V2 - AUSE02Z01MA

THE AUSTRALIAN • THE WALL STREET JOURNAL.

WEDNESDAY, JANUARY 1, 2020 P13
theaustralian.com.au/businessreview

BUSINESS REVIEW

S&P/ASX200 6684.1 ▼ -120.8
GOLD $US1523.27 ▲ +$US12.85
DOLLAR US70.03C ▲ +US0.13c

A BAD VINTAGE
The finer things in life were poor investments in '19 {P16}

ON DISPLAY

Housing scheme a carrot for first-home buyers {P15}

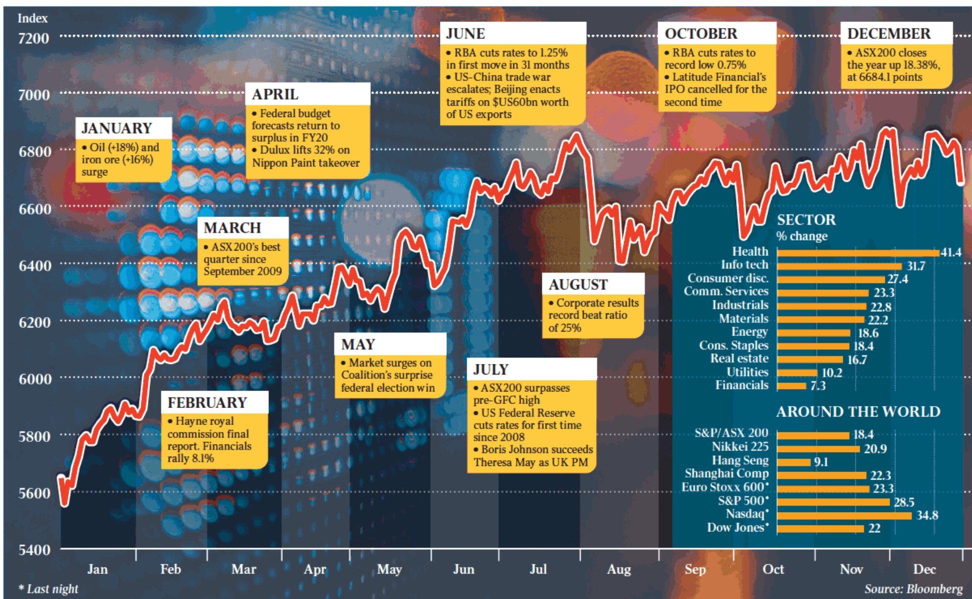
GROWTH BARRIER

Steven Cain on hurdles to consumer spending {P18}

S&P/ASX 200 RECORDS 18.4PC GAIN DESPITE $40BN IN PROFIT-TAKING ON FINAL DAY

Market's best year in a decade

DAVID ROGERS
MARKETS EDITOR



The local sharemarket has surged to its best annual gain in a decade, as the benchmark S&P/ASX 200 Index recorded an 18.4 per cent rise on the back of an aggressive search for yield.

The gains came despite end-of-year profit-taking that spurred a fall of 1.8 per cent, or 120.8 points in the benchmark index on Tuesday, cutting about $40bn of market value.

But even as earnings estimates retreated across the year after the worst economic growth since the global financial crisis — following China's deleveraging campaign, hostile US trade policy and Australia's housing downturn and crippling drought — the benchmark index closed the year at 6684.1 points, a 1037.7-point annual gain.

It marked the local market's best year since a 31 per cent rise in 2009.

The gain was spurred on by surging global markets, three interest rate cuts from the Reserve Bank and its guidance for an extended period of low interest rates — including possible further cuts and quantitative easing as it pursues full employment and higher inflation.

The combination of rising share prices and falling estimates for 12-month forward earnings per share saw the forward price-to-earnings valuation of the S&P/ASX 200 hit a record high near 17.5 times.

At the same time, the 12-month forward dividend yield of the sharemarket hit a decade low of 4.1 per cent. But interest rate cuts improved the value of shares relative to bonds, the yields of which hit record lows as central banks abandoned plans to tighten monetary policy as growth slowed.

