Australian Government
Australian Office of Financial Management

AOFM

JOINT-LEAD MANAGERS IN SYNDICATIONS

This edition of Investor Insights examines the role of Joint-Lead Managers (JLMs) in syndicated transactions and the criteria used to select JLMs.

The first edition of Investor Insights, titled 'Bond Issuance Methods – Tenders versus Syndications,' compared the AOFM's two methods of issuance: competitive tenders and syndicated issuance.

Most bonds are issued to registered bidders through competitive tenders which do not require JLMs. These registered bidders then trade these bonds to investors and other price makers in the secondary market. In contrast to tenders, the AOFM uses syndications infrequently and typically for establishing new bond lines.

Contents

Issue 16 – December 2024

INVESTOR INSIGHTS

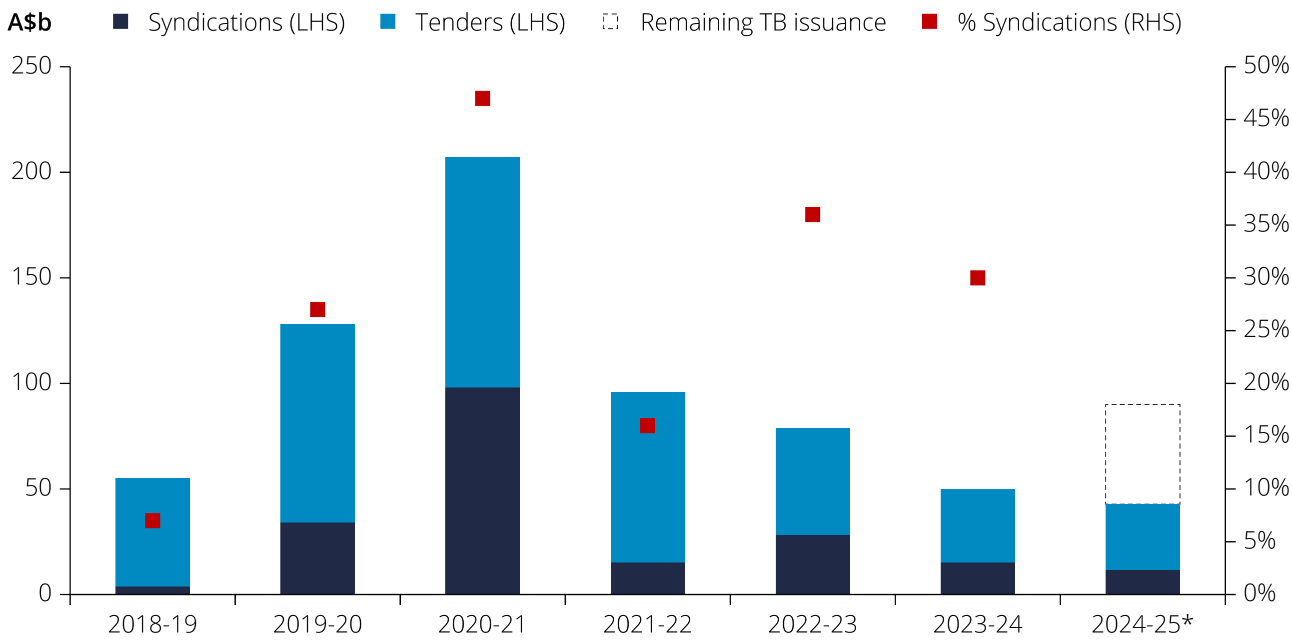
In a syndication, the AOFM appoints a panel of banks to support and promote the transaction, with the bonds being placed directly with investors. This approach allows the AOFM to leverage the banks' global sales and distribution networks, as well as their direct relationships with investors. Like other sovereign, state, and territory issuers, the AOFM lacks the global resources to efficiently manage a process that could involve over 100 individual investors worldwide. It does not make financial sense for issuers to retain this capability themselves.

