

Indexing NZ Equities

Exploring the outperformance of the S&P/NZX 20 index



Challenges in NZ Capital Markets

Declining market liquidity

\$150m Was the average daily traded value on the NZX, in 2012.

Declining market liquidity

\$100m Was the average daily traded value on the NZX, in 2023.

Reduced number of listings and a public market
that is struggling to attract new listings

200 Companies were listed in the
NZX in 2000.

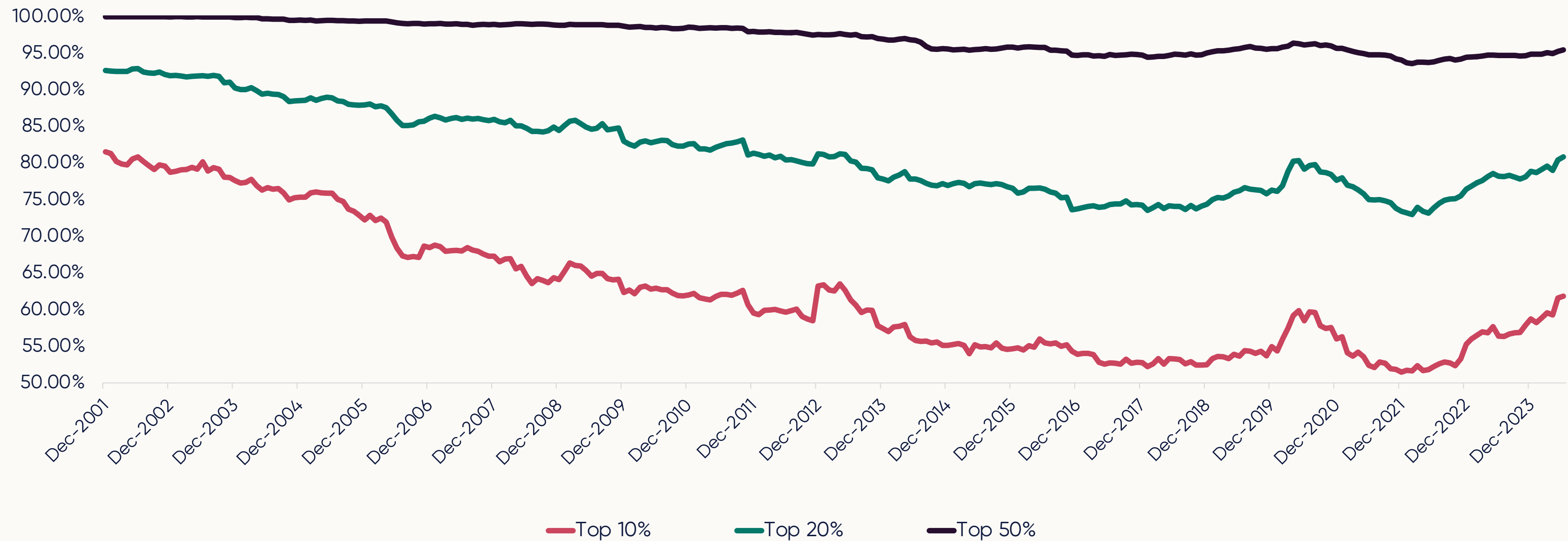
Reduced number of listings and a public market
that is struggling to attract new listings

