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Editorial

Legendary investor Charlie Munger has died aged 99. He overshot with his longevity as he did with his investing prowess.

Two weeks ago, I did an article on a podcast interview that Munger did where he relayed his thoughts on an array of topics from Buffett to Apple to gambling and his optimism on China. It was vintage Munger, though little did I know that it would be the last in-depth interview that he ever did.

In that article, I wrote about how Munger and Buffett met:

> *"Munger first met Buffett in 1959 through a mutual friend. A doctor in their hometown of Omaha, Dr. Edwin Davis, told Buffett in 1957 that he trusted him to manage money because Buffett reminded him of someone called Charlie Munger. "Well, I don't know who Charlie Munger is, but I like him," Buffett responded to Davis. Two years later, Davis arranged for the pair to meet, and they hit it off right away."*

Almost 20 years after that meeting, Munger became Vice Chairman of Berkshire Hathaway, a position he retained through to his death. So, what is Munger's legacy? Will he be remembered in 50 years' time as anything other than the sidekick to one of the world's greatest-ever investors in Warren Buffett?

I think he will, for four reasons:

1. He pioneered applying different subjects to investing

Think about the greatest investors of the past century – T. Rowe Price, John Templeton, Philip Fisher, Benjamin Graham, George Soros, Peter Lynch, and Buffett – and all of them had something distinctive which gave them an edge in markets.

One of Munger's edges was his ability read widely outside of finance and apply different subjects to investing. He outlined his use of so-called mental models in a 1995 speech called The Psychology of Human Misjudgement:

> *"What is elementary, worldly wisdom? Well, the first rule is that you can't really know anything if you just remember isolated facts and try and bang 'em back. If the facts don't hang together on a latticework of theory, you don't have them in a usable form.*
>
> *You've got to have models in your head. And you've got to array your experience—both vicarious and direct—on this latticework of models. You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and in life. You've got to hang experience on a latticework of models in your head…*

…You may say, "My God, this is already getting way too tough." But, fortunately, it isn't that tough—because 80 or 90 important models will carry about 90% of the freight in making you a worldly-wise person. And, of those, only a mere handful really carry very heavy freight."

Munger was big on taking elements of mathematics (such as algebra and probability), physics (like first principles), psychology (avoiding common biases), engineering (margin of safety), and biology, and applying them to every day decision making and investing.

An example of this is Munger's famous exhortation for people to "invert, always invert". The quote is often mistakenly attributed to him, though it originally comes from the mathematician, Carl Gustav Jacob Jacobi.

Jacobi's saying means that problems are often best solved by thinking backwards instead of forwards. For instance, if you're a manager of a department and you want to improve workplace culture, thinking forwards would mean considering different ways to foster a better culture. Thinking backwards would mean investigating the best methods to destroy a workplace culture, which may then yield ideas about how to best improve it.

Munger's genius was in using these different mental models or heuristics to become a better investor. With this, he inspired many great investors, and his methods may remain relevant for decades to come.

2. He reignited growth investing

Seemingly every investor is a growth investor nowadays. Charlie Munger is a big reason for that.

He wasn't the first growth investor; far from it. Philip Fisher can probably lay claim to this. Then, T. Rowe Price popularized growth investing in the 1950s and 1960s. During the 1970s, growth investing fell deeply out of favour as then overhyped stocks got obliterated. Yet it was during this time that Munger persuaded Buffett to abandon his value approach to investing. In Buffett's words:

"It took Charlie Munger to break my cigar-butt habits and set the course for building a business that could combine huge size with satisfactory profits.

The blueprint he gave me was simple: Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."

Munger inspired Buffett to become a growth investor and that in turn inspired millions of others to follow suit.

3. He helped create one of the world's great companies

Munger will also be remembered for helping Buffett build Berkshire Hathaway into the US$780 billion company it is today. It's still underappreciated how well the pair has set Berkshire up to last for potentially decades longer. They've methodically built the pieces of the puzzle to ensure the company has the best shot at achieving it.

Berkshire will have to defy the odds as the average lifespan of an S&P 500 company is less than 20 years. But it's already surpassed that average, and it will be up to Buffett and Munger's heirs to ensure Berkshire's longevity.

4. His no BS policy

I'll admit that for a long time I found Munger arrogant and his comments over-the top. Gradually, I came to see what many others did: that he was refreshing in his independent thoughts and his blunt delivery of them.

In a world where CEOs and fund managers are surrounded by marketing, legal, and compliance departments, and prevented from saying anything even remotely controversial, or in many cases interesting, Munger was different. He had strong opinions and didn't care who was offended by them. And he was often funny.

Here are some of his more pointed barbs:

"Bitcoin is probably rat poison squared."

"I am not proud of my country for allowing this crap — well, I call it crypto sh--. It's worthless, it's crazy, it's not good, it'll do nothing but harm, it's antisocial to allow it."

"Investment bankers and mortgage issuers were afflicted with insanity, megalomania and evil when they helped inflate the pre-2008 housing bubble."

"I think Elon Musk overestimates himself, but he is very talented."

"Every time you hear EBITDA, just substitute it with bullsh--!"

On the last quote, I remember when Munger first said it, probably in the early 2000s. At the time, there was a highly successful global fund manager in Australia who'd often referred to his key metric for determining a company's value was EV/EBITDA(Enterprise value divided by earnings before interest, tax, depreciation, and amortization).

After Munger slandered the use of EBITDA, this particular manager wrote a lengthy report to his investors about why the metric still had merit, though of course it wasn't the only valuation tool he used.

I still get a chuckle thinking about the fund managers who were ducking for cover at that time. Munger's no BS policy may not be his most enduring legacy, though it'd be nice if it was.

Munger quotes

Finally, it wouldn't be right without ending with more Charlie Munger quotes. Here are nine of his best:

"Show me the incentive and I will show you the outcome."

"The big money is not in the buying and selling, but in the waiting."

"In my whole life, I have known no wise people who didn't read all the time — none, zero."

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

"I did not intend to get rich. I wanted to get independent. I just overshot!"

"I've heard Warren say a half a dozen times, 'It's not greed that drives the world, but envy. ' Envy is a really stupid sin because it's the only one you could never possibly have any fun at."

"The fundamental algorithm of life - repeat what works."

"What you have to learn is to fold early when the odds are against you, or if you have a big edge, back it heavily because you don't get a big edge often. Opportunity comes, but it doesn't come often, so seize it when it does come."

"I don't pay much attention to macroeconomic trends … Like the weather, I just ignore the weather. I just try to invest whatever capital I have as best I can and take the results as they fall. I just seize whatever opportunities I can and I hope I get my share."

In my article this week, I look at how a lot of ASX success stories, such as JB Hi-Fi, Lovisa, and AUB, have followed one of two strategies: rolling out single store formats nationwide or consolidating fragmented industries. The article deep dives into these strategies, why they've been successful, and points to where the next 'multi-bagger' might lay.

James Gruber

Investors have been piling into bank savings accounts, excited by the yields on offer after years of getting next to nothing. **Miles Staude** suggests investors should temper their enthusiasm as high inflation means these accounts are losing money in real terms. He thinks investors should look for assets with higher prospective returns to add to their portfolios.

APRA is due to release the results of its review into hybrids by early to mid-next year. **Elstree Investment Management's Campbell Dawson** goes through APRA's public objections to hybrids and he finds them misplaced. He thinks if the regulator wants more safety in our banking system, it will come at the expense of effectiveness, and that's why wholesale changes to the hybrid market are unlikely.

Higher interest rates = lower share prices, right? Well, it hasn't quite worked out that way this year. **Ophir Asset Management's Andrew Mitchell and Steven Ng** say that shouldn't surprise investors as history shows a weak relationship between rates and share prices. They reckon company fundamentals are going to matter more in the coming years.

Nobel Prize-winning economist Harry Markowitz once said that "*diversification is the only free lunch in investing*". What he meant was that holding a broader range of assets could result in better returns without assuming more risk. Markowitz's view has become accepted wisdom, though **Joe Wiggins** believes that it's incorrect.

Asia was considered the world's best growth story until China's economy hit the skids. **Fidelity International's Martin Dropkin** writes that the region's growth momentum can reignite as headwinds from a strong US dollar and China slowdown recede.

The *Wealth of Experience* podcast is back and this week delves into the world of private assets, specifically commercial real estate and private equity. **Charter Hall's CEO of Direct Property, Steven Bennett, and Schroders' Global Head Private Equity, Rainer Ender**, join us to discuss the sectors' challenges and bright spots. Meanwhile regular guest, Peter Warnes, looks at Michelle Bullock's hawkish turn and what it means for rates and the economy.

