Alternative Asset Class Predictions: Australia Region

Interim Findings Summary - First Survey (May 2010)

Adapted from detailed Interim Report 28 June, 2010 by Dr. Sally Ernst

Summary of Findings

With an Indicators benchmark of 6.57 (out of a possible 10), Australian entrepreneurs are slightly bullish in their predictions of alternative asset class performance. Australia’s data is boosted by their notable bullishness about their businesses and, to a lesser extent, property and gold as alternative asset class investments.

This score is notably higher than the global benchmark of 5.70.

Entrepreneurs, relying on the advice of their peers, are saying yes to starting a business in Australia.

The overwhelming majority of Australian entrepreneurs (93%) would start a new business in Australia. This is slightly more than as benchmarked against the Global Indicators (86%), as well as the US (87%), Canada (89%) and Asia (87%) Indicators.

Australian entrepreneurs are also slightly more likely to recommend a foreign entrepreneur do business in their country (89%) than Canadian (85%), American (85%) and Asian (86%) entrepreneurs; however notably more likely to recommend foreigners invest in doing business in their country as benchmarked against the Global Indicators (77%).

According to the Entrepreneurs’ Organization Global Entrepreneurial Efficiency Indicators which measures countries’ effectiveness in fostering entrepreneurship, this is important as the advice and experience of other entrepreneurs is the most important influencer in an entrepreneur’s decision making about starting a business in a country, along with the economic environment (3.95 on a scale of 1-5).

Australian entrepreneurs are creating jobs with real employment—outperforming the US and Canada, and equivalent with the Asia region. Few are leveraging a flexible workforce.

The vast majority of Australian entrepreneurs have maintained or increased their headcount (87%) over the past 12 months with a significant number (60%) actually increasing it. This was notably above the Global (79% and 51% respectively), the US (77% and 51% respectively) and Canada (80% and 46% respectively) benchmarks; and on par with the Asia region (86% and 59% respectively).

Broadly in line with the global benchmark, at least 70% of jobs generated by Australian entrepreneur were filled by employees, rather than a flexible workforce in more than three-quarters of cases (78%) and at
least 85% in less than two-thirds of cases (62%). This was similar to the US (77% and 64% respectively), but Canada (83% and 70% respectively) was notably more likely to employ workers rather than use a flexible workforce. Interestingly, leveraging a flexible workforce was slightly more likely in Asia (74% and 58% respectively).

Over the coming 12 months, almost all Australian entrepreneurs (98%) predict their headcount will increase or remain the same. This is slightly more than the Global, US (both 96%) and Asian (95%) Indicators, and in line with Canada (also 98%). The overwhelming majority of Australian entrepreneurs (91%) predict headcount will actually increase. This is slightly above the Asian Indicators (87%) and significantly above the Global (76%), US (76%) and Canadian benchmarks (72%).

**Australian entrepreneurs are outperforming the US and Canada in last quarter’s profit performance, and more bullish than Asia in their predictions for the coming quarter.**

The significant majority of Australian entrepreneurs (88%) saw their net profit remain the same or increase over the past quarter with even more of them predicting it to improve (93%). This is higher than the global benchmark (82% and 89% respectively) and US entrepreneurs (84% and 89% respectively).

Also a significantly higher number of Australian entrepreneurs (47%) actually saw an increase in net profit over the past quarter than their global peers (36%), US (37%) and Canada (24%) and slightly more than Asia (42%). Australian entrepreneurs (44%) are slightly behind their global peers (48%) in expecting an increase in profits into the coming quarter.

Interestingly, while Australian entrepreneurs were equal with Asian entrepreneurs in terms of last quarter’s profit performance, far fewer Asian entrepreneurs (70%) are predicting their net profit will remain the same or increase into the coming quarter. In stark contrast to this, significantly fewer Canadian entrepreneurs (72%) than Australian entrepreneurs saw their net profit increase or remain the same over the past quarter, and are on par (91%) with their positive net profit predictions into the coming quarter.

