Cuffelinks
Connecting investors with ideas

Edition 88, 14 November 2014

This Week's Top Articles

Impact of QE on markets opposite of expected

Ashley Owen

October 2014 marks the end of the US Federal Reserve's monetary policy it called 'quantitative easing' (QE) but the rest of us called plain old 'money-printing'. The Fed's aim was to create inflation by buying assets with newly printed money (instead of paying for them with cash raised by selling securities into the market) and crediting commercial banks' reserve accounts in the hope that banks would increase lending to borrowers to invest and spend. A second aim was to depress the US dollar to help exporters (the theory being that money printing should devalue the currency because more paper money is chasing the same supply of assets).

There was much doom and gloom and even panic in the financial media about what QE might mean for markets. The resultant inflation or even hyper-inflation was supposed to be bad for share prices and bond prices, while the prices of inflation hedges like gold, oil and metals should soar. All this was supported by logic, theory, conventional 'wisdom' and the weight of opinion.

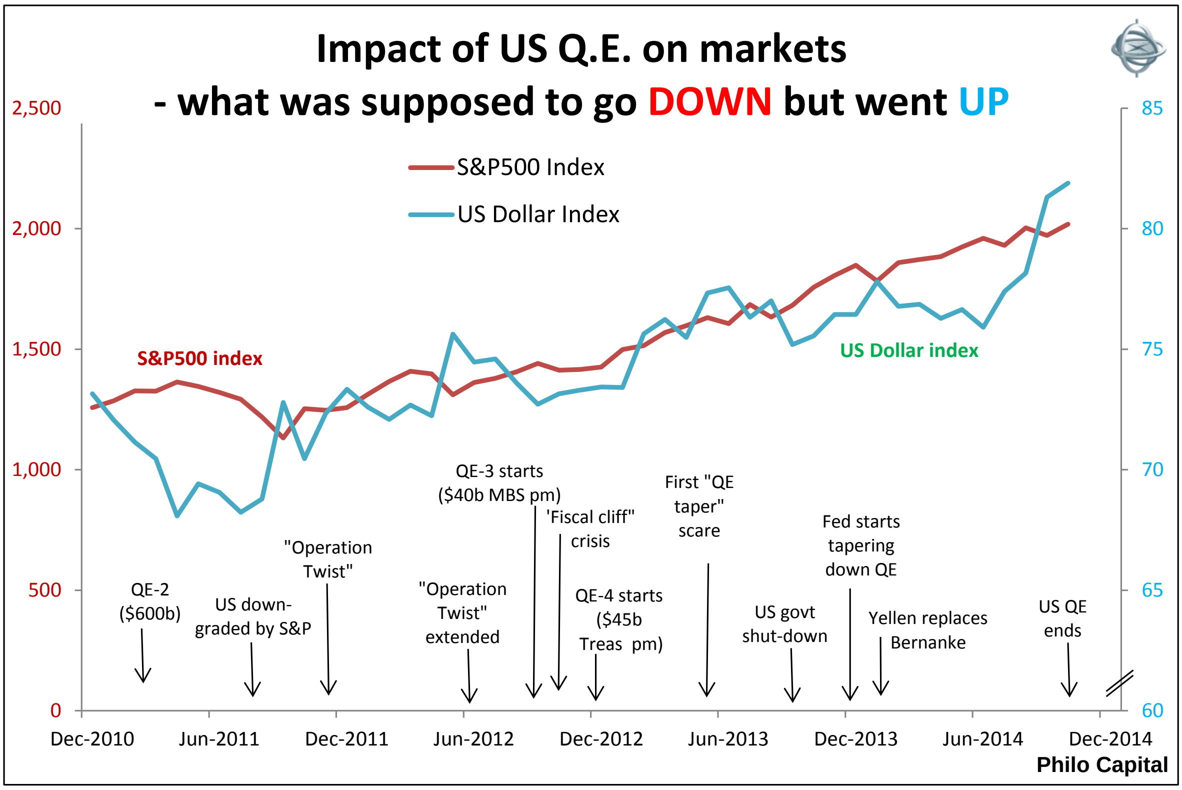
As it turns out, virtually all of the outcomes predicted by theory, logic and the shrill financial media were wrong. Driven by QE, markets did the opposite of what the conventional wisdom and weight of opinion expected. Prices of shares and bonds soared, the US dollar strengthened, and inflation and inflation hedges (gold, oil, metals) all fell.

The following diagram shows what was supposed to happen, and what did happen.

