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DEVELOPMENTS IN CORPORATE DEBT CAPITAL MARKETS: BOND FUNDING OPPORTUNITIES EVOLVE FOR AUSTRALIAN CORPORATES.

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DEVELOPMENTS IN CORPORATE DEBT CAPITAL MARKETS: BOND FUNDING OPPORTUNITIES EVOLVE FOR AUSTRALIAN CORPORATES.

Abstract

In recent years, Australian corporates[1] in line with their global peers have been beneficiaries of significant advancements in the availability, sources of and cost of accessing term debt capital to fund their businesses. This has come from both domestic and offshore fixed income sources where the appetite for Australian corporate credit continues to grow. In doing so, corporate issuers have improved the diversity and tenor of their debt funding sources, tempered in part by the low penetration of fixed income in Australia. Product innovation and a broadening of the sources debt investor interest nonetheless, continues to expand the frontier of funding possibilities for issuers.strategy for most investors. Indeed, it is clear that the facilitators (lenders, brokers, etc.) always 'get paid first' and, with the exception of complete market collapse, do not share the capital risk.

23RD MELBOURNE MONEY AND FINANCE CONFERENCE

BRAD SCOTT, DIRECTOR, DEBT CAPITAL MARKET ORIGINATIONS, NATIONAL AUSTRALIA BANK JULY 2018

With an Australian corporate issuer focus, this paper has three sections, to outline the:

SECTION 1

tailwinds and challenges corporate bond issuers face in global markets;

SECTION 2

recent strong fixed income funding outcomes corporates achieved; and

SECTION 3

rise of Socially Responsible Investment; importance of Asian investors; widening appeal of A$ corporate bonds and growth in Institutional Term Loans.

SECTION 1

Favourable Global Market Backdrop in Recent Years

A fundamental cornerstone of advanced financial systems is the existence of efficiently functioning debt capital markets to ensure the cost effective sourcing of funding and credit[2]. This has certainly been Australia's experience in recent years where conducive global financial conditions have cultivated a widening array of favourable debt capital market funding sources for corporate and financial issuers.

While on a smaller absolute scale relative to deep Northern Hemisphere markets, this trend reflects the wider gravitas of debt capital markets generally experienced amongst domestic corporate issuers since the Global Financial Crisis ("GFC"). On a broader scale, this trend is most obvious by the 2.sx increase in global non-financial corporate bond issuance over the past decade to >US$2 trillion in 2017[3]. With the domestic equivalent metric similar over the same time period, this success can be attributed to both local and international bond market growth, noting that Australian corporates rely heavily on both sources, and notably offshore capital pools[4].

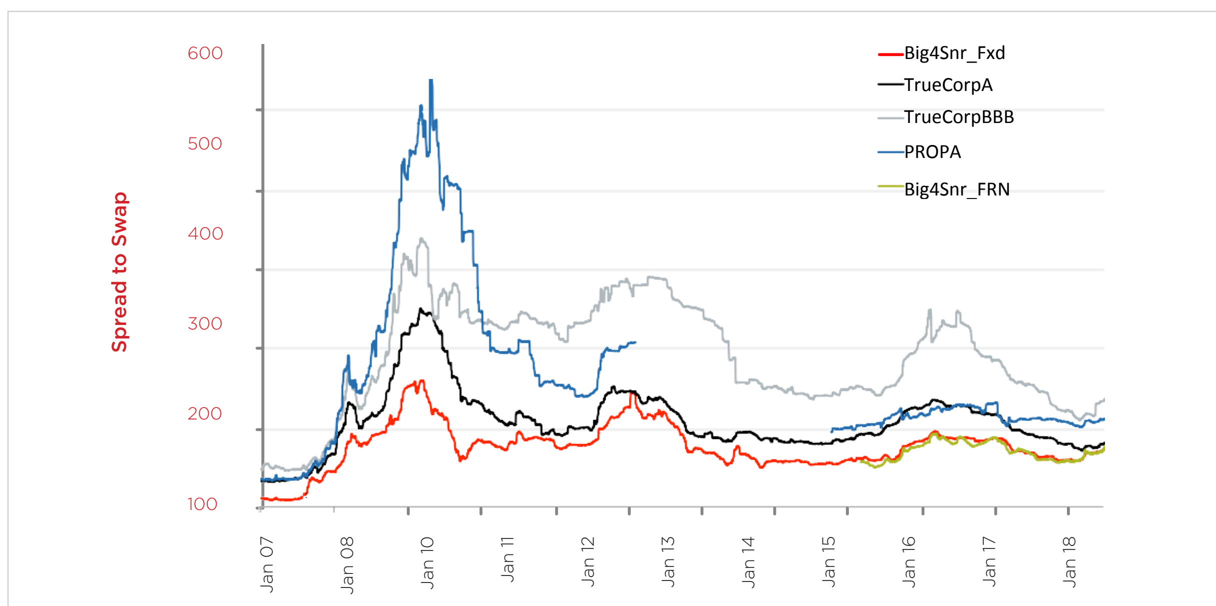
1 In this paper, references to Corporates refer to 'Non- financial issuers' but include real estate investment trusts.
2 Deloitte Access Economics, The Corporate Bond Report 2018, Commissioned by FIIG Securities Limited
3 Rising Corporate Debt: Peril or Promise?, McKinsey Global Institute, June 2018
4 For a historic perspective on why this is the case, see 'Why do so Many Australian Borrowers Issue Bonds Offshore?, Reserve Bank of Australia, Ric Battelino, speech to Australian Credit Form 2002