**Australian entrepreneurs are focusing on debt reduction, but to a lesser extent than their global peers.**

Well more than half of Australian entrepreneurs (59%) have seen their exposure to debt remain the same over the past 12 months. In contrast to the Global Indicators (1 in 5 entrepreneurs), one in 10 Australian entrepreneurs (10%) have significantly decreased their exposure to debt and expect a similar trend over the coming 12 months (12%). This is almost on par with Asian entrepreneurs (10% and 12% respectively). Twice as many of their global peers (19% and 24% respectively) have significantly decreased their exposure to debt and expect a similar trend over the coming 12 months.

No Australian entrepreneurs surveyed had increased their debt significantly, or intend to over the coming 12 months, which is almost on par with their global peers (3%).

**Australian entrepreneurs’ predict the hottest sectors to be biotech, environmental and computer services, followed closely by the mining sector.**

Globally, entrepreneurs are predicting the hottest sectors will be biotech (42%), health and medical services (37%) and computer services and the environment (33%)

Australian entrepreneurs are more mixed in what they predict to be the hottest sectors against the Global benchmark. US and Canadian entrepreneurs predicted the environment, computer services, biotech (all 19%) and mining (17%) to be the hottest sectors.
Australian entrepreneurs are slightly more bullish about alternative asset class performance than their global peers driven by precious metals, property and their own businesses.

Australian entrepreneurs are slightly bullish on predicted alternative asset class performance over the coming 12 months with a score of 6.57 (out of a possible 10), notably above the neutral benchmark globally (5.70). This was mostly influenced by some notable bullishness about their businesses and slightly more positivity about property and gold prices than their global peers.

The majority of Australian entrepreneurs (80%) are predicting the price of gold will stay the same or increase with just under two thirds (63%) predicting it will actually increase over the coming 12 months. This is slightly more bullish than the global Indicators (74% and 58% respectively), almost on par with the Canadian (83% and 62% respectively) Indicators, slightly less bullish than the Asian Indicators (82% and 66%) and significantly more bullish than the US Indicators (68% and 52% respectively).

Over the coming 12 months entrepreneurs globally are broadly predicting that major currencies will remain neutral (average 3 out of 5) against their own or are too volatile to have a clear view. Entrepreneurs globally are also neutral on managed futures and returns on hedge funds.

Over the coming 12 months Australian entrepreneurs have a marked difference in the alternative asset classes they intend to invest in against the Global, US and Canadian Indicators. Australian entrepreneurs are looking to invest in commercial (66%) and residential (59%) property, real estate equities (24%) and fine wine, foreign exchange and precious metals (all at 17%) and at a significantly greater rate than the global benchmark.

Currently, Australian entrepreneurs have investments in residential (65%) and commercial (46%) property, art, fine wine and private equity (all 22%), Real estate equities (14%), commodities and foreign exchange (both 11%).

**Australian Entrepreneurs, along with Asian entrepreneurs, are more bullish on commercial and residential real estate than their American or Canadian peers – although no significant increases expected.**

The vast majority of Australian entrepreneurs (91%) are bullish about Australian residential property predicting prices will remain the same or increase. On par with their Asian peers (90%), this is significantly more bullish than the global benchmark (76%), Canada (79%) and the US (72%). More than three-quarters of Australian entrepreneurs (76%) predict it will actually increase with a negligible number (9%), predicting it will increase significantly. This is again about the same as their Asian peers (77%) and significantly more bullish than the global Indicator benchmark (46%), Canada (63%) and the US (36%).

Asian entrepreneurs are significantly more bullish than their global peers on commercial property performance with the vast majority (83%) predicting it will increase or remain the same, with more than half believing it will actually increase (57%) and almost one-quarter (24%) believing it will increase significantly.