Instead, central banks mostly cut interest rates and increased liquidity in what amounted to their biggest overall change of direction in monetary policy since the global financial crisis.

Helping the appetite for risk assets including shares last month, the US softened its trade policy towards China by halting new tariffs and planning to rescind some existing tariffs pending the signing of a "phase-one" trade deal early this month, and a resounding victory by Boris Johnson's Conservative Party in the UK lessened some risks from UK politics and Brexit.

Including dividends, the S&P/ASX 200 returned 23.4 per cent.

A 19.4 per cent rise in the broader All Ordinaries index meant it was the 16th best year for the Australian sharemarket in records dating back to at least 1936.

The gains came as slow growth and interest rate cuts reignited a global hunt for defensive income and growth opportunities in the sharemarket at the expense of value stocks tied to the economy.

The healthcare, information technology, consumer discretionary, communications services, industrials and materials sectors outperformed, while financials were a notable laggard as banks were hit by regulatory pressure, slower loan growth and narrowing interest rate margins.

The health index led rises with a 41.23 per cent gain, on the back of CSL's 48.93 per cent surge. The biotech finished the year with a market capitalisation of $125.2bn, making it the third-largest locally listed company.

Infotech surged 31.8 per cent, as WAAAX stocks followed the enthusiastic performance of their US peers to be among the local market's best performers. WiseTech rose 38.3 per cent, Altium surged 60 per cent and Appen soared 76 per cent. Afterpay recorded a 136 per cent gain and Xero lifted

Continued on Page 14

After 20 years it's all change in wealth

GLENDA KORPORAAL

The arrival of 2020 marks the 20-year anniversary of Commonwealth Bank's $8bn takeover of Colonial Mutual — the biggest financial merger in Australian history at the time and the starting gun for the big banks to get into wealth management.

Commenting on the deal, Colonial Mutual chief executive Peter Smedley said it would create "the largest bank in Australia, the largest fund manager, the largest retail fund manager, the second-largest life company", which "cements tremendously the base of what will become the number one financial institution in Australia".

With further grand visions of this new Australian financial behemoth expanding offshore, what could go wrong?

The idea of banks needing to capture the expanding compulsory superannuation market sounded great in theory, but for a number of reasons, particularly the very different cultures of banking and wealth management, it never worked out.

Two decades later the total superannuation market in Australia has skyrocketed from a few hundred million dollars to $2.7 trillion and rising.

But banks are now scrambling to cut their exposure to wealth management — AMP, which dominated the Australian financial sector before the CBA-Colonial merger, is now struggling to find its way forward, corporate super funds have all but disappeared (except in a few cases like Telstra and Qantas Super), and the market share of retail super funds is falling.

The decade ahead will see a continuation of the relentless rise of the industry super fund sector, while the retail super funds will have to work out their role in the market.

Foreign players, particularly from Japan, Europe and Britain, could become an increasing part of the retail super sector of the future.

The low-cost end of the spectrum is seeing the rising importance of the cheap and cheerful MySuper option while at the higher end, self-managed super funds will remain as a competitive option for a million or so Australians with the will and, hopefully, the capacity to manage their own superannuation.

There is little point here rehashing the move of the banks into wealth management and what went wrong.

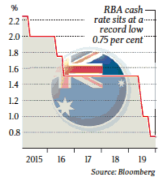
Looking ahead, one of the stories of 2020 will be about how each of the big banks manages their exit from the sector, as they shift their focus back to their core role — banking.

It is a process proving much more complicated and difficult than any had thought, with the

Continued on Page 18

Tepid economic growth to test RBA's monetary policy mettle

PATRICK COMMINS
ECONOMICS CORRESPONDENT



This year will probably start with rate cuts and could end with talk of more extreme monetary policies as a weak economic recovery in 2020 will require further stimulus from the central bank.