In context, it should be acknowledged that despite this growth, Australian corporates have, proportionally speaking, relied more heavily on bilateral and sydnicated loans for core funding than elsewhere in the world[5]. By one account, Ernst and Young estimated that almost 90% of corporate debt in Australia is funded by banks, compared to 54% in Europe and 16% in the United States[6]. While this estimate appears high at least in the Australian corporate institutional segment, bank financings still accounts for an estimated 70-75% of all Australian corporate institutional debt financings, highlighting the significant untapped potential for fixed income growth in the portfolios of Australian institutional funds and retail bond investors.

Spurred by strong fixed income investor demand, credit spreads and overall yields have for many years been very low relative to the highs experienced in the midst of the Global Financial Crisis (see Figure 1). Fuelled by low inflation, this combined with low base interest rates resulted in Australian corporates enjoying some of the lowest funding yields on record, a phenomena also observed in offshore bond markets.

FIGURE 1 AUSTRALIAN CRPORATE CREDIT SPREADS HAVE BEEN LOW IN RECENT YEARS

AUD Corporate Credit Spread to Swap (3yr duration)



SOURCE: National Australia Bank Credit Research Estimates

Tenors achievable in the debt capital markets have also extended out beyond 10 years in many instances, enhancing balance sheet risk management tools and funding diversification away from the shorter tenors associated with bank financing.

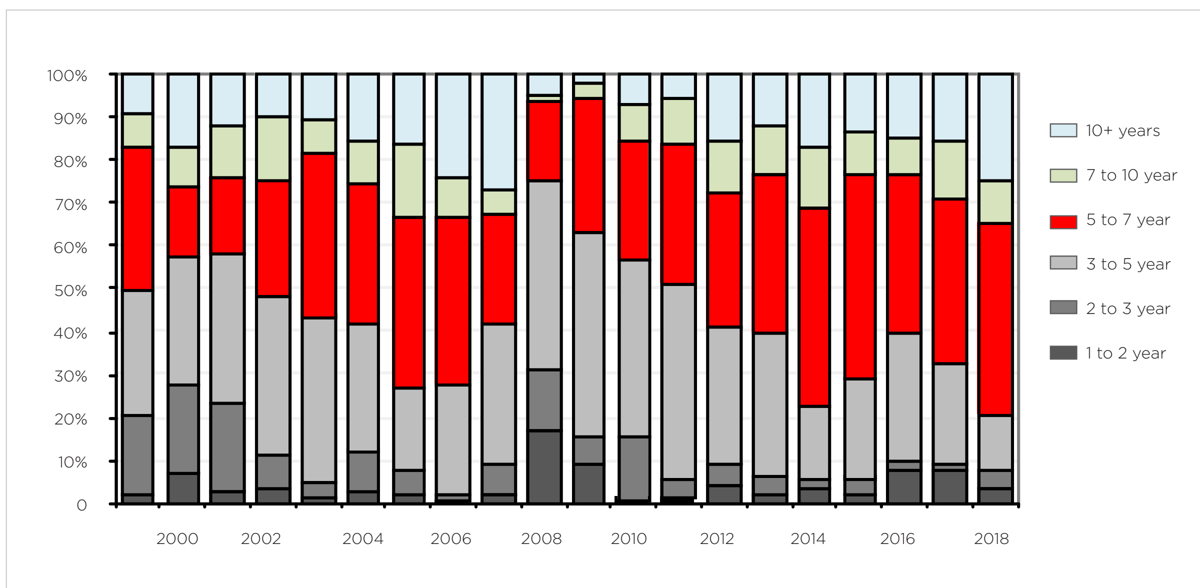
The ability indeed to extend tenor is a key driver of the rationale for corporates to approach capital markets, whether local or offshore. An extension of tenors has also been key for financial institutions but more so to enhance their regulatory liquidity ratios, whilst also diversifying their funding base (see Figure 2).

Whilst the focus in this paper is on non-financial corporates specifically, much of this benefit has typically been captured by a wide array of rated listed and unlisted entities, government-related and international corporations with solid investment grade credit ratings. The increased penetration of debt capital markets for local issuers in recent years may even have benefitted broader Australian economic growth, noting studies showing that companies which issue debt securities experience a growth rate 3 times faster than those which do not.[7]

5 Syndicated loans indeed have been valuable and stable sources of varying sizes of funding for Australian corporates, particularly in funding large merger and acquisition takeouts.
6 Ernst & Young, Corporate debt financing: time to sniff out the options other than the banks?

FIGURE 2 LONGER TENORS HAVE BEEN A TREND FOR CORPORATES AND FINANCIAL IN THE A$ MARKET

AUD Corporate Credit Spread to Swap (3yr duration)



SOURCE: National Australia Bank Credit Research

Many smaller unrated Australian corporates too have benefitted indirectly from the flow-on effect of lower cost capital being available and while banks remain their primary debt funding source, there have been some embryonic signs of widening institutional risk appetite for such entities (See Section 3). Limited by thin local fixed income markets and the absence of investment grade ratings nevertheless, means that outside traditional bank loans, medium-size businesses continue to be mostly beholden to finding bespoke funding solutions.