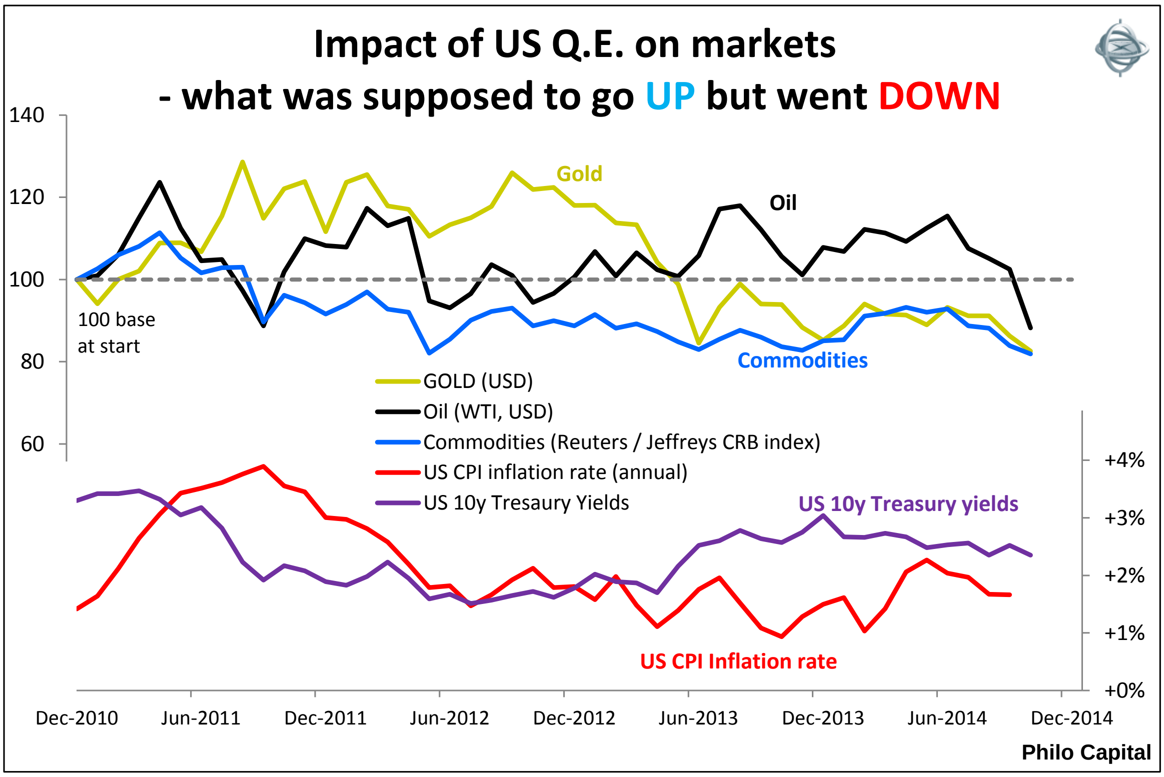
Impact of QE on markets	What was *SUPPOSED* to happen (fiction / theory / logic)	What *DID* happen (FACT)
Inflation	**Higher**	☒ **Lower**
Gold	**Higher** (inflation hedge)	☒ **Lower**
Bond yields	**Higher yields** (inflation fears)	☒ **Lower yields**
US Dollar	**Lower** (inflation, credit downgrade, gov shutdown)	☒ **Stronger**
Shares	**Lower** (inflation/interest rate fears)	☒ **Higher**
Lending	**High** credit growth	☒ **Lower** credit growth
Commodities	**Higher** (inflation hedge)	☒ **Lower**
Oil	**Higher** (middle east, inflation hedge)	☒ **Lower**
Volatility	**Higher** (un-tested policy)	☒ **Lower**

But US QE was not a failure. It prevented deflation in the US, which is far more debilitating than inflation. It also provided enough stimulus to bring US unemployment down from 10% to 6%. These benign outcomes inspired central banks in UK, Japan and now Europe to take similar action.

The following charts show the key events and impacts on markets. The first shows what was supposed to go down as a result of the massive central bank money-printing spree but went up instead.



The second chart shows what was supposed to go up as a result of the money-printing but went down instead.



It has been a good reminder that markets do not work according to text-book theories, nor do they follow logic. In the real world markets are driven by humans who in turn are driven by raw emotions and often illogical knee-jerk reactions to events that they perceive to be relevant. Studying these dynamics is far more difficult, interesting and rewarding than studying theory!

Ashley Owen is Joint CEO of Philo Capital Advisers and a director and adviser to the Third Link Growth Fund. This article is for general information and is not personal financial advice.

Is a debt bonfire building?

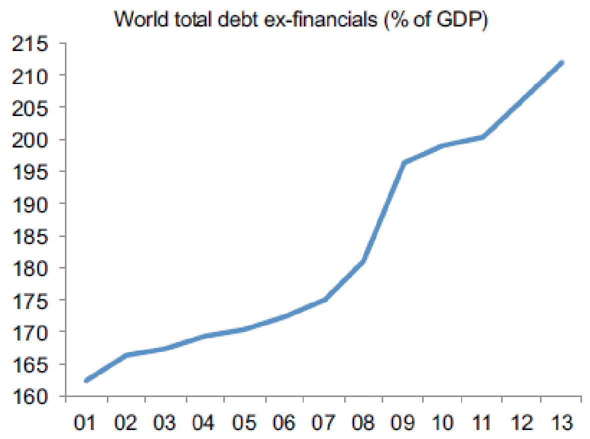
Jonathan Rochford

There has been a constant stream of articles recently highlighting potentially weak lending practices. Sectors highlighted include US high yield bonds and leveraged loans, European and Japanese sovereign debt, European and Chinese banks, emerging market bonds, margin loans, subprime auto loans, student loans and Chinese shadow banking. In isolation these can seem like small problems, but is there a wider issue at play that could drive investment returns in the coming years? This article discusses the findings from three recent seminal papers (all linked below) which highlight the growing global misuse of debt. It also considers the consequences for future investment returns and economic growth.