Finance sector economists largely agree that the Reserve Bank will ease again in February. That would be the fourth cut since June, and push the official cash rate further into uncharted territory, from 0.75 per cent now.

Rates traders, who tend to have a better record of predicting RBA moves, are less convinced. The market is pricing in only a 40 per cent chance of a cut in February, jumping to 80 per cent by May.

Some leading forecasters, such as AMP Capital's Shane Oliver and Westpac's Bill Evans, believe rates will fall to 0.25 per cent by the middle of the year.

RBA governor Philip Lowe in a speech in early December said he was prepared to cut rates another two times — but no more.

After that point and if required (and Lowe stressed he didn't believe it would be), the RBA would consider a large-scale purchase of government bonds. This more extreme policy measure, known as quantitative easing, or QE, would push down longer-term rates and help, among other things, lower the currency.

Calls for further monetary easing have come amid signs the economy is struggling to gain momentum. The September national accounts were disappointing. Annual GDP growth was feeble, at 1.7 per cent, and is likely to only pick up to 1.8 per cent for 2019 as a whole.

Worryingly, there has been no signs the three Reserve Bank rate cuts since June, alongside tax relief, have done anything to prompt households to open their wallets.

Through this accumulation of bad, or at least not materially better, news, the RBA has largely stuck to its guns. Lowe's mantra is that the economy has reached "a gentle turning point". As recently as November, the RBA still expected GDP growth to accelerate to 2.8 per cent in 2020.

Economists don't believe it. Estimates among professional forecasters are for growth of 2.1-2.4 per cent.

And there are signs Lowe is prepared to temper his rosy outlook. Minutes from the RBA's December meeting reveal Lowe and his fellow board members believed "it would be important to reassess the economic outlook in February 2020, when the bank would prepare updated forecasts". This rethink will surely be downwards.

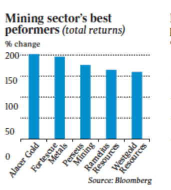
The RBA's preferred trimmed measure of inflation sits at 1.6 per cent, well shy of the bottom of the 2-3 per cent target band — as it has been since March 2016. The central bank's own forecasts have it missing its inflation mandate out to the end of 2021.

Any downgrade to growth come February would mean the RBA would probably be moving further away from fulfilling its mandate, and require a response.

Gold shines amid megadeals and batterings

NICK EVANS
RESOURCES REPORTER

Mining sector's best peformers *(total returns)*



Mining sector's worst peformers *(total returns)*

A grim year for battery metals miners has finally drawn to a close, but the tale of the tape in 2019 for Australian miners rests in the soaring gold price, which sparked megadeals, resurgent shares prices for some and a market battering for miners that disappointed.

The year was one of the biggest for corporate activity in the Australian gold space in years, kicked off by the Barrick-Randgold and Newmont-Goldcorp megamergers at the beginning of the year.

Australia's contribution was headlined by the return of Kalgoorlie's Super Pit mine to Australian hands in a $2.3bn two-tranche sale by Barrick to Saracen Mineral Holdings and Newmont to Northern Star Resources.

Northern Star also picked up Echo Resources for $193m, and long-term rival Evolution Mining could not stay out of the action, dropping $553m on Newmont's Red Lake operations.

The big movers were far from the best performers on the market, though, with small producers and turnaround stories dominating the list of best stocks on the ASX 300 Metals and Mining Index. Dual Canadian and Australian-listed gold producer Alacer led that list in 2019, with the expansion of its Turkish gold mines helping the company narrowly pip the massive dividends and stellar performance of Fortescue Metals as the top performer on a total return basis.

Alacer's Australian-listed stock began the year at $2.60 and closed at $7.65, having hit highs of $8.44 in early December, for a total annual return of 202.4 per cent.

Fortescue's cash machine rode the back of the 2019 iron ore price surge to pay out $3.1bn in dividends last year, with chairman Andrew Forrest talking home cheques worth $1.24bn during the year.