Economic and Geopolitical volatility The multi-year

The multi-year glide path to improved market and pricing outcomes however, has been far from smooth as economic and geopolitical volatility have and continue in 2018 to interrupt market confidence and primary issuance activity. While 2017 was a year unique for the absence of systemic shocks, recurrent shocks before then and into 2018 have had the effect of undermining domestic investor confidence to invest in longer tenors or to limit exposure to lower rated corporate investment grade entities.

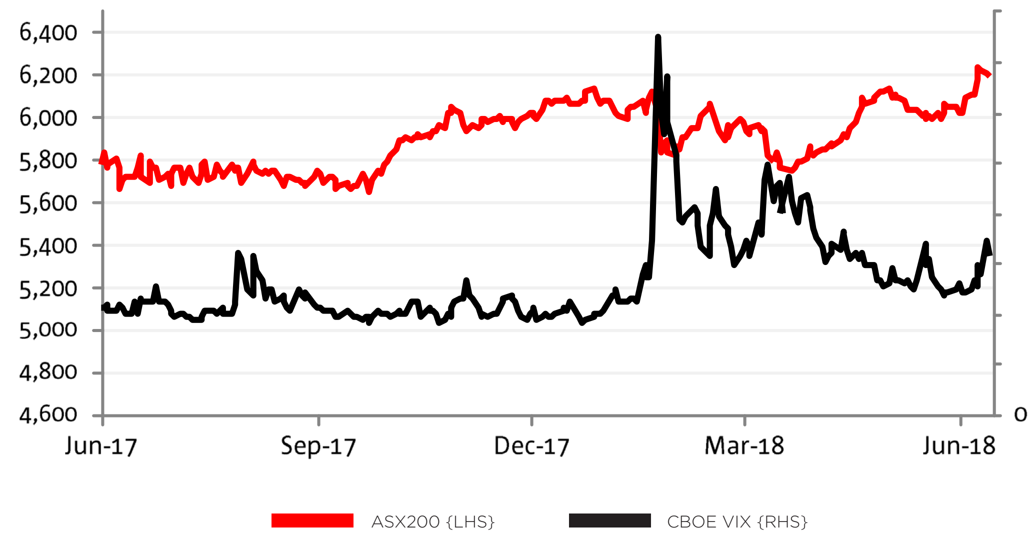
With 2018 well-advanced, the topic of market volatility has indeed returned due to a myriad of issues that started with concerns around the impact of rising US treasury rates on global financial markets, and has variously seen the baton change to fears concerning risks of a global trade war. The collective impact of these US-led initiatives has been uncertainty and overall risk aversion in fixed income markets (see Figure 3).

The resulting impact in the short-term has been for credit spreads to rise, as investors exercise caution and demand higher risk premiums to compensate for the increased market uncertainty. With global markets being highly interconnected, concerns about global trade wars or the impact of the European Central Bank withdrawing from bond purchases and the associated risk premiums can have highly correlated impacts on local market pricing, even if credit quality remains broadly unaffected (see Figure 4).

Experience continues to show nevertheless that fixed income investors have become more accustomed to dealing with uncertainty. Bouts of volatility, using Brexit in 2016 as but one example have led to brief disruptions in being able to access capital, while others such as the Greek debt crisis in 2015 have led to longer interruptions in

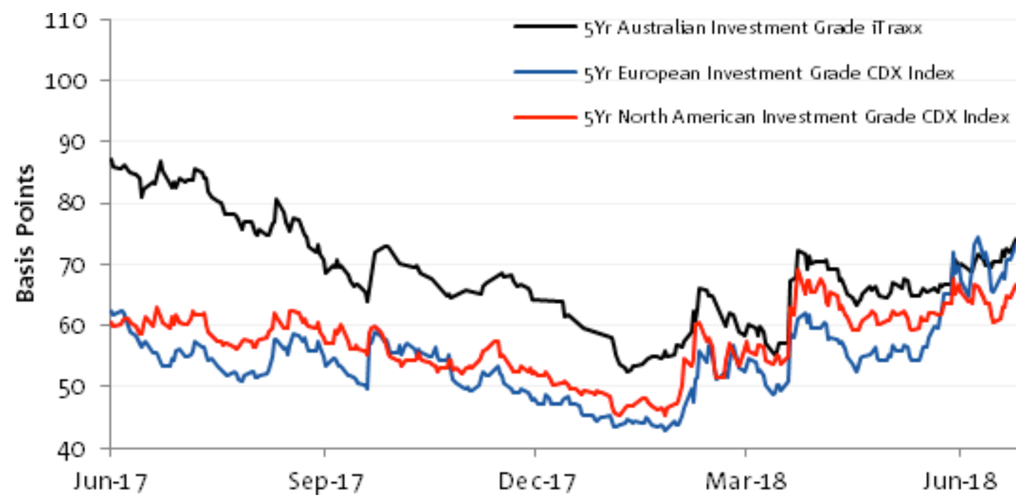
7 Capital Market Financing, Firm Growth, Firm Size Distribution, Tatiana Didier, Ross Levine, Sergio L. Schmukler, NBER Working Paper no. 20336, July 2014