De-leveraging? What de-leveraging? (ICMB Geneva Report 16)

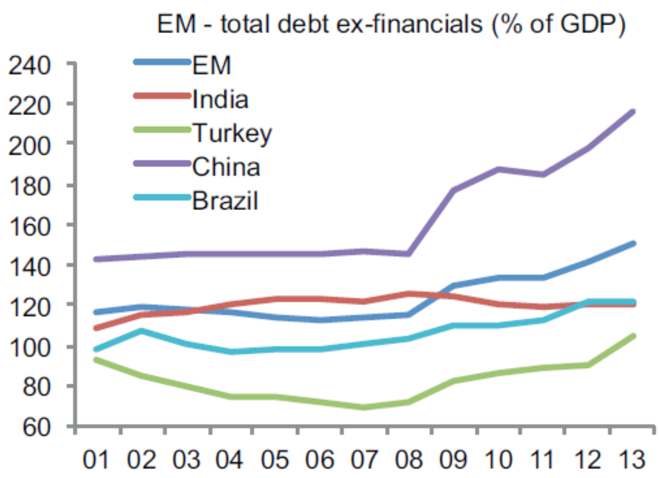
As shown in the graph below, the thesis that the world has been going through a period of debt reduction following the financial crisis is completely false. The low levels of GDP growth aren't explained by debt levels falling, rather, low levels of growth have occurred despite a substantial increase in debt outstanding. This expansion in debt levels is consistent across developed and emerging economies.

World debt



The Geneva Report breaks down total debt to GDP ratios into households, businesses, financials and governments. Japan, Greece, Italy, Portugal and Ireland have very high levels of government debt. Belgium, Sweden and Spain standout for their high levels of business debt. The Netherlands, Australia and Ireland have high levels of household debt. If a bout of global debt reduction was to occur, this data points to very different sectorial impacts for each country.

In emerging markets, Hungary, India and Brazil are carrying the highest levels of government debt. China, Hungary and Thailand have the largest exposures from the private (businesses and households) sector. The most interesting story in the last five years is about China.



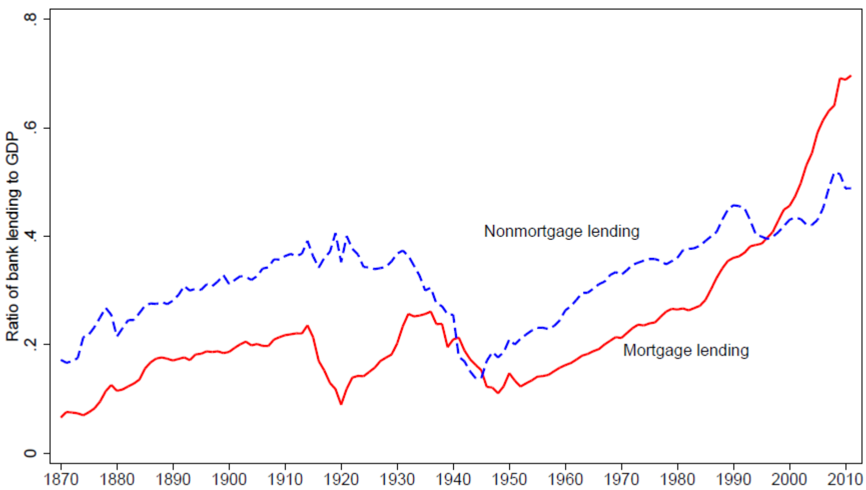
The Report also shows which countries are the most indebted to other countries (external debt). Portugal, Greece, Ireland, Spain and Australia ranked highest on this measure amongst developed countries. Hungary, Poland, Turkey and Czech Republic are highest in emerging markets. In crises in South America and Asia in the last 40 years, a key trigger has been overseas investors losing confidence and withdrawing their capital. If the external debt hasn't been productively invested with ongoing profits available to service the debt, countries run the risk of seeing large amounts of capital withdrawn from their economies. This withdrawal of capital almost certainly results in a period of recession.

The Geneva Report raises many questions. If there hadn't been growth in debt levels since 2008 how much worse would the financial crisis have been? If China hadn't gone on an enormous debt binge, would its GDP growth rates have collapsed? If there is another financial crisis, which governments would have no ability to issue more debt to fund spending in an attempt to offset a pullback in private sector spending? Is it possible that investors could suffer indigestion after gorging on debt for so many years? There are no easy answers, but these questions all point to the possibility that a future which includes global debt reductions might look more like the great depression than the great recession.

The Great Mortgaging: housing finance, crises, and business cycles ([San Francisco Fed]())

Traditional economic theory has households as net savers, businesses as net borrowers and banks as intermediaries between the two groups. The result is that households earn a return on their excess savings and businesses borrow and invest which increases economic output and employment. This paper puts aside the traditional view of how credit operates showing that (1) banks are becoming an ever larger part of the economy (financialisation) and (2) their lending is increasingly skewed towards property based (mortgage) lending. The chart below illustrates both these conclusions.