Lastly, in this week's whitepaper, **Franklin Templeton**, explores opportunities for investors from the energy transition.

Two proven ways to make big money in markets

James Gruber

The holy grail of investing is what legendary US fund manager Peter Lynch dubbed 'multi-baggers': stocks that return many multiples on your money. For companies to achieve this, they need turbocharged earnings growth, and that kind of growth is mostly found at the smaller cap end of the market.

When investors investigate small cap companies, many look at numbers: margins, sales, and earnings growth, return on capital, and so on. These are all important. They tell investors the result of hundreds, perhaps thousands, of business decisions and actions.

What's often overlooked are the business models or strategies that drive these decisions and the final numbers that end up in the profit and loss, and balance sheet statements.

If you go back and analyse some of the biggest ASX small cap success stories of the past decade or two – JB Hi-Fi, Lovisa, Domino's Pizza, AUB, and others - many fall into one of two camps: they've either expanded a single store format nationwide or consolidated a fragmented industry.

In this article, we're going to deep dive into these two strategies, why they've been successful, and pointers to where the next multi-bagger might lay.

Expanding single store formats nationwide

One of the most common business strategies is to take a proven store format and expand it statewide, or nationwide.

JB Hi-Fi (ASX:JBH) is one of the best examples of this strategy in action. The company was set up in 1974 by entrepreneur John Barbuto (hence the 'JB' in JB Hi Fi) with a single store in East Keilor in Victoria. Barbuto wanted to deliver a specialist range of Hi-Fi and recorded music at low prices. He sold the business in 1983 and by 1999, it had been under various owners and another nine stores had been opened.

Enter Richard Uechtritz and Terry Smart. Both these men were running Kodak's operations in Australia at that time. Prior to that, Uechtritz had built and sold the Rabbit Photo chain. Uechtritz and Smart, along with Macquarie and others, bought into the company in 2000.

When they bought it, JB Hi-Fi had 10 stores with revenue of $135 million. In the next three years, they opened 16 new stores along the Eastern seaboard and turnover increased to $355 million. That's when they decided to IPO the company.

On October 24, 2003, JB Hi-Fi debuted on the ASX at an IPO price of $1.55. The shares jumped 42% on the first day. It turns out many investors liked the JB Hi-Fi story. It's fascinating to read the company's IPO prospectus. Management was clear in its aims and what made JB-FI distinctive.

On the company's competitive advantages, the prospectus had this to say:

> *" - low cost and large scale operations that are driven, in large measure, by sales per square metre of selling space of around $25,000;*
> *- discount positioning which the Directors believe provides protection from the retail economic cycle;*
> *- ability to offer leading brands in each product category through strong relationships;*
> *- specialist image through carefully targeted focus on home entertainment products; and*
> *- distinctive branding and prominent retail locations."*

In other words, JB Hi-Fi sold discounted home entertainment products, in smaller than normal selling spaces though good locations, with colourful branding, and knowledgeable staff.

The prospectus mentioned the extensive retail experience of management and the goals of the company, including opening at least five new stores in 2004, and accelerating the store rollout in Sydney, Adelaide, and Perth over the following three years.

In interviews in subsequent years, Uechtritz acknowledged that JB Hi-Fi was a category killer. At the time, Harvey Norman was in computers and Bunnings was in hardware, and it was his company in home entertainment.

Fast forward to today, and the company has more than 200 JB Hi-Fi stores in Australia and New Zealand with revenue of close to $6.45 billion and group sales (included The Good Guys) of $9.63 billion. And Terry Smart is Group CEO.

Source: Morningstar

Another example of a company that successfully rollout out a store format nationwide, and in this case overseas, is Domino's Pizza (ASX:DMP). Until recently, it was a market darling.

The first Domino's store in Australia was opened in Queensland 40 years ago. It offered home delivery about two years after the concept was first introduced in the country. The Australian and New Zealand Master Franchise was bought by Silvio's Dial-a-Pizza in 1993, and two years later, and the two brands merged and were rebranded as Domino's Pizza.

Funnily enough, a young man by the name of Don Meij worked as a delivery driver for Silvio's in 1987 and when Silvio's merged with Domino's, Meij became General Manager. Meij became a Domino's franchisee in 1996, expanding to own 17 stores. He sold these stores to the company for a 12.5% equity stake in Domino's in 2001.

Meij became CEO of Domino's in 2002 and the company became Australia's first publicly listed pizza chain on the ASX in 2005.

When it IPO'ed, Domino's had 375 stores in Australia and New Zealand and sold 700,000 pizzas a week. The shares listed at $2.20.

From the start, Meij stuck primarily to a franchise model to roll out stores aggressively and used technology effectively to drive online sales and delivery. Over the past decade, the growth story accelerated through the acquisition of European and Japanese Master Franchise agreements.

Today, Meij is still CEO and Domino's has 3,800 stores across the world, including around 730 in Australia. Here, Domino's has crushed competitors such as Pizza Hut. Pizza Hut concentrated more on dine-in style stores. Domino's now has 50% market share in Australia versus Pizza Hut's just 10%.

Source: Morningstar

Hindsight's tricks

It's easy to look at these kinds of stocks and think their successes were inevitable. But they weren't. That's a trick of hindsight.

To expand from one store to thousands requires an immense amount of work and a bit of luck. JB Hi-Fi and Domino's had to nail the concepts for their first stores, and as they expanded, they needed to get store locations right, manage inventories, supply chains, hire staff, managers, manage finances, legal issues and it goes on.

What they both got right from the start though was that their formats were replicable and could be rolled out quickly if they executed right. The strategy of rolling out store formats nationwide isn't a new one, of course. Many retailers and restaurants in Australia have taken their inspiration from the US. From older companies like McDonalds, Walmart, and Costco, and newer companies like Chipotle and Chick-fil-A.

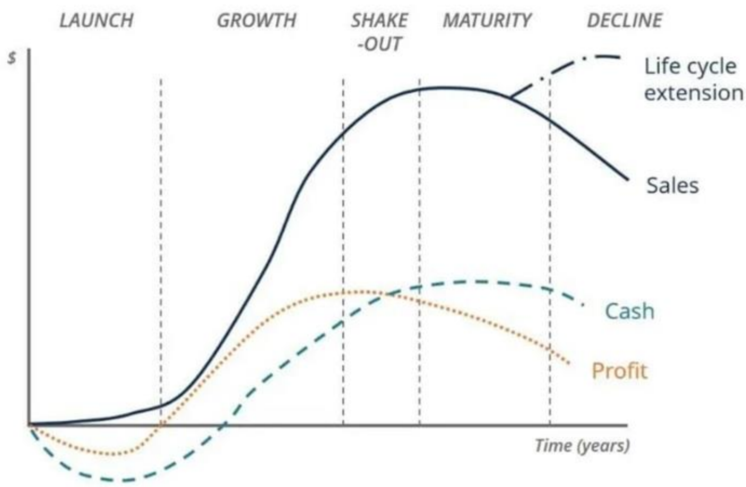
Unlike America, Australia is small and that means there are limits to how much a company can grow here. That's why many businesses head overseas, though that increases risks.

The lifecycle of companies

One way of looking at companies looking to aggressively expand store rollouts is by thinking about the lifecycle of businesses. The theory goes that businesses progress through five stages: launch, growth, shake-out, maturity, and decline.

When JB Hi-Fi and Domino's IPO'ed, they were at the beginning of their growth phase. As a general rule, investors in search of small cap multi-baggers should look to buy companies either in the launch or first half of the growth phases.

When these types of companies start expanding overseas, they are probably hitting the maturity or even decline stages of the lifecycle. I'd suggest Harvey Norman is in one of these two stages. The jury is out on Domino's Pizza too, though they do seem to have a decent shot at the overseas ventures.



Source: Corporate Finance Institute

Consolidating fragmented industries

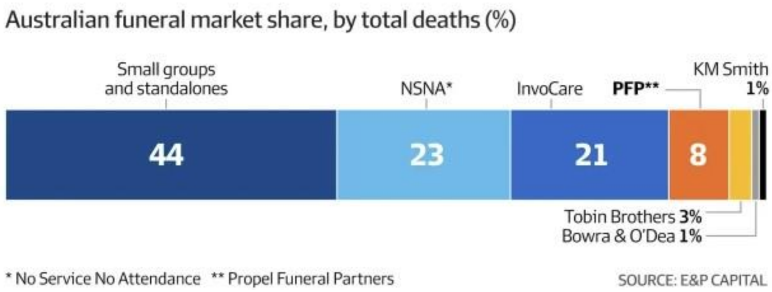
Another business model that's proven successful on the ASX is that of consolidators of fragmented markets. Say 50 companies have 2% each of an industry, and two of those companies gobble up the others and get to 30% market share each. That can prove enormously profitable for both companies and their shareholders.

