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Editorial

In early 2020 as COVID-19 hit, investment analysts suddenly became specialists in virus diseases and epidemiology because '*I don't know*' is unacceptable. Now our market experts are guessing what goes on inside the head of a megalomaniac who rules his country with an iron fist, when '*I don't know*' would again be more accurate. Few if any expected Russia to invade Ukraine. Do **Vladimir Putin**'s ambitions extend further afield?

However, we do know what life is like under a dictator in Russia: innocent people arrested and jailed, no meaningful political opposition, corrupt institutions and closure of the free press. Despite its enormous natural wealth, Russia's per capita GDP is less than countries such as Romania, Turkey, Latvia and Hungary.

We also know one of the reasons Vladimir Putin wants to take over Ukraine is to remove the threat of an emerging democracy as a neighbour. Ukraine's political processes are far from ideal but a nearby functioning democracy could undermine Putin's power base if Russians want the same.

In Australia, we tend to take our democratic processes for granted. It's a pity at this time, especially with an Australian election looming, that the **Museum of Australian Democracy** (MoAD) in Old Parliament House is closed following the fire at the front doors. I visited MoAD shortly before it closed, and it's an important reminder of how we need to work to retain the values and features of our democracy.

MoAD includes a terrific exhibition called *Truth, Power and a Free Press* on the role of the media in exposing corporate crime and government scandals. It's hard to avoid the irony that such a museum exists in a place like Old Parliament House at a time when there are more doubts than ever about the truth we are hearing from our politicians up the hill. Much political discourse has become divisive, insulting and sloganeering, the opposite of what MoAD calls for.

The exhibition includes this explanation, which large sections of our mainstream media prefer to ignore:

"*News needs to be trustworthy. Facts need to be reported as accurately as possible ... sometimes it means confronting those who wish to prevent the publication of facts that are in the public interest. Without a shared basis of fact, trust declines and democratic debate withers.*"

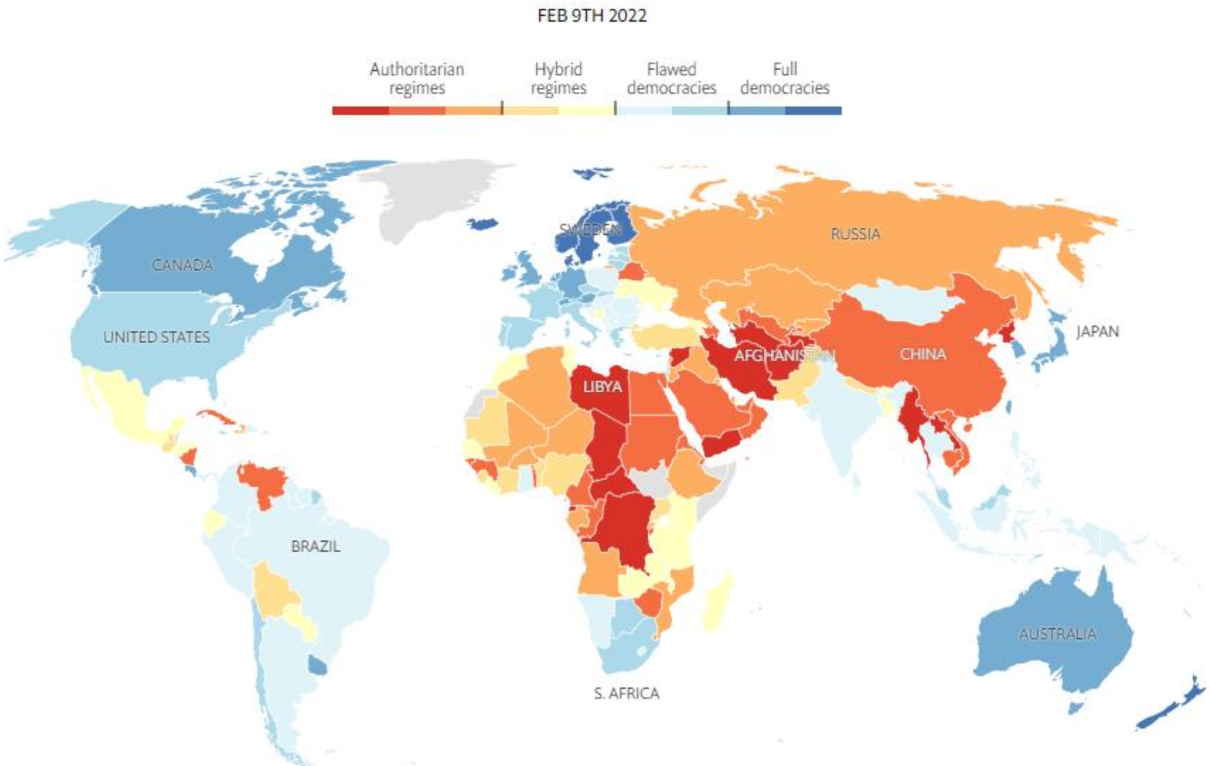
We cannot take our special democracy for granted, as **Daryl Karp**, a Director of MoAD wrote about a new exhibition called *Democracy DNA*:

"Australia's democracy is a unique amalgam of institutions and practice adapted from the UK, USA and elsewhere. It's something we've built. ***It is not innate, nor simply inherited, nor is it fixed in time.*** *It reflects our pragmatism, our mistrust of authority and our willingness to work together. When completed, Democracy DNA will occupy the core, three central spaces in Old Parliament House, encouraging Australians to value our democracy, to understand how it works, see themselves as part of the story; consider how they engage with it, and what they expect from their representative and government." (my bolding)*

The coverage of the war in Ukraine reminds us how lucky we are to live in Australia, and we need to focus on keeping it that way. In the book, *How Democracies Die*, the introduction says:

"Is our democracy in danger? Harvard professors Steven Levitsky and Daniel Ziblatt have spent more than twenty years studying the breakdown of democracies in Europe and Latin America, and they believe the answer is yes. Democracy no longer ends with a bang - in a revolution or military coup - but with a whimper: the slow, steady weakening of critical institutions, such as the judiciary and the press, and the gradual erosion of long-standing political norms. The good news is that there are several exit ramps on the road to authoritarianism."

Most Australians probably think our country is a bastion of democracy, but as this recent chart from The Economist shows, we are not top notch (light blue instead of dark blue). For example, compared with New Zealand, Australia is considered inferior on 'functioning of government', 'political participation' and 'civil liberties'.



MoAD is an important place which shows what brave journalism can achieve, and why both mass media and politicians should encourage a democracy which unites rather than divides and allows a constructive discourse without lies. With an election inside 90 days, and plenty of 'national interest' scaremongering to come, I'm not holding my breath. It's a pity the terror of Ukraine's fight does not bring a reality check to our meagre domestic politics.

On to our articles ...

The superannuation industry is undergoing the most profound changes since the introduction of the Superannuation Guarantee 30 years ago. Most of our readers hold super in their SMSFs, but many (and particularly their children) are affected by the consolidation of the large funds. This week saw the largest-ever merger with the $130 billion **QSuper** and $97 billion **Sunsuper** merging into the $230 billion **Australian Retirement Trust (ART)**. It is now second only to **AustralianSuper** in size. **Greg Bright** looks behind another merger between **Cbus Super** and **Media Super** in a short journey down memory lane. He makes the good point that the 'craft' funds often had a special relationship with their members.

Then four articles with a focus on investing.

February is a busy reporting season for fund managers and analysts as companies present their results, and **Jun Bei Liu** and **Max Capetta** report on six stocks in their portfolios which delivered pleasing results.

Andrew Parsons addresses opportunities in global real estate in a climate of rising rates and inflation, and shows the sectors he particularly likes in a global sector few Australians include in their portfolios.

'Smart beta' funds are a personal favourite as I introduced the concept to the Australian retail market in 2008. **Arian Neiron** describes their role as somewhere between active and passive investing, and how they can work well in a portfolio of different styles to reduce the overall cost.

Andrew Macken and his team have been doing serious research on Artificial Intelligence, or AI, and have come to the conclusion that it represents a turning point for many industries. He identifies the three companies who will dominate its adoption globally.

Then two articles with a lighter theme after all this serious stuff. Continuing on from last week's article that investing is a 'colossal waste of time', **Ben Johnson** argues that most investors will benefit from having part of their portfolio assigned to 'fun', as a relief valve to reduce tinkering with the main book.

And lawyer **Donal Griffin** looks at the new **House of Gucci** movie for lessons for family businesses and succession planning. None of the Gucci family is now involved in the business so maybe they could have planned better.

A final comment on taking care reading market commentary on the Russian invasion because there are so many moving parts and they change every day. We saw an extraordinary day last week where the NASDAQ swung from down 2.6% to up 3.4% in a range of 6%. ONE DAY. It prompted an analyst to write:

"If you're looking for signs of a bottom, the good news is that this is how they happen. The bad news is that this type of volatility is also what you see before things get a lot worse. At every major market bottom over the last decade, we saw heavy buying off the lows. But we also saw this activity on the way down before a floor was reached. 2008-2009, 2011, and 2020 all experienced multiple failed rallies along the way."