Figure 2: *Bank mortgage and non-mortgage lending to GDP, 1870–2011: Average ratio to GDP by year for 17 countries*



Growth in credit by banks over the 50 year period from 1960 to 2010 was disproportionately to households for mortgage activities. Spain, Denmark, Australia and Great Britain are standouts. Spain, Denmark and Great Britain saw a material downward movement in their house prices following the onset of the financial crisis, but not in Australia.

Lastly, the authors found that recessions with a financial crisis were deeper and longer lasting than those without. They split the data into mortgage and non-mortgage financial crises and found that recessions with a mortgage (property) bust were much deeper than recessions with a non-mortgage credit bust.

2014 EU Bank Stress Test ([European Banking Authority]())

It would be easy to write-off the European Bank Stress Test as more of a tickle test than a stress test but there are still some worthwhile outcomes. Firstly, the exercise provided a largely standardised application of regulatory rules, which helps analysts substantially as there is a fairer way to compare banks within the Eurozone.

Secondly, some of the skeletons have been brought out of the closet with the results highlighting banks that have been gaming the rules and pretending that certain losses haven't really occurred. The main report shows two grey shaded columns on pages 41 to 45 that give a reasonable guide to who is cooking the books. These grey columns have negative common equity tier one (CET1) ratios for two banks in Cyprus, three in Greece, two in Ireland, two in Italy and one in Portugal after applying the regulator's scenario and correcting some of the disguised losses.

The list of shortcomings is long but the major items are:

- The scenarios for unemployment increasing and GDP decreasing are far milder than what has been seen in some of the European countries since the onset of the financial crisis.
- Banks that are currently under restructuring plans were given substantial credit for what they said they are going to do before they've actually done it.
- Transitional arrangements on goodwill, deferred tax assets, defined benefit pension plan shortfalls and provision shortfalls were allowed, which disguise how bad things really are.

The two previous rounds of stress testing gave a pass mark to Irish banks and Dexia, who subsequently required bailouts within 12 months after the results were published. This round has done a better job of identifying the weakest links in the European banking system, particularly those banks which haven't cleared the problems from the last financial crisis. However, it provides little confidence that European banks are well placed to deal with another financial crisis.

Conclusions from these three papers

The papers together highlight the increasing global dependence on the growth in debt levels to fuel economic growth. Finance has been an ever-greater part of developed and emerging market economies such that ordinary people are increasingly impacted (both income and wealth effects) by the ups and downs in credit availability through the cycle. Credit is increasingly being used for property, consumer and speculative investment activities rather than growth-generating activities such as productive business investment and necessary infrastructure development.

Low central bank interest rates have predominantly led to speculative lending and investment rather than delivering the desired lift in growth rates or inflation rates. Those who have in the past laughed at the suggestion that Europe or the US could become the next Japan have now stopped laughing with low interest rates increasingly being seen as part of the long term landscape. China is also showing signs of buckling under its rapidly-increasing debt load.

For investors, it's a good time to reflect on the ability of every asset in their portfolio to withstand a major global economic shock. By and large, asset prices are high and there are many buyers for almost any security with good yield or even the prospect of a decent yield in the future. For credit investments, it's time to decrease credit risk and credit duration, and to increase structural protections. Most investors are currently doing the opposite of these things, as they see the drop in yield to potentially sub-inflation levels as unacceptable even if it is only temporary. For the contrarians among us, therein lies the opportunity to be positioned with cash available, waiting for some of the high risk investments to inevitably unravel in the medium term.

Jonathan Rochford is Portfolio Manager at Narrow Road Capital. This article has been prepared for educational purposes and is not meant as a substitute for professional and tailored financial advice. Narrow Road Capital advises on and invests in a wide range of securities.

Australia's longest bear market?