As with the first business model, it isn't easy to execute. Ideally, consolidators don't want to pay too much for companies that they acquire, don't want to take on too much debt with the purchases, want to get cost synergies from their acquisitions, and integrate companies into the culture of their own businesses.

A good example in recent decades is the funeral industry in Australia. Traditionally, this industry has been dominated by family-owned funeral homes. InvoCare (taken over by private equity) saw the opportunity and acquired many of these mum and dad owned homes. Now a second company, Propel Funeral Partners (ASX:PFP) is pursuing a similar strategy. It's grown from having one funeral home ten years ago to having 180 locations today. In 2015, it had 1.2% market share in funeral services. Today, it's got 8%. Since 2015, Propel's revenue has increased 15x and operating net profit is up 13.9x. The company's share price listed at $2.70 in 2017 and is up 82% since then, excluding dividends.

Source: Morningstar

Yet the opportunity for Propel and InvoCare still appears compelling. Combined, they only control 29% of the industry. It's little wonder that Propel is also getting interest from private equity.



There are lots of other example of companies attempting to consolidate industries. Commercial insurance brokers would be one. AUB (ASX:AUB) has been central to this, and it's managed to compound total returns at 17% per annum over the past 15 years.

Source: Morningstar

US examples

Overseas, there are also plenty of examples where this business model has been successfully applied. In the US, the auto parts industry used to be dominated by independent owners until O'Reilly Automotive (NYSE:ORLY) and AutoZone (NYSE:AZO) started buying them. They've both been highly effective with their strategies and their stocks have been some of the best performing in US, compounding returns at 27% and 24% respectively over the past 15 years.

Source: Morningstar

Source: Morningstar

An old example of the consolidation of an industry is in waste management in the US. The industry now has a handful of large players, compared to 30 years ago when independent owners commanded the lion's share. The guy that led the industry transformation was an entrepreneur named Wayne Huizenga. He started with a single garbage truck in 1968 and built Waste Management (NYSE:WM) into a Fortune 500 company.

Source: Morningstar

After Waste Management, Huizenga went onto to found two other Fortune 500 companies, Blockbuster and AutoNation (NYSE:AN). Interestingly, he built these companies using the other business model mentioned in this article: expanding a store format nationwide. The details on Huizenga's stellar career are captured in the highly recommended book, The Making of a Blockbuster.

It's worth noting that consolidating a fragmented industry isn't without risks. Businesses employing the strategy can expand too fast, take on too much debt, not integrate acquirees properly, or a combination of these and other factors. In this regard, a cautionary tale comes from the collapse of Australian childcare operator, ABC Learning, in 2008.

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The bank is still a terrible place to put your money

Miles Staude

Our instincts are generally poor guides when it comes to investing. Millions of years of evolution have left us with brains that are hard-wired to put safety first whenever we can. When faced with hunger, disease, or the odd Saber-toothed tiger, it's hard to fault safety first as the go-to organising principle.

When it comes to more cerebral tasks, such as investing, these old instincts can sometimes cause us more harm than good. One of the best-known examples of this is what behavioural economists refer to as 'loss aversion', a phenomenon that sees us instinctively worry more about losing money than making money.

For example, when presented with a theoretical investment proposition that offers an equal chance of either doubling your capital (a 100% gain), or seeing it halved (a 50% loss), many of us will decline to make the investment, fearful of the 50% prospective loss. Meanwhile steely professional investors would relish such an opportunity, with the prospective outcomes (if not odds) stacked heavily in your favour.

Today a new form of loss aversion is stalking the investing public. With the Reserve Bank of Australia (RBA) having lifted interest rates by 4.25% over the past 18 months, there is a growing narrative in the market that holding cash has now become an attractive investment option in its own right.

At face value, the argument has a certain seductive appeal. Given the capital strength of the big four Australian banks, placing your savings into one of these banks is certainly an exceedingly safe thing to do. Moreover, relative to recent history, interest rates today are very high. Savings accounts at the big four currently offer rates of between 4 and 5%, a vast improvement on the circa 1% they averaged over the five years prior to the RBA starting to lift interest rates. Indeed, outgoing RBA chairman, Philip Lowe, said at one of his last parliamentary committee meetings that he had received many letters of thanks for lifting interest rates, and in the process finally letting savers earn a good rate of return on their cash investments.

The silent tax

The flaw to this logic is the factor that has driven interest rates so much higher recently: inflation.

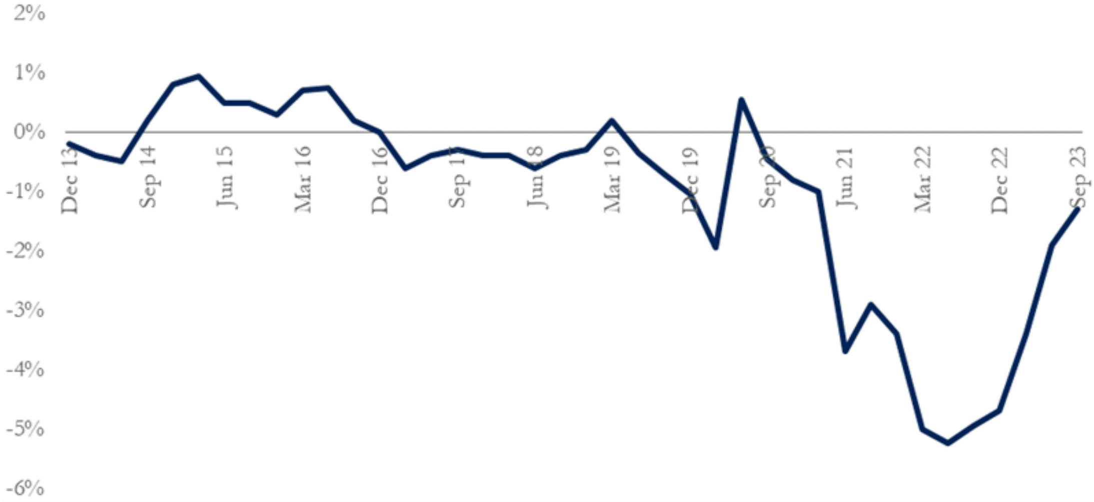
Inflation is often referred to as the 'silent tax'. Silent because we don't see it reaching into our back pockets the way we see governments do when they tax us directly. But just because we don't see it, it doesn't make it any less real. Inflation works in the background to reduce the real-world buying power of our savings.

Over the past three years, the average basket of goods and services we buy in Australia has increased by 16.4%. If you had left your savings in a bank account over that time, you would have earnt 4.1% in interest. In the real world then, you are 10.6% worse off, even though your bank account balance looks higher.

Given the RBA is tasked with protecting people's purchasing power by maintaining inflation at low levels (admittedly not an easy thing to do), those writing to Philip Lowe had more reasonable grounds to be complaining about significantly reducing the real value of their savings, rather than thanking him for lifting interest rates.

The chart below shows the prevailing RBA target interest rate less Australian inflation over the past ten years, to give an approximate real (or after inflation) measure of the returns that have come from leaving money in the bank.

Real Australian interest rates[1]



[1]RBA target overnight interest rate less Australian CPI. Source: Bloomberg LP

It has been a long time since savers could put money in the bank and earn a positive after-inflation return on their investment. The last few years, when inflation peaked at 7.8%, have been particularly grim. While inflation has begun to fall again, the last reading of 5.4% (based on quarterly CPI data which is considered more accurate than the monthly indicators) is still above any current interests that any major bank can offer. Instinctively, putting money in the bank always feels like a safe thing to do with your savings. Sadly today it is still guaranteeing you a negative real-world loss, given where rates of inflation are. Hardly an attractive investment option, in our view.

Other alternatives

The better news is that, in theory, higher base interest rates should mean higher prospective returns are available to investors across other asset classes. The most intuitive place to see this theory in action is in the debt world. With the RBA lifting rates as much as they have, the interest rate that is available to creditors when lending their money to companies has increased considerably. Two years ago the average yield on an investment grade bond in Australia was 2.1%, while it was 4.7% for sub-investment grade borrowers. Today those figures are 5.2% and 8.0% respectively.

Moving further out the risk curve, the same principle ought to apply to higher-risk assets, like shares. As base interest rates go up, the discount rates used to value these assets moves higher. In theory, that should mean prices fall in tandem with rising rates, but that after this adjustment, future expected returns should be higher than they were historically, reflecting the new higher base rate in the economy. Unfortunately, theory and practice do not always come together perfectly (witness Australian property prices, where predictions that higher rates would lead to a correction have failed to eventuate).

