

# Esports offer more global diversity for investors than you probably think



Fortnite, a survival-based game developed by Epic Games. Last year's Fortnite World Cup had a prize pool exceeding \$US100 million. *Supplied*

by **Stirling Larkin**

Until the 1973 oil crisis, the traditional value a stockbroker, advisor or merchant banker provided was to help presciently position investments within a client's portfolio to foreshadow (or "silhouette") what was expected to happen next in the real underlying economy's business cycle.

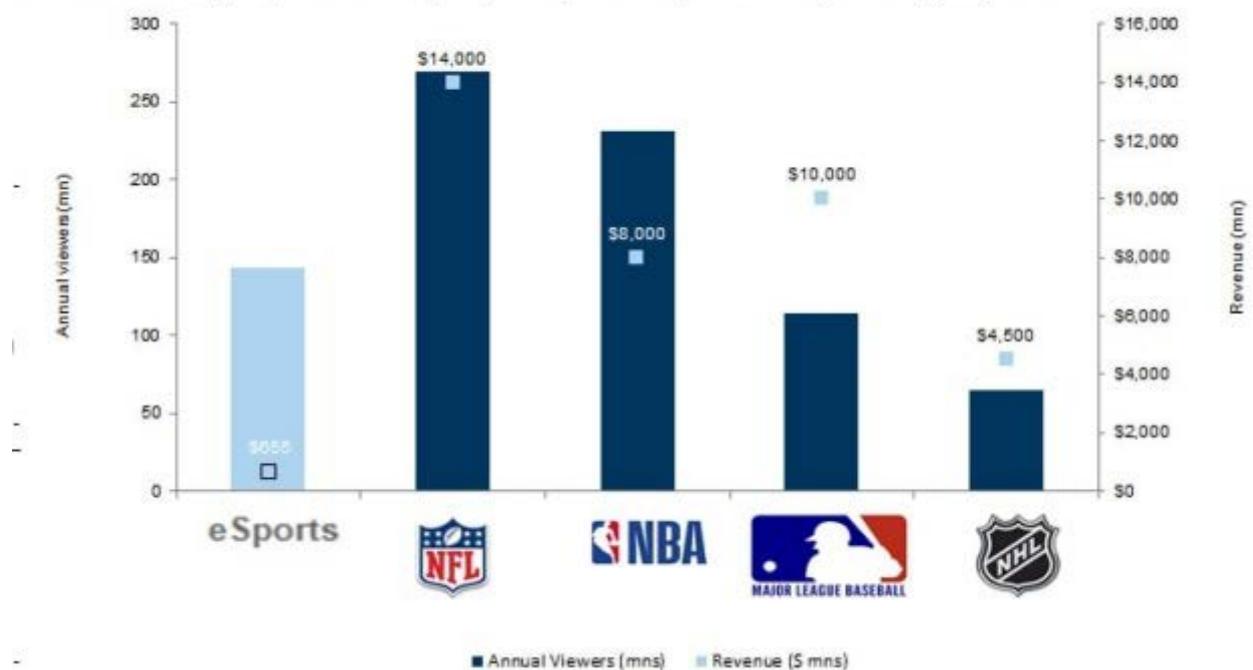
These investments did not immediately reflect what was happening in real-time. The value these professionals provided was to invest today by discerning future winners or losers – identifying under-valued gems and proactively allocating client's portfolios with future foreseeable economic changes in mind.

The change after the oil crisis – which rocked the US, Australian and developed economies amid fears of hyperinflation – was that central banks intervened and began manipulating the monetary bases that underlaid these respective business cycles.

This interventionist trend peaked during the crisis years of the 2007-2009 Great Recession, when unconventional monetary policies almost completely disconnected investment markets from their underlying economy's business cycles.

## eSports dramatically under-index on monetization relative to established sports leagues

Annual viewership (mn) and revenue (\$mn) for eSports and professional sports leagues, 2017A



Source: eSports annual viewership and revenue from NewZoo; shows enthusiasts only, Marketwatch, CBS, Forbes

This megatrend converged with an equally powerful transitory force found in the automation and digital revolution, whereby much of the value previously delivered by stockbrokers, bankers or advisors was taken over by computers, digital assets and infrastructure. These not only began superseding humans but provided far more cost-effective services and outcomes.

It is not surprising that global investors today find themselves increasingly frustrated by the reality that too many of their advice channels simply rehash existing news as it unfolds and add little-to-no meaningful value, while index-based investments outperform active "stock pickers" most of the time.

A royal commission into financial advice, the [death knell of stockbroking](#) and the end of the hedge fund glory days are further evidence of this.

## Struggling for alternatives

In a genuine pursuit of diversification and faced with the converging singular investment bias towards index investing, the Australian global investor has understandably struggled to find alternatives that do not predominantly rely on the ebbs and flows of the S&P/ASX 200, the RBA's interest rate or the [resilience of Chinese foreign investors](#).

So it is exciting that a relatively nascent "side pocket" investment theme has sparked the interests of ultra-high-net-worth (UHNW) investors – [esports](#).

Goldman Sachs says esports are moving into the mainstream. The professionalisation of what was previously seen as computer games has paved the way for esports to reach nearly 300

million viewers by 2022, which would put it on par with NFL viewership in the United States alone.

Professional esports teams train for up to eight hours a day, have coaches, trainers and nutritionists on staff - and players receive base salaries, just like any pro-sports league.

According to the BBC, esports are being seriously considered for inclusion in the 2024 Paris Olympics.

Financial investments in esports not only afford an aspect of diversification, they meet at the cross-section of some significant sub-trends: socialisation of the internet, the exponential consumption growth of digitalised video and the ubiquitous international growth in gaming audiences.

The Victorian state government of Victoria has correctly identified this audience's emergence and is hosting Australia's inaugural Melbourne Esports Open this September at Melbourne Park.

## **Viewers in the millions**

Those questioning its merit should first analyse the statistics. According to Nielsen and Rentrak, total cumulative viewership for major sports finals in 2017 place the US's NFL Super Bowl first with 124 million viewers and the world's premiere esports competition League of Legends second with 58 million, placing it ahead of international cricket (46 million), the American baseball World Series (38 million) and the NBA Finals (32 million).

Ahilleas Papantos of Outpost Management says esports are "exploding in Australia and New Zealand at a year-on-year growth rate of 20.6 per cent, making it the fastest-growing entertainment sector in ANZ".

He adds: "It would be difficult to find a household in Australia with youth that isn't glued to one of the many esports titles."

These include Fortnite, a survival-based game developed by Epic Games. Last year's Fortnite World Cup had a tournament prize pool exceeding \$US100 million.

Those contributing to the prize pool included Activision (ATVI: US), whose year-on-year return of 36.28 per cent has impressed UHNW investors. It has delivered a return more than two times the S&P/ASX 200 year-on-year benchmark of 16.60.

But what has excited savvy investors is that software investments are not the only way to capture the growth of this emerging megatrend.

As the automation and digital revolution continues, esports relies heavily on the expansion of cloud computing with companies ranging from Amazon (rolling out its AmazonWeb Services in Australia) to Twitch and YouTube Gaming (which have become the two fastest Silicon Valley growth stories over the past five years) and Douyu, Panda TV, and Huya of China (rumoured to be the CSI 300 IPO darlings of 2018).

With China expected to contribute one-third of the global game industry's total revenue this year alone and a Chinese government statistic stating that esports has a 57 per cent penetration rate of Chinese internet users, esports has the potential of becoming not only an investable opportunity but a national security thematic for all countries involved.

*Stirling Larkin is chief investment officer of [Australian Standfirst](#).*

*AFR Contributor*