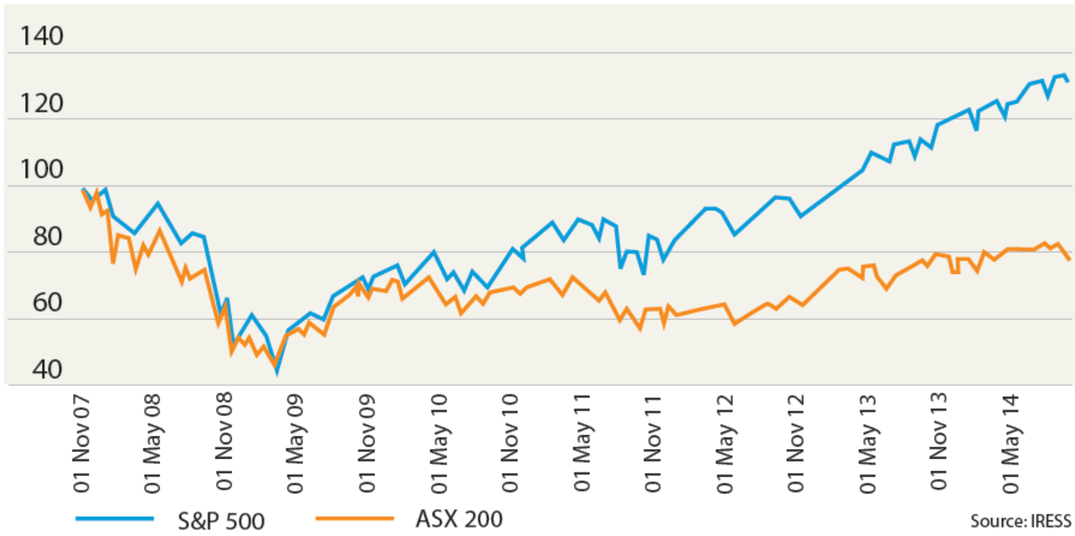
Frank Macindoe

The performance of the Australian share market in recent years has surprised many not just for how weak it has been relative to the US and other developed markets, but also relative to previous major bear markets in Australia.

Underperformance relative to the US market

The graph below shows how closely correlated our market (orange) was with the S&P500 (blue) on the way down but how relatively tame our market's recovery has been.

S&P 500 v ASX 200



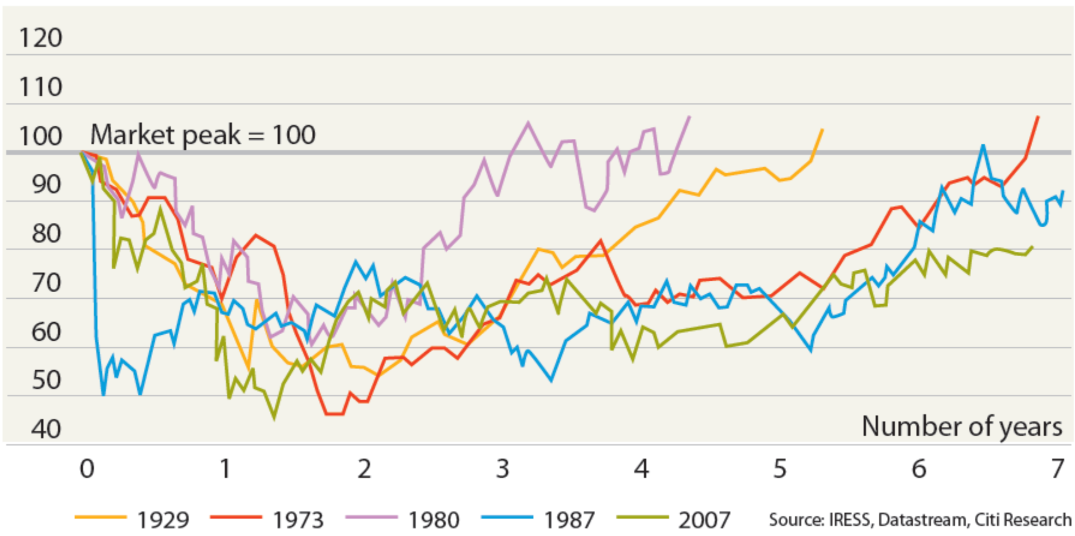
So what might the explanation be? One possibility is simply the alternatives available to investors in each country. In the US interest rates available on cash and bank deposits have effectively been zero for 5 years. In Australia, on the other hand, deposit rates have been generous and even at their current lows of around 3.5% at least provide a positive return after inflation. So for those investors who have decided at least for the time being that the ups and downs of the share market are not for them, in Australia there has been a viable income-producing alternative.

It is also worth emphasising that although the correlation between our market and the US equity market can be very strong on a day-to-day basis, over longer periods the markets can behave very differently reflecting the differences in the two economies. So when the tech boom was in full swing around 2000 and Australia's economy was derided for being 'old economy' the US market was very much stronger, but the pecking order reversed with the tech wreck and the resources boom.

Underperformance relative to previous cycles

The performance of the Australian market relative to its own history also looks pretty grim. The chart below shows that seven years on from the GFC, we have still not nearly regained the previous market peak and the recovery looks markedly slower than bear markets that took place in the context of the Depression and the severe recessions of the 1970s and 1990s. While there are complaints about current low levels of growth and increased unemployment, relative to those earlier episodes recent years have been fairly benign.