In other words, he has not got a clue what will happen and he is in the majority.

Gold is on the minds of more investors following Russia's invasion. This week's White Paper from **Perth Mint** looks at the prospects for gold, including when faced with inflation, and gold's role in portfolios, especially SMSFs.

Lots of good comments and large view numbers last week for **Peter Thornhill**'s article on long-term investing in equities. Many of you have developed solid principles along the same lines where you live off dividends which do not normally fluctuate as much as share prices. For example, this Comment of the Week from **Antoine**:

"I agree. A similar philosophy has worked well for me for the last 30 years.
Suggestions: It's time to retire when the dividends more than cover living expenses. Then the growth in dividends means it's highly unlikely any shares will have to be sold to provide cash. Thus the volatility in the market becomes meaningless. End of worries. In 1993 I constructed a portfolio to mimic the All Ords by buying the dozen largest companies, weighted by market cap. It followed the index close enough for years with no fees, taxes or any middlemen."

Anyone adopting this strategy needs to accept the volatility in the value of the assets as a cost of tapping into growing dividends.

Finally, congratulations to the Winners of the **2022 Morningstar Awards**:

- Overall Fund Manager of the Year: *Vanguard Investments Australia*
- Fund Manager of the Year: Undiscovered Manager: *Bell Global Equities*
- Fund Manager of the Year: Domestic Equities - Large Cap: *Bennelong Australian Equities*
- Fund Manager of the Year: Domestic Equities - Small Cap: *Pengana Emerging Companies*
- Fund Manager of the Year: Fixed Interest: *Bentham Global Income*
- Fund Manager of the Year: Global Equities: *VanEck MSCI International Quality*
- Fund Manager of the Year: Listed Property and Infrastructure: *Quay Global Real Estate*
- Fund Manager of the Year: Multisector: *Perpetual Diversified Real Return*
- Fund Manager of the Year: Sustainable Investing: *Stewart Investors*

The death of the single-industry superannuation fund

Greg Bright

Gerard Noonan (left, below) and Graeme Russell, colleagues who became good friends, were a great pairing at Media Super. They had the sort of relationship, as Chair and Chief Executive, that organisations crave.

They agreed on most things to do with the fund, which survived and thrived during their tenure together, except for one major thing – whether or not the fund should merge with a bigger fund.

To merge or not to merge?

In Noonan's view, APRA had shifted its stance from being neutral on mergers to one of actively promoting them. In some cases, aided by the introduction of the Your Future Your Super legislation, APRA has engaged in coercion to rid the industry of what it determines a 'dud' fund.

Source: [APRA 2021 Year in Review]

But more importantly in his eyes, Noonan had increasingly come to the realisation that notwithstanding Media Super's solid and continued above-average performance, there was a small coterie of very big funds which consistently outperformed by up to 1% per year. Noonan has said:

"Graeme took the view that we could still outperform, whereas I had shifted in my view."

While he did not win that now-unwinnable argument, Russell was at least able to demonstrate how a small fund could outperform. After former CIO Jon Glass left Media Super in March 2014 and until Michael McQueen joined in January 2020, Russell was both Chief Executive and CIO. The fund did, in that time, jump a few notches up the ladder, joining the top-quintile ranks in some metrics for several periods.

Industry and fund knowledge

Russell trained as an accountant and had a career in management and business consulting prior to becoming the Chief Executive of a super fund, the timber industry's First Super, before taking that role at Media Super in 2013.

While not a classically trained investment professional, Russell knew Media Super and its members perhaps better than anyone except Noonan. He had been a trustee director of the fund for two years before becoming Chief Executive and a trustee of its predecessor fund, JUST Super, for 19 years. Noonan, a renowned journalist who exits along with the rest of the board in April 2022 with consummation of the merger with Cbus, has notched up 30 years as trustee, starting with JUST, with 12 of those as Chair. Susan Heaney, who runs a large printing company, became Chair in October 2020.

Russell was quoted as saying on his retirement:

"I think it's disappointing that government and the regulators don't understand the important contribution that industry-specific super funds make to their industries, beyond superannuation."

He said, as the first wave of Covid-19 was biting hard in June that year:

"We're about to see that clearly, as funds like Media Super step up to support members and companies struggling through the current economic dislocation and job losses."

It's not only in times of crisis that the single-industry fund - what was commonly termed a 'craft fund' - can provide additional comfort to its members. The better access to management and their understanding of the members' interests, affords members greater peace of mind.

Noonan understands the benefits that a craft fund offers, as well he should. He often tells the story of when he was The Sydney Morning Herald's Education Editor sitting in the big open-plan newsroom while a trustee for the craft fund was there with a small queue of people wanting to ask him about their super.

"When you work in an office with perhaps 400-500 people, you are bumping into them all day every day. I had to keep reminding myself that I was actually employed there as a journo. They liked the access. They liked the idea that it was a 'mutual'. Bigger funds couldn't do that."

Noonan, a Walkley Award winner who became the Editor of The Australian Financial Review for five years, best tells the story of his demise there at the hands of the company's then part-owner Conrad Black in an article for the SMH first published in 2007.

He was able to wear his dismissal as a badge of honour, probably impressing his former colleagues and other media people more than winning that Walkley.

Number of large funds heading for single digits

Despite the hesitations about a merger with a much bigger fund, as many other industry funds will continue to do until the number of funds probably gets close to single digits, both Noonan and Russell had a lot of personal experience with mergers.

On 1 July 2008, for instance, Russell was a Trustee Director of JUST Super, which was in the process of merging with Print Super, as well as a trustee of what was then the timber industry fund TISS, which became FIRST. On that day, he says, he was involved in two concurrent mergers with five funds wrapped up in the transactions.

Noonan's experience pre-dates even that. JUST's first merger, in 1992, was with the fund representing actors and entertainers, JEST, which was prompted more by a merger of trade unions supporting the two funds than the separate cohorts of members.

The possibility of a merger between JUST and Print Super was mooted fairly early in the piece, but discussions did not become serious for more than a decade later, and even then took several years to consummate.

Both JUST and Print Super were formed in 1987, in the first rush of industry funds that followed the introduction of the 3% Award Super deal between the ACTU and the Hawke Government in 1986.

In a sense, a whole new industry grew up from that period, including the retail and institutional investment trade press with the launch of Money Management and Super Review titles also in 1987.

When they came together in 2008, with Noonan as the new Chair, JUST and Print Super had just over $3 billion under management. As they exit into Cbus, they have $7 billion (as of June last year), expanding the Cbus assets to about $72 billion.

The end of Media Super

Media Super held its third and final members' annual meeting on 24 February 2022. It was a virtual meeting so it was impossible to tell whether any tears were shed among the 300-odd participants.

Most of the more-than 50 questions directed at the eight trustees plus executives present, were to do with personal financial matters and the logistics of the merger. Susan Heaney and Chief Executive Tony Griffin stressed the benefits which would start to be seen from 26 April which is the scheduled date for Cbus services to kick in.

Mergers are complicated. At a technical level, Media Super's 74,000 members will be given new account numbers as they are transferred to Cbus's admin platform (from Mercer to Link). More complicated than that has been Cbus's investment structure changes to accommodate Media Super's unit pricing system with the bigger fund's crediting rates system.

Heaney said that size would deliver more benefits to members. There would be a greater range of investment options; it would be easier to diversify investments and increase returns. Fees and charges could be lower.

Later this year, the handful of members who had chosen Media's infrastructure option, which was closed in 2020 because it had become uneconomical to administer, would be able to access Cbus's new unlisted version, as well as an unlisted property option.

She said that the Media Super 'brand' would also be retained, which is becoming common practice in such mergers. Maritime Super, another of the few remaining craft funds, will retain its brand when it undertakes a full merger with HostPlus next year. It is unclear what this means in practice and how long it will last.

More importantly for Media Super, especially those members who like the notion of being part of a group of like-minded people, Cbus has undertaken to form a Media Super advisory committee to its own board. This is expected to consist of some former Media trustees alongside Cbus representatives.

When Media was canvassing the field to ascertain which big fund it should pursue as a merger partner, it appointed the former Rice Warner actuarial advisory firm (now a part of Deloitte) to assist. The decision was thought to be very close, with Cbus pipping AustralianSuper at the post and with the proposed advisory committee allegedly an important factor in the decision.

Greg Bright is a freelance journalist and publisher specialising in funds management and superannuation. He is a co-founder of [Super Review](), now published by FE fundinfo. He was a contributing employer to both JUST and Print Super since 1987.