FIGURE 3: RISING VOLATILITY CONTINUES IMPACT BOND INVESTOR CONFIDENCE



SOURCE: Bloomberg

FIGURE 4: GLOBAL CREDIT RISK PREMIUMS MEASURED BY CREDIT DEFAULT SWAP INDICES HAVE RISEN



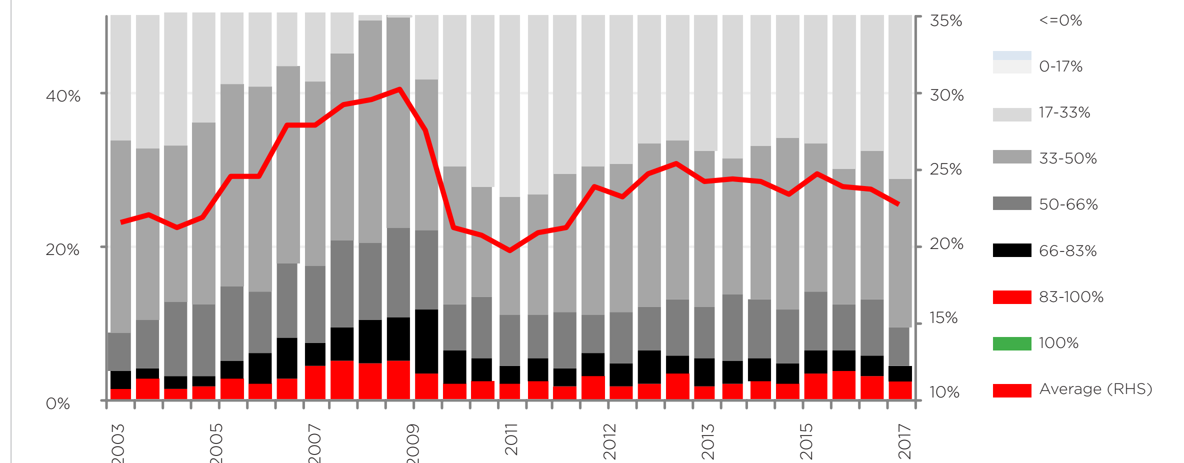
SOURCE: Bloomberg

primary debt markets. Australian corporate issuers in turn have become accustomed to being mindful of market conditions and execution risks when they approach capital markets.

While bond investors can be discerning in making their choice of company, sector or tenors, Australian corporates have and continue to have a veritable smorgasbord of debt capital funding opportunities to choose from. It should be acknowledged that despite this, Australian corporate boards, to their credit, have learned from experience and resisted the temptation to sacrifice credit ratings by re-levering balance sheets and increasing leverage back to GFC levels (see Figure 5).

A widening array of bond investors by type and geography, have been critical in expanding their fixed income mandates and being more willing to buy corporate and financial debt across a myriad of structures and tenors. As will be discussed, the stability of the Australian economy and corporate credit quality generally have been attractive to local and global fixed income investors from the Asia-Pacific region and Northern Hemisphere.

FIGURE 5: AUSTRALIAN CORPORATE GEARING REMAIN LOW DESPITE CAPITAL AVAILABILITY



SOURCE: National Australia Bank Credit Research estimates

Considering Australia's serially renowned low pension fund allocation to fixed income (10%) versus other OECD countries and the OECD average (40%)[8], this is no mean feat, but in turn highlights the key supporting role of offshore investment in deriving such outcomes. Separate government estimates of Australian superannuation bond holdings suggest that this total is closer to 21% (13% in A$, 8% in international fixed income), but even then at that level, this allocation still remains around half of the OECD average.[9]

Conversely, Australian superannuation funds have the highest share of assets invested in growth assets amongst developed countries.[10]

As such, providing a critical role in funding investment opportunities up and down capital structures, fixed income asset managers have played a critical role in oiling the wheels of commerce with cost effective capital. This in turn has eased pressure off Australian bank balance sheets and ensured financial institutions retain headroom to remain key lenders in the broader economy.

8 Organisation for Economic Co-operation and Development, Pension Markets in Focus No. 14 (2017) http://www.oecd.org/pensions/private-pensions/Pension-Markets-in-Focus-2017.pdf
9 Australian Prudential Regulation Authority: Superannuation quarterly performance data, March 2018
10 Conversely, Australian superannuation funds have the highest share of assets invested in growth assets amongst developed countries: Mercer (2014) Asset allocation of pension funds around the world, Report for the Financial Services Council as part of its submission to the Financial System Inquiry.

SECTION 2

2017's Supportive Market Backdrop

2017 marked not only a record outcome for global primary fixed income volumes but a milestone year for Australian corporates who tapped into this favourable backdrop by issuing bonds[11] across various markets.