Continued on Page 14

Companies find giving to charity a sound investment in improving workplace culture

EXCLUSIVE

DAMON KITNEY

Catherine Tanna had been chief executive of EnergyAustralia for almost four years when she heard a speech that transformed her outlook on the electricity retailer and its staff.

The Business Council of Australia, of which Tanna is a board member, had invited one of the nation's most successful chief executives — JB Hi-Fi boss Richard Murray — to privately address its members on an unusual subject for a big business lobby group: workplace giving.

Tanna, who joined EnergyAustralia in July 2014 and has been on the board of the Reserve Bank since 2011, was all ears.

"The BCA created the opportunity for Richard to come and talk to members about workplace giving and his experience," she tells The Australian. "It was after hearing him that I approached him and asked him what he had learnt over 10 years of having workplace giving at JB."

Murray runs the most engaged workplace giving program in Australia, known as Helping Hands, and now has 80 per cent of JB staff and 55 per cent of staff at its wholly owned electrical and whitegoods franchise, The Good Guys, giving to charities from each pay packet.

The donations are made to a variety of charity partners, including Oxfam, the Fred Hollows Foundation, Redkite, Song Room and animal welfare charities. They are matched dollar-for-dollar by the business.

After hearing Murray's address, by October 2018 Tanna had launched a workplace giving program for EnergyAustralia staff and led it from the top, with a commitment from the leadership team and board to donate 1 per cent from their pay.

"Our program is quite young. But it started with a commitment from the very top — the chairman, the board of the directors, myself and the management team. We each give 1 per cent of our salaries to this. I am pretty proud of that, it is leader-led," she says, after EnergyAustralia was awarded gold in the Best Launch/Refresh category at the 2019 Workplace Giving Excellence Awards in November.

Since October 2018, the company has achieved a staff participation rate of 61 per cent and has donated more than $380,000 to charity partners, including ReachOut, Launch Housing, Berry Street and the Australian Cancer Research Foundation.

Yet in an era when corporate scandals are on the rise and energy companies are in the headlines for all the wrong reasons — most controversially for allegedly gouging consumers, which they deny — it is easy to be cynical about the rationale for introducing workplace giving.

On this issue Tanna is a realist. "We are not looking to actively externally promote our involvement. We don't expect that a lot of the things we do in here will change the external view of us," she says. "We want our people to have the opportunity to do things that make them proud.

"Yes, they see the public discourse and criticism of energy companies, but 2500 people here come to work every day to do the best for our customers.

"My sense is that you need to understand when you are running

Continued on Page 15

Catherine Tanna has led from the top with workplace giving

V1 - AUSE01Z01MA

Westpac directors load up on shares

MICHAEL RODDAN

Westpac board directors spent $240,000 splurging on shares in the bank at about the same time the company was accused of facilitating child exploitation payments to Southeast Asia among 23 million breaches of anti-money-laundering legislation.

According to a series of sharemarket disclosures, all dated December 11 and released to the public register before Christmas, eight Westpac board directors all bought up the maximum $30,000 worth of shares open to retail investors under the $500m share purchase plan announced in early November.

Westpac chairman Lindsay Maxsted, who has since flagged his early retirement after the company was accused by anti-money-laundering regulator Austrac of breaching the law in millions of instances, bought 1240 shares at $24.20 apiece for his self-managed super fund, the Lindsay Maxsted Family Superannuation Fund.

Ewen Crouch, the former chairman of Westpac's risk and compliance committee who decided not to seek re-election after Austrac's claim was filed in the Federal Court on November 20, also committed to buying the maximum amount of shares.

Westpac board directors Steven Harker, Craig Dunn (through his Dunn Family Super Fund), Alison Deans, Margaret Seale (through her Madame Hardy company and the D&M Family Trust), Peter Nash and Peter Marriot also bought the maximum $30,000 worth of shares on offer.

The only Westpac directors who appear to have not participated in the raising due to a lack of shareholder disclosure are Anita Fung and Nerida Caesar, who are both members of the bank's risk and compliance committee.

