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Contents

Are term deposits attractive right now? *James Gruber*

How retiree spending plummets as we age *Ruvinda Nanayakkara*

Estate planning made simple, Part I *Noel Whittaker*

Markets are about to get a whole lot harder *Robert M. Almeida*

Why commodities deserve a place in portfolios *Erik L. Knutzen, Hakan Kaya*

What's next for Australian commercial real estate? *Patrick Barrett, Sasanka Liyanage*

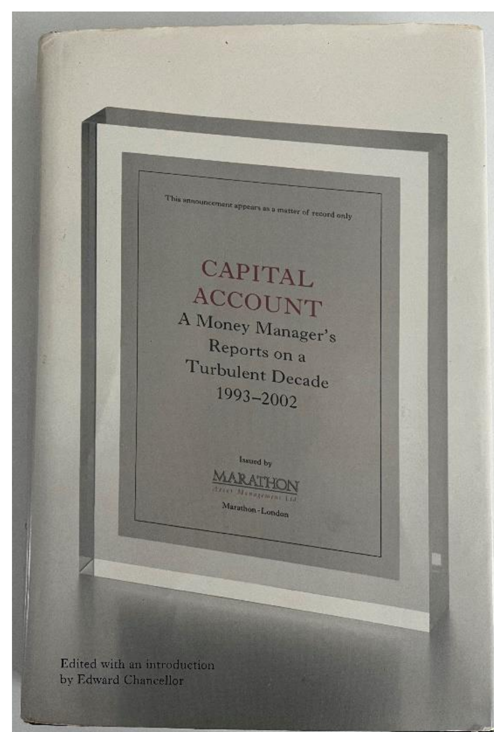
Board games: two hidden risks for stock pickers? *James Gruber, Joseph Taylor*

Editorial

I love books and have done so from a young age. I own 600-700 books spread across my home and my parents' garage. Recently, a real estate agent walked into my home and said, "Oh my god, who's the book hoarder?" My wife, of course, pointed the finger straight to me.

This week, I was chatting with a colleague, Joseph Taylor – who has just joined and will be helping with Firstlinks – and we got onto the topic of Edward Chancellor's book, *Capital Account*, and he mentioned that it's a hard book to get and is worth quite a bit of money.

I happen to own the book and, naturally, got curious. Joseph was right – the book can be bought on AbeBooks for $832 and on Amazon for $1,355. I quickly calculated that taking a potential $832 sale price from my initial 2010 purchase of $32 means the book has delivered me a compound annual growth rate of 26.2%. Not bad at all.



Why is the book so expensive?

Edward Chancellor, the book's author, is a well-known financial writer. His most recent book, *The Price of Time*, is a critique of modern-day central banking and has received widespread media coverage. And he's probably best known for his book, *Devil Take the Hindmost*, which is one of the best books on history's most outlandish episodes of financial speculation.

Capital Account, written in 2004, is more niche than these books and features the shareholder letters of London-based hedge fund, Marathon Asset Management, from 1993-2002. Marathon is a highly successful value-based manager that's developed a unique framework for picking stocks called the capital cycle approach.

It's a sophisticated method that takes Professor Michael Porter's famous 'five forces' competitive strategy and applies it to markets. It does a great job of explaining the causes of booms and downturns in industries and markets. In January this year, I wrote in more detail on the approach and how it pinpointed the reasons behind the battery metals bust.

As an aside, I met the man who developed Marathon's capital cycle approach back in 2008. His name is Jeremy Hosking, and he came to

an investor conference in Singapore hosted by the stockbroker I was working for at the time. I remember that he got up during a presentation from the CEO of a Malaysian gaming company that I was covering as an analyst and went on a blistering tirade against the capital allocation practices of the company. For those that are familiar with Asia, that outspokenness in public never happens, and it made quite a scene.

Back to *Capital Account*, and further research into why it's become so expensive suggests that there aren't many copies of the book around because the bookseller went bankrupt while it was going to print! I'm not sure exactly how many copies of the book there are, but plan to write to Mr. Chancellor to find out.

Entering the world of collectibles

When thinking of collectibles, art, classic cars, coins, stamps, and jewelry usually come to mind. Books, not so much.

Murray Stahl, a portfolio manager at the US-based Horizon Kinetics has long been intrigued by collectibles as assets that are durable and can retain, or even increase, their value during times of crisis or upheaval.

In a 2019 article, he tells the story of Calouste Gulbenkian, an Armenian merchant and engineer, born in the Ottoman Empire in 1869 and educated in France and London:

> *"He [Gulbenkian] became one of the founding shareholders of Royal Dutch Shell by obtaining the Ottoman oil concession for that company in the territory then known as Mesopotamia, now known as Iraq.*
>
> *At one point, Gulbenkian owned the entire oil concession of the territory that would become modern day Iraq. Prior to the First World War, he swapped the concession interest for a 5% interest in Turkish Petroleum that eventually became interests in such firms at Total, Royal Dutch Shell, British Petroleum, and Exxon. In 1938 (note the timing), these interests were moved to a Panamanian company known as Participations and interests or simply Partex Oil and Gas (Holdings) Corporation. The company still exists and is owned by the Calouste Gulbenkian Foundation in Lisbon…*
>
> *Shortly before the outbreak of the Second World War, Gulbenkian acquired diplomatic immunity as the economic advisor to the Persian diplomatic legation in Paris – yet another example of exquisite timing. Prior to the German occupation of Vichy in 1942, this diplomatic immunity enabled him to leave France unmolested and move to Lisbon, where he resided for the rest of his life."*

Stahl details how much of Gulbenkian's wealth was invested in collectibles, and these retained their value through periods of enormous upheaval, including the Great Depression, war, inflation and deflation.