Australian Market historic recoveries

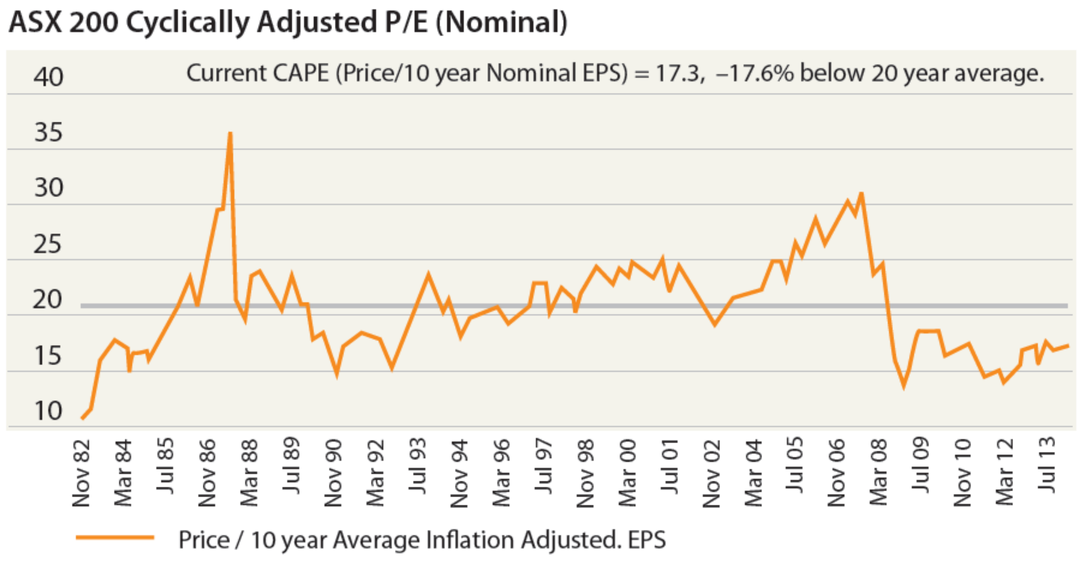


A couple of major differences in the current cycle that may be relevant are the much higher levels of individual debt and the ageing population.

To begin with, to the extent that individual debt was used to fund investments, it would have increased the effective losses. Secondly, the combination of a sudden reduction in net worth and impending retirement has no doubt persuaded many that they should save more for their retirement rather than rely on the growth of their investments. This is consistent with savings rates that are the highest in a generation.

Valuations now look attractive

One factor which would at least partially explain both aspects of the Australian market's disappointing performance is that Australian shares may simply be cheap. While the most commonly quoted metric is the price/earnings ratio, it does not take into account the fluctuations in profit margins at different points in the economic cycle. Accordingly, the 'cyclically-adjusted price/earnings ratio' (CAPE) developed by Robert Shiller (winner of this year's Nobel Prize for economics) provides a more reliable guide to valuation by using 10 years of earnings rather than just one. The chart below uses that methodology and suggests that there is plenty of room for Australian equities to rise before they reach long term average levels.



But while valuations are critical when it comes to long term returns, in the short run (say less than three years) other factors including investor attitudes to different asset classes are often more important, so there is no guarantee that our market's underperformance will end overnight.

Frank Macindoe is an Executive Director at JBWere and a responsible manager of Third Link Growth Fund. The views expressed are his own. This article is general information for educational purposes and not personal financial advice. Investors should seek professional advice considering their own circumstances.

This article was first published in Third Link News. The Third Link Growth Fund provides exposure to Australian listed shares by investing in other managed funds run by third party investment managers, as selected by Chris Cuffe. Since inception in June 2008, it has outperformed its index by 3.8% pa. Each of the investment managers rebates all fees, and Third Link donates the management fees to the charitable sector. A description of the underlying fund managers is available on the Third Link website.

Divesting from fossil fuels and from rational economics

Jack Gray

John D Rockefeller turned in his grave when the news drifted down to Hades that the Rockefeller Brothers Fund is divesting from fossil fuel companies … even from John D's once very own Exxon.

The shrill yelps that greeted ANU Endowment's similar decision confirm that others too feel threatened. The decision was likely arrived at through the confluence of economic/financial and moral/political criteria. On the economic side ANU's view seems to be that fossil fuel companies are becoming dangerously risky as the world acts on climate change through the development of alternative sources of energy, actions that will leave their assets stranded. On the moral/political side its view seems to be that burning fossil fuels is wrong because of the damage it does to society. Therein lie the dual threats. On one hand, the (supposedly flawed) economic analysis threatens the industry as it is currently structured while on the other hand the very use of moral/political analysis threatens economics as it is currently structured. To use other than 'pure' economic/financial criteria is an affront to the dominant paradigm that economics is a Value-Free, Objective Science and that, as a consequence, free markets produce optimal economic outcomes. Hence free markets are sacrosanct.

According to that paradigm the market is always right and its righteous power ensures fossil fuels are correctly priced given the risks involved. Correctness is attained through the objective actions of rational corporate decision-makers responding to price signals who drive their fossil fuel companies to adapt to the changing world. For the paradigm's true believers, that most companies have made but token, PR-driven changes typified by BP colouring its bowsers green, confirms the incorrectness of ANU's decision. For them, taking any investment action on climate change is likely to be 'sub-optimal' as even if markets don't *instantly* set the right price (a possibility they admit to *sotto voce*) doing nothing remains optimal over the shorter-term until pricing signals become clearer.

Investors do see climate change affecting portfolios

But waiting for greater clarity, waiting until the assets are exposed to a 'clear and present danger' of being stranded or until pricing is almost certainly correct is surely 'sub-optimal' risk-management. Increasingly institutional investors do see climate change affecting their portfolios and justify their actions through economic/financial risk analysis. Too often for paradigm believers an unstated moral/political framework underlies those decisions and actions. A common strategy, less extreme than ANU's, is to underweight exposure to fossil fuels and hedge the remaining exposure with overweights to alternative energy, perhaps augmented by actively encouraging portfolio companies to reduce their carbon emissions. A different strategy, one adopted by the Yale Endowment, is to ask the funds' investment managers to "avoid companies that refuse to acknowledge the social and financial costs of climate change and fail to take economically sensible decisions to reduce greenhouse gas emissions."