150 Companies were listed in the
NZX in 2023.

S&P/NZX Indices

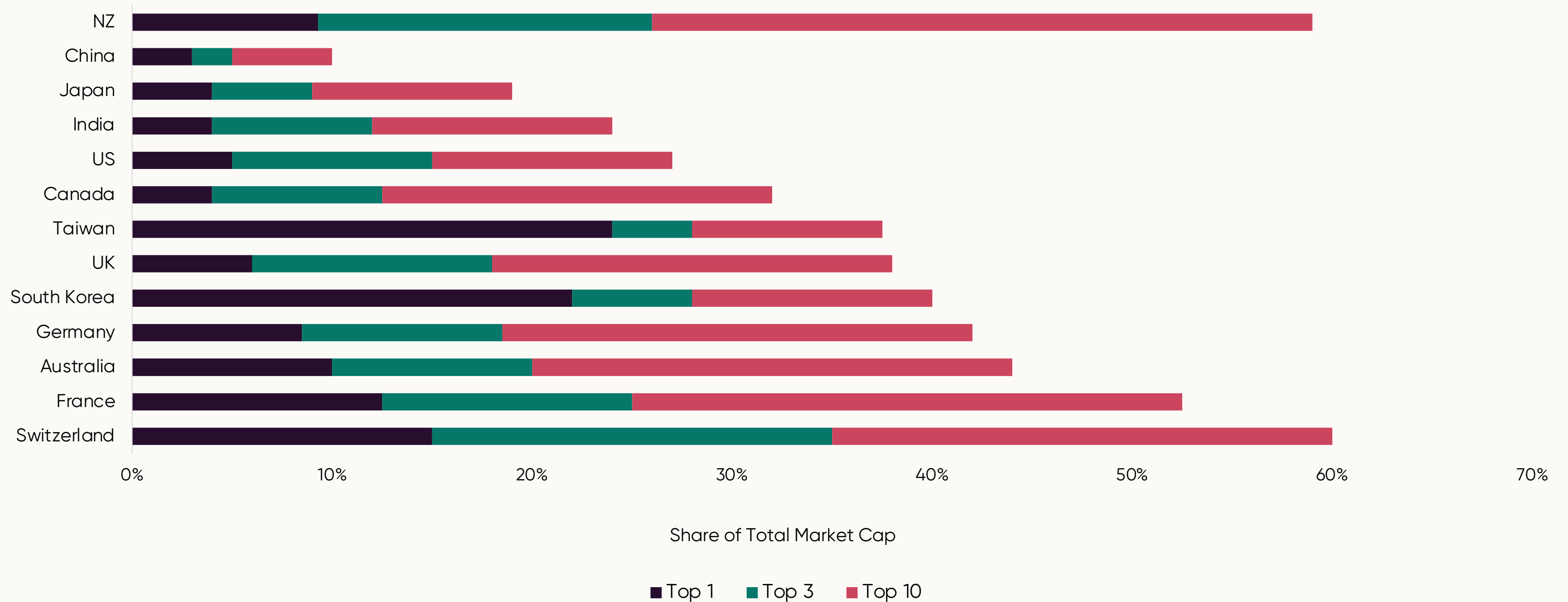
Market Cap

Stock market concentration in NZ, 2001-2024:
S&P/NZX 10, 20 & 50



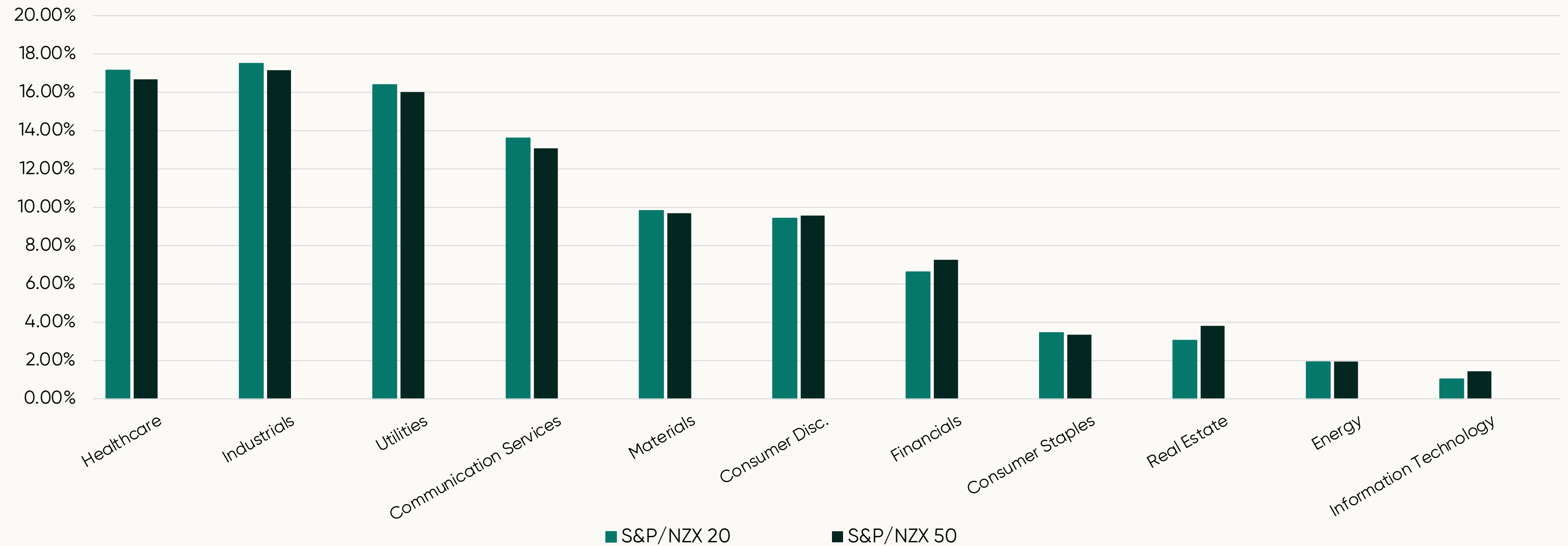
Concentration

Stock market concentration in the largest global equity markets as of Dec 2023



