

AUSTRALIA 2019

John M. Suddeth, Jr., CFA

TALES FROM “WAY” DOWN UNDER

In Bill Bryson's book, *Travels from a Sunburned Country*, the popular author describes Australia in the following way:

“It is the driest, flattest, hottest, most desiccated, infertile and climatically aggressive of all the inhabited continents...”

Having just returned from a research trip to Sydney and Melbourne, Bryson's harsh topography observations were less visible from those two highly affluent and attractive waterfront cities. Even if you haven't been to Australia or read his hilarious travel tale, it is likely that you have already developed an impression of the “land down under,” be it from Crocodile Dundee movies or perhaps watching the late Steve Irwin chase after venomous snakes on his *Animal Planet* TV shows. Australia is indeed a land of stark contrasts with beautiful beaches and arid deserts, dangerous reptiles and cuddly koala bears, an iconic opera house and bouncing kangaroos. And then there

are the powerhouse Aussie celebrities like Nicole Kidman and Keith Urban, or, for our more “seasoned” readers, maybe Olivia Newton-John and Greg Norman come to mind. Each of those larger than life Aussie personalities is a reflection of the country itself: proud, fiercely independent, and punching well above his or her weight class in international visibility.

While we have invested in Australian securities for a number of years, this was our first direct research visit, which ultimately proved worthy of the challenging 20-hour travel time and 15-hour clock difference. It is an expansive country at roughly 80% of the U.S. continental size. However, Australia's population is quite small at only 24 million people (8% of the U.S.), primarily congregated in the coastal areas. Like the U.S., Australia has well-organized tax and legal systems and holds a wealth of natural resources (iron ore, lead, aluminum, etc.). The latter has long been a source of economic strength, providing key raw materials for Asia's seemingly insatiable appetite. Australia also offers sun drenched beaches, a highly educated workforce, a low crime rate, and inviting temperatures with Sydney consistently ranking near the top in global quality of life rankings.



MAKING LEMONADE OUT OF LEMONS

A few of you might recall the Jim Stafford song from the early 70's called *Spiders and Snakes*. Jim wasn't talking about Australia, but certainly could have been as Australia is home to a grouping of the most dangerous creatures in the world. This rather long and infamous list includes the *Brown Snake* (uncontrolled bleeding), the dreaded



Box Jellyfish (nerve paralysis then death within a few minutes), and the *Funnel Web Spider* (don't ask, it isn't pretty).



In response to dealing with the bites and stings from these dangerous creatures, Australian medical research has become adept at analyzing their unique toxins. Today, extracts from snake and spider venoms are utilized to create antivenoms and to treat a variety of maladies including hemophilia and certain kinds of cancers.

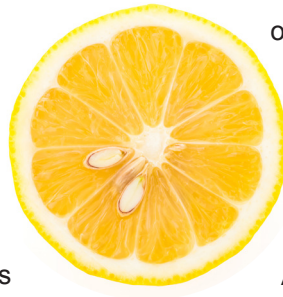
Who would have guessed that having unrivaled access to enzyme evaporating poisonous toxins would become a competitive advantage for local pharmaceutical firms?

Continuing with the "lemonade from lemons" theme, the continent of Australia is isolated, surrounded by oceans, and widely recognized as the driest habitable continent on earth. Again, necessity fostering invention, we see Aussie industries well ahead of the curve with implementation of desalinization, electricity storage, as well as advancements in wind and solar power. In fact, just north of Adelaide there is an electricity storage facility that, for the moment, is considered the largest in the world. The *Hornsedale Power Reserve* is the world's most powerful

operating lithium ion battery facility, according to **Bloomberg**. It occupies about a city block with a grouping of 6-foot tall **Tesla** battery storage units, all connected to 99



giant wind turbines. The facility has the storage capacity to power 30k homes, however, the electricity is primarily used in backup situations, as a stabilizer for when demand peaks from extreme temperatures. Built in 2005, the Perth reverse



osmosis desalination plant is located on the western coast of Australia. This facility creates fresh water from saltwater and serves around 2 million people. It draws ocean water from the Indian Ocean and utilizes electrical power from a wind farm that is located 165 miles north of Perth.

A CULTURE OF INVESTING

Recognizing their mineral resources to be a slowly depleting asset, the Australian Government created a private retirement system, in part, as a conduit to redirect a portion of that wealth to the individual worker level. The **Superannuation Fund**, as it is known today, was developed in Australia back in 1992 and operates as a forced retirement savings vehicle not only for the mining sector but also for all of Australia's workers. Similar to the Social Security System in the U.S., the objective is to provide participants with a personal income stream when they retire. There are now 15 million Australians with a **Superannuation Fund** portfolio account, totaling U.S. \$2.8 trillion in assets. Each portfolio is invested in a variety of public market securities, primarily equity oriented, making Australia the 4th largest holder of pension fund assets in the world. At a mandatory 9% of salary contribution level, **Superannuation Fund** monies are a consistent source of capital flowing through the Australian financial markets each and every month.

In our last quarterly report, we touched on historically low global interest rates and the resulting quandary it poses for income-oriented investors. Our research trips are, in part, a direct response to meeting that challenge, as they provide both discovery and confidence as we seek out attractive, diverse, and predictable sources of cash flow for our clients' portfolios. We noted that Australia displays a cultural propensity for higher dividend yields as well as management teams where compensation is linked with shareholder value. Indeed, the country has come a long way since its formal founding as a penal colony for the British, and clearly illustrates a fiscally disciplined government (government debt to GDP is 41%) along with a large and wealthy middle class. In fact, according to Global Wealth Report, Australia nudged out Switzerland in 2018 as having the largest median wealth per adult, at USD \$191k. This is an impressive figure because it points to a rather broadly distributed average wealth per capita. As we reflect on our company visits around Sydney and Melbourne, and our historical experience, we would envision "building up" our "down under" Aussie exposures going forward.



NAPLES GLOBAL ADVISORS

naplesglobaladvisors.com | (239) 776-7900
720 Fifth Avenue South, Suite 200 | Naples, FL 34102

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