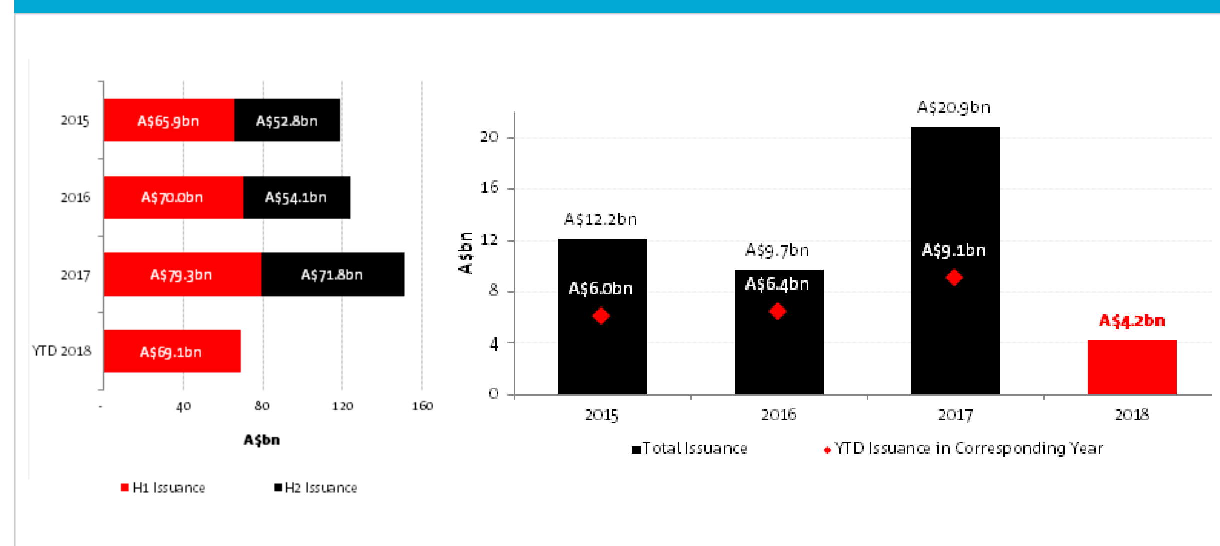
The year will best be remembered as delivering some of the most supportive conditions for global bond issuance and secondary performance in over a decade. The stars aligned for fixed income spurred by forces including President Trump's pro-business/inflation expectations, European Central Bank QE extension, China's performance stabilisation all of which culminated in broad-based IMF global economic upgrades for 2017 and 2018.

Positive sentiment visibly evident in global stock indices regularly reached new highs over 2017 also flowed through to credit markets, which in turn converted confidence into new issue activity. Bouts of volatility meanwhile that wreaked havoc in H1 2016 were minor in 2017 with the Cboe Volatility Index average (11) the lowest on record.

The combination of significant investible cash, heavy bond redemptions and continued low interest rate settings meant issuers globally were able to reap the benefits of large volume and competitive pricing outcomes. Australian corporate, financial and government issuers were no exception to this rule with aggregate A$ bond issuance volumes hitting a stunning A$151 billion in 2017, up 22% on 2016's record year[12].

At the end of the first half of 2018, local markets recorded aggregate A$ issuance of only A$69 billion, running marginally behind the prior comparable period. This was largely due to a decline in corporate bond issuance (see Figure 6), noting that -A$10 billion was printed in offshore markets.

FIGURE 6: H1, 2018 CORPORATE ISSUANCE DECLINE REDUCES A$ SUPPLY



SOURCE: NAB Debt Capital Market Originations, June 2018

Global Corporate Bond Issuance Record: Good News for Issuers & Investors

At a macro level, Bloomberg estimates show that global corporate investment-grade issuance exceeded US$2.2 trillion in 2017 from -8,300 individual issues. This marked the second consecutive year of rising supply and deal volumes, buoyed by the US which has seen in excess of US$1 trillion in supply each year since 2013.

Bond investors at the same time were beneficiaries of improved issuer diversity, larger deal sizes, anecdotal improvements in secondary liquidity, and performance attributable to spread compression in 2017.

11. For clarity, most corporate bonds are typically issued in a senior unsecured fixed rate format, with the general exception of single asset based entities such as ports, airport and toll roads.
12 National Australia Bank estimates

Illustrative of this, by year-end 2017, s-year Australian major bank spreads contracted 2s- 3obp over the year, mirroring a similar compression seen between senior and Tier 2 debt. The Australian iTraxx Index also ended -40% lower at year-end compared to the 12 months prior.

In Australia, corporate credit (excluding government/SSA) broadly returned -s.1% in 2017 boosting balanced funds returns, while in the US the Bloomberg Barclays US Corporate Bond Index returned -6-47% for the year reflecting the higher weighting of pure BBB corporate holdings.

Australian Corporates Print A$4obn+ in 2017 but a hard act to follow!

It is against this positive backdrop, that Australian corporate issuers were also strong beneficiaries of this synchronised mix of global growth, positive demand for credit and high grade Australian issuers.

NAB estimates Australian corporates issued >A$40 billion equivalent of bonds in 2017 across various markets. This marks the strongest year of such issuance since 2013 in a supply rebound from prior years. As an update, at the end of 30 June 2018, aggregate corporate issuance stood at A$14.3 billion suggesting 2018 will see less issuance overall.

Corporates were attracted by strong investor appetite, competitive pricing, longer tenor interest, heightened execution certainty, and funding diversity opportunities offered by new markets (e.g. US$ Reg Sand Asian local currencies) or product innovation (e.g. green bonds). Buoyed then by the same aforementioned factors that drove global issuance, the most notable difference then for 2017 for Australian issuers only (i.e. excluding offshore issuers) is the composition of the issuance split between domestic and offshore.