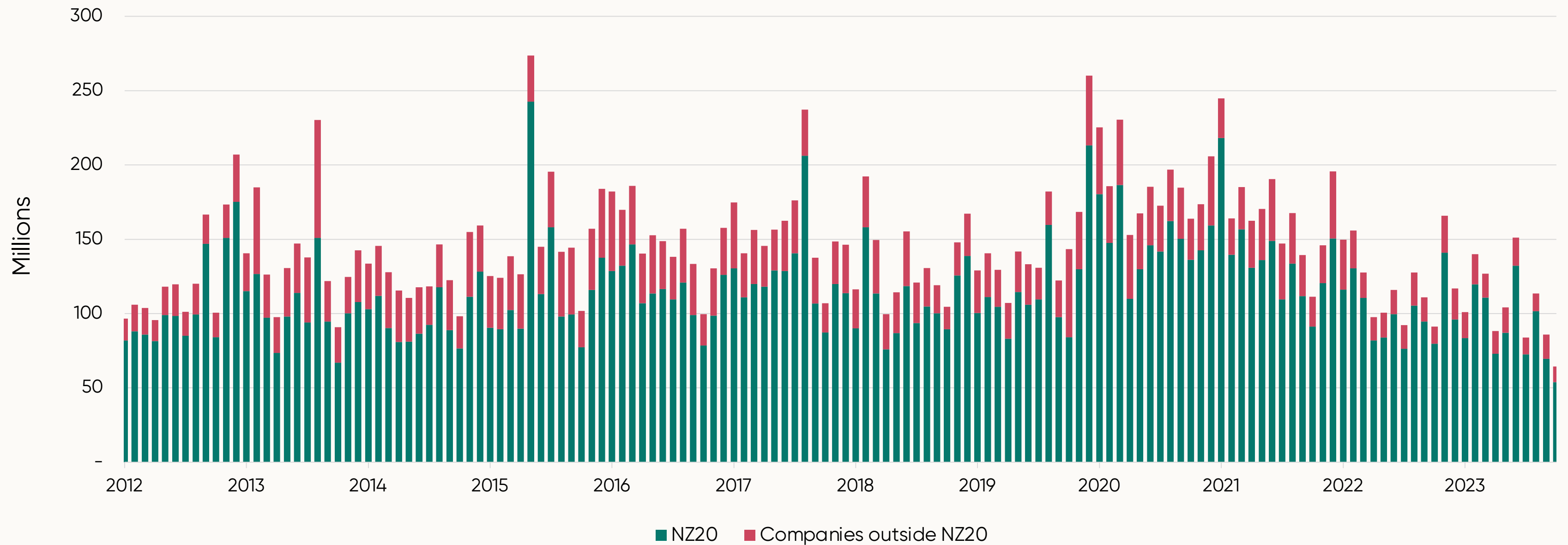
Sector alignment

Average sector weights over the period from 31/12/2008 to 31/01/2024



Market Liquidity

The average daily traded value in millions NZD of the S&P/NZX 50 index (breakdown into S&P/NZX 20 and companies outside the S&P/NZX 20)