Westpac announced a $2.5bn capital raising at the start of November alongside its full-year results. The raising consisted of a $2bn share placement with institutional investors and a $500m share purchase plan for retail shareholders. Shares purchased through the plan were issued on December 11. Westpac shares have tumbled 9 per cent since the Austrac allegations were made public, and closed on Tuesday at $24.23.

The ASX notices were published to the market on the same day Westpac was hit by the first shareholder class action over the child exploitation scandal and the day after the Australian Prudential Regulation Authority imposed a new capital charge on the bank and started its first compliance probe under a new regime that could result in executives and managers being banned and the bank hit with further fines.

APRA's probe includes an in-depth review of what happened at Westpac and of its culture, governance and accountability, and it is also formally assessing the role of individuals under the Banking Executive Accountability Regime for the first time.

Westpac is staring at a potential $1.25bn penalty from the Austrac case, which alleges the bank breached anti-money-laundering regulation 23 million times, including instances where the lender failed to clamp down on child exploitation payments to Southeast Asia it ought to have known about.

The Austrac legal action has already claimed the job of Westpac chief executive Brian Hartzer. The Australian Securities & Investments Commission is also investigating the bank over the scandal.

Westpac gave retail investors, who bought shares as part of the bank's capital raising before the Austrac revelations that have rocked the bank, the option to pull out of the scheme.

German car firms face vast penalties

OLIVER MOODY

The German car industry could face a "disaster" next year as manufacturers face the prospect of being hit with huge fines for breaching European emissions rules, researchers have warned.

Volkswagen, Germany's largest company, could be liable to pay a penalty of several billion euros next year if it cannot sell enough electric vehicles to meet its targets, according to one estimate. BMW and Daimler, its national rivals, may be saddled with bills running into the hundreds of millions of euros.

The past five years have not been kind to German carmakers. Since 2015, Daimler's share price has nearly halved and those of VW and BMW have fallen by more than a third amid a scandal over emissions-cheating software and a shift away from the internal combustion engine.

While sales have begun to recover and profits are rising again, the recovery could be sorely hampered by European Union carbon emissions standards that will come into effect on January 1. New vehicles must emit on average no more than 95g of carbon dioxide, equating to 4.1 litres of petrol, or 3.6 litres of diesel, for every 100km they travel. For every gram of CO_2 over this limit, the carmaker must pay a fine of €95 ($152) per car. The Tiguan, VW's best-selling sport utility vehicle, consumes at least five litres of petrol, or four litres of diesel, per 100km.

The car companies can avoid these penalties if they sell enough electric vehicles to balance out the gas guzzlers. The blow also has been softened by concessions, such as a higher allowance for SUV-heavy fleets and a transitional period during which 5 per cent of the most polluting vehicles will be exempt.

The scale of the danger is illustrated by calculations from the University of Duisburg-Essen's Centre for Automotive Research, which found that VW theoretically could be landed with a bill as high as €4bn in 2020, while BMW would be in line for one of as much as €1.1bn and Daimler for €1.2bn.

These figures are largely academic as they assume that no electric cars will be sold, but there are concerns that even if the carmakers can turn out sufficient electric vehicles to eliminate the penalties, they may not be able to find enough buyers.

Thomas Peckruhn, vice-president of the ZDK, which represents the German car industry, said the threat was "existential".

"If the car dealers cannot meet the electric vehicle sales quotas set by the manufacturers, 2020 could be a disaster," he said.

THE TIMES

Giving helps boost workplace culture

Continued from Page 13

a business what matters to people that work here," Tanna adds.

"People work in energy because they believe it makes a difference to people's lives. Energy is important. Workplace giving is one way of understanding what matters to people. I think it creates extra connection between our people and the business."

Tanna acknowledges that she and her staff cannot control the external criticism of the company and admits it makes errors.

"What we can control is what is done and said internally," she says. "We can focus our efforts on making the core part of our business as good as it can be. We do make mistakes. But everyone comes to work to do the best job for our customers."