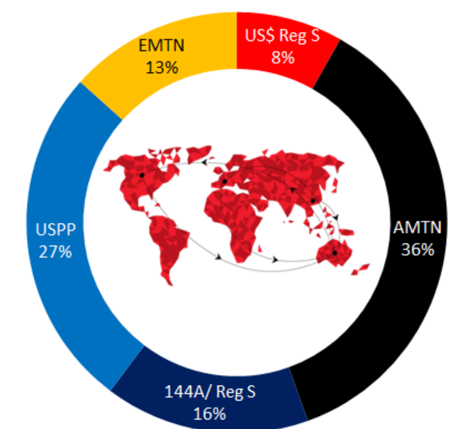
A$M TN[13] Market the Standout for 2017

In 2017, the standout market for domestic issuers was the home grown Australian corporate bond market which saw -A$14.8bn printed (excluding foreign corporate 'kangaroos' issuance in A$ which otherwise added another A$s billion of supply).

This came from over so issues, implying the local market accounted for almost one in every two new corporate bond deals by Australian corporates in 2017. A wide array of sectors, tenors and formats were seen in a market where average deal sizes increased.

FIGURE 7: WHERE AUSTRALIAN CORPORATES ISSUED BONDS IN 2017

Market	Volume (A$bn)	%	No	%
US$ Reg S	3.3	8%	5	5%
A$MTN	14.8	37%	53	49%
144A/ Reg S	6-4	16%	7	6%
USPP	10.7	26%	18	17%
EMTN	5-4	13%	25	23%
Total	40.s	100%	108%	100%



T# Denotes number of issues
SOURCE: NAB Debt Capital Markets Origination, Bloomberg

This performance saw A$MTNs account for 37% of total volume printed. By means of comparison, between 2014 and 2016 Australian corporate MTN issuance accounted for an average of only 22% of total supply which highlights the growing attractiveness of the local market. While there are many reasons the market excelled in 2017, the standout achievement was growth in 1oyr+ demand driven by domestic as well as Asian and Japanese life insurance.

13 MTN: Medium Term Note, a phrase used to describe a fixed income/bond instrument of varying tenors.

Global Public Markets Assert Their Role

2017 also saw a number of larger Australian corporates across the utilities, infrastructure, property and industrial sectors also issue in the 144A/Reg Sand European bond markets. Most notable was the incidence of strongly received BBB rated issuance in these markets speaking to the significant depth of yield driven investor appetite in offshore markets for issuers in this ratings band.

The mostly Asian-focused US$ Reg S market also saw heightened interest from Australian corporates keen to diversify funding sources and tap into the very strong investor demand for Australian issuers close to our shores. Asian interest generally in both A$ and US$ transactions is indeed a key feature that supported many Australian corporates transactions in 2017, in local and offshore markets and is expected to continue to feature more prominently in the future (also see Section 3.2).

SECTION 3

Developing Themes for Australian Corporate Debt Issuers

1. Socially Responsible Investment

A key global trend emerging in corporate financing has also been the rise of socially responsible investment ("SRI") with the integration of environmental, social and governance ("ESG") criteria into investment decisions, and the growth of green and sustainable financing as a means of allowing corporates to demonstrate their commitment to sustainability, doing business responsibly and in a way that contributes to positive environmental and social outcomes. Initially these were demonstrated through green bonds and more recently through loans and other forms of credit facilities.

Green bonds are bonds labelled as 'green', with proceeds earmarked to finance projects and related expenditures that deliver positive environmental benefits. Examples of projects that have been financed under this banner locally and globally have included green buildings, wind farms, solar PV, electrified public rail projects among others. Social bonds, where proceeds are earmarked to finance projects and related expenditures that deliver positive socio-economic outcomes, and sustainability bonds where proceeds finance both green and social projects are other examples of the growth in sustainability and ESG-themed financings.

To date, green bonds have been the most developed form of green financing, noting annual issuance in the global green bond market was worth US$160 billion in 2017, and is anticipated to reach ~us$200 billion in 2018. The evolution of sustainable financing has centred on green bond financings, but the market is evolving rapidly with some participants estimating green and sustainability-linked loan growth could exceed green bond outsta ndings[14].

Unquestionably, responsible investment is on the rise and accessing this rising pool of liquidity continues to gain traction across the private and public sectors. Indeed, for Australia's **SO** largest super funds, over 80% have made firm public commitments to manage their funds as responsible investments[15].

Asset managers in turn are developing funds specifically targeted at SRI. Issuers are taking notice and while activity to date has been more pronounced in the Northern Hemisphere, local entities are tapping into this investor demand and opportunity to create new investment opportunities and sources of funds.

In September 2015, 193 member countries of the United Nations, including Australia, adopted a set of 17 goals known as the United Nations' Sustainable Development Goals ("SDGs") (see Figure 8). These encourage countries and the private sector to focus on 3 dimensions of sustainable development, economic prosperity, social inclusion and environmental sustainability. With growing numbers of investors using the SDGs as a capital allocation guide, the International Capital Markets Association ("ICMA") published guidance in June 2018 aimed at assisting issuers and investors evaluate the contributions of Green/Sustainability/Social Bonds against the SDGs.
In recent years growing numbers of entities have sought to issue green, social and sustainability bonds linked to the SDGs. In 2017, NAB was pleased to assist the Australian Catholic University (ACU) to become the first university in the world to issue a Sustainability Bond which it did via a 10 year A$MTN.