Nevertheless, investors today should be armed with the basic principle that higher RBA base rates should mean higher prospective returns from their investment portfolios (or their fund managers) and be demanding as such. It will only be with these higher returns that any of us can look forward to a real (after inflation) return on our savings.

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Little to fear from APRA's hybrids review

Campbell Dawson

Banking regulators have a real dilemma: there is a choice between safety versus effectiveness. APRA could make the system completely safe for depositors, with 25% equity levels and dividends only payable when profits reach a certain level. However, if they did that, they wouldn't have a banking sector to regulate as the cost of banking products would be prohibitive and/or no investor would give banks capital because there would be no prospect of decent returns. Banking type activities would migrate to the non-bank sector with all the potential issues that come from non-regulated finance sectors blowing up. If they went to the other extreme and let banks operate with very little capital and limited regulation, you get lots of profitable banks and regular banking crisis (see GFC experience).

A banking regulator must try and walk that tightrope. They tend to safety because there is enough evidence that a systemic banking crisis results in GDP falls of 25%. But a risk-free banking system has the same economic result: bad stuff just happens in a different way.

This is where we think APRA is with their call for comment in September regarding AT1. It is a largely subjective trade off, so we think it's worth discussing.

No loss for existing hybrid holders

APRA's call for comment has finished on November 15, and they will release the results in early/mid 2024. Whatever their decision, there should be no loss for existing hybrids. The table below shows a summary of potential APRA decisions and our view of what it might mean for existing hybrids.

APRA decides they hate retail ownership of hybrids and makes banks redeem them immediately	Banks repay hybrids at $100. Banks may issue hybrids to wholesale investors which include Funds/ETFs.
APRA decides they hate retail ownership but allow banks a grace period to restructure their capital	Existing hybrids continue to trade for the grace period. New hybrid issues to wholesale investors. Hybrid liquidity should remain unchanged and maybe prices increase marginally due to no new issues.
APRA decides they hate retail ownership but allow existing hybrids to mature	The existing c$42b of bank/insurer hybrids continue to trade until final maturity (2030). Liquidity should remain unchanged, and prices would probably increase due to scarcity.
APRA decides that retail ownership of hybrids is OK, or it is too hard to materially change structures	No change.
APRA changes the CET1 level at which AT1/hybrids convert to equity	Existing hybrids will continue to be subject to conversion if CET1 levels reach 5.125%. New hybrids have a higher (c7.5%) trigger. New hybrids may potentially be cheaper than the pre-change securities. Existing hybrids may be subject to a transition period before call.
APRA convinces the ATO to change its views on franking of equity instruments to allow banks to issue unfranked hybrids	Some increased institutional ownership. Prices may move marginally higher due to increased demand. We can't see this happening by mid-2024.

Why does APRA object to hybrids?

Both APRA and ASIC have been wary of retail investor exposure to hybrids for the last decade. We don't think many of the arguments stand up to evidence or discussion, but because they get repeated so often, some of them have gained the status of semi truth. There seems to be a range of arguments from both the discussion paper and the AFR articles in the week after.

This year was about liquidity crisis not solvency events

- **(from APRA) AT1 was only used when recent international banks (SVB? Credit Suisse?) had collapsed rather than providing capital support earlier in the crisis.**

We disagree with APRA's interpretation of these events.

SVB was clearly a liquidity event rather than a solvency event. It went broke in the space of less than a month after concerns become apparent. The final liquidity run was just 2 days. Converting an AT1 in that month would not have changed the click induced bank run. Arguably, one of the catalysts for the liquidity event was the recognition that SVB had enormous unrealised losses on securities (due to higher interest rates). If SVB was subject to Basel 3 regulation (or Australian Basel 3 regulation), those unrealised losses would have been deducted from equity levels, and SVB would have been in breach of its capital levels. It would have been required to convert hybrids to equity or raise new equity. If that was the case AT1 would have done its job, but we will never know.

Credit Suisse. For the past 10 years Credit Suisse has been a really bad, but still solvent bank. It was solvent in February 2023, one month before collapse. Its average RoE for the last decade is around 3% and there were continual stupid events. Despite that, it has been operating with 13% CET1 levels over that period, which is above Australian bank levels. Prior to February 2023, it had been able to raise debt and AT1 and Tier 2 capital relatively easily and it had an investment grade rating. This all changed in February/March when deposits disappeared, and the Swiss authorities acted. Bagehot, who wrote the bible on central banking believed "to avert panic, central banks should lend early and freely (without limit) to solvent firms against good collateral and at high rates". The Swiss forgot that (or never learned), and they shot-gunned a marriage to UBS which involved the wiping out of CS AT1's. As it turns out UBS paid not much for $57B USD of net assets and the only legitimate post acquisition write offs were about $2.3B of asset/goodwill write downs and $4.5B of regulatory costs. The assets were OK. This was a solvent (bad) bank finished off by a liquidity run. Converting AT1 in 2022 or earlier would not have altered the situation.

Too much retail involvement?

- **(from APRA) Australia is an international outlier due to the level of AT1 held by retail investors**

And? Australia is also an international outlier in the extent to which retail owns the ordinary equity of its financial system. Direct retail and SMSF probably own more than 40% of bank equity. The major banks have a capitalisation of $400 billion. Hybrids have a market capitalisation of $42 billion. If APRA is worried about the effect of retail ownership of bank capital instruments, bank equity will fall further and faster than hybrids and should create more problems of that kind. It's hard for us to comprehend APRAs view that it is worried about 'unsophisticated' or 'unaware' investors investing in hybrids. Since 2021, only 'wholesale' investors can purchase hybrids at new issues. These investors almost all use financial advisers, who themselves are licenced and are required to select appropriate investments. Most financial advisers have approved product lists and probably have access to expert/independent advice. We can't see where the concept of this "knowledge vacuum" comes from.

Clearly, non-wholesale/non-advised investors can buy hybrids on the secondary market. If we look at the 3 largest non-advice broking platforms (Commsec, CMC, Open Markets), they account for around 10% of turnover of all hybrids. All the other turnover is via brokers that offer advice. We think that given the warnings about hybrids, the experience of hybrids going to $0 (Axess, Virgin, Allco, Babcock and Brown etc), and the small number of investors who haven't received advice, the problems of retail unadvised ownership are not material. We're not sure that wholesale changes to protect 10% of a $42 billion segment is an example of good policy.

- **(from APRA/Media) Problems of banks having to compensate retail investors who own hybrids**

In their paper APRA cites examples of Spain and Italy where banks that defaulted/reconstructed had to compensate investors. In at least some of these cases, the banks had offered hybrid type securities to customers alongside deposits. Customers walked into the bank and were offered a deposit or a higher yielding hybrid, without the risks being explained. Unsurprisingly, some opted for the hybrid. When the bank was restructured the hybrid holders suffered losses. The banks had to compensate the investors due to the banks explicit or implicit mis-selling. It's a little disingenuous for APRA to cite these events as a comparison to Australia. Here banks have no role in investors buying hybrids. There have been no shareholder offers since 2021 and any investment in hybrids is via a financial adviser or via a broking platform. It is difficult to see how the banks would be required to compensate investors as they did in Spain and Italy. The banks' and APRA's response would be "go and sue your advisor". There were also concerns about litigation from upset investors and some speculation that it would be worse from retail investors. It's not obvious these concerns are valid. Apparently, there were 1000 lawsuits regarding the bail in/reconstruction of the Spanish Bank Popular which was shuttered in 2017. None have succeeded.

Banks won't stop dividends

- **(from APRA) Banks are reluctant to stop AT1 distributions and hybrids haven't been converted early enough**

APRA notes that Credit Suisse didn't cancel AT1 payments despite incurring losses and facing "uncertain profitability outlook" (we're not sure when any profitability outlook is "certain"). Let's start with the observation that hybrid distributions must be paid if the bank pays dividends on the ordinary shares (fair enough). Let's also note that Australian banks have consistently been viable enough to pay dividends (Westpac has paid an annual dividend since 1817). As per APS 111, banks can pay dividends provided they have an adequate process around capital and are above the required capital buffers. There is a specific waterfall about how much capital they can distribute depending on their equity levels. APRA's issues about banks paying AT1 distributions are entirely their own making. If APRA is sufficiently concerned about banks making hybrid capital distributions, they can simply instruct banks to stop them. Dividend payment or not does not relate to the structure of AT1 instruments or their ownership. But this is not a consequence free exercise. ANZ lost a lot of money in 1992 (but still paid a dividend). Should APRA have kvetched about banking system capital and exercised its discretion to halt dividends (and hybrid distributions)? As it turns out the directors were right to continue paying dividends. Two years later the RoE hit 18%. If APRA exercised its discretion (and was wrong), investors would have added an APRA risk premium to capital which would have resulted in more costly and less access to capital.

