

9/01/2024

Errata

CEPA, Port of Melbourne — Review of Gearing and Beta, 21 November 2023

In CEPA, Port of Melbourne - Review of Gearing and Beta, 21 November 2023 (the 2023 CEPA Report), section 4.1 of the Port of Melbourne's approach to market capitalisation and liquidity filters, footnote 33 on page 16 and Table 4-2 on page 28, did not accurately reflect their consultant Houston Kemp's approach to liquidity filters.

In section 4.1 on page 16, CEPA specified that the Port's approach to liquidity filter omits comparators and read as follows:

Market capitalisation and liquidity filters

They then applied market capitalisation and liquidity filters to narrow the comparator sample:

- A market capitalisation filter that omits comparators with a market capitalisation that is smaller than USD100 million as of 31 March 2023; and
- A liquidity filter that omits comparators:
 - with an average bid-ask spread that exceeds 1 per cent over the averaging period; and
 - that were not traded on more than 20 per cent of available trading days.³³

Section 4.1 of the report should have read as follows:

Market capitalisation and liquidity filters

They then applied market capitalisation and liquidity filters to narrow the comparator sample:

- A market capitalisation filter that omits comparators with a market capitalisation that is smaller than USD 100 million as of 31 March 2023; and
- A liquidity filter that omits comparators:
 - with an average bid-ask spread that exceeds 1 percent over the averaging period; or
 - that were not traded on more than 20 per cent of available trading days.

Footnote 33 of the 2023 CEPA Report also implies that Houston Kemp only omitted firms from their comparator sample when they failed to meet both liquidity filters.

Footnote 33 should have been omitted.

Table 4.2 summary of comparator samples, row 10 and 11 (titled “HK preferred sample”) column 4 (titled “Liquidity filter”) classifies the liquidity filter as “loose”.

This should have read as “strict”.

Contextual explanation of CEPA’s view

There were a range of liquidity and market capitalisation filters considered in CEPA’s 2021 and 2023 review. Both these reviews did not find that the regulatory precedent imposes limits on liquidity or market capitalisation filters, and so an approach that is considered in the circumstances to provide the best estimate of the beta of a benchmark efficient operator should be used.

CEPA advised there is a strong theoretical argument to ensure the comparator sample is sufficiently liquid and so CEPA’s 2023 report adopted an approach that applies some form of liquidity and/or market capitalisation filter. CEPA advised that regulatory precedent is not prescriptive in how a sufficiently liquid firm should be identified, and as such there may be variations in the types of tests, or the thresholds of tests that would also be well accepted in so far as they derive a sample of sufficiently liquid firms.

CEPA developed three comparator samples (samples A, B and C) which applied alternative combinations (thresholds) of liquidity and market capitalisation filters. From these samples, beta and gearing parameters were estimated and presented. One of these samples applies the same market capitalisation and liquidity filters used by Houston Kemp. While the final 2023 report did not fully reflect the clarification on Houston Kemp’s approach in section 4.1, footnote 33 and Table 4-2 this does not impact CEPA’s findings.