14. 'Green loan growth could outstrip green bonds in near term: ING', Reuters, 6 June 2018
15. RIAA Super Fund Responsible Investment Benchmark Report 2018

FIGURE 8: ISSUERS ARE NOW STARTING TO MAP DEBT ISSUANCE TO SPECIFIC UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

SOURCE: www.un.org/sustainabledevelopment/sustainable-development-goals/

Proceeds from the bond were earmarked to finance best-in-class green buildings, along with research and development programs with positive social impact, and contribute towards meeting several of the SDGs[16].

Other ESG-themed financing examples include bonds that are specifically focussed on mitigating climate change. In late 2016, Monash University also became the first university to issue a Climate Bond Standards certified green bond raising A$218m equivalent to fund investments which mitigate climate change including green buildings, renewable energy and energy efficiency.

2. Growth in Asian Bond/ Debt Investor Participation

One of the most poignant funding developments in recent years has been both the increased participation of Asian investors in A$ bond (and bank) transactions and their even stronger interest in buying Australian corporate bonds in US$ format (principally via the US$ Reg S market).

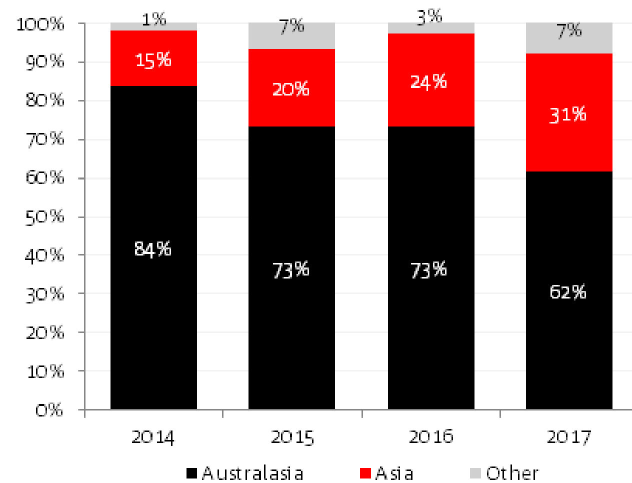
The rapid development of Asia Pacific's debt capital markets, as institutions and corporates gear up to serve the region's growing economies is creating a wealth of opportunities for bond issuers and investors alike. Asian bond markets are expected to continue to flourish as it acts as a channel for the region's rising prosperity. This reflects Asia's macroeconomic environment shifting as wealth migrates from the West to the East and middle-class wealth continues to grow.

On the investment side, Asian investors continue to look to show a genuine preference to invest in Australian corporates, not just as an investment opportunity but as a chance to diversify their portfolios. With many corporate issuers now actively targeting Asian investors to bolster their A$ transactions, deals roadshows and execution timing is very much being designed around the Asian time zone. Typically, Asian fixed interest demand accounts for around one third of final order books in an initiative that has been welcomed by Australian corporates for the extra volume, investor diversity and price tension additional demand has brought (Figure 9).

Additionally, from an issuer's perspective, there continues to be strong issuer interest in the US$ Reg S market as a means to access smaller benchmark volumes of US$3oom+ out to tenors of 10 years. From an issuer's perspective, this represents a more bite-sized issuance amount and has become an attractive proposition for corporates who have typically shied away from larger Northern Hemisphere public markets which require larger minimum primary volumes.

16. ACU's Sustainability bond is mapped to goals, 3, 4, 11, and 13 in Figure 6.

FIGURE 9 - % SUPER FUNDS NEED TO UNLOCK BILLIONS FOR CORPORATE SECTOR, AFR.COM, 23 NOVEMBER 2017



SOURCE: NAB Debt Capital Markets Origination, Bloomberg

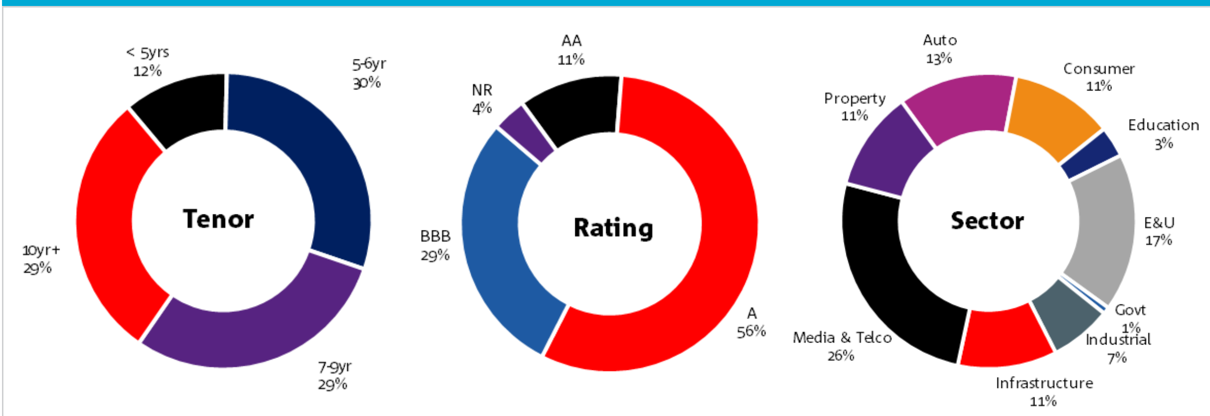
3. Widening Appeal of the Australian Corporate Bond Market

The achievement of the A$ corporate bond market to grow in depth over the past decade to become a force to be reckoned with can't be underestimated and has been instrumental in providing local corporates with valuable sources of debt capital.