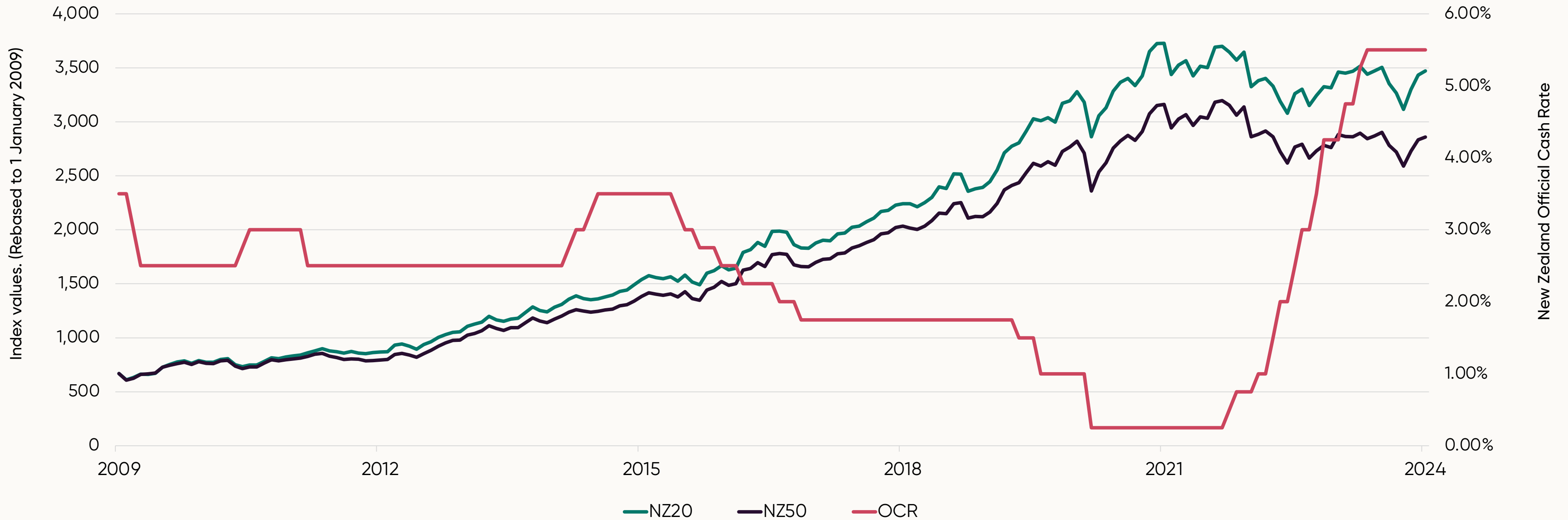


The case for the S&P/NZX 20



Returns

S&P/NZX 20 has historically outperformed both in hawkish and dovish environments



Returns

The consistency of success of the S&P/NZX 20 index against the S&P/NZX 10, S&P/NZX 50, and S&P/NZX 50 Portfolio indices.

Average rolling return with weekly intervals (Jan 2007 – Jan 2024)

	S&P/NZX 10	S&P/NZX 50	S&P/NZX 50P	S&P/NZX 20
1-year rolling return (840 weekly intervals)	7.53%	7.56%	8.12%	8.87%
3-year rolling return (735 weekly intervals)	32.50%	33.60%	35.63%	38.56%
5-year rolling return (631 weekly intervals)	68.70%	71.99%	75.56%	82.43%
10-year rolling return (370 weekly intervals)	188.61%	203.67%	217.32%	240.17%

Volatility

Range of rolling 5-year returns with weekly intervals (Jan 2007–Jan 2024)

	Highest return	Lowest Return	Range
S&P/NZX 10	125.99%	-18.17%	144.16%
S&P/NZX 20	142.83%	-16.56%	159.40%
S&P/NZX 50	130.85%	-21.29%	152.13%
S&P/NZX 50 Portfolio	137.95%	-20.52%	158.48%