At one stage, Gulbenkian had one of the largest art collections in the world. Many of the thousands of pieces are still housed in Lisbon.

In one deal, Gulbenkian bought paintings from the Soviet Government and paid for it with oil. It was 1930 when the Soviets needed hard assets such as oil.

Gulbenkian was also a big book collector. Many of these books ended up in the library of the Armenian Patriarchate of Jerusalem, and the library is said to keep the largest collection of Armenian books, periodicals, and newspapers in the world.

From Gulbenkian's story and others who've endured tumultuous times, Stahl says:

> *"Books are a very intriguing asset class with regard to upheaval or crisis investing. Very few people understand the value of rare books. Moreover, rare books have the property of hiding in plain sight, so to speak. A rare book held on shelves containing pedestrian books is not likely to be noticed by anyone. Government, tax, and even customs officials routinely ignore books unless they are in a large shipment. Even in such instances, many officials presume by the size of the shipment that it contains nothing other than paper destined for recycling.*
>
> *Unlike gold, books are not durable collectibles. In reality, many are routinely damaged or lost by people who have no idea of their value. Great sums of money can be invested in a handful of books. Books can be loaned to libraries for safekeeping and insured by those libraries."*

What kind of returns can books achieve?

This begs the question of what type of returns can books deliver? Stahl cites one example of the American classic, *To Kill a Mockingbird*. A hardcover of the first edition was published in 1960 and sold for US$3.95.

Recently, a first edition was auctioned for US$27,000. That makes for a compound annual rate of return of 16.14%. That doesn't tell the full story, though.

The book quickly became a best seller, and millions of book club editions were printed in 1960 at a price of US$3.95. These book club editions now sell for about US$65. The compound annual rate of return for these book club editions is just 4.86%.

However, these book club editions were available everywhere post 1960, including at garage sales, and selling for as little as 10 cents. If you'd bought the book for 10 cents and sold it now, the compound annual rate of return would be 12.03%.

Books can fetch much higher prices too. Hedge fund billionaire Ken Griffin made headlines in late 2021 by purchasing a first edition of the US constitution for US$43.2 million. The document is one of 13 copies from 1787.

The most valuable book is likely to be the notebook of Leonardo Da Vinci from the 1500s which was purchased by Bill Gates for US$30.80 million in 1994 (or US$63.3 million in inflation-adjusted terms).

In investing, books don't command those kinds of prices. Seth Klarman's *Margin of Safety* is one of the most expensive, fetching a price tag of more than $5,400. Klarman is a deep-value oriented fund manager who wrote the book in 1991 when he was relatively unknown. Given his outstanding track record since that time, the book has become highly sought after.

How do books become so valuable?

A book's value is determined by supply, demand, and its condition.

On supply, the number of first editions of books are generally in decline. With demand, it depends on whether the enduring popularity of a title, author, or subject. Like art, the death of an author can heighten demand.

Keeping a book in prime condition isn't easy. Moving, handling, and storage can often take their toll. There can also be damage from sunlight, moisture, and insects.

Some of the books that I own have developed brown spots, and my research for this article has unearthed a name for this process: *foxing*! (no, I'm not making this up) The causes of foxing aren't fully known, though humidity and chemical oxidation are the suspected culprits.

Should I sell *Capital Account*?

The rise in the value of *Capital Account* has got me thinking about whether it's time to sell. It's unlikely that demand for the book will increase over time given the ideas are likely to remain niche. The question is how demand will fare against the limited supply of the book, and that's difficult to forecast. I suspect *Capital Account* won't reach the cult status of *Margin of Safety* and that today's selling price is a good one.

Yet, there's a personal element to the decision-making process too. I like the book and find its contents valuable. I'm sure I will refer to it when writing future articles. And I wouldn't want to lose access to it.

But the biggest reason why I've decided not to sell *Capital Account* is because of what books represent to me. I consider books as the ultimate school for life. They fulfill my endless curiosity and thirst for learning. It's a passion that I don't want to turn into a business of buying and selling.

However, if Ken Griffin comes calling with an offer, you never know…

***

If you're like me, you may have put money into term deposits over the past year and it's time to decide whether to roll them over or look elsewhere. In my article this week, I look at the pros and cons of investing in cash versus other assets right now.

James Gruber

Also in this week's edition...

There's a lot of research on the average spend of people in retirement, yet little on how spending changes as individuals progress through different stages of retirement. **Ruvinda Nanayakkara** has gathered data on how spending plummets as we go from 60 through to the age of 75. He says it's critical information that can impact the level of savings required at the point of retirement.

Noel Whittaker is back, this time with a new book called *Wills, death and taxes made simple*. Noel says that every year, millions of dollars are spent on legal fees, and thousands of hours are wasted on family disputes - all because of poor estate planning. The book is an attempt to rectify that, and in this week's article, Noel offers tips on how to make an effective will.

Robert Almeida from **MFS** has a harsh message: we've become soft, and throughout history, soft people ultimately produce tough times, until the cycle reverses. Almeida says the policy response to the GFC and Covid purposely created a soft business operating environment that produced high returns for owners of capital. He says things are now going to get tougher for businesses and markets.

Erik Knutzen and **Hakan Kaya** of **Neuberger Berman** think this year will be another year of reflation and geopolitical uncertainty — with the latter significantly raising the tail risk of a return to problematic inflation. And that provides a good backdrop for commodities to outperform.

Australian commercial property has had a horror stretch but is the worst over? **Charter Hall's Sasanka Liyanage and Patrick Barrett** see encouraging signs that it could be, and that industry returns may improve over the medium term.

Allan Gray's Simon Mawhinney has made a name as a value investor who isn't afraid of a stoush to extract the best returns from a stock. In an exclusive interview with *Firstlinks*, he tackles proxy advisers