

# Interesting times

The sixth annual **KangaNews-Westpac Corporate Debt Summit** took place in Sydney on September 15, at a crucial juncture for the local bond market. Corporate Australia continues to adapt to an unprecedented local and global economic environment, at the same time as it tries to rebuild domestic capital-markets momentum. *KangaNews* is proud to present a flavour of an event that drew a record crowd and contained more insights and talking points than ever.



**TONY MASCIANTONIO**  
WESTPAC INSTITUTIONAL BANK

"The market has faced significant headwinds in the past 12 months, and although volume is largely unchanged its makeup is quite different. But I think the fact that we have been able to welcome sizeable transactions from global, blue-chip issuers demonstrates the growth of the domestic option's breadth and depth."



**STEVE MAHONEY** BANK OF AMERICA MERRILL LYNCH

"This year has seen a roughly 20 per cent decline in the number of transactions and therefore fewer opportunities for US private-placement investors to put their money to work. We have observed more frequent investor direct marketing to issuers and investors padding their bids."



**DAVID GOODMAN** WESTPAC INSTITUTIONAL BANK

“The financial crisis, even though it was felt less in Australia than almost anywhere else in the world, has clearly shocked consumers to the core. I think the old model of ‘rate cuts good’ has been broken, and at today’s extraordinarily low rates I don’t think consumers take any additional confidence from rates being low or going lower.”

**ANDREW STEEL** FITCH RATINGS

“One thing we have noticed is that the effectiveness of QE has probably come to an end globally. Led by the US, since 2015 we have seen corporates putting less into capex – even with QE ongoing – and using more cash for dividends and share buybacks, or stockpiling it for potential M&A. While it appears that there is too much money in the system, the indications also are that there are too many uncertainties for corporates to be comfortable investing.”



**PHIL MIALL** QIC

“Central banks globally are making it clear that there has to be more than just monetary stimulus, and we are seeing things like G20 governments collaborating on fiscal spend. If governments can play their part on the fiscal side it could be significant. At least they are realising that they have to do more.”



**TONI SPENCER**  
COLONIAL FIRST STATE GLOBAL ASSET MANAGEMENT

“It’s hard not to worry that maybe the Australian housing market is in a bubble. Certainly everyone outside the country is telling us we’re wrong – and while we may say they’re wrong, so does everyone who is in a bubble. I take some comfort from the fact that while affordability is low, at least serviceability is high.”







**SIMON WARNER** AMP CAPITAL

"Cyclical demand for fixed income is at a low ebb. Even so, I believe the structural case for fixed income is still strong, because balanced funds simply aren't able to produce the returns they used to. We are in the process of adjusting to what balanced funds can return, but when this adjustment happens there will be an increased role for fixed income in the new asset-allocation model."

**DARREN LAKE** MIRVAC GROUP

"Our strategy around regularly visiting investors in Singapore and Hong Kong has paid off. It was visible in our recent domestic deal order book, which had 40 per cent offshore participation. We began this strategy a couple of years ago and it is fair to say that despite a slow start we are reaping the benefits today."







**CHRIS PLATER** CHALLENGER

"I believe it will still fall to institutional investors to take on the role, from the banks, of lending to corporations and creating a more vibrant bond market in Australia. Retail investors tend to have a yield focus in fixed income, which makes it less likely that they will become drivers of demand for senior debt."

**CHRIS TREVILLYAN** FRONTIER ADVISORS

"It is not as simple as just saying an older superannuation member profile means more investment in corporate debt. Even if you plan to retire at 65 you have to think about investing for another 20 or 30 years – and that's a long time not to be allocated to growth assets."



**JAMES MURRAY** NEW SOUTH WALES TREASURY CORPORATION

"Clients that had been on the path to programmatic de-risking, with some sense of what real income they wanted in retirement, have been materially hurt by markets. So the classic idea that there is this big cohort of people that is going to invest in fixed income is becoming harder to support, as investors find themselves so far behind where they envisaged being."