The syndication method is considered the most cost-effective way to issue new maturities and manage large volumes in a single transaction. A syndicated transaction allows a bond line to be quickly built up to a liquid size, potentially lowering issuance costs compared to conducting multiple smaller tenders, which could result in higher yields.

Additionally, the incentive of syndication fees encourages competitive bidding in tenders and promotes broader participation from banks in the secondary market.

Chart 1 shows the volume of Treasury Bond (TB) issuance by syndication and tenders since 2018–19. Tenders have made up the majority of issuance. Syndications are relied upon more during years with increased funding programs. For instance, the financial year 2020–21, which was heavily impacted by the pandemic, saw the highest volume and proportion of syndicated issuance. Achieving the funding program that year would have been very difficult without the use of syndications. Since 2021–22 Treasury Bond syndications have been used to establish new lines around 12 years in tenor; to issue a new 30-year benchmark bond; and to issue the first Green Treasury Bond.

Chart 1. Treasury Bond tenders and syndications since 2018–19



Source: AOFM *As of 29 November 2024.

THE ROLE OF JOINT-LEAD MANAGERS

A panel of JLMs are selected with the aim of forming a team of banks best able to place the bonds with investors. For most deals a panel size of four provides sufficiently broad distribution capability while keeping the panel to a manageable size. In some circumstances a larger panel may be used, for example, for establishing 30-year bonds where offshore demand might be more significant, or for the recent June-34 Green Treasury Bond (see Investor Insights 15). Conversely for smaller deals, a panel of three may be used.

Before the deal

- The AOFM decides which banks will be selected to act as JLMs for the deal using the criteria described below.
- The AOFM appoints one bank to manage both the deal's interest rate risk and to handle billing and delivery (B&D).
- JLMs provide:
  - pricing analysis for the deal including their assessment of 'fair value' and a recommended pricing range.
  - specific investor feedback and estimates of demand.
  - advice on market conditions, including assessments on whether conditions are suitable to launch the deal at a particular time.

During the deal

- A deal typically launches in the morning, remains open overnight to give offshore investors time to place bids, and closes the next day.
- JLMs promote the deal to investors and collect their orders. They provide further feedback on pricing and demand to the AOFM and serve as the point of contact for investors. The AOFM does not engage directly with investors during a deal.
- Investor allocations are made by the AOFM.

After pricing

- The JLMs confirm the allocations with each investor. The B&D JLM delivers the bonds and futures contracts (if the investor has elected to hedge) to investors and receives payments.
- The AOFM settles the entire transaction with the B&D JLM, which simplifies the transaction for the AOFM.
- JLMs provide post-deal feedback to AOFM from investors, including those who chose not to participate in the deal.
- The B&D JLM provides a summary of their hedging activities to the AOFM.

CRITERIA TO SELECT JOINT-LEAD MANAGERS

The following three criteria are considered in selecting JLMs.

1. Takedown of Australian Government Securities (AGS) in tenders
2. An assessment of each bank's AGS distribution capability
3. The quality of research and ideas of most relevance to the AOFM's funding and market development objectives

Criterion 1 — Takedown of AGS in tenders

This criterion evaluates banks based on the volume of bonds they acquire in primary market tenders. This is an important metric because the majority of AOFM's issuance is conducted via tenders. The AOFM sees strong performance in tenders as being a key indicator of a bank's commitment to the AGS market.

Key considerations include:

- Long-term bidding consistency
- Bidding on the specific type of security being issued
- Overall participation and support for all AGS tenders

Banks are ranked according to their tender participation over multiple periods. Generally, banks that demonstrate long-term consistency in bidding for and winning bonds in tenders will achieve higher rankings than those that only show strong recent performance.

The ranking places a strong emphasis on takedown for the specific type or tenor of bond being issued. For example, there is a greater focus on ultra-long-dated takedown for a 30-year bond issue.

While the primary focus is on takedown of the type of security being issued, bidding support across all types of securities — Treasury Bonds (including green bonds), Treasury Indexed Bonds (TIBs) and Treasury Notes — may also be considered.