Six stocks on our radar following strong reporting season

Jun Bei Liu, Max Cappetta

We have just experienced one of the stronger reporting periods in the past 20 years with corporate earnings upgraded in the low single digits, compared with most reporting periods which are dominated by downgrades. The strength was supported by exceptional upgrades in the commodity and financial sectors, offset by smaller downgrades in industrials.

Most corporates have enjoyed big revenue upgrades, but this has been offset in some cases by a big escalation in costs. EBITDA margin forecasts have declined marginally across the board and wages appear to be the one cost that is harder to offset or pass through.

Strong revenues, strong balance sheets

However, corporates are sitting on what is probably their strongest balance sheets in 20 years and over $6 billion in buyback, special dividends and capital returns has been announced so far.

Despite the strength across corporate earnings, the ASX200 is only up 2.5% (to 24 February) following a weak January where the index fell 6.4%. There are two reasons for this muted index performance. Equity markets continue to adjust to higher interest rate expectations due to the inflation surge in the US market, plus the escalation in geopolitical tension is causing investors to seek a capital preservation mode.

The 2022 earnings expectations across ASX200 sectors have been on a gradual upward shift since last reporting season in September 2021. Expectations for the Energy sector have been revised upwards the most (up 15%), buoyed by oil and gas prices remaining on a steady climb. The Real Estate sector is also bouncing back with better-than-expected rental receipts and expectations that traffic and activity will grow in 2022 as COVID restrictions ease.

The valuation reset due to rising interest rates is impacting the IT sector the most. As a group the sector is down 7.2% in February and down 24.3% so far in 2022 (to 24 February). The underlying strength in the economy is being highlighted by the fact that retail sectors continue to perform well.

Six stocks to watch

Some of the stronger results for the Tribeca Alpha Plus Fund from this reporting season came from Seek, Treasury Wine and A2 Milk.

SEEK (ASX:SEK)

Australia and New Zealand provided the highlight of Seek's first half result. Revenue grew 72% over the period driven by record volumes that were up 49%. Yield growth was boosted by a greater portion of advertisements coming from higher-priced small and medium sized enterprises (SMEs) and SMEs accounted for 39% of job ads, up from 25% in FY20. A number of these SME customers are using Seek for the first time and we expect these new customers to be retained.

This was a better-than-expected result and the continued strength of job advertisements in January saw management upgrade full year guidance. Strong revenue growth enabled investment and margin expansion and EBITDA margins expanded 7% to 66%.

During the half Seek completed the rollout of its new contract pricing model. While the current market tightness is constraining its ability to raise pricing on its new contracts, we expect Seek's new dynamic pricing model will drive higher yields over the medium term. Seek's share of placements in Australia grew to 34% further cementing its leadership position.

Outlook: *SEK trades on 35x FY23 PE with double digit EPS growth over the next three years. This is the cheapest level it has traded in many years.*

Treasury Wine Estates (ASX:TWE)

Treasury Wine Estates delivered a strong result beating consensus expectations. Its price was up over 11% on results day, after being sold off earlier on fears of large misses and accompanying broker downgrades.

Post the China wine tariff implementation, the company showed a strong ability to reallocate a significant amount of the volume which it formerly exported to the key market of China, specifically luxury wine in the company's 'Penfolds' portfolio. Penfold's EBIT outside of Mainland China was up 32.1% on the previous half, and Penfolds net revenue in Asia ex-China was up 119% supported by strong inventory run down depletions led by Malaysia, Singapore, Thailand and Hong Kong.

The company provided earnings visibility for the full year by announcing that it expects trading conditions to remain consistent in 2H and loosely guided EBIT for the Penfolds segment by noting that it will be skewed 1-2% in 1H.

Outlook: *TWE is expected to put in double digit earnings growth - with sub-market valuation for the next 12 months. This makes it very attractive against other lower growth and defensive businesses.*

A2 Milk Company (ASX:A2M)

The A2 Milk Company beat consensus revenue expectations by 8% at the top line, with EBITDA of 23 per cent against the consensus view. The result was supported by strong performance in China and other Asian markets with an EBITDA that was 47% above consensus and driven by better-than-expected sales and margins. Operating cash flow was positive, driven by higher earnings and better payables management, which bodes well for the balance sheet which remains robust. The company now has a cash position of $667 million.

The company continued to gain share in the Australian liquid milk market, slightly up at 12.4% (against 12.2% in the previous half). Price increases were a consistent theme throughout the investor presentation, with the company noting price increases were to be implemented across all customers in 2Q22 and specifically mentioning an 11% price increase in USA which would be effective in 4Q22.

The company noted its outlook was improving and despite continued investments into its brand, its earnings continue to track above expectations.

Outlook: *Like Treasury wine, A2M represents a rare opportunity for investors to buy into high quality brands at discounted prices as earnings going through transition. We believe we have seen worst.*

Some of the stronger results for Redpoint Investment Management from this reporting season came from Woodside Petroleum, Bendigo Bank and JB Hi-Fi.

Woodside Petroleum (ASX: WPL)

Woodside is set to become much larger in the first half of 2022 as it merges in BHP's petroleum assets. A larger asset base will enable the company to better support the capital expenditure requirements of maintaining its oil and gas production as the world moves to less carbon intensive energy sources.

The company's annual report on February 17 provided both an earnings and dividend surprise. The company realised the highest average price in over 5 years for its oil and gas which boosted revenues by 93% to almost $7 billion. Production costs were only slightly higher (year on year) which highlights the potential for commodity-based firms to benefit in a higher inflation environment where revenue growth can exceed their cost growth.

Outlook: *While the company has committed to reducing its Scope 1 and Scope 2 emissions there is more work to be done. The real emissions impact for a company like Woodside is in Scope 3: when its customers consume their oil and gas. Woodside has committed $5 billion (once the BHP petroleum assets are acquired) to new energy products and lower carbon services but details remain scant. Further detail on these initiatives is critical to better assess the medium to longer term prospects for the soon to be larger Woodside.*

Bendigo Bank (ASX:BEN)

While all eyes are generally on Australia's largest four banks, Bendigo Bank delivered a solid result showcasing the strength in its residential mortgage business. Half year profit of $321.3 million beat expectations, but the interim dividend of 26.5 cents, while higher than last year, remains below the 35 cents dividends paid twice a year in 2018 and 2019.

Outlook: *A key area to watch for investors is the company's stated transformation plans between now and 2024. It's proposed simplification of the brands and banks systems, along with efficiencies and automation, are critical to enabling ongoing growth and expanding profitability. The bank also remains well placed to see an improvement in its net interest margin as and when the RBA moves to increase interest rates in Australia later in 2022 and 2023.*

JB Hi-Fi (ASX:JBH)

JB Hi-Fi has been a strong beneficiary of the pandemic's imposed lockdowns with sales doubling from pre-COVID levels as customers changed their spending habits from leisure to home entertainment and improvements (The Good Guys is a business division of JB Hi-Fi).

Rising from its March 2020 low of $23.50, JB Hi-Fi has range traded between $45 and $55 over the past two years. JB Hi-Fi pre-announced their results in January so there were no material surprises in February, apart from a strong sales update for the January period.

Profits in the first half of financial year 2022 were $288 million, down 9.4% from a year earlier, but this was largely expected as the aforementioned benefits taper off. Sales and profits remain well above levels seen two years ago.

The company also announced an off-market share buyback worth $250 million, roughly 4% of outstanding shares. This will be valuable to all shareholders by reducing the number of shares from which earnings are distributed but will specifically be of benefit to low and zero tax rate payers who can take advantage of the franking credits that are distributed as part of the buyback. We estimate that non-tax paying shareholders will be able to realise a 20% premium to the current share price by selling their shares back to the company.

The company announced an interim dividend of $1.63 per share, down from $1.80 in 2021. The company trades at an attractive cash yield of 5.5% (including an expected $1 per share final dividend in August) and almost 8% including the value of the franking credit.

The main risk for JB HiFi is that higher interest rates reduce consumer confidence housing activity and higher mortgage payments reduce disposable income for discretionary spending. The impact of inflationary pressures remains evident but, again the company remains well placed noting that it will pass on the higher price of goods from its suppliers. The company refused to give guidance for the rest of the year due to uncertainty arising from COVID-19 but noted continued strong customer demand.

Outlook: *JB Hi Fi is one of our preferred retailers. It is a high-quality business, with a robust business model, attributed to its well-established branding and omni channel offering (bricks and mortar store and established online retail channel which is now 23% of sales), strong cashflow, return on equity and a sound net cash balance sheet. JB Hi-Fi also offers good value at current levels, trading at 12x next year's earnings.*

Jun Bei Liu is Lead Portfolio Manager at Tribeca Investment Partners and Max Cappetta is a Portfolio Manager and CEO at Redpoint Investment Management. Tribeca and Redpoint are specialist investment manager partners of GSFM Funds Management, a sponsor of Firstlinks. The information in this article is provided for informational purposes only. Any opinions expressed in this material reflect, as at the date of publication, the views of Tribeca and Redpoint and should not be relied upon as the basis of your investment decisions.