From a market that was barely relevant post GFC, the A$ corporate bond market has matured and become a more prevalent funding source for corporates and financials of all sizes, even if it can be fickle at times. In recent years, longer tenors, larger deal sizes and sufficient depth to attract global issuers such as Apple, Verizon Communications, The Coca Cola Company and Anheuser Busch InBev highlight this trend. This has seen substantial growth across a variety of tenors, ratings and sectors (see Figure 10).

What is less documented though, is the local market's progress in connecting a widening array of issuers including higher yield and unrated names through to a broadening suite of high net worth individuals looking for portfolio diversity. For several years now, there have been infrequent but successful financings undertaken by unrated small cap issuers, many of who would have high yield credit worthiness.

FIGURE 10: 2017 A$ CORPORATE MTN TENOR, RATING AND SECTOR SPLITS



SOURCE: NAB Debt Capital Markets Origination, KangaNews

The most high profile of these issuers has been Australian data centre operator NEXTDC. NEXTDC has accessed the unrated A$ market four times since 2014, including a A$300m dual tranche issue in July 2018 bringing its total unrated outstandings to A$600m. Most recently B2/B+ rated Virgin Australia issued its first A$ denominated issue, a A$150m, 5 year, non-call 3 year bond issue continuing this growing trend, even if off a low base.

Fuelling this trend as well has been the growing breadth of bond investors in search of yield and portfolio diversity. These include a growing pool of local sub institutional investors including boutique 'private debt' asset managers, brokers and Asian private banks, keen on getting access to A$ assets. Some of these retail-linked investors have emerged from the material growth seen in self-managed superannuation and have traditionally focussed on buying corporate and bank subordinated hybrid debt. The aforementioned expanding pool of mid-market investors have undoubtedly contributed to the growth of the A$ high yield and unrated bond space in what remains a bespoke but evolving wedge of the A$ debt markets worthy of further attention.

4. Evolving Engagement of Super Funds & Institutional Term Loans

Australia's superannuation funds, whose collective funds under management estimated at ~A$2.3 trillion[17] and among the largest in the world due to the compulsory superannuation regime, have traditionally been almost invisible in the fixed income landscape.

The role of super funds however has started to slowly evolve with a small but rising number seeking to develop in-house capabilities to manage wide ranging investments and this extends to fixed income and equities. These include some of the larger funds including AustralianSuper, Industry Funds Management and Cbus.

With less pressure to match short term indices and an eye to cost savings, super funds are starting to consider selectively offering Institutional Term Loans to entities with tenors extending in some instances from 7 to 10 years with terms and conditions typically matching those of banks, but with longer tenors. Principally this is a market aimed at unrated issuers, noting at the same time that super funds are expected to remain selective in their assessment of the credit quality of issuers and sectors.

Recent Australian recipients of Institutional Term Loans have been corporates such as industrials such as Brickworks, National Storage and Visy Industries. This follows the A$ term loan B raisings in 2017 for Australian Technology Innovators and an issue by Iron Mountain Australia in 2016, in a modest trend that is symptomatic of increased investor appetite for credit down the capital structure.

The overall development of tapping alternate demand has in itself coincided with a recent high profile 'Superfunds Roundtable' in November 2017 co-ordinated by business magnates such as Anthony Pratt, Gina Rinehart, Lindsay Fox and others to see super funds become more active in providing debt funding to Australian businesses[17].

17. Super funds need to unlock billions for corporate sector, AFR.com, 23 November 2017

CONCLUSION:

Corporate debt markets are expected to continue to be attractive for Australian corporate issuers for risk management purposes and evolving market developments will continue to expand this theme over time as the universe of funding possibilities grows.

Even though it seems the credit cycle is maturing and the cost of term debt likely to rise, the strategic importance of having a well-spread debt maturity profile should prevail.

The depth, diversity and long tenors available in offshore markets will also remain appealing, with the local market playing a key role in being the other bookend of that equation from a tenor perspective. Capital intensive entities with long life capital intensive assets such as in infrastructure, utilities and property, will also retain their traditional bias of matching their asset with long-tail liabilities where it makes sense.

Australian corporates generally are nevertheless expected to maintain their heavy reliance on traditional bank loans given the traditional and important role this market plays in the Australian economy. Credit growth and appropriate asset allocation for Australia's ageing population aside, domestic market appetite for genuine credit continues to be constrained by the very low investment allocation to fixed income in Australia. Offshore markets will therefore as a result continue to pick up the slack.

As such, the corporate debt capital market space continues to evolve in Australia and solid progress has been made, but much work still remains to bring Australian funding trends in line with international norms.

NOTE: THE VIEWS OUTLINED IN THIS PAPER ARE THOSE OF THE AUTHOR AND SHOULD NOT NECESSARILY BE CONSTRUED TO REPRESENT THOSE OF THE NATIONAL AUSTRALIA BANK.

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