Trigger levels increasing

Under current regulations, hybrids are automatically converted to equity if CET1 levels reach 5.125%. We think that APRA's view that this is too low for "going concern" capital is valid. If a bank reaches 5.125%, it is a "gone concern". APRA's last stress test had the usual dire scenarios (10% unemployment, house prices falling 33%, no equity raisings), but apparently no bank breached the 5.125% trigger level. If those stress test conditions did occur, banks should be raising equity or converting hybrids. If (when!) APRA makes that change, new hybrids will be issued with a c7% conversion trigger. Existing hybrids will retain the 5.125% trigger. We think that pricing of new hybrids will be relatively unaffected in those circumstances. Under current documentation, investors receive $100 worth of shares provided that the share price at the time of conversion is greater than 20% of the issue price VWAP. We find it hard to see bank share prices falling by 80% for a bank which has a mild capital shortage and is reasonably profitable. It's a different story for equity, which gets diluted pretty heavily if this happens.

Why APRA shouldn't make wholesale changes

We noted before that regulatory policy is a trade-off between safety and effectiveness. By any standards, APRA is one of the most conservative regulators in the world. The US regulator is reluctant to implement standard Basel 3 because it is anti-economic. Australia's version of Basel 3 is even more restrictive. Is APRA too conservative? If you ask a new business owner who can't get bank finance and has to use non-banks or a credit card, APRA probably is too conservative. More concretely, locking retail out of providing bank capital will lead to higher cost of capital and less access to capital.

What eventually happens?

Our inkling is that there will be little change, due partly to the enormous changes that are needed to create a viable institutional market. We can't see any banks being able to issue to institutions until the ATO allows banks to issue unfranked bank capital instruments. Unless APRA is able to convince the ATO to change its long-held rules on franking of equity instruments within the next few months, their early/mid 2024 response will have to be no material changes to the status quo. In addition, there has been a lack of precautionary bank hybrid issuance in the 2 months since the paper was published.

Conflict of interest statement: we manage hybrid funds. Changes to market structure will affect us but if retail is locked out of direct ownership of hybrids, an unknown portion of investments will transfer to managed funds such as EHF1. Arguably we would end up managing more funds.

Campbell Dawson is Managing Director of Elstree Investment Management, a boutique fixed income fund manager. This article is general information and does not consider the circumstances of any individual investor. Financial advice should be sought before acting on any opinion in this article. Elstree's listed hybrid fund trades under ticker EHF1.

Rates higher = shares lower… is it that simple?

Andrew Mitchell, Steven Ng

You could be forgiven for thinking lately that the only thing that drives the share market is interest rates. Anyone who has taken even the most introductory of finance course will know the present value of an asset is the discounted value of its future cash flows. With those cash flows discounted back to today using long term interest rates.

And so, on first blush it may seem logical that higher long-term interest rates means lower share prices and valuations today. But it's actually much more complicated. Higher rates don't always cut equity value. This matters because the last couple of years could have lulled investors into thinking it's almost all that matters for share market direction.

Will interest rates continue to have an outsized influence on shares and in which direction is that most likely to be? Read on to find out.

Rate rises don't always cut equity value

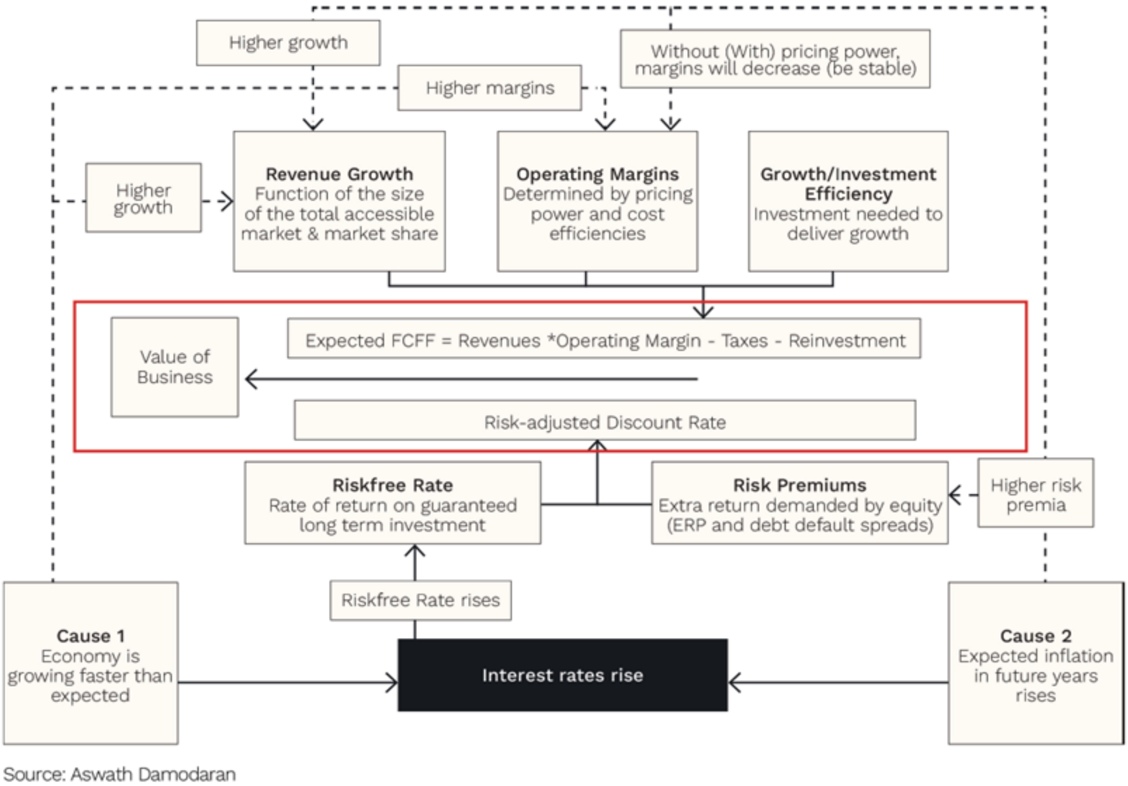
Aswath Damodaran, colloquially known as the 'Dean of Valuation' at NYU's Stern School of Business asks his students up front: "If interest rates go up, what happens to equity value?"

He offers the students four options:

1. Equity value will increase?
2. Equity value will decrease?
3. Equity value will remain unchanged?
4. Or, any of the above, depending on why interest rates increased in the first place?

Now, like that friend who spoiled the end of TV series Game of Thrones and told you Jon Snow kills Daenerys before you'd even watched it, the answer to the above is D.

As you can see below in the red box in Damodaran's diagram, the value of a business (and its shares) is the expected stream of cash flows the business generates over its lifetime[1] discounted back to today's value, using an appropriate discount rate.



Source: Aswath Damodaran

One of the key inputs to the discount rate is the so called 'risk-free rate'. For U.S. shares this is most often the 10-year U.S. government bond rate. It's thought of as 'risk-free' because the U.S. government is taken to be the most credit worthy borrower.

If we hold 'risk premiums' in the diagram above constant for a moment (we'll leave that discussion for another day), when the risk-free rate goes up – like it has for most of August through October – then the present value of those future cash flows from businesses goes down. And the share price will go down, just like we've seen recently.

You might ask: but how come the answer to Damodaran's question is 'D' … when you basically just told me it's 'B'?

The reason *why* rates rise is important to what happens with equity value

It really all comes down to the reason interest rates rose in the first place. For simplicity there are two main reasons why long-term interest rates can rise:

1. Higher real growth in the economy (Cause 1 in the diagram above)
2. Higher expected inflation (Cause 2 in the diagram above)

The table below provides a good summary of the impact of each on the drivers of the value of a business:

	1. Higher Real Growth	2. Higher Inflation
Risk Free Rate	Risk free rate will rise	Risk free rate will rise
Risk Premium	No effect or even decrease	May rise as high inflation is typically more volatile than low inflation
Revenue Growth	Increases, particularly for economically sensitive businesses	Increase as typically some inflation can be passed through
Operating Margin	Increases as consumer spending allows price increases	Stable margins if can pass full cost increase through, but declining margins for those who can't.
Investment Efficiency	Increases as same investment delivers more revenue	No effect in real (after inflation) terms
Value Effect	More likely to be positive. Discount rate will increase through higher interest rate but higher earnings can more than offset.	More likely to be negative. Discount rate will increase and while revenue growth will increase lower margins typically lead to lagging earnings.