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Property investing but not as most Australians know it

Andrew Parsons

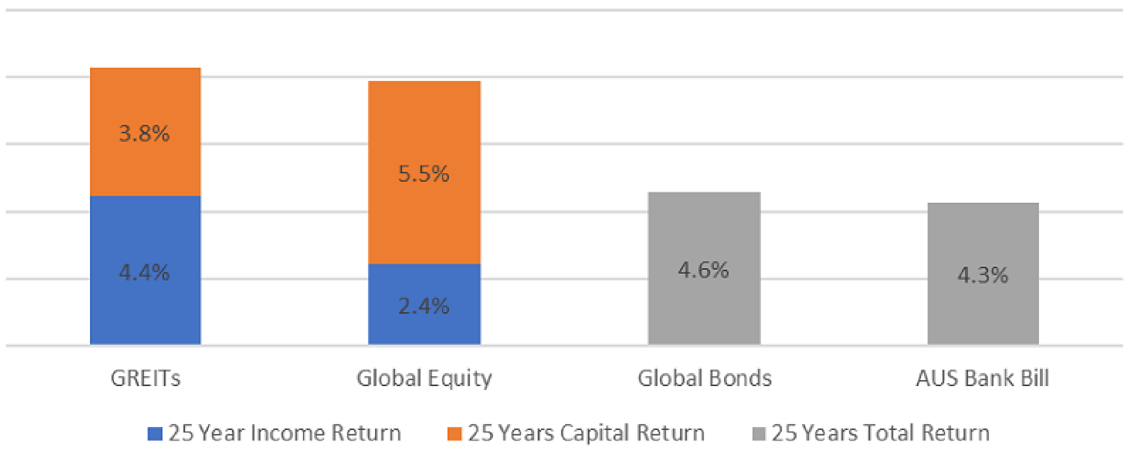
Against the hype generated by the local residential property market, the listed property sector is easily overlooked by Australian investors.

Both are forms of real estate which provide an important role for society and the economy with transposable land at their core. Global listed property, otherwise known as Global Real Estate Investment Trusts (GREITs), allows investors, large and small, to gain exposure to the returns of some of the world's best institutional-grade real estate in a liquid form, managed by the world's best-of-breed property management teams.

GREITs have delivered competitive risk adjusted through-cycle returns, including a prominent income component. The income component is supported by the fact that REITs have a legislated minimum dividend payout ratio in many jurisdictions.

Furthermore, GREITS can add diversity to global bonds, equities and unlisted property exposures. The chart below highlights the performance of global equities versus GREITs and other asset classes over a 25-year period.

25-year total return composition to 31 December 2021



Source: Factset. GREITS: FTSE EPRA NAREIT Developed Index in AUD. Global Equities: MSCI World Index in AUD. Global Bonds: Bloomberg Aggregate in AUD.

There are also many GREIT sectors such as warehouses, data centres and healthcare facilities which are not highly correlated with the domestic residential housing market.

REITs against a backdrop of rising inflation

Rising inflation and interest rate pressures top the concerns on investors' minds right now. The narrative painted by the investment management industry has periodically changed, ignoring previously-held tenets in favour of a new way of looking at issues sometimes contrary to the prior views.

I started out in the industry back in the 1980's when interest rates were at double-digits. At the time the narrative was '*property is a hedge against inflation*.' When inflation started to dissipate and interest rates fell, the narrative changed to '*property is a yield play*.'

Now we are once again hearing concerns about REITs in the context of rising rates and inflation.

To say that REITs are highly affected by interest rates is a convenient catchphrase that needs to be properly analysed. Interest rates matter to all investments and the consequences are complicated. Critical examination requires consideration of real estate market conditions and the shape of the broader economy, in a nutshell supply and demand, as well as the extent of the sector's financial leverage, i.e., debt levels.

Whilst long-term interest rates do effect the cost of capital, and provided there isn't excessive property vacancy levels, a growing economy should drive higher tenant demand to compete for limited space. Landlords can increase rents at least equal to or greater than the higher costs. In addition, higher building construction costs also mean that competitive new supply is more expensive to develop as the 'economic rent' a developer needs to underwrite a new project increases. Hence existing building owners are afforded some buffer to the threat of new buildings.

What we can say is that good property is capable of delivering competitive returns in inflationary environments, provided the underlying property has certain key ingredients, namely that it is relevant to the needs of a growing and healthy economy, and that supply is constrained. The key ingredients we look for are attractive supply and demand characteristics that create pricing power, strong balance sheets, and quality management teams capable of extracting the most value from the underlying land and buildings.

The Resolution Capital Global Real Estate portfolio is currently focused on strong secular tailwinds which benefit from dominant trends such as the ageing population, housing shortages and growing household formation rates and the growth in digitisation and ecommerce.

Two companies enjoying favourable trends

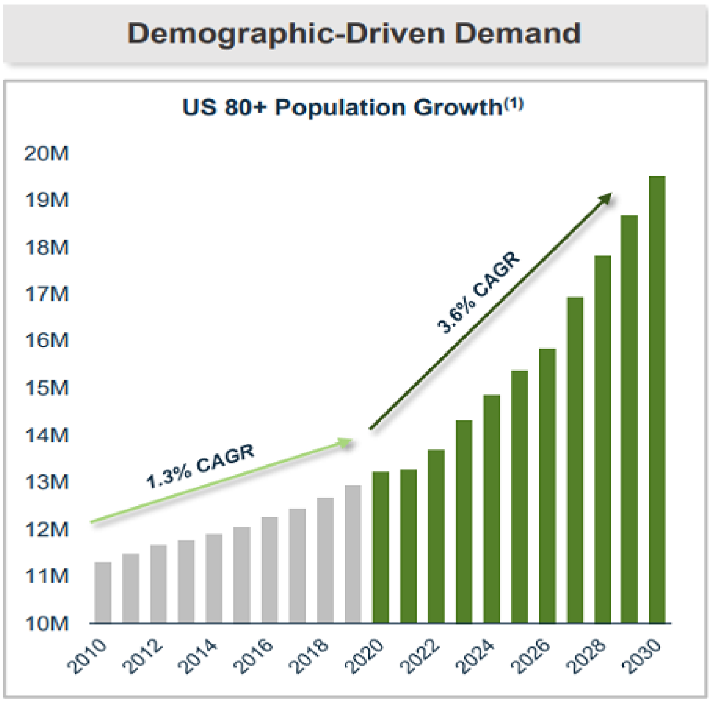
Welltower Inc. (NYSE:WELL)

Seniors housing is benefiting from both cyclical and secular tailwinds. Aging populations along with moderating supply caused by COVID-19, rising costs, and less favourable construction finance provides a strong backdrop for existing landlords to grow rents and cash flows in the years to come.

Welltower is the largest diversified healthcare REIT in the US. Around 65% of its portfolio is concentrated in seniors housing.

Welltower's balance sheet is strong with a net debt-to-EBITDA ratio of 6.5x, while management has impressively navigated through COVID in probably one of the hardest-hit sectors. Nearly all staff and residents are now vaccinated, and occupancy is recovering strongly following the initial COVID disruption.

Welltower is also expected to see occupancy recoup the 13% lost during the pandemic by the end of 2023, all the while growing rents above



Source: Greenstreet

inflationary levels as prospective tenant demand for this demographically necessary housing format remains strong. With strong tenant demand in the face of moderate new supply levels, Welltower we believe should enjoy earnings growth above 10% in the next couple of years.

Prologis Inc. (NYSE:PLD)

The e-commerce trend needs no introduction and it has led to demand for warehouses like never before. In the domestic market Goodman Group (ASX:GMG) has been a market darling. It's a great business, but relative to Prologis, we believe Goodman is trading at an excessive valuation.

Prologis is a global leader in logistics real estate with a property and development portfolio spanning over 90 million square metres located close to major population centres across 19 countries.

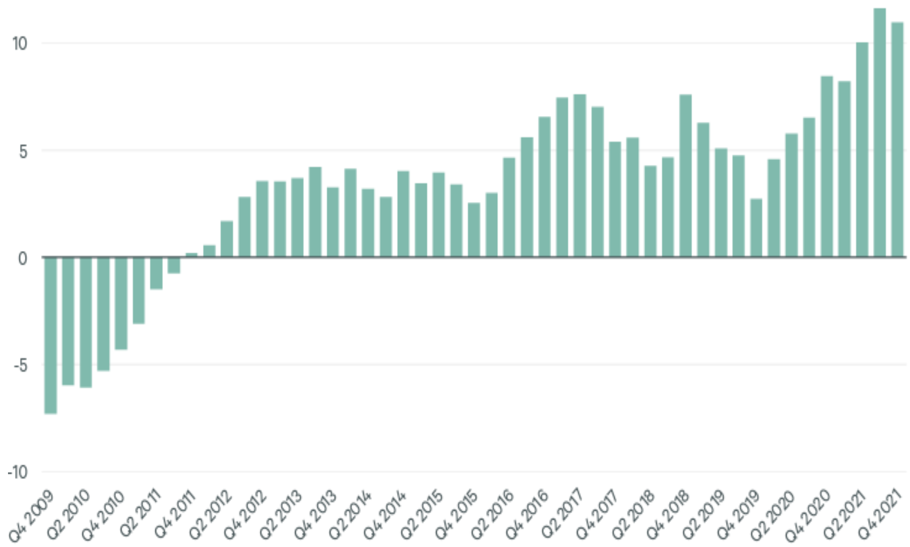
Changes in supply chain management should drive demand for warehouse space along two key thematical lines.