**BILL EVANS** WESTPAC BANKING CORPORATION

“We have to ask whether low business investment is happening because companies are setting too high a return-on-equity hurdle or too high a cost of capital, because they are concerned about disruption, or because it is easier to buy back shares or offer higher dividends than it is to generate revenue via investment. Personally, I tick all these boxes.”



“Australia has managed to produce stable growth of around 3 per cent for many years, in the face of some huge cycles. One of the key hopes if we want to maintain this has to be that we continue to build on growth in services exports – which will be highly sensitive to appreciation in the Australian dollar. It will be absolutely critical for the Australian economy to benefit from the development of the Asian middle class.”

**GRANT FENN** DOWNER GROUP

“There is a transformation taking place within state governments, which started in New South Wales but will move on to the other states. A lot of the services that are currently provided by the states themselves will be franchised out, to the extent that I believe we will end up closer to the UK or New Zealand model – where virtually everything is outsourced to the private sector. I think this will be a terrific development for national productivity.”



**MICK MCCORMACK** APA GROUP

“We have invested billions of dollars over the years and this has all been in response to our customers’ requirements. We have never changed the way we make investment decisions – including a very consistent approach to cost of equity and cost of debt – and we don’t foresee our investment criteria changing in future.”



**PETER TONAGH** FOXTEL

“Cost-of-funds is not the most significant factor for us when we assess a potential new project – it is more about cash-flow projections, and specifically the predictability of cash flow. The fact is that trying to predict consumer behaviour is much harder for us today than it has been in the past.”



**DAVID HANNA**  
MACQUARIE INVESTMENT MANAGEMENT

“Kangaroo corporates have generally been higher rated – they have been in a category that compares with the major banks. They therefore offer diversification for Australian investors, as we typically only have the opportunity to participate in high-rated transactions that come from the financial sector.”

**MAURICE O’CONNELL** MOODY’S INVESTORS SERVICE

“We don’t see many serious risks from the perspective of the aggregate amount of credit available in the system. Interest rates are low but are set to remain so, while central banks are likely to continue to expand their balance sheets – or at least not to contract them rapidly. The risks do not lie in overall liquidity but in potential shifts in liquidity between centres and regions, specifically a readjustment from emerging markets to safe-haven markets.”







**SCOTT THOMSON** GOOGLE AUSTRALIA

"If you don't invest in diversity throughout the ecosystem you can't fix existing diversity imbalances – and diversity is essential for high-performing, innovative teams. This is why Google is working to encourage more girls to be interested in science, technology, engineering and mathematics, and computer science."

**MIK KASE** SCHRODER INVESTMENT MANAGEMENT

"The number of oversubscribed deals offshore, and the pricing levels they are getting away, is phenomenal. From where we sit there are a lot of distortions. Lending money to a corporate and, effectively, paying for the privilege seems crazy."







**SCOTT FARRELL** KING & WOOD MALLESONS

“A common reaction to the emergence of fintech from people in financial services is fear: ‘oh my goodness, we’re all going to be replaced by machines’. But we’re just not going to get to a point in the foreseeable future where machines can do everything we do – so the real question ought to be how we augment our processes, using technology to do what we do better.”

“We will all need to know how to speak to machines, but more importantly we will all need to know how to be human. The things that humans do that will continue to be valued tasks involve reasoning, creating, persuading or structuring – and despite what we read, these things will not be replaced in most of our lifetimes.”



**LENNY MAZLISH** CIGNA INVESTMENT MANAGEMENT

“We have a global portfolio and when we look around the world we still feel pretty good about our Australian exposures – which, at a little under 10 per cent of our bond portfolio, are our single largest nondomestic component. We pay close attention to issues with respect to China, but even in a hard-landing scenario the impact on Australian issuers will vary – and we like to think we are underwriting credits that will prosper throughout a business cycle.”