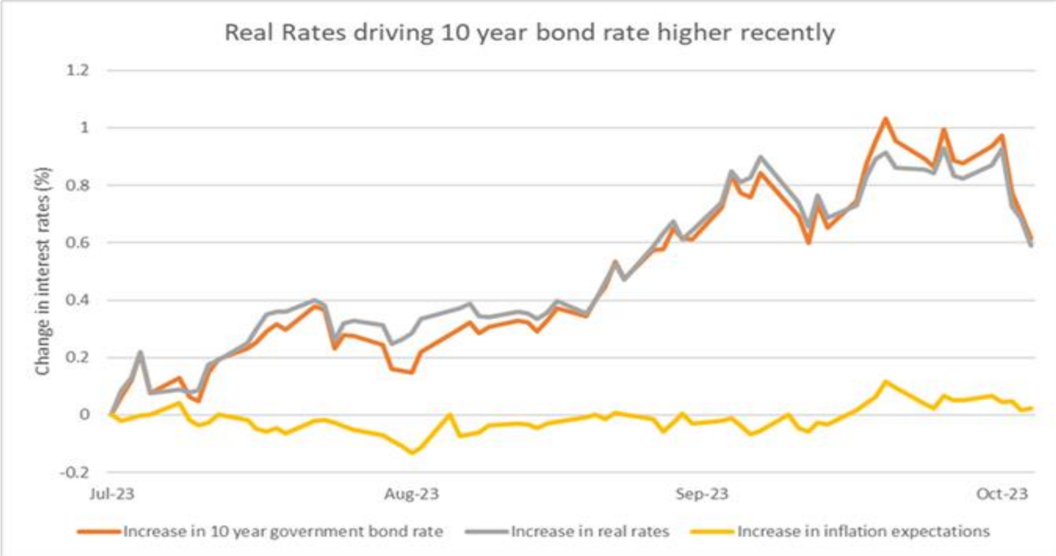
Source: Aswath Damodaran

Source: Aswath Damodaran

The natural question is: why has the US 10-year government bond rate been rising recently? Is it higher real growth or higher expected inflation?

Below, we show the answer from interest rates that are implied by the market.

The increase in the U.S. 10-year government bond rate (orange line) has been driven by an increase in real interest rates (grey line), which signals an expectation of higher real economic growth, with virtually no contribution from higher expected inflation (yellow line).



Source: Factset. Data from 31 July to 3 November 2023

This lines up with economic data in the U.S. over much of the last three months showing a resilient economy that is so far withstanding increases in short-term interest rates by the Fed (Exhibit A being U.S. Q3 GDP at a very strong 4.9% annualised).

But reasons other than rates are driving rates higher now

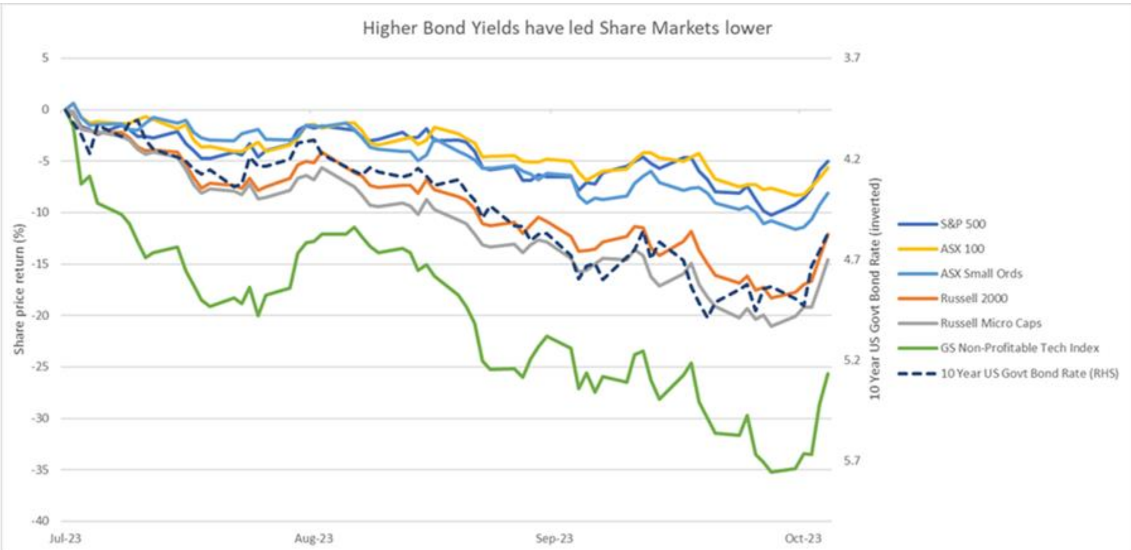
But why, if economic growth has been more resilient and long-term interest rates have headed higher as a result, which more often than not is positive for equities, have shares sold off over August through October? (We did tell you the relationship is complicated!)

It's not clear that stronger economic growth is the *only* reason long-term rates have headed higher. Other reasons have likely played a role, including worries about the size of the U.S. fiscal deficit, the Fed continuing to sell its U.S. government bonds as part of its quantitative tightening program and expectations for the timing of Fed rate cuts being pushed out.

<u>These other reasons, if holding sway, could mean that higher long-term rates will create a headwind for the economy down the track, and that is what shares are reacting to over the last few months.</u>

Rising rates are also hurting young companies more

Another important point is that the pain from higher long-term interest rates has not been dished out evenly across the share market. In fact, it's been the small caps and more growth-orientated businesses (as shown by the ASX Small Ords, Russell and Non-Profitable Tech indices) that have fallen the most.



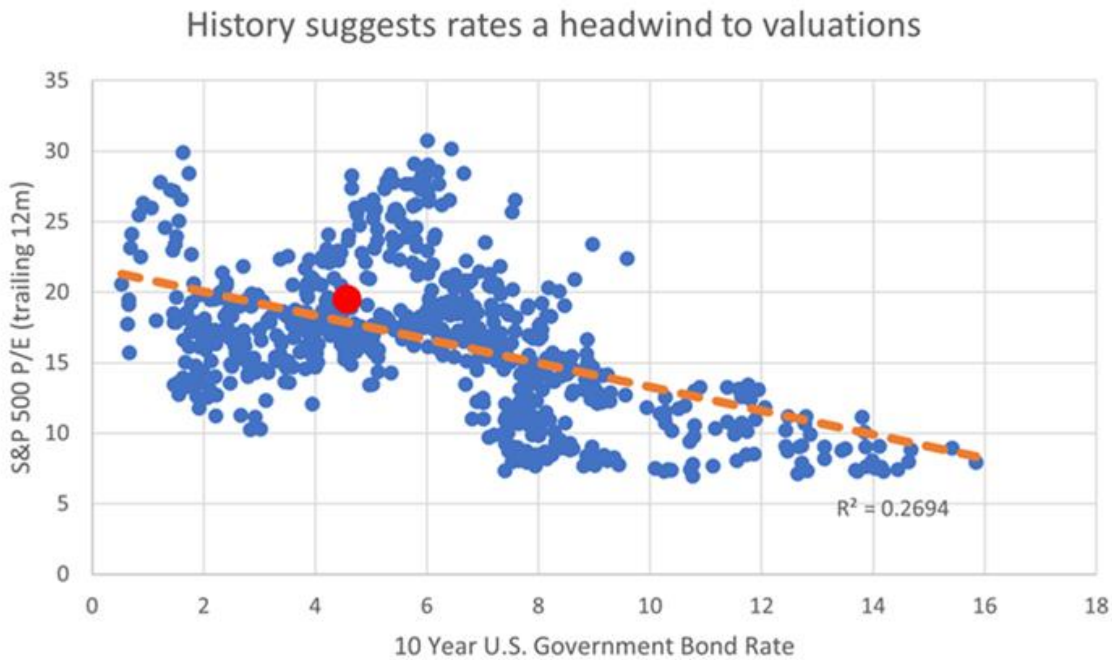
Source: Factset, Ophir. Data from 31 July to 3 November 2023.

There is some intuition behind this. When interest rates rise, the value of growth in cash flows projected further out in the future decrease more than those closer to today.

In short, the valuations of younger, high-growth businesses are impacted more. This has been THE key influence on the relative performance of different share market segments since long-term interest rates started increasing in 2021.