The approach taken by the ANU and some large Dutch pension funds is to totally divest from fossil fuels … now. From a long-term perspective that's justifiable even within the narrow confines of the rational paradigm of maximising expected risk-adjusted returns, but it does expose the fund to the risk of significant shorter term underperformance. ANU did consider social, moral and perhaps political criteria which inflamed market fundamentalists – hence the yelps. Yet *all* decisions do and *should have* moral, social and political dimensions. Would those making value-free purely financial decisions have invested in gas chambers in 1941, a legal investment with spectacular prospective returns, or would even they find it too morally repugnant? Making trade-offs between the social and the economic, between the 'soft' and the 'hard', requires a wisdom and judgement untouched by universities' narrow 'value-free' training. ANU's public statements lacked that judgement. To declare that it won't invest in anything that does 'social harm' is naïve and disingenuous. Will it divest from armaments and alcohol and from banks that lend to harmful activities? Will it divest from the sovereign bonds of all countries that do 'social harm'? Harvard, one of the keepers of the value-free paradigm, argues for a clear separation between the financial and the social; it doesn't wish to be a 'political actor' implying that the courses it teaches, the appointments it makes, the research it does, the consulting to corporations it undertakes and the advice its professors give to politicians are all value-free. How's that for naïve and disingenuous?

Profits are a consequence not the aim

Those who see a nexus between the economic and the social, who reject the value-free belief as not just false but undesirable must confront Milton Friedman's famous dictum that "the sole purpose of a company is to make (legal) profits." His dictum is four-times wrong. It is technically wrong because directors are *legally* responsible for the entire company not just the equity holders. It is systemically dangerously wrong because the purpose of companies should be to produce goods and services people will pay for. Profits are a *consequence* not the aim. Once profit becomes the aim companies can readily justify the *legal* selling of NINJA loans to poor unemployed black men in Alabama, with the massive human and global consequences we're still struggling with. It is wrong structurally because companies are social constructs so decisions will always be redolent with non-objective, extra-rational, value-laden non-economic influences and outcomes. Was decision-making at the University of Chicago really not like that? But Friedman's grandest failure is that he is wrong socially: we expect more than mere legality from every other entity. We expect more than mere legality from our friends, relatives and colleagues; we expect more than mere legality from universities, pension funds and governments, from all entities that form our *civil* society. Do we want companies and funds to be the *only* entities excluded from our social norms?

The shrill yelpers see their oft-heard tag-line, 'governments distort markets' being threatened by the little-heard 'markets distort society' … and it should be threatened. Our world urgently needs alternative renewable sources of energy and alternative renewable sources of economic thinking.

Dr Jack Gray is a Director at the Paul Woolley Centre for Capital Market Dysfunctionality, Faculty of Business, University of Technology, Sydney, and was recently voted one of the Top 10 most influential academics in the world for institutional investing.

Culture and competitive advantage

Marian Poirier

Anyone involved in a team sport will tell you about the importance of team spirit and cohesion – whether on the pitch, the training field or in social circles after a game. It's the intangible glue that binds together a group of talented athletes and makes them a grand final or a test match winning team. Some teams, no matter how talented, just don't have it and don't realise their full potential. Others realise their potential for a season, or two. The true challenge is to maintain that culture for a sustained period, season after season.

The corporate environment is no different. Talk to a CEO or a senior executive and often in short order you will be talking about the firm's culture – the values, behaviours and beliefs that pervade the entire organisation. In a good company, culture drives the businesses strategy. It guides the way employees work together. And ultimately, culture shapes the type of experience a firm delivers to its employees and clients. But what makes a strong culture and how does a firm cultivate and maintain it? It depends in part on the type of business. In my view, the best investment cultures are built on collaboration, humility, and mutual respect. There should be no stars — only teams, equality and a healthy exchange of ideas.

A strong culture matters a lot — particularly for an investment firm, where people and judgment are the greatest assets. In fact, research has shown powerful links between culture and success in asset management firms. Studies done by Focus Consulting Group (in 2009, 2010 and 2013) showed improved decision-making along with attracting and retaining talent are the most tangible benefits of a positive culture.

Culture drives the way teams interact and collaborate to make investment decisions, which impacts how well a strategy performs, how the firm does as a whole and how sustainable the performance is.

Great minds don't necessarily think alike

A collaborative culture doesn't mean everyone has to think the same way. In fact, diverse views usually lead to better decisions because they allow multiple perspectives and different analytics to get to a better outcome. In order to benefit from those diverse views, however, you need to build teams thoughtfully and create an environment that supports idea exchange and challenge. Cultural, gender and multi-disciplinary diversity on a team can enhance cognitive diversity through different experiences and thought processes.

Using teams makes sense for complex tasks like investing, particularly as businesses become more global and supply chains become more complex.

The way you share different views matters as much as the willingness to allow them. You need to actively work against 'group-think'. Encouraging team members to offer different views helps a team sift through increasingly large amounts of industry information, filter out the noise and focus on good research. By debating the information together rather than acting on it alone, you can minimise individual biases. Ultimately what you get is an environment of constructive challenge aimed at providing better results for clients.

