

Australian Champions: ASX

*When it comes to leadership, if you are the world's first, you truly are
 If you walk a road, no one has walked before, you lead the way
 If you see things and act for the future, you have vision*

The ASX history

20 years ago, in 1998 many “old” stockbrokers had big smiles on their faces, they were very happy, as each of their ASX memberships would be converted into 144,000 listed ASX shares which could be worth about half a million dollars*¹ (the current value of the 144,000 share is worth close to \$10 million). Out of the 588 members, some individuals got their shares for “free” and some paid only \$25,000 for them.

I can recall at that time, one former colleague, a highly respected senior adviser at Wilson HTM who was in his 70s, and who used to come to the office at 6:30am to get ready for the morning meetings, couldn't stop laughing for many days as he felt so joyful with the ASX shares he received. He was able to sell some shares to fund a nice apartment for his retirement.

ASX became the first stock exchange listed in the world, a true world leader and made history.

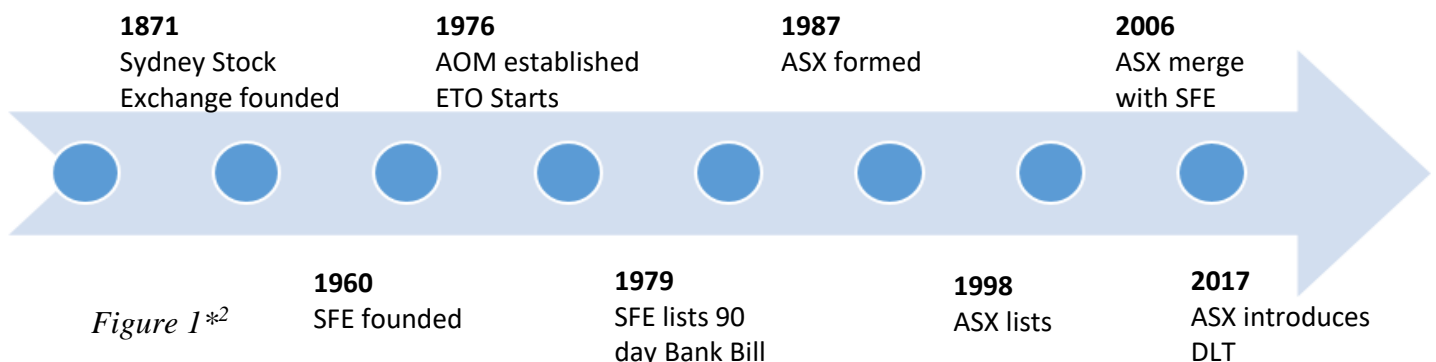


Figure 1*²

World's Top 10 Exchange + ASX	End 2017 Market Cap Size in USD	No of Companies Listed
NYSE	22 trillion	2286
Nasdaq - US	10 trillion	2949
Japan Exchange Group	6.2 trillion	3604
Shanghai Stock Exchange	5.1 trillion	1396
Euronext	4.4 trillion	1255
Hong Kong Exchanges and Clearing	4.4 trillion	2118
London Stock Exchange Group	4.3 trillion	2037
Shenzhen Stock Exchange	3.6 trillion	2089
TMX Group	2.4 trillion	3328
National Stock Exchange of India	2.4 trillion	1897
Australian Securities Exchange	1.5 trillion	2147

Figure 2*³

ASX was formed by the six States' exchanges in 1987, but the individual State exchanges were among the oldest stock exchanges in the world; the Sydney Stock Exchange started in 1871 (Figure1).

The Sydney Stock Exchange was the first stock exchange outside the US to establish an Options Market (Exchange Traded Options - ETO) in 1976.

The Sydney Futures Exchange (SFE, merged with ASX in 2006) was also the first exchange to trade gold futures, computers trade futures in the Asia Pacific.

The SFE was the first exchange to trade Bank Bill Futures outside the US.

There were many "firsts" associated with the ASX.

The ASX business



Source: ASX May 2018 Presentation ^{*4}

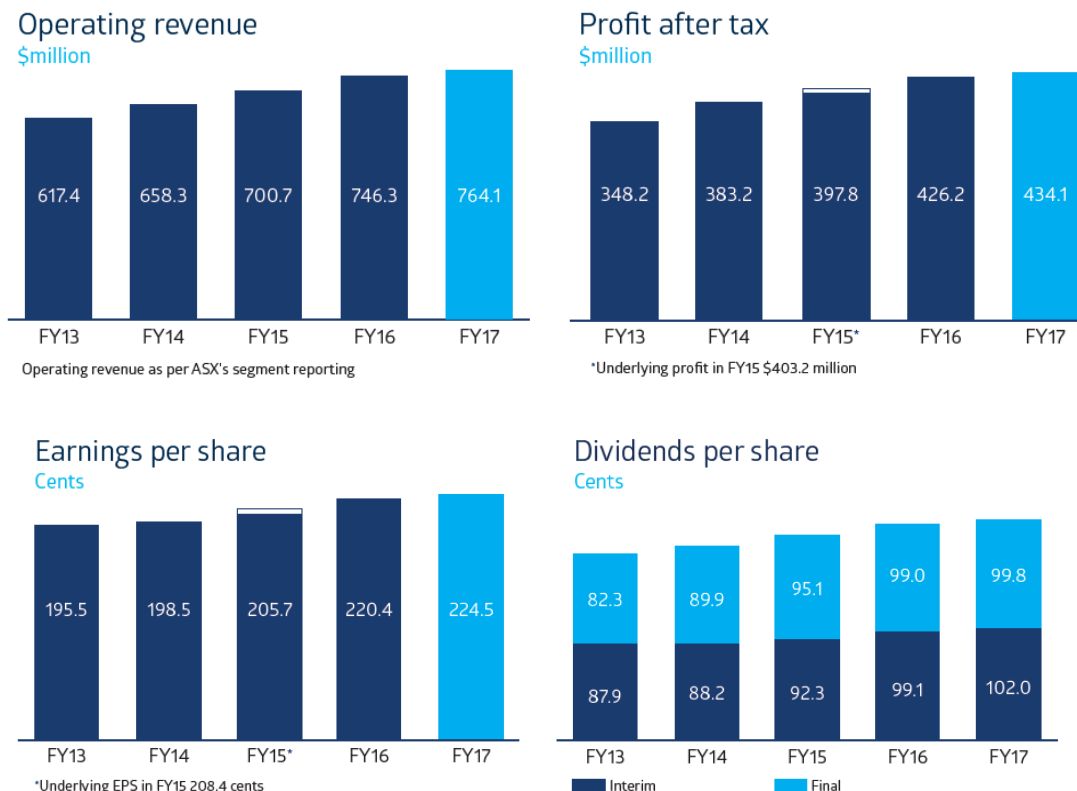
Vision: to be the world's most respected financial marketplace

Chairman: Mr Rick Holliday-Smith

CEO: Mr Dominic Stevens

Market Cap: \$12.5 billion (as at 30 June 2018)

Past 5 years earnings:



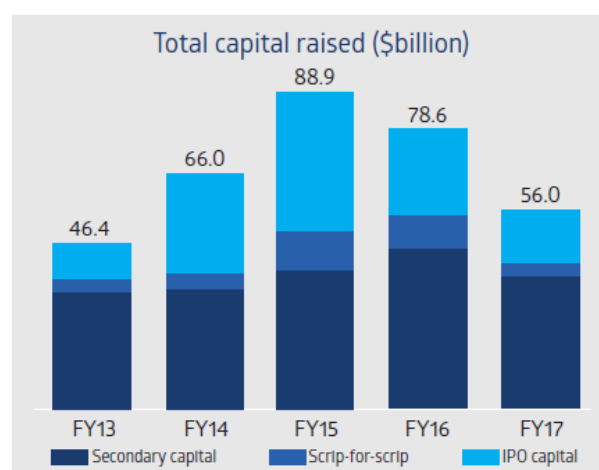
Source: ASX Annual Report 2017

Revenue Category:

Revenue Category	FY17 \$ million	FY16 \$ million	Variance % fav/(unfav)
Listings and Issuer Services	192.7	192.7	-
Derivatives and OTC Markets	269.1	265.8	1.2
Trading Services	196.0	182.8	7.2
Equity Post-Trade Services	104.4	102.0	2.3
Other Revenue	1.9	3.0	(36.6)
Total Operating Revenue	764.1	746.3	2.4

Source: ASX Annual Report 2017

Total capital raised:



Source: ASX Annual Report 2017

As in FY2017, the top three revenue divisions were the Derivatives and OTC Markets, Trading Service, Listing and Issuer Service.

During my more than twenty years in the market, the ASX has functioned extremely well, and its trading system has been down on only a few rare occasions.

System uptime (period average)					
ASX Trade	100.00%	99.97%	100.00%	100.00%	99.79%
CHESS	99.99%	100.00%	100.00%	99.98%	100.00%
Futures trading	100.00%	100.00%	99.97%	99.96%	100.00%
Futures clearing	100.00%	100.00%	100.00%	100.00%	100.00%
Austraclear	100.00%	99.95%	100.00%	99.93%	99.98%

Source: ASX Annual Report 2017

In December 2017, the ASX announced its intention to replace CHESS with Distributed Ledger Technology (DLT), a world first using Block Chain technology to record shareholding ownership and manage the clearing and settlement of equity trades. Even if it is still at an early stage and the road ahead might not be smooth, it shows the ASX has vision, courage and resilience; ensuring that others would not get ahead of it with new disruptive technology, and this could potentially strengthen ASX's earning base.

What's the function of the stock market (exchange)? Why we invest?

The basic functions are allowing existing shareholders to sell and new investors to buy and for companies to raise capital to fund business activities. Investors also need to have confidence in the abilities of the stock exchange to maintain a high standard for companies seeking to list and to supervise those companies once they've listed.

The Challenges and Prosperities

Even though the ASX had been one of the world's top exchanges (Figure 2), with the Asian economic growth of the past couple of decades, some stock exchanges, like the Shanghai Stock Exchange and Hong Kong stock Exchange, are now much larger and liquid than ASX.

Because Australia has a small population we have a lack of big tech companies listed here and are relatively more concentrated in the banks and financial sector.

Either because some Aussie companies in the market are good value, or because our dollar is relatively low, or a company is unique, some ASX listed companies just keep on being taken over: Westfield, IOF. How the ASX is able to find replacements for those companies is the challenge.

In the last few years the ASX has attracted a large number of ETF listings and continues to reinvent itself, with growth into areas like M Fund, and property settlement.

We also have the world's largest mining companies (like BHP, RIO) and some of the largest medical companies like CSL listed here.

Our time zone is different from US, but similar to China, Japan, and other Asian countries.

The new DLT system will also potentially bring in more revenue for the ASX.

Finally, Aussie superfunds are valued currently at \$2.6 trillion, and are forecast to grow to \$9.4 trillion in 2035*⁴, this could provide very high demand and strong support for our equity market and potentially attracting some larger high quality companies to list here on the ASX.

Go ASX

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Disclosure:

123 IGF owns ASX share

Notes & Acknowledgement:

*¹ "The Demutualisation of the Australian Stock Exchange: Causes and Consequences", by Tom Cowan, Ray da Silva Rosa & Terry Walter

*² www.asx.com.au

*³ LSE: <https://www.londonstockexchange.com/statistics/companies-and-issuers/companies-and-issuers.htm>

*³ World Federation of Exchange Annual Statistics: <https://www.world-exchanges.org/home/index.php/statistics/annual-statistics>

*⁴ "Stronger foundations for resilience and growth" Dominic Stevens, 23 May 2018

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123 Investment Management Pty Ltd is the Investment Manager for **123 Investment and Growth Fund (123 IGF)**. Charley Wang is the CIO of 123 IGF, he has been working in the financial industry for over 20 years, including 16 years with Morgan Stanley Wealth Management (formerly known as Smith Barney Citigroup).

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