One, the ongoing reconfiguration of distribution channels to place greater emphasis on proximity to the end consumer. With same day delivery becoming more common, locations that minimise the cost and speed of distribution to the end customer are paramount.

Two, supply bottlenecks, symbolised by the record number of container ships that were seen sitting off ports around the world towards the end of 2021. This has led to the focus of supply chain management shifting from efficiency to resiliency, with a resultant increase in inventory levels stored in key locations.

Prologis is a beneficiary of these trends which are driving exceptional demand for warehouse space, resulting in record low vacancy rates and substantial rental pricing power, particularly in urban in-fill locations.

US logistics average asking rent % growth (year-over-year)



With a strong balance sheet and conservative payout ratio, Prologis generates surplus cashflow to re-invest in new development projects without relying on external financing. Combined with portfolio rental income growth in the mid-single-digit levels, Prologis is well placed to deliver earning per share growth of around 10%pa, demonstrating its ability to meet or exceed inflation.

An additional pillar of portfolio strength

Following the impacts of COVID and the responses by health authorities and central planners, we view the economy and capital markets to be somewhat distorted. While no investor can claim to be prepared for all the knowns and unknowns on the horizon, the need for effective portfolio diversification is vital. Current events in Eastern Europe further highlight the constant that uncertainties are ever present.

We see limited evidence of heightened risks specific to GREITs. In general, commercial property vacancy rates are not excessive, supply is moderate and new constructions costs are increasing. Furthermore, and as a generalisation, REIT balance sheets are sound with moderate debt levels and limited short-term debt maturities.

For many years, the GREIT investment landscape has been largely dominated by institutions. We hope this asset class will be considered by a broader range of investors as we give access to some of the world's best institutional grade real estate. It's global bricks and mortar … that just happens to be listed.

Andrew Parsons is a Co-Founder and Chief Investment Officer at Resolution Capital, an affiliate manager of Pinnacle Investment Management. Pinnacle is a sponsor of Firstlinks. Resolution has launched the only active GREIT Fund in Australia (ASX:RCAP).

This article is for general information purposes only and does not consider any person's objectives, financial situation or needs, and because of that, reliance should not be placed on this information as the basis for making an investment, financial or other decision.

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Smart beta funds complement active without key person risk

Arian Neiron

Some of the best movies have an ensemble, where each actor brings their unique skills to make the story work. Likewise, with a sports team, a single player cannot always lift a whole team to glory. In both of these instances, an idea to achieve the outcome gestates until either success, mediocrity or failure occur.

The same is true in funds management

Last month, the LA Rams won the 2022 Super Bowl. Coach Sean McVeigh built a team with a deep bench of superstars. Wide receiver Odell Beckham Jr went down with an injury in the second quarter but he was one of many skilful catchers in the Rams line-up. Any one of a dozen players could have been MVP in the big game. By building a team with a deep bench, McVeigh reduced his key person risk.

Other teams in the NFL rely on a franchise player, usually the quarterback. This person becomes the face of the franchise. The risk, of course, is if that one player is injured or has a run of bad form the team suffers more.

In sports, talent costs money. The same is true in funds management, hence the willingness of investors to pay premiums of active management. With active management, investors pay for the expertise of the star fund manager and/or the deep bench of analysts. The industry is rife with fund managers and investment gurus that live and breathe markets. Some genuinely have talent identifying opportunities while for others the self-belief is misplaced and they were just lucky, in the right place at the right time.

The difficulty for investors is determining if their active fund is managed by a deep bench of stars that are skilful, not lucky. This is easier said than done, as many fund managers are not transparent. It is difficult to get a complete list of holdings to determine how they are outperforming.

Global research house Morningstar in its biennial Global Investor Experience Report repeatedly ranks Australia last out of 26 global markets in terms of investment disclosure.

Ideally, investors should be able to assess performance over a long period. They should be able to look at the holdings and determine whether a fund outperformed because its managers were skilled at choosing the best securities, or were they just more heavily weighted into growth assets or those asset classes that have done best over recent periods?

Disclosure Scorecard

Top	Above Average	Average	Below Average	Bottom
India	Canada	China	Belgium	↓ Australia
United States	Korea	Denmark	Italy	
	↑ South Africa	Finland	Japan	
	Sweden	↑ France	↓ Singapore	
	Taiwan	Germany	↓ Switzerland	
	Thailand	Hong Kong		
		* Mexico		
		↑ Netherlands		
		New Zealand		
		Norway		
		Spain		
		United Kingdom		

Source: Morningstar, Inc. Grade change indicators: ↑ Improved since last study ↓ Declined since last study *New to study

Performance should come from multiple sources, across sectors, not just a single idea. In addition, outcomes should be persistent and consistent with stated expectations and marketing.

If a fund manager says their skill is identifying 'value', investors should expect when value shines, as it is now, so should they. Likewise, when a manager says they specialise in identifying 'quality' companies, expect they would fall less and recover faster during a downturn, as that is a key characteristic of quality.

It would be naïve to think any manager can outperform every month. Fund managers are human after all, so they will make mistakes. In investing, mistakes include selling too soon, holding a stock for too long and overlooking opportunities. Making mistakes can make some fund managers better investors but mistakes can lead to underperformance. As humans, they may become impatient and try to chase returns, or hold that stock they've fallen in love with, a stock which is cheap for a reason. Investors are human too, so persistent underperformance may lead to a run for the exit.

What is an investor to do?

There is of course a way to eliminate key person risk: passive management. It aims to replicate the returns of an index as opposed to active management that aims to outperform an index. The days of outperforming the market are not gone. Investors that still want to achieve an outcome different from the market benchmark index and to take the 'human element' out of their portfolios could turn to smart beta ETFs.

Smart beta is at the intersection of active and passive management. It can explain a considerable portion of an active manager's risk and return characteristics but it is not subservient to the human condition and our vulnerabilities. It does not 'fall-in-love' with stocks, is not impacted by what else is going on in its life and it does not retire or resign to work for a competitor. But there is a human behind the research and design of smart beta indices, and over the last 50 years, it has become more sophisticated. Smart beta ETF strategies are fully transparent so investors can see the holdings on a daily basis.

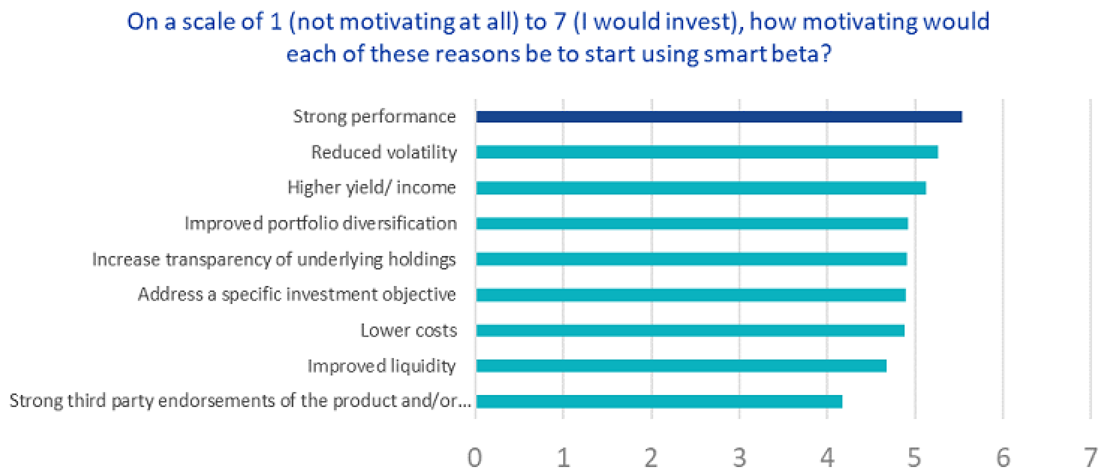
Forewarning the rise of smart beta was a 2016 scholarly article published in the CFA Institute's Financial Analysts Journal. In their paper, '*The Asset Manager's Dilemma: How Smart Beta is Disrupting the Investment Management Industry*', authors Ronald Kahn and Michael Lemmon described smart beta as:

"*a disruptive financial innovation with the potential to significantly affect the business of traditional active management.*"

Their paper illustrated that current fee levels in the global equity universe were inconsistent with the performance outcome because the fees are too high. Over 35% of global equity managers, according to Kahn and Lemmon's analysis, will be disrupted by smart beta.