As part of the fabric of a view-sharing environment, you need common cultural values. It's tough to debate investment ideas thoughtfully unless you have a common understanding of the end goal. In fact, research on team building shows that common cultural values form the bedrock for cognitive diversity that leads to differentiated performance (Mauboussin and Callahan, 2014).

Walk the talk

An investment firm's beliefs and philosophies should be ingrained in its behaviour. For example, if you believe that a longer-term investment horizon results in greater opportunity for differentiated performance, your culture must support it. You must reward longer-term performance, tolerate short-term underperformance and follow both an investment process and team orientation that supports these objectives. It's not easy to create this kind of culture and maintain it over time. You need strong buy-in from senior leadership as well as institutional supports.

Increasing globalisation and complexity calls for collaboration and teamwork, not just around the globe but also across capital structures. Consider an equity analyst who can look at company valuations, macroeconomic factors and the competitive environment but typically wouldn't have a lot of debt experience. Now combine that view with a fixed-income perspective that looks at more complex credit issues central to the company's capital structure, such as its financing facilities and debt covenants, and it provides a much more powerful perspective on a company's intrinsic value.

A culture of risk management should be *embedded* in the investment process and not appended or seen as an overlay. In practice, this means a portfolio manager thinks about risk as part of his or her research and security analysis, rather than as a portfolio constraint he or she sometimes encounters.

Don't set and forget

It's not enough to bring in talented people as any sports captain knows. If you want a collaborative culture to work, you need employees to live and breathe it so it's part of the fabric of the firm.

Keeping employees connected to the firm's culture helps them stay invested in the firm and its objectives. It also reduces staff turnover, which is critical to limiting disruption to portfolio management and reducing hiring and training costs for the firm. You must consistently align incentives with your investment and business objectives and keep performance measures transparent, from both a quantitative and qualitative perspective. The end goal is to create a meritocracy.

Positive cultures are the result of everyone on the team living the core values and acting from this standpoint. Those core values define how employees behave and how the firm does business. The leadership teams of investment firms need to set a visible example and, in this sense, they should be both carriers and cultivators of their culture.

Culture isn't a skill or a talent. Competitors can't recreate culture the way they can mimic an investment or business strategy. Firms and teams own their culture, and it's up to the entire organisation to work hard at that culture to keep it alive.

Marian Poirier is Head of Australia at MFS Investment Management.

Impact investing – the Australian market in 2014

Ian Learmonth

A reader, Josh, sent us the following question, and we asked Ian Learmonth of Social Ventures Australia (SVA), a pioneer in Social Benefit Bonds, to respond:

"Hi, can you tell me about Impact Investment, how do I do this, and where do I go?

'Impact investing' refers to investment with the intention to achieve both a positive social, cultural or environmental benefit and some measure of financial return. Global and local predictions say the market could reach 1-2% of funds under management in the coming decade, translating to a figure of around $30 billion in the Australian context.

While there have been some challenges in unlocking the potential of this new market in Australia, there are a number of exciting signs that the market is well on its way to becoming a thriving and trusted asset class.

Socially-minded investors, including a number of super funds, banks, foundations, trusts, private ancillary funds and individuals have already backed the market by investing money in current impact investing products. In the case of the Newpin Social Benefit Bond and SVA's Social Impact Fund, they have received returns of around 7% pa. Just last month NAB pledged $1 million to help build the market in Australia, and QBE made a US$100 million commitment to invest in global impact investing opportunities such as Social Impact Bonds (SIBs).

In Australia SVA, Foresters and Social Enterprise Finance Australia (SEFA) each manage funds that provide loans and equity investments to social enterprises, seed funded from a combination of government and private money. There are currently seven businesses in the SVA fund's portfolio and our pipeline has looked increasingly strong over the past six months. In a recent deal the Impact Investment Group, based in Melbourne, closed a $95 million property deal in Geelong generating financial, environmental and social benefits to the community.

The growth of organisations like the School for Social Entrepreneurs, Social Traders and Small Giants is also encouraging, meeting a significant need on the supply side of the investment equation through building the business planning, operations, governance and measurement expertise of the social organisations, so that they can become 'investment ready' and attract the type of funding offered by more established funds.

Finally, impact investing has received attention in the interim report of the Financial Systems Inquiry, showing that the structural changes are beginning to take shape. The establishment of Impact Investing Australia as an advocacy organisation should generate greater strategic alignment between government, investors, investees and intermediaries.

At SVA we've had a front row seat to both early successes and some of the trials involved in getting the market up and running. And while issues like the difficulty of matching supply and demand, the need for more suitable legal structures, and limits to the large scale deals available do present challenges, we're confident there is requisite enthusiasm among stakeholders to construct a way forward.

Impact investing pioneer Sir Ronald Cohen likens the state of the market today to that of the venture capital market in the 1970s. In his words "It could take another 10 to 20 years for demand for capital to fully respond to increased supply." Recent developments show that we're heading in the right direction.

Ian Learmonth is Executive Director at Social Ventures Australia (SVA) responsible for heading up its Impact Investing team. This article is general information for education purposes, not personal advice.