More than three-quarters of Australian entrepreneurs (79%) predict commercial property prices will remain the same or increase with less than half (44%) predicting it will actually increase and very few (9%) believing it will increase significantly. This is significantly more bullish than the global (50% and 23% respectively) and Canadian (73% and 33% respectively) Indicators, and dramatically more bullish than the US (33% and 10% respectively) Indicator.
Australian entrepreneurs are lagging behind the Asia region in green business planning. Entrepreneurs globally are snubbing carbon offsetting and consultancy, instead recycling and lowering office paper usage. Australian entrepreneurs are in the main in decreasing their carbon footprint and are reducing office paper usage (58%) and recycling (58%). This is in line with the global benchmark (58% and 57% respectively). Interestingly, almost none are considering carbon offsetting (7%) or consultancy (2%), which is also broadly in line with the global benchmark (5% and 3% respectively).

The significant majority of Asian entrepreneurs (86%) are planning to lower their carbon footprint. This is well above the global benchmark which shows that just less than three-quarters of entrepreneurs (73%) have green business plans, and also well above Australia (74%), Canada (77%) and the US (67%).
About the Research

This report is part of the Global Entrepreneur Indicators research program conducted by the Entrepreneurs’ Organization in partnership with The Standard Chartered Private Bank. This research program began in May of 2010 and consists of a five-year series of quarterly surveys of Entrepreneurs’ Organization members. The full report and findings are available at: http://www.entrepreneurindicators.com/

The significance and uniqueness of this global research program lies in the very tight definition of a successful entrepreneur represented by the Entrepreneurs’ Organization’s membership base. All those surveyed have successfully founded a business grossing more than US$1 million in revenue annually. Overall, EO members average US$18.4 million in revenue per year. Between them, these entrepreneurs employ more than 1.3 million workers, with an average of 191 employees per entrepreneur. The average age of the entrepreneurs surveyed is 40. This group provides the ability to gain an entree to this highly important sample of the successful entrepreneur population.

This initial research surveyed more than 7,300 entrepreneurs in 42 countries from the Entrepreneurs Organization, achieving a response rate of 20% based on a minimum reach of 7,300.

Methodology

Survey
The survey incorporates elements of cited Alternative Asset Class investments as described in the research report literature scan. The litmus test for the choice of key indicators for the purposes of this research is that they are later measurable against actual asset class performance. There are 7 categories measured in the Indicators:

- Currency
- Residential real estate
- Commercial real estate
- Precious metals
- Managed futures
- Hedge funds
- Selves/own businesses

Some additional questions, which are not used in the calculation of the Indicators, have also been included in the survey for other insights into topical areas of interest from time to time. These, as well as data from Indicators questions, may be used in the Alternative Asset Class Indicators or other Entrepreneurs’ Organization Indicators.

The Indicators is calculated as the category score, or averaged upper end and neutral percentages divided by 10, which are then averaged across all category scores with equal weighting to give the final Indicators benchmark out of 10.

Limitations

- Over 50% surveyed were based in the U.S., however they only represented 38% of respondents thereby reducing the impact of this limitation.
• The EMEA and Asia regional Indicatorss have a small response rate relative to their size. These reports can perhaps be used in the context of the longitudinal data as a benchmark made richer over time.
• 42.5% of responses for the EMEA Region Indicators were from the Netherlands.
• There may be anomalies in the membership data, such as an owner or major shareholder rather than founder may be included in respondents or other anomalies.
• There may be anomalies caused by technology in the process from data extraction, to survey delivery, to responses, to first stage analysis. While noted as a limitation, this is for probity as these are estimated to be minimal.

Response Rates Summary

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<th>Region</th>
<th>Number of Respondents</th>
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<tbody>
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<td>Global</td>
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<tr>
<td>Australia</td>
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<tr>
<td>Asia</td>
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<td>Canada</td>
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<td>U.S.</td>
<td>564</td>
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<tr>
<td>Europe/Middle East/Africa</td>
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Just under 10,000 words of free text were recorded.

For Further Information About the Research:

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