The correlation between rising rates and falling equity prices is relatively weak

History suggests that generally higher rates tend to be associated with lower share market valuations, but it's not a particularly strong relationship. The answer really is, as alluded to above "it depends".



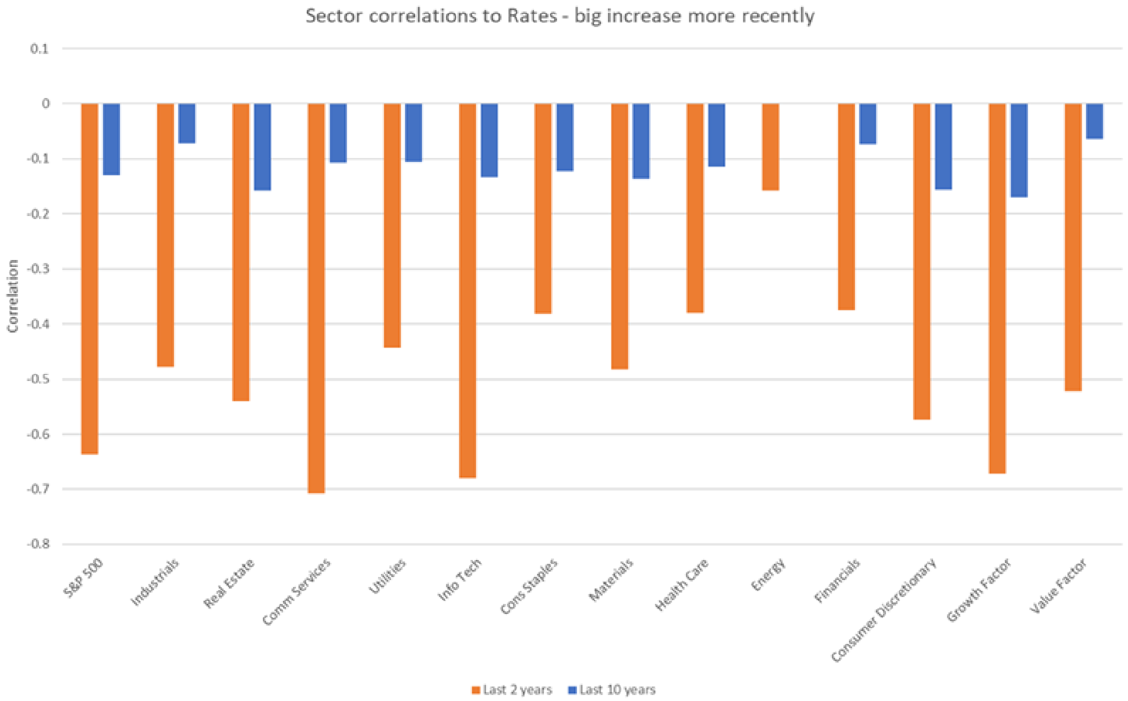
Source: Factset. Data from March 1962 to October 2023.

Today's U.S. long-term interest rates and share market valuation is represented by the red dot in the chart above. It's above the orange trend line, meaning the current setting of rates is likely a headwind for U.S. share market valuations, though they are not pre-ordained to fall.

In fact, historically when rates have been between 4-6% they have spent about 50% of their time with a price-to-earnings (P/E) ratio above 20, which is fractionally higher than it is today.

But as we show below, the rates sensitivity of the U.S. share market has increased a lot more recently. The chart shows correlations of one-month returns for the S&P 500 and its sectors – as well as the Growth and Value factors – to one-month changes in U.S. 10-year bond rates.

The correlations are negative, so higher bond yields typically lead to lower share prices. And the highest sensitivity tends to be in the more growth-orientated sector such as Communication Services, IT and Consumer Discretionary where more of their lifetime cash flows are projected further out in the future.



Source: Factset. Data from October 2013 to October 2023.
Data shows correlation of one-month share market returns to one-month changes in 10-year US government bond rate.

For the investor worried about higher for longer interest rates the message above has been that Energy, Financials and Value style companies have provided the best hiding place.

Influence of rates to wane, fundamentals to return to the fore

In sum, the best we can say is typically higher interest rates are associated with lower share market valuations, but not always and over the long term the relationship hasn't been that strong.

Valuations and share market returns seem to have been particularly sensitive to higher interest rates in the last 2-3 years, probably because the rate moves weren't initially expected, and they have been so swift from such low levels.

The valuations of younger, faster growing companies have been particularly susceptible to increasing rates of late.

Providing inflation is controlled, most of the move higher in long-term interest rates is likely behind us in the U.S. But until inflation is truly dead, any large, short-term moves in rates is likely to have outsized outcomes for both the overall share market, and its winners and losers.

Ultimately though, over the next year or two investors should expect movements in long term interest rates to reduce and therefore their influence on share market valuations to move more to the background.

Fundamentals such as revenue, margins and profits will likely come more to prominence again as key drivers of share prices, much as they always have over the long term. This would be a welcome development for us and our fellow investors as the assessment of a business's fundamentals and their resulting investment merit is where we believe we have an edge.

[1] Also known in finance nerd speak as the Expected Free Cash Flow to the Firm (FCFF)

Andrew Mitchell and Steven Ng are co-founders and Senior Portfolio Managers at Ophir Asset Management, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

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Diversification is not a free lunch

Joe Wiggins

Harry Markowitz is reported to have said that "diversification is the only free lunch in investing". This is the notion that holding a broader range of assets can result in better returns without assuming more risk. Over the decades this has become accepted wisdom – but it is not true. Diversification isn't free; it is painful and difficult to achieve.

Why diversification is difficult

Diversification is a vital concept for investors. It is an acceptance that the future is inherently unknowable and can take many different directions. If done well it provides protection against both uncertainty and hubris. The best indicator of an investor's overconfidence is how concentrated their portfolio is. If we could accurately predict the future, then we would only own one security.

Given this, why is diversification a problem?

Because it is behaviourally difficult. To be appropriately diversified not only means holding assets that will be a disappointment, but where we actively want them to disappoint in advance. If everything is performing well and in concert, our portfolios are probably not diversified.

If we are appropriately diversified, we will look at our portfolio and see a collection of strong performers and laggards. Rather than be comfortable with this as an inevitable feature of diversification however, we will have the urge to make changes. Removing the struggling positions and adding more to those that have produced stellar results.

It is far more comfortable for our portfolios to be focused on the top performing assets rather than be genuinely diversified. It will feel like there is nothing to worry about – everything is working well. Although we are drawn towards this type of situation, it is merely a short-term complacency that will foster almost certain long-term pain.

Diversification is constantly put in jeopardy by our behavioural failings. For the assets that are outperforming in our portfolios, the prevailing market narratives will persuade us that this environment will persist forever. Conversely, the stories around the stragglers will make us believe that they will never deliver again.

When we are reviewing the performance of our portfolio, diversification often feels like a bad idea – because we could have always held more of the assets that provided the highest returns.

Hindsight makes diversification look unnecessary.

Things to remember about diversification

Given that maintaining appropriate levels of diversification is likely to prove a constant challenge for investors, there are two crucial concepts to place at the forefront of our thinking:

– Things will be different in the future: Markets are constantly adapting, things will be different in the future in ways that we are unable to predict.

– Things could have been different in the past: When we look at the performance of our portfolios, we assume that it was inescapable that this particular course had been charted, but, of course, this is never the case. In a chaotic, complex system, entirely different outcomes could have come to pass.

Diversification requires us to own positions that haven't performed well, and we don't expect to always perform well. That doesn't mean we should naively hold any asset irrespective of its fundamental characteristics, but we must accept that to be well-diversified requires us to have relative slackers in our portfolios at all points in time.

Nothing that works in investing provides a free lunch, it always comes with some behavioural pain. For diversification, it is the acute sense of regret about how much better things could have been.

Joe Wiggins is Chief Investment Officer at Fundhouse (UK) and publisher of investment insights through a behavioural science lens at www.behaviouralinvestment.com. His book The Intelligent Fund Investor explores the beliefs and behaviours that lead investors astray, and shows how we can make better decisions.

Why Asia remains one of the world's best growth stories

Martin Dropkin

The performance of the US dollar and investors' faltering optimism over China's recovery have obscured the strong growth story of many Asian economies in the past year. But Asia's prospects still look solid, supported by robust consumption and positive structural shifts.

Three scenarios for China's growth

China is the big variable for the region. We see three different macro scenarios as the likeliest pathways for the country's economy in the year ahead.