The disruption is happening in Australia

Each year VanEck conducts a smart beta survey. Last year, the Sixth Annual Smart Beta Survey was the biggest survey of its kind worldwide. A question directed at financial advisers demonstrated that the most important factor for an adviser selecting smart beta is not fees but performance.

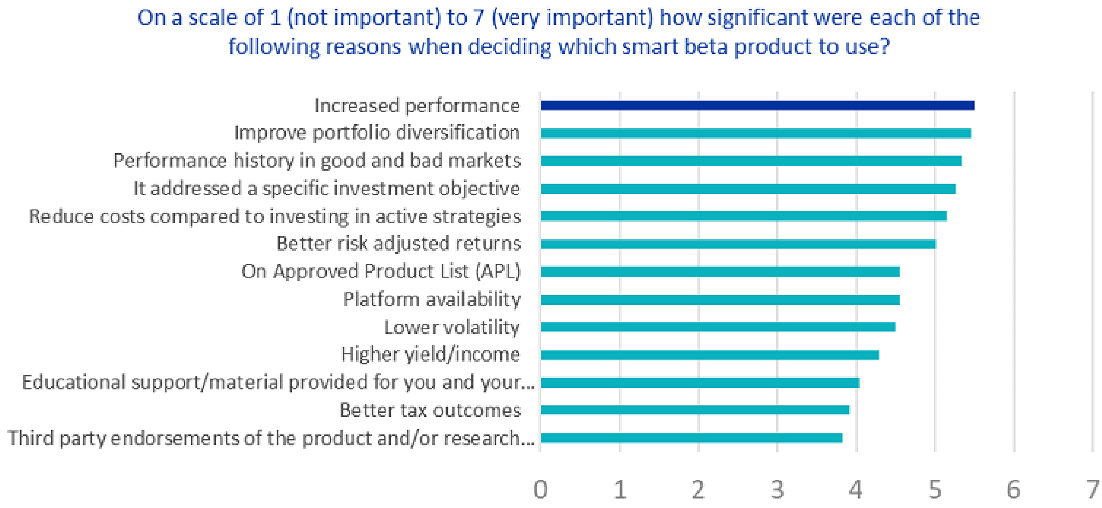


Source: VanEck Smart Beta Survey, 2021

Active managers should take note. Each half year when S&P releases its SPIVA report for Australian funds it does not make good reading for active fund managers. During the most recent (half year 2021), the summary states:

"For longer measured periods (3, 5, 10, and 15 years), the majority of active funds underperformed their respective benchmark indices across categories."

More worrying for active managers, the VanEck Smart Beta Survey indicates over 50% of advisers are using smart beta to replace active managers. The main reason is increased performance.



Source: VanEck Smart Beta Survey, 2021

The survey also found 99% of smart beta users are satisfied with their strategy. This finding has been consistent in every year of the survey.

No fund manager, and for that matter, no index strategy will offer absolute returns all of the time. Investing involves risks. Key person risk is one such risk. Prudent investing means not just diversifying your bench across asset classes but also across investment styles.

The key for investors is to diversify and seek those strategies that endure through the cycle and the complex gauntlet that capital markets exhibit time and time again. It is common now to see smart beta as the core of a portfolio supported by high conviction active funds, or to see a core active manager blended with a complimentary smart beta strategy.

For more information on smart beta, click here.

Arian Neiron is CEO and Managing Director - Asia Pacific at VanEck, a sponsor of Firstlinks. This is general information only and does not take into account any person's financial objectives, situation or needs.

For more articles and papers from VanEck, click here. VanEck's smart beta funds include an equal-weighted Australian equity fund (ASX:MVW) and global quality (ASX:QUAL).

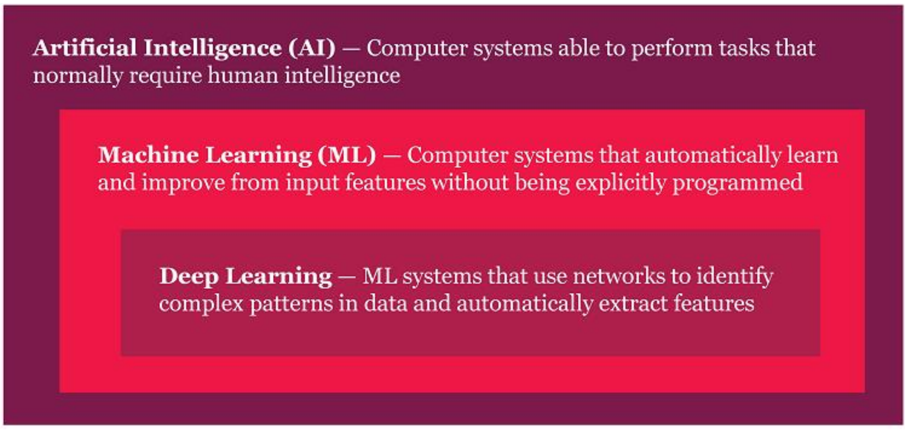
Why AI is today's most important investment theme

Andrew Macken

Most investors are aware that artificial intelligence, or AI, is an important transformation. But many still underestimate the sheer world and life-changing power of this revolution and its investment potential.

AI will recast and refashion every aspect of life: how we consume, how we work, how we monitor industrial machines, how we deliver healthcare, how wars are won, and how we solve climate change.

Not only is software eating the world, but it is becoming a lot smarter at an accelerating rate and will continue to do so. Why? Because of AI - and more specifically, machine learning (ML) - the most common and practically applicable subset of AI today.

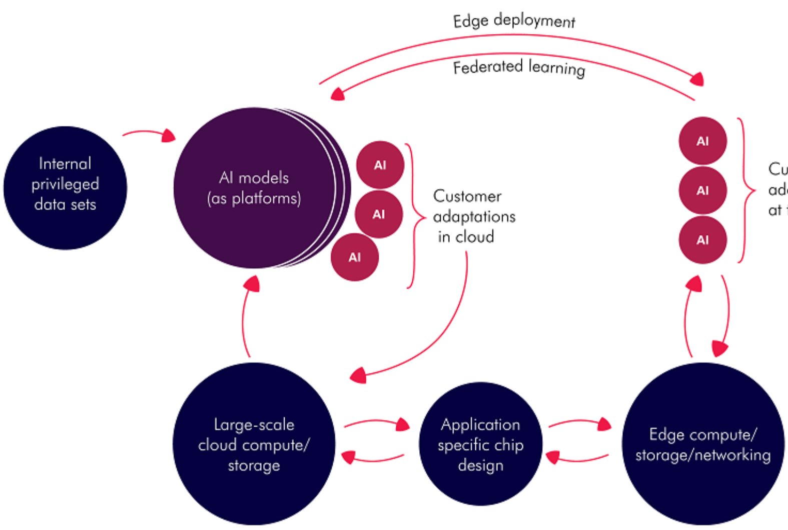


Source: Pradeep Menon, Data & AI Strategist, Microsoft (2018)

There are myriad ways investors can profit from this AI transformation, but the world's leading cloud computing providers, or 'hyperscalers', particularly Amazon, Microsoft and Alphabet (owner of Google) are one of the safest and surest ways to win.

Many investors perceive these mega-tech businesses as 'well-understood', 'mature' and sometimes even 'boring'. We disagree. We believe AI will spark a new phase of hypergrowth for these companies that will take investors by surprise and trigger a big re-rating of their shares.

The hyperscalers are uniquely positioned to create an 'AI fly wheel'



Source: Montaka

The hyperscalers are uniquely positioned to create an 'AI fly wheel' – a virtuous cycle where they use their existing scale, technological advantages, huge R&D spending, and barriers-to-entry to both drive and dominate the surging demand for compute and storage that AI creates.

There are 6 forces underpinning the AI revolution, how these benefit the hyperscalers, and why the market is significantly undervaluing the potential of AI to spark a new growth phase for Amazon, Microsoft and Alphabet, which creates a major opportunity for investors to safely profit from AI.