Criterion 2 — Distribution capacity

The ability of banks to distribute bonds to end investors is a key factor in assessing their overall performance. There are two components to the distribution capacity assessment:

- A qualitative assessment based on our experience and knowledge of the banks.
- An analysis of the results from the AOFM Secondary Market Turnover Survey.

Qualitative assessment

The AOFM has a strong understanding of the banks' sales and distribution capabilities. We regularly engage with banks to organise investor meetings, both domestically and internationally.

Typically, around eight to ten banks are considered, although this number may vary. The AOFM evaluates each bank based on the strength of its distribution capabilities, which includes factors like the quality of their sales team, offshore presence, and familiarity with the AGS market. The qualitative assessment is also informed by direct feedback from investors. Recently, the AOFM has commenced surveying investors to gather their feedback on the performance and coverage of the banks including the liquidity and service they provide.

There are six qualitative criteria used to assess a bank's capabilities:

- Global sales focus, knowledge and feedback
- Quantity and quality of investor meetings (including calls and face-to-face interactions)
- Knowledge and understanding of investors
- Relationships with investors
- Quality of sales staff/team (both offshore and domestic)
- Professionalism, ease of dealing and responsiveness

Generally, the AOFM aims to involve as many banks as possible in investor engagement activities. This approach is beneficial because banks may have specific strengths in certain regions or with particular investor groups. Additionally, it provides ongoing incentives for banks that may be less active overall but still contribute significantly to the AGS market.

AOFM Secondary Market Turnover Survey

The quarterly turnover survey provides valuable insights into the level of investor activity and the participation of market makers in the secondary market.

The metrics considered in this assessment include the percentage of secondary market turnover of each bank and turnover for various distribution regions, with rankings including and excluding interbank trading. While greater emphasis is placed on turnover conducted directly with investors, interbank turnover can also be a valuable indicator of a banks' overall activity in the AGS market.

The assessment examines trends in turnover across various time periods. Banks that exhibit consistent secondary market turnover over several years will generally receive better ratings. The survey also identifies the regions where each bank excels and provides details on turnover by tenor, which may be a factor in determining the composition of the panel. While the primary focus is on turnover in the security type being issued, banks that show support for all types of AGS in the secondary market are well-regarded.

While the data, which is self-reported by the banks, undergoes annual assurance checks, the AOFM does not guarantee its accuracy. Therefore, the secondary market turnover rankings are viewed by the AOFM as complementary to the qualitative assessment.

Criterion 3 — Quality of research and ideas

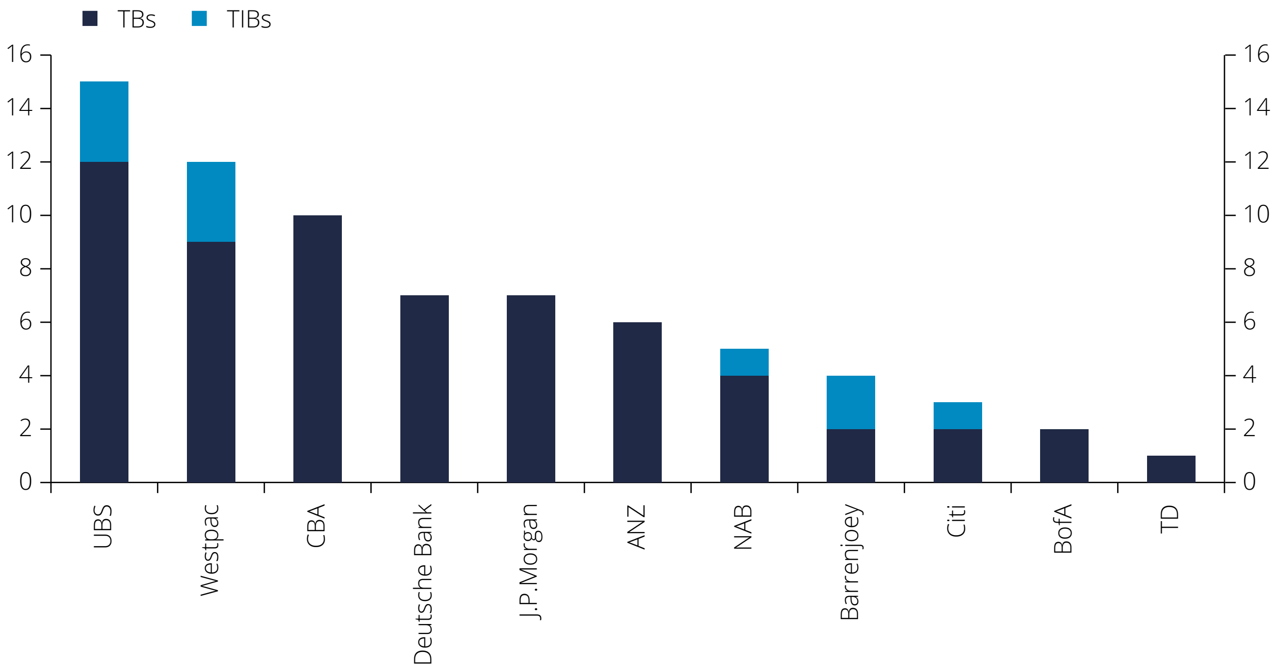
All banks considered potential JLMs provide the AOFM with trade ideas and regularly supply relevant research and insights into market dynamics, investor flows, and implications for AOFM activities. This may also include broader insights on issuance strategy and portfolio management. Additionally, the AOFM engages with the banks who are registered bidders for tenders weekly to assess market conditions and gain firsthand insights into significant market flows.