Plenty more Australian businesses are following Tanna's lead and implementing workplace giving programs.

ANZ chief executive Shayne Elliott — the CEO of the bank so far least scathed by the Hayne royal commission and its aftermath — says he sees a very clear link between workplace giving and the company's purpose.

"I've promoted our program because I want ANZ to help our people donate to the charities they care about most," he says.

"The program makes it is easy as it's done through payroll, it's pre-tax and we can triple the impact because we double-match staff donations. That means for every dollar an employee donates through the program, we donate an additional two. The money goes directly to the charities, there is no third party involved, so it is a practical and beneficial arrangement.

"This year we had the highest engagement score from our employee survey and, while that may not be directly linked, it definitely showed that our people understand our purpose and want to contribute."

Murray says he has no doubt that workplace giving is gaining traction in Australia because it is actually delivering bottom-line benefits for employers.

"The quality of corporates involved in this now is significant," Murray says. "It is also much more common for CEOs to lead from the front on this. Workplace Giving Australia's (the peak body for the practice) thought leadership is fundamental."

The group's CEO, Jenny Geddes, says every business leader should consider implementing a workplace giving program.

"Employees embrace these programs, they build culture and they provide much needed funding for charities — it's a win-win for everyone," Geddes says. JB Hi-Fi was a finalist in three categories and a gold winner in the Most Unique Innovation at the recent Workplace Giving Excellence Awards.

Murray

The company has donated $20m since its Healing Hands program began.

At the same time, JB Hi-Fi's share price is at a record high after surging 80 per cent over the year, putting the discount electronics retailer among the top-performing ASX 200 shares for 2019.

> 'I think these programs can often remind companies about their mission'
>
> RICHARD MURRAY
> JB HI-FI BOSS

In August, in a sector devastated by weak consumer spending, the retailer delivered solid profit growth and in October forecast it would reach its sales target of $7.25bn for 2020.

"For a long time JB didn't talk about its workplace giving program externally. We have only talked about it to encourage other corporates to embrace this," Murray says. "Yes, it is great to receive some external accolades, but the internal thing has been about all the people. It is part of who we are.

"In essence, the true test of your culture is does it resonate with the team and who you are. We haven't used this as a marketing tool."

Like Tanna, Murray hears the critics who scream about the contradiction between the good done by workplace giving programs and constant bad behaviour by big business. But he believes such programs improve corporate culture, "100 per cent".

"I think these programs can often remind companies about their mission," he says. "If you have challenges internally, it is how you engage with your staff that improves the connection with the organisation. Sometimes when you have periods of crisis, you also have a whole bunch of people trying to do the right thing every day. And programs like these provide a reaffirmation of the company's culture."

First-home buyers rush in for loan scheme

JANE DEMPSTER

Stockland's Mark Steinert says the new housing loan scheme will result in a 10 per cent annual boost in the number of first-time buyers

LISA ALLEN

The federal government's new housing scheme for first-home buyers has attracted strong interest from prospective borrowers ahead of its release.

Launching on January 1, the scheme is designed to help first-home buyers purchase a home and will be offered through 27 lenders, including Commonwealth Bank and National Australia Bank.

Commonwealth Bank group executive Angus Sullivan said the bank had received a surge in inquiries from potential first-home loan customers.

"Since it was announced that we would be joining the scheme, we have received thousands of inquiries from customers in both metropolitan and regional areas, and have booked in hundreds of appointments with interested customers," Mr Sullivan said in a statement.

He said saving for a home deposit could be challenging and that CBA supported the National Housing Finance and Investment Corporation.

Under the scheme, eligible home buyers, who earned less than $200,000 per couple in the previous financial year, or singles earning less than $125,000, could apply for guarantees that meant they would not have to pay lender's mortgage insurance, which can be as high as $10,000. The benefactors of the scheme, which will provide 10,000 loans to first-time home buyers each financial year, must have saved between 5 per cent and 20 per cent of the home's purchase price.