1. Hyperscalers are democratising AI

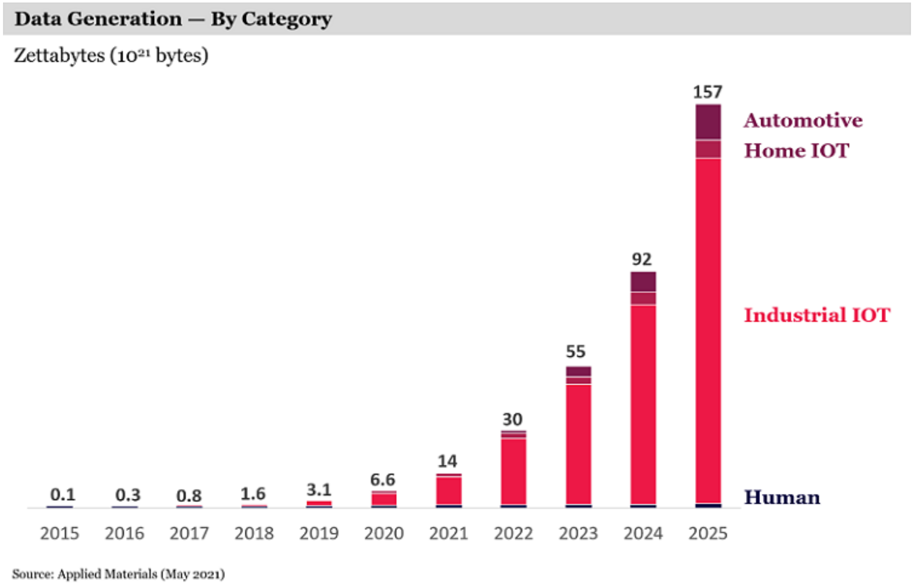
The world's hyperscalers are investing heavily in low code/no code interfaces (including, for example, drag and drop interfaces and natural-language-to-code translators) to democratise the development of AI-based enterprise applications so they are used by more and more employees of the cloud providers' customers.

The highly complex and expensive ML models underlying these applications have largely been developed by the hyperscalers and are essentially 'given away' free. Any customer can essentially take an ML model 'off the shelf' and relatively easily and cheaply adapt and customise it to their own needs using their own internal datasets.

The quid pro quo? The customer must use the hyperscalers' compute and storage services.

2. The Internet of Things (IoT)/ 'edge' reaches a tipping point

The second driver of massive demand for compute and storage services delivered by hyperscalers is that AI is increasingly being incorporated into every software application in every device. This includes IoT for which we are about to see an explosion in smart devices, deployed at the 'edge', built to be used across all aspects of life.



The sheer volume of edge devices, as alluded to by the chart above, will ensure that AI on the edge is going to be a much bigger business than AI in the cloud.

3. ML drives surging demand for compute and storage

The effect of incorporating ML into applications is a significant increase in compute and storage intensity, which will benefit hyperscalers. The more successful an AI application is at continually extracting additional relevant data to virtuously improve the accuracy of the embedded ML models, the vastly more compute and storage that is required.

This is great news for the global hyperscaler oligopolies that supply the world's compute and storage, in particular Amazon, Microsoft and Alphabet (Google). It is similarly positive for China's cloud oligopoly, Alibaba, Tencent and Huawei, though the Chinese addressable cloud market is considerably smaller and some years behind in development.

4. Hyperscalers set to dominate 'ASICs' – the new wave of chips powering AI

Another reason that hyperscalers are positioned to win from AI is that they are at the cutting edge of developing new chips – Application Specific Integrated Circuits (ASICs) – that will dominate in coming years.

AI applications are simply becoming so large and complex that traditional chips are increasingly too slow, energy intensive and expensive for these purposes. So increasingly compute is becoming application-specific – both in the cloud and at the edge. This form of compute is being delivered by ASICs, which are designed on a more bespoke basis so they are more economical for the specific nature of the task to be undertaken.

5. Hyperscalers lead race to develop energy efficient compute, an important driver of our planet overcoming climate change challenges

Successful innovation on chip energy efficiency is an imperative for the long-term proliferation of AI. Given the enormous economic incentives at play, there is a high probability the hyperscalers will lead this innovation. Not only will this have a positive direct impact on the world's physical environment, but the enabling of increasingly powerful AI will likely, itself, resolve many of the challenges the world needs to overcome to mitigate climate change risks.

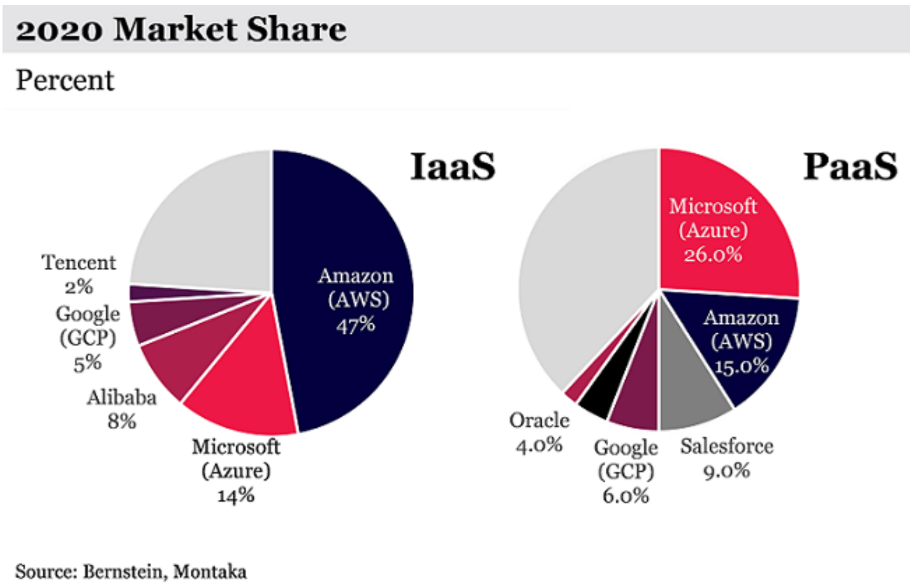
Today's hyperscalers will continue to invest heavily in ASIC design at a scale that will not be matched even by today's leading chip designers. Not only will ASIC improvements reduce the energy intensity of compute – clearly a first-order positive for the world's climate – but the enabling of increasingly powerful AI resolve many of the challenges the world needs to overcome to mitigate climate change risks. That will include climate risk detection models to grid scheduling algorithms, new fuel-material discovery, waste-reduction algorithms, supply chain optimisations, shared mobility, precision agriculture, and infrastructure design.

6. Hyperscalers will benefit from growing barriers-to-entry that makes them long-term winners from AI

Today's hyperscalers have a significant lead over competitors and it is highly likely this lead will only extend over time. The 'barriers to entry' in the space are already very high – and rapidly growing higher, all but eliminating the realistic prospects of a major new competitor materialising.

Most of the world's large corporates and governments already rely on these businesses for their cloud infrastructure and many of their mission-critical IT platform and enterprise application services. But as powerful ML models are increasingly built into services, these services become 'must haves' for customers, driving greater adoption.

Second, the scale advantages enjoyed by today's hyperscalers are much more significant than many investors appreciate and will likely continue to strengthen over time. These represent enormous barriers to entry by enabling investments in capex and R&D (such as the expensive training of powerful ML models, for example) that cannot be rivalled by competitors. It is these investments that have created the early lead in AI for today's hyperscalers. And this lead is growing rapidly thanks to new investments in the space each year.



Own today's hyperscalers to win in AI

AI will drive much, much more demand for compute and storage – both in the cloud and at the edge – than many are expecting today. Furthermore, this growth is largely assured, the long-term winners are already known today with a high degree of certainty, and we believe the current stock prices of these businesses are failing to adequately reflect what is on the horizon.

It appears highly plausible that hyperscaler revenue expectations are far too low in the context of the scale of the AI-based opportunity that lies ahead. If so, then Amazon, Microsoft and Alphabet – as well as Alibaba and Tencent – will likely surprise investors substantially to the upside over the coming years.

Investors should also remember that the enormous R&D being incurred by the hyperscalers, while expensed fully each period to satisfy accounting rules, represents an economic investment in future earnings power. Through this lens, hyperscaler earnings power today is 'artificially' understated – and valuation multiples, therefore, overstated.

The conclusion is clear: to win from the AI revolution, own today's hyperscalers, Amazon, Microsoft and Alphabet (Google).

Andrew Macken is Chief Investment Officer at Montaka Global Investments. This article is general information and is based on an understanding of current legislation.

Should you have a 'fun' portfolio?

Ben Johnson CFA

Many of us set aside an amount of play money to swing for the fences every now and then. This can help scratch the speculation itch without putting too much at risk. It's something I've done since I started investing. Sometimes I've used it as a quick cure for the fear of missing out, or FOMO. Other times I've spent this money to force myself to learn more about corners of the market that I don't know well. Sometimes, I've plunked it down because I thought I was on to something the market was missing.

Like many of you, I've had a mixture of successes and failures along the way, and learned a lot in the process. Here, I'll explore the idea of carving out a pile of "funny money," address the potential pluses and minuses of the approach, and sprinkle in some personal anecdotes.

A funny idea

The idea of cordoning off a pile of cash for an impulsive bet isn't directly supported by any academic research. As far as I can tell, one of its most prominent proponents was late Vanguard founder Jack Bogle. He outlined the case for this approach in a 2014 interview with MarketWatch:

"Divide your money into your long-term investment account and your funny money account for short-term speculation. Guess on funds, guess on markets, guess on stocks if you want to, because that gives you an opportunity to act on your speculative impulses.