The banks that demonstrate a strong understanding of the AOFM's strategic objectives and market development goals through their research and advice are rated the highest in this category.

OTHER CONSIDERATIONS

Banks that consistently receive high ratings across the three criteria will be considered for JLM roles. Chart 2 illustrates that since 2020, 11 banks have acted as JLMs for 15 Treasury Bond deals and 3 Treasury Indexed Bond deals.

Chart 2. The number of times banks have the performed the role of JLM since 2020.



Source: AOFM. As of 29 November 2024.

For specific deals, the focus on certain criteria may vary slightly. For instance, for the panel for the inaugural Green Treasury Bond issue, the assessments for criteria 2 and 3 also considered sustainable finance expertise and specific distribution capabilities and advice related to green bonds.

The rotation of banks is also a key principle aimed at encouraging and incentivising market makers while ensuring that banks with similar ratings are treated fairly and equitably over time. This approach promotes broad engagement among banks in both the primary and secondary markets, which helps maintain a deep and liquid AGS market.

SUMMARY

Banks play a crucial role in intermediating in the AGS market. While most issuance of AGS is undertaken by tender, the AOFM occasionally invites a panel of banks to serve as JLMs in a syndicated transaction, usually when introducing a new bond line. Syndicated issuance offers several advantages and is a common practice among Australian state borrowing authorities and other sovereign debt issuers. The AOFM exercises judgment in deciding when and how to use syndications, including JLM selection. However, the three criteria the AOFM uses to select JLMs are well-established, clear and understood by the banks.

Disclaimer

The information in this publication is for general guidance only. It does not constitute legal or other professional advice, and should not be relied on as a statement of the law in any jurisdiction. As this publication is intended only as a general guide, it may contain generalisations.

While the AOFM will make every reasonable effort to provide current and accurate information, neither the AOFM nor the Commonwealth of Australia accept any responsibility for the currency, accuracy or completeness of that information. Any estimates, analytics, projections, forecasts or forward looking statements are subject to risks, uncertainties and assumptions which may cause the actual results and performances to differ materially from any expected future results or performances implied by such statements. The AOFM recommends that you exercise your own skill and care with respect to the use or reliance on that material or information, or seek professional advice if appropriate.

The AOFM and the Commonwealth of Australia disclaims all and any guarantees, undertakings, representations and warranties, express or implied, and shall not be liable for any loss or damage whatsoever (including incidental or consequential loss or damage), arising out of or in connection with any use of or reliance on the information in this publication.

INVESTOR INSIGHTS