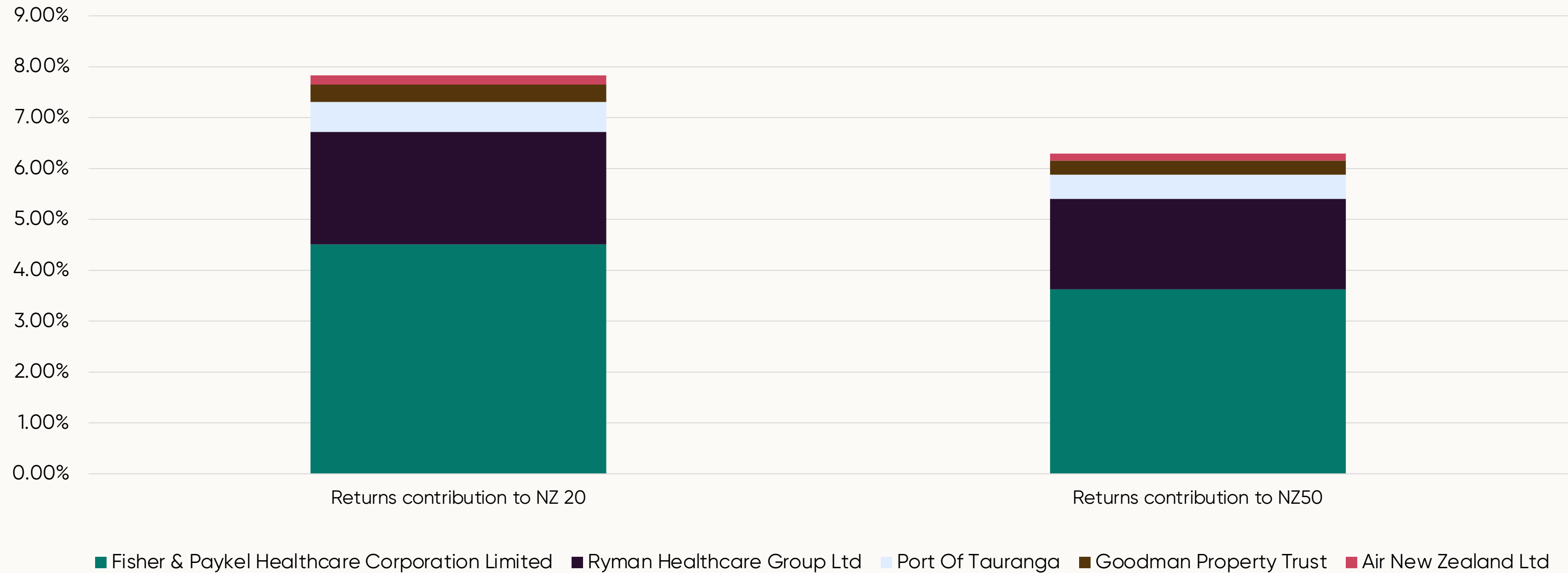
The S&P/NZX 20 index's rolling 5-year performance did have a wider range (difference between max and min returns) compared to those of the S&P/NZX 10 and S&P/NZX 50 indices.

The reason was that S&P/NZX 20's largest rolling 5-year returns outperformed those of other indices by a significant amount, and not because S&P/NZX 20 was riskier

The secret sauce?

Market Concentration?

As market concentration intensifies, the overall market performance is less influenced by many other stocks.



Liquidity

NZ 20's market liquidity relative to the NZ 50's

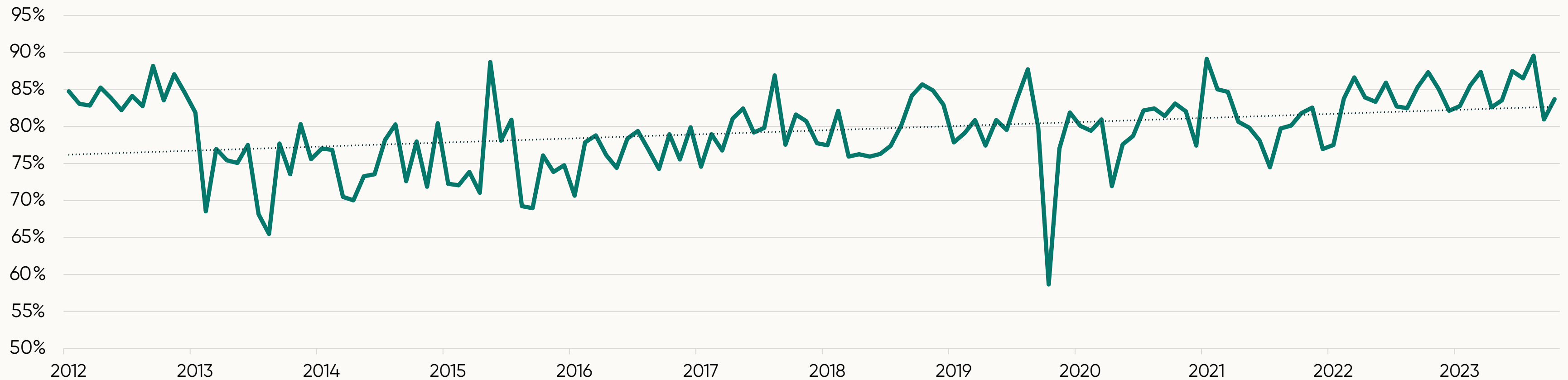


Figure 6: The percentage of average daily traded value of top 20 companies in the NZ 50 index

- From April 2012 to January 2024, on average, the daily traded value on the NZX Main Board of companies in the S&P/NZX 20 index accounted for approximately 79% of the total daily traded value by the S&P/NZX 50 index.
- This percentage has been generally trending upward from just over 75% to nearly 83%. The one exception was March 2020 when the COVID crash led to a broad market selloff.