"But they will hurt you a lot, so I recommend you have a funny money account of no more than 5% of your portfolio. I also recommend that after five years, check it out. Has it done better than the long-term investment or worse? I'd be astonished if at least 95% of those funny money accounts don't do worse."

Bogle, indexing's greatest champion, was also a student of human nature. If he advocated having a funny money portfolio (a term he also coined, at least in this specific context), it was in the hope that investors would avoid tinkering with the remaining 95% of their money.

From the very beginning, we humans have been inclined to succumb to temptation. We know what's best for us, but it can be difficult and – let's face it – boring to stay on the straight and narrow. We know that good sleep, regular exercise, and a balanced diet are critical to good health. But we're so often tempted by the latest faddish health shortcuts. When it comes to investing, we know that broad diversification, low costs, and a minimal amount of activity are vital for the health of our portfolios. When we turn on CNBC and see splashy headlines and flashy graphics and we can't help but want to do something.

A pile of funny money can be investors' pressure relief valve in much the same way that a "cheat day" (a day that someone can eat whatever they'd like) can help people stick to a nutrition programme.

What's the plan?

Perhaps the single most important decision investors face when laying their funny money plans is how much of their investable assets they will allocate to these exploits. Bogle suggested "no more than 5%," but that's a generic prescription for a diagnosis that will be deeply personal. For some investors, the right number may be zero. Others might be willing to wager more than 5%. Ultimately, the best answer is "it depends".

My favorite way to think of an appropriate amount is to back into a sum of money that you could see go down to zero without losing sleep. Would it put you off course? For some, that might be a round number, say $1,000 or $10,000. Others might size it in different terms, say as a year's worth of dividend income from their stock portfolio. In my case, less than 1% of my investable assets are allocated to funny money positions: a combination of some individual stocks, a closed-end fund, and a wee bit of bitcoin (0.00820984 to be precise).

Many investors prefer to set up a dedicated account for their funny money ventures. I can see the value of separating your play money from your serious money, though I don't do it myself. Keeping them apart can potentially help prevent spillover ("Maybe I'll just put a little more into this up-and-coming metaverse-based yacht manufacturer.") and keeps mental accounting clean ("This is my play account.").

What's the upside?

I think the biggest potential benefit of putting aside play money is that it can prevent you from taking big risks with the rest of your portfolio. A small bucket of money with a very specific purpose can get you a ticket to ride on the latest bandwagon, let you put some skin in the game when digging into a new opportunity, or simply try to make a bet that the market is mispricing something. It can be genuinely fun and educational, though it may not be financially rewarding. Meanwhile, the rest of your portfolio remains left untouched, dull as ever, and quietly compounding.

What's the downside?

What's the worst that could happen if you play with a portion of your portfolio? Assume you carve out 5% of your assets for riskier investments. What if they all got wiped out? Losing 5% of your portfolio outright would put a dent in your financial plan (and your ego), but it wouldn't be ruinous. What if, instead of going to zero, your play pot simply did worse than the remainder of your portfolio? In that scenario, I'd hope that it would reinforce your conviction in the principles that guided your approach to managing your serious money. That's been my experience. On the whole, my more, speculative bets have been a mixed bag at best. My feeble attempts to outsmart the market or outright speculate have reinforced my conviction in broadly diversified low-cost funds and the benefits of benign neglect when it comes to long-term investment success.

But what if your bets succeed? What if that 5% of your portfolio performs so well that it becomes 10%, 15%, or more? What then? I don't know anyone who would be disappointed by this outcome, but this sort of upside could have potential downsides, too. This level of investment success can breed overconfidence and is difficult to replicate, especially as it's often a factor of luck and not skill. The best investors know these things and keep these victories from turning into hubris.

As my colleague Amy Arnott found in her 2021 "Mind the Gap" Report, many individual stocks (and every crypto asset under the sun) have much higher levels of volatility than diversified funds. Even some of the best-performing stocks over the long-term experience periods of performance that would test the mettle of even the most stoic investors. Being able to hold on through some episodes of unfunny performance is required if investors hope to have any fun with their funny money.

Let's be serious

A play portfolio isn't for everyone. A lot of investors wouldn't put a penny toward an endeavour like this. And that's great! For those people who think a bit of dabbling might do them a world of good, it's an option worth considering. But remember to keep an honest tally of your wins and losses, and don't let the former go to your head.

Ben Johnson, CFA is Director of Global Exchange Traded Fund research for Morningstar. This article is general information and does not consider the circumstances of any investor. Minor changes have been made for an Australian audience.

Lessons for family businesses from the House of Gucci movie

Donal Griffin

The crime drama movie released last year, House of Gucci, is Ridley Scott's controversial interpretation based on the true story of Patrizia Reggiani and her conviction for murdering her ex-husband Maurizio Gucci.

The prestige product manufacturer, Gucci, has seen the potential for negative publicity for its brand arising from the film and has asserted that it is a work of fiction. I have no way of knowing if the film is factually incorrect but, from 25 years of advising family business owners, I would say there is no doubt that there were disputes in the family.

In 1993, after one grandson, Maurizio, sold his inherited 50% interest in Gucci to the same investment firm he had brought in to buy up his relatives' shares, there was no longer anyone from the Gucci family involved in running the firm. His lavish spending and lacklustre management left the company in a parlous position when he finally relinquished control.

Maurizio would go from reluctantly joining his family firm to ruthlessly removing his relatives to execute his vision to save the company.

He was murdered on the steps of his office building in Milan in 1995. The film explains that his wife, Patrizia Reggiani, was sentenced to 29 years in prison for orchestrating the murder, and she was released in 2014 after serving 16 years. She could have been released even earlier but she turned down a work-release programme, reportedly saying, "*I never worked a day in my life, and I don't intend to start now.*"

1 DEL PUPPO/FOTOGRAMMA & FABIO LOVINO/MGM AND UNIVERSAL

The movie ends with an inheritance dispute as often happens. In our experience, behind most such disputes there is family drama that could have been handled much better.

After her release, Patrizia was asked by paparazzi in the street why she hired a gunman to kill Maurizio rather than do it herself, she said, "*My eyesight is not so good, I didn't want to miss.*" According to the new afterword in the movie tie-in edition of the book on which the film is based, the wife succeeded, against her two daughters who presumably wanted the inheritance, in her claim for a substantial annuity from the Gucci estate. In 2014, she said, "*I still feel like a Gucci – in fact, the most Gucci of them all.*"

The other family members did not fare much better. Another grandson, Paolo, filed for bankruptcy in 1993 while his father, Aldo, served time in prison for tax evasion.

Roberto, one of Aldo's sons not depicted in the movie, went on to run a small leather goods business in Florence after selling his shares of the family company, and once said, "*The Guccis were a great family. I ask forgiveness for all their mistakes. Who doesn't make mistakes?*"

I first came across this story in a book considering family succession by Alan Crosbie called '*Don't Leave It To The Children*'. Crosbie writes with authority being the fifth generation of an Irish newspaper dynasty. He writes:

"Guccio Gucci suffered from a bad sense of parental fairness. He had two sons, and in order to be fair to both of them, he divided his company equally between them: each son received 50% of the shares in the family firm. Now, that figure has a certain magic to it. The expression 'They divided the business 50-50' has a wonderful ring to it. Unless you're one of those accountants or lawyers who has had to mop up the results of such an even split between family members."

At Legacy Law, we are one of the mopper-uppers. The way to avoid family disputes is to have good communication, adequate preparation and helpful dispute resolution - by which we mean avoiding the civil and criminal courts.

Well-respected commentator on family business, Dennis Jaffe, recently opined:

"Major decisions were hard to make since the brothers were equal owners and it was never clear who was in charge. As in many families since biblical times, interpersonal dramas and sibling rivalry were dominant, and they were on course to disrupt a thriving business".

The film ends with a note that acknowledges the company's current leadership and that it has an estimated value of US$60 billion. It just has no family owners.

In the book, as Maurizio rises in the company, his own father Rodolfo tells his wife, "Once he gets money and power, he will change." As humans, we all change but it is positive change that is required if families are to avoid falling victim to disputes and miss the opportunity to Be A Better Ancestor™.

If you have a business, ask yourself if you want to build one of the great business families. They are plenty of good and bad examples but the good ones do a lot more than rely on good luck and goodwill.

Have you simply left the shares equally to the children? Equality, without more governance, communication and consensus can leave a family business exposed to public ridicule, or worse.

Donal Griffin is the Principal of [Legacy Law](), a Sydney-based legal firm specialising in protecting family assets, and author of 'An Irish book of living and dying' (the first book in the '[Be A Better Ancestor]()' series). Legacy Law is not licensed to give financial advice and this is general information.