent as at 31 December 2010.

Smaller companies do not appear to have been as successful as their larger counterparts when it comes to attracting North American investors. As at June 2018, 11.5 per cent of the S&P/ASX Small Ordinaries index was owned by North American investors, lower than the figure for the S&P/ASX 100, which was 15.7 per cent.

The rise in passive investment, typically index funds, is one of the reasons why larger companies have been more successful diversifying their register with North American investors. Globally, passive asset management products continue to be the fastest growing category in assets under management. As larger companies are more liquid and are in more indices they are owned by more passive funds.

Notwithstanding, North America remains a source of investors for all Australian companies. But attracting the right institutional investors takes time and careful planning, which can result in strong long-term relationships with North American investors that can stand the test of time, as well changing market conditions.

First, identify investors to target. A top down approach is to identify the pool of active institutional investors that are predominately long only, not quantitative or passive in investment style, are lower in turnover and importantly, are non-activist. This list can be prioritised by size, as around 160 institutional investors account for approximately 90 per cent of the non-North American shares held by North American investors. New York, Boston and Toronto are the cities on which to focus.

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After the list has been determined, take a systematic approach to organising meetings. North American investors are stock pickers, so they are less interested in industries and regions than good investment ideas. Also, investment styles such as value or growth are less of a factor in choosing which investors to meet. So, focusing on meeting with investors from specific styles may be counterproductive because you have only covered some investment triggers.

Every fundamental investor has their own methodology and criteria to buy shares they believe will outperform. But they are unlikely to buy shares unless they have evaluated the company's management, strategy and performance. The greater the number of investors that have undertaken the work, the higher the number who will be able to respond quickly when your stock triggers their investment criteria.

This process takes time. Although the prospect of an investor buying shares after a first meeting with a company may sound attractive, a quick decision to buy may also mean the decision to sell is just as quick. The attractive, long-term investors are more likely to be slow to buy, but longer to hold. They tend to have a commitment to the cause.

Ultimately, building a strong and diverse share register with North American investors takes an organised approach and years of commitment. But the rewards are worth it: a stable base of investors who will support your company over time.