The first, our base case, outlines a **continued stabilisation** for China**,** where its recovery gradually accelerates as the property sector stabilises and consumption picks up. We assign a 65% probability to this scenario in which the economy grows around 4-5% in 2024. Policymakers will provide more fiscal and monetary support to keep growth on track, including effective measures to address deep, structural problems that help rebalance the economy away from the old investment-led model. These policy supports would, in turn, help stabilise real estate, which accounts for around two-thirds of household wealth in China, delivering a restorative boost to consumer confidence.

In the event of recession in developed countries, the stronger domestic market in China would help offset slumping overseas demand. While we believe the high growth model in previous years is not sustainable, the improving macro environment would support corporate earnings and ultimately lift investor sentiment. For property, we would expect a stabilisation of prices, not a resumption of growth, with a close eye on the debt levels.

The implications for Chinese assets under a 'continued stabilisation' scenario are mixed. For Chinese equities, which currently offer attractive valuations compared with most other regions, cyclical stocks like those in the shipping, industrials, and oil services sectors would stand to benefit from the rising economic output. Stronger household spending, supported by the large excess savings accumulated during the pandemic, would also benefit consumer sector stocks. In this scenario, interest rates would range from stable to a small decline. The real yield on China's government bonds would remain compelling because of the low inflation environment, which would support demand for onshore bonds. Even so, we may see some short-term liquidity squeezes in the onshore bond market, driven by investors' expectations on future policy support and an increasing supply of government bonds driving yields up further.

China's services sector emerges as a bright spot as property slumps

Source: Fidelity International, November 2023. Note: Fidelity International compiles the activity indicators for China's industrial, services and property sector on a monthly basis. Monthly readings of Fidelity International's proprietary China activity tracker. Y-axis shows the Z-score of each series. Scores greater than 0 indicate activity above its long-run mean. Scores less than 0 indicate activity below its long-run mean.

A second potential pathway for China's economy focuses on the downside risks, such as government stimulus failing to come through quickly enough, which could result in a **serious slowdown**. We assign a 25% probability to this scenario. This entails the economy taking a double hit from both domestic structural challenges and an external demand slowdown. Policy support coming up short would tip the ailing property market into a more meaningful decline. In response, credit risk for local government debt would rise as land sales, a major source of local governments' fiscal revenue, shrink further.

If the twin crises in the property and local government debt sectors were to spill over to the broader financial system, China could be heading for 'Japanification', or years of economic stagnation characterised by heavy debt loads, disinflationary pressures, and a pullback in spending and confidence among consumers and businesses. There would still be room for increased leverage at the central government level to offset the downturn, but for equity investors, a bear-case scenario like this would call for defensive positioning. Utilities and consumer staples stocks would show more resilience in weathering the storm. This backdrop could be positive for China's fixed income assets, and we would be more aggressive on favouring duration. At the same time, rising default risks in such a downturn argue for sticking with high-quality corporate bonds.

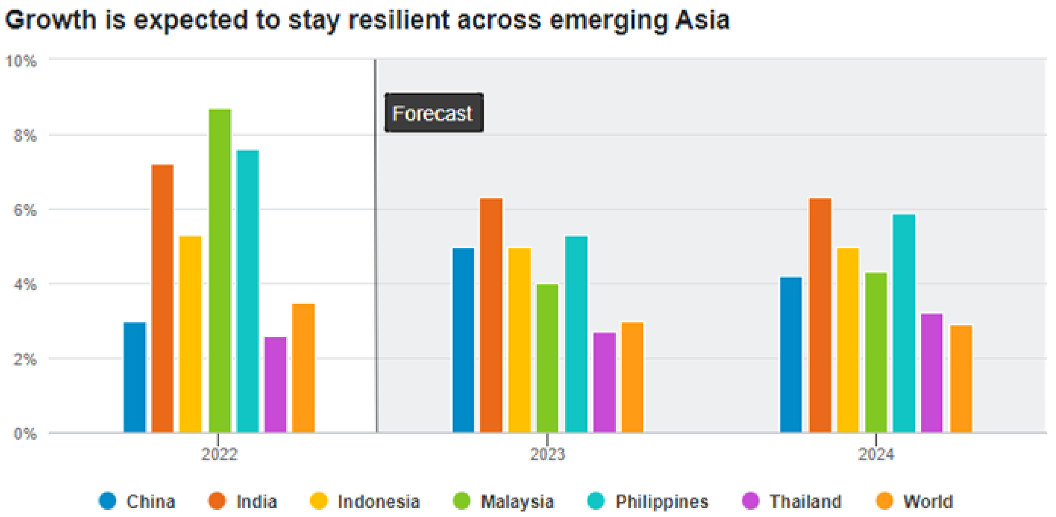
Our third and final scenario for China involves the economy entering a strong period of **reflation.** We think it's the least probable of the three outcomes with only a 10% probability. In this case, China reverts to its old economic playbook, propping up growth by government overinvestment and rekindling a property boom. Policymakers would go beyond cyclical easing measures to bail out both property developers and cash-strapped local government financing vehicles, fuelling a renewed credit binge in the public and private sectors. Inflation accelerates. Business and consumer confidence is resurgent. Real estate's reprise boom drives a broad-based recovery across the economy. In the short-term China would regain its rapid economic growth, but investors should be wary: this debt-fuelled expansion would not be sustainable over the long run and would eventually create even worse structural problems in the economy. In terms of asset class implications, the reflation scenario is positive for economically sensitive value stocks like the heavy machinery and financial sectors. We would also favour consumer stocks, especially discretionary names, because of the broad consumption recovery that would likely follow.

Japan

China's trajectory is the biggest swing factor for the region, but it's far from the only economy that will drive Asian markets in the coming year. Japan's equities could continue to outperform as the economy transitions into a mildly inflationary state, following decades of stagnant growth and falling prices. Wage increases will have a knock-on effect of boosting consumption and supporting further price gains. Japan's households are starting to show a shifting mentality from saving to spending and this will have broad and lasting effects. At the same time, corporate governance reforms in Japan continue to unlock equity market value. Companies are focusing more on dividends and buybacks. The Japanese market's shareholder return profile may improve faster than most other developed markets. As policymakers gain confidence that Japan's mild inflation has reached a sustainable level, it will be only a matter of time before the Bank of Japan further unwinds its ultra-loose monetary policy and makes a full exit from its policy of yield curve control. This policy normalisation will help attract investors to the local bond market.

India and Southeast Asia

The rest of the Asian region will face challenges in the event of recession in the West or of any surprise slowdowns in China, but it also stands to benefit from some favourable structural growth tailwinds in the long-term. India is likely to be one of the world's fastest growing economies over the coming years. With an expanding working-age population, the country will produce and consume more goods and services and drive technological innovation. Indian equities' relatively high valuations, versus other Asian and emerging markets, can be justified by its listed companies' consistently higher return on equity.



Note: 2023 and 2024 numbers are the IMF's projections. Figures are annual real GDP growth rates. Source: IMF's October World Economic Outlook, Fidelity International, November 2023.

Meanwhile, the push to reduce supply chain reliance on China through expanding production bases in India and Southeast Asia will support manufacturing growth momentum across the region. Although it's hard for neighbouring countries to replicate China's manufacturing dominance, the rise of so-called 'China plus one' supply chain configurations will result in sizeable business and investment inflows to the rest of the region, helping boost exports and employment in both India and Southeast Asia. Of course, a recession in developed markets or a sharper slowdown in China would be a big blow to exporters across the rest of Asia, but that would only be one factor amid a much broader set of considerations, depending on which of our global macro scenarios plays out in the year ahead.

Martin Dropkin is Head of Equities, Asia Pacific at Fidelity International, a sponsor of Firstlinks. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au. For more articles and papers from Fidelity, please click here.

Podcast: Property picks, PE update, and Warnes on Michelle Bullock

James Gruber

Season 2, Episode 13

After a glorious decade, private assets are being tested by a higher interest rate environment. Commercial property is at the forefront of that, and Steven Bennett, CEO of Direct Property at Charter Hall, joins us to talk through the challenges that he's facing as well as the opportunities going forward.

Another area of private assets being stress tested is private equity. Though, Rainer Ender is the Global Head of Private Equity at Schroders, thinks media coverage on this has been over-hyped. There are some segments such as late-stage venture capital and leveraged buyouts where deals are drying up, but other segments are holding up better.

Regular guest, Peter Warnes from Morningstar's Your Money Weekly, gives us an insight into why the new RBA Governor seems to be more wary of inflation than her predecessor, and what it means for interest rates and the economy.

The podcast is also available via our dedicated website page, Google Podcasts, Apple Podcasts, Spotify, and BuzzSprout.

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Grab a cuppa and settle in for our chat.