The scheme is also being offered through 25 non-major lenders, including Bendigo Bank, the Queensland Country Credit Union and CUA.

Stockland chief executive and managing director Mark Steinert said the scheme would mean an increase of up to 10 per cent in the number of first-home buyers per year, which he said was material.

"It's more likely to affect existing properties and certainly does help when you are borrowing more than 90 per cent and you don't have to pay mortgage insurance, which is normally thousands of dollars a year," Mr Steinert said on Tuesday.

He said the mandatory price thresholds for entry-level properties for first-home buyers were not unreasonable.

"You can certainly buy entry-level house and land packages in our communities across Australia," he said. "It's a sensible strategy and a good policy for first-home buyers. It's a good start."

The mandatory price thresholds for houses and apartments include $700,000 for Sydney, $600,000 in Melbourne and regional centres such as Geelong and $375,000 in other parts of Victoria.

Finding a house or apartment valued at less than $700,000 close to the Sydney CBD could be difficult with properties in that price range mainly limited to apartments in the western and outer-western suburbs.

On Queensland's Gold Coast the top price threshold is $475,000, the same as in Brisbane and on the Sunshine Coast.

In Adelaide, the price threshold is $400,000, which is the same cap as Hobart. In Canberra, the price threshold is $500,000.

Non-major lenders will receive no less than 50 per cent of the initial 10,000 guarantees allocated in the current financial year.

All participating lenders are supporting the scheme by committing to not charging eligible customers higher interest rates than equivalent customers outside of the scheme.

GrainCorp completes $333m sale of liquid storage unit to ANZ Terminals

GERARD COCKBURN

GrainCorp is set to record a profit of about $93m before tax on the sale of its liquid terminal business.

The company said in a statement to the ASX on Tuesday it had completed the sale of its Australian Bulk Liquid Terminals business to ANZ Terminals for $333m.

A $19m deferred component is included in the transaction, relating to lease agreements to certain sites in the future.

The transaction follows the competition regulator's approval on November 15 for the sale of six of GrainCorp's liquid storage facilities.

However, its Port Kembla Liquid Terminal in NSW was excluded from the sale because of the regulator's ongoing concerns regarding competition.

Profits on the sale, which will be reported in GrainCorp's half-year results for the 2020 financial year, will consider the impact of the long-term storage agreement (LTSA) with ANZ Terminals as a sale and leaseback transaction, for accounting purposes.

A right-of-use asset of $38m and a lease liability of $97m will be associated with the LTSA's estimated impact to the company's balance sheet.

GrainCorp shares closed 1 per cent lower at $7.58 after a shortened pre-holiday session on the Australian Securities Exchange.

The ACCC previously raised competition concerns in NSW and South Australia because of highly concentrated markets for port-side liquid storage services.

ANZ Terminals' undertaking to divest its Osborne facility in South Australia was a factor in the competition regulator not opposing the sale.

"The divestment of the Osborne facility and exclusion of the Port Kembla facility alleviate our competition concerns in NSW and South Australia, as the competitive structure in these markets will be maintained," ACCC commissioner Stephen Ridgeway said.

ANZ Terminals will also need to seek any further clearance from the ACCC for future land acquisitions at Coode Island, Melbourne, where it and GrainCorp are the major operators.

Subscribe from just $8 a week.* *Min cost $416*

No one enjoys a bad break up. Especially one that lasts three years. If Johnson's negotiation of free-trade agreements fail, EU rules would apply until December 2020 leaving Britain teetering on a no-deal cliff edge.

Subscribe now 1800 253 966 theaustralian.com.au/2020

THE AUSTRALIAN
For the informed Australian

12 month period, subscription will automatically renew to be billed $40 (4 weekly). No cancellations during the first 12 months. Not in conjunction with any other offer. New customers only. Offers with home delivery included are only available where normal home delivery exists and not where additional freight is ordinarily charged. Allow up to 5 days for home delivery to commence. Prices may be varied after the initial period of the subscription in accordance with the full offer terms and conditions – see www.theaustralian.