



Investing in Australian Listed Companies

Investing in Australian listed companies offers the opportunity to invest within a country that has a stable economy, diverse market sectors, and robust regulatory frameworks.

Australia has abundant natural resources, a solid financial services sector, and a growing technology industry, all of which present numerous growth opportunities. Companies operating in these sectors stand to benefit from global demand and variations in commodity prices. Australia's proximity to fast-growing Asian markets opens possibilities for growth driven by expansion and exports. Many Australian companies have successfully capitalised on these markets, further enhancing their business prospects.

UNDERSTANDING THE AUSTRALIAN MARKET LANDSCAPE

Australia's stock market, represented primarily by the Australian Securities Exchange (ASX), covers a broad spectrum of industries, including financial services, resources, healthcare, technology, and consumer goods. Including Australian companies in an investment portfolio can allow investors to construct a well-balanced diversified portfolio across various sectors.

One key aspect of the Australian market is its resource-rich nature, with mining and energy companies playing a significant role. Iron ore, coal and natural gas are Australia's top three exports¹. Trade is essential to the Australian economy; Australian exports represent over 25% of gross domestic product (GDP)².

These sectors are influenced by global commodity prices,

making them susceptible to market fluctuations. However, they can also provide lucrative opportunities during commodity booms and the potential for stable reliable earnings over the long-term.

SEEKING LONG-TERM CAPITAL GROWTH

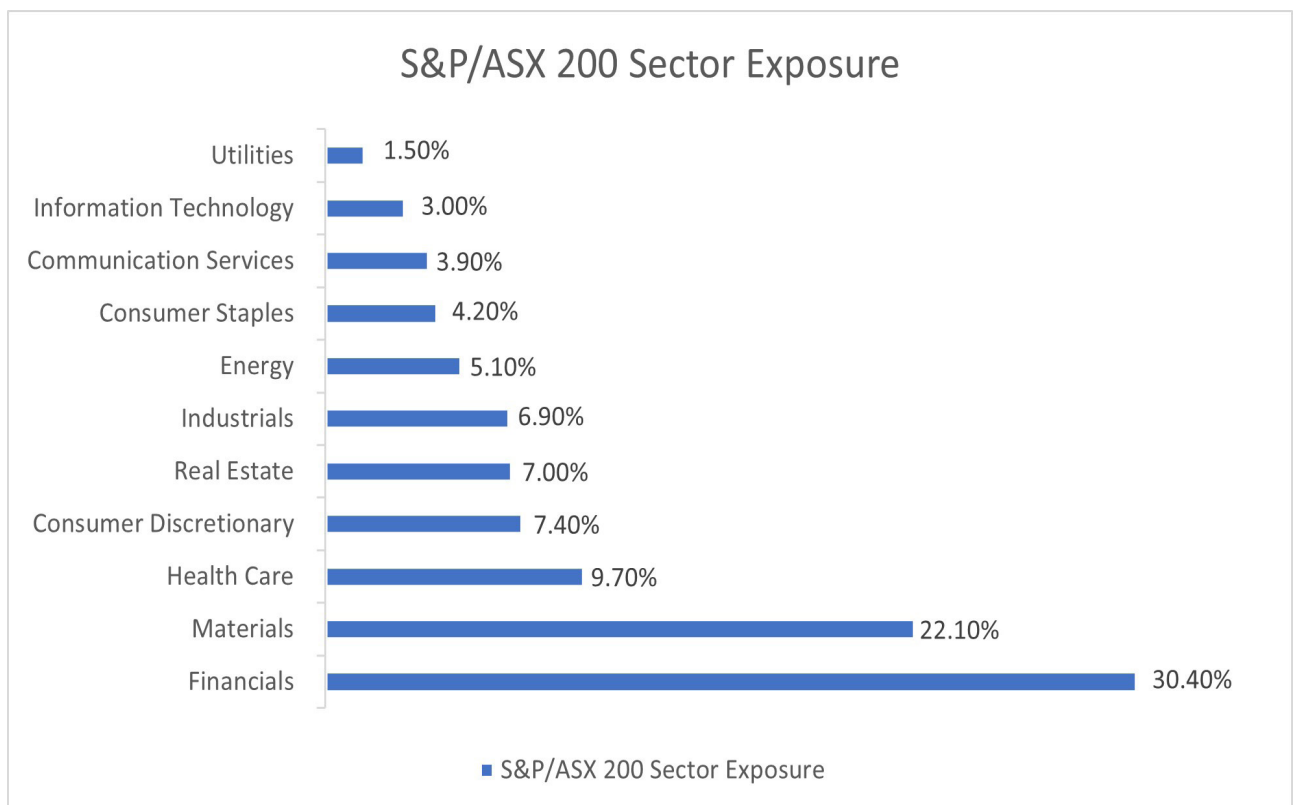
Achieving long-term capital growth in Australian equities requires a strategic approach that focuses on fundamental analysis, growth prospects, valuation and a long-term investment horizon. Australia is home to many quality companies offering solid financial characteristics with competent management across sectors.

The ASX is broken up into eleven sectors.

- 1. Financial Services:** The financial industry plays an important role in the Australian economy. This sector includes businesses in banking, insurance, and asset management. Australia's stable regulatory environment and sophisticated financial systems have fostered the growth of many leading institutions in this sector.
- 2. Materials:** Australia is known for its vast mineral wealth, with mining and resources being a cornerstone of the economy. The country is a major global producer of iron ore, coal, gold, and other minerals, supplying raw materials to industries worldwide. Companies like BHP Group are part of this sector.
- 3. Healthcare:** With our ageing population and increasing healthcare spending, the healthcare sector in Australia presents significant growth prospects. Companies engaged in pharmaceuticals, medical devices, and healthcare services, such as CSL Limited and ResMed, are well-positioned to capitalise on this landscape.

Airlie is an active fund manager and provides an opportunity to access an experienced investment team with a proven track record of prudent, common-sense investing.

4. **Consumer Discretionary:** Investing in the Australian consumer discretionary sector captures a wide range of industries, including luxury goods, electronics, travel and leisure services. Companies within this sector often are non-essential with demand driven by consumer desire. Aristocrat Leisure and Wesfarmers are examples of companies within this sector.
5. **Consumer Staples:** The consumer staples sector provides essential products and services that consumers use in their daily lives. Companies within this sector engage in the production and delivery of food items, drinks, personal care products, and perishable home goods. Woolworths Group and Coles Group are familiar brands with consumers that fall under the consumer staples sector.
6. **Real Estate:** Australia's real estate market has long fuelled growth in construction and property development over the years. Companies in this sector are involved in residential, commercial, and industrial projects, capitalising on urbanisation and infrastructure development. Waypoint REIT is an example of a company in this sector.
7. **Industrials:** The industrials sector suits investors seeking exposure to a diverse range of companies involved in manufacturing, construction, transportation and infrastructure development. This sector is made up of important companies that play a vital role in maintaining a strong economy, companies like Seven Group.
8. **Energy:** The production of energy is essential for our everyday lives and Australia's energy landscape continues to evolve as we undergo the transition to renewable energy. Companies in this sector are involved with the exploration, production and the sale of oil, gas and electricity as well as renewable energy projects. Companies like Ampol and Santos fall into this sector.
9. **Communication Services:** Australia continues to embrace digital transformation with continuous investment in communication infrastructure. Companies like News Corporation and Telstra Corporation Ltd specialising in media and entertainment as well as telecommunication services fall within this sector.
10. **Information Technology:** The technology sector is experiencing rapid growth driven by many factors such as digital transformation and innovation. Artificial intelligence (AI), blockchain, cloud computing and cybersecurity are growing trends within this sector. Companies such as Dicker Data with a focus on developing and providing technology products and services and the software that powers them, fall into this sector.
11. **Utilities:** Companies within this sector are dedicated to catering to Australia's requirements for energy and water. They are crucial to the nation's infrastructure, providing key services and actively pursuing innovative approaches to meet the growing demand for sustainable and reliable utility services. Well-known companies in this sector include AGL Energy Limited and Origin Energy.



Source: S&P Global

The weightings for each sector of the index are rounded to the nearest tenth of a percent; therefore, the aggregate weights for the index may not equal 100%. Based on GICS® sectors as of 28 Mar 2024

HOW TO NAVIGATE THE MARKET

Navigating the Australian market requires careful consideration of various factors, including thorough research, sector analysis, regulatory compliance, risk management and a long-term investment horizon.

- 1. Fundamental Analysis:** Fundamental analysis involves evaluating a company's financial health, management team, competitive positioning and growth potential. This involves analysing financial statements, assessing industry trends, evaluating management quality, and considering regulatory factors that may affect the company's operations.
- 2. Business Quality:** Identifying companies with strong growth prospects is essential for long-term capital appreciation. We look for businesses that can earn attractive or improving returns on capital into the future, businesses with competent managers whose interests ideally align with those of shareholders.
- 3. Value:** Investors must conduct thorough research to understand the true value of a company, considering its assets, earnings and growth potential. This involves evaluating the company's quality and worth exceed the current market price and the potential for returns over time.
- 4. Long-Term Investment Horizon:** Patience is key when seeking long-term capital growth to allow investments to grow and compound over time. Avoid succumbing to short-term market fluctuations or returns and focus on companies with the potential for steady growth.

UNDERSTANDING THE RISKS AND CHALLENGES

While investing in Australian listed companies may offer attractive returns, it's important for investors to be aware of the potential risks and challenges that can occur in every economic market and market cycle.

The Australian Securities Exchange (ASX) is subject to the same market volatility and fluctuations as any global stock exchange. Economic trends and geopolitical developments can influence market dynamics. Investors should be prepared for periods of volatility and focus on maintaining a long-term perspective.

Australia's market is heavily influenced by the financials, resources, and healthcare sectors. Overexposure to a

single sector can increase portfolio risk. Diversification across sectors and industries can help mitigate this risk.

Staying informed of changes in government policies, regulations and taxation is important as these changes could affect specific industries and companies. Investors need to stay informed of new developments and the potential implications for investments. This is why detailed research is important when making investment decisions.

ACTIVE MANAGEMENT

Detailed research and due diligence take a considerable amount of time and expertise. It may be worth seeking financial advice and consider acquiring the services of a financial adviser. Either through a financial adviser or directly with an active Australian fund manager, having someone who can manage an investment portfolio and conduct detailed research and analysis is important for making informed investment decisions.

Fund managers are adept at interpreting market signals and adjusting strategies accordingly to optimise returns. Understanding the local investment landscape is essential, and active Australian fund managers can be well-versed in the nuances of the Australian market. They are familiar with the regulatory environment, tax implications, and specific market drivers that can influence investment outcomes. The combination of detailed research, expertise and a thorough understanding of the Australian financial landscape makes active fund managers a compelling choice for investors seeking to navigate the complexities of investing.

Investing in Australian listed companies can be a rewarding strategy for achieving long-term capital growth and potential regular income. By conducting thorough research, focusing on fundamental analysis and maintaining a diversified portfolio, investors can unlock the potential of the Australian equities market to help build wealth over time.

¹ <https://www.ibisworld.com/australia/industry-trends/biggest-exporting-industries/>

² The World Bank Data – Exports of goods and services (% of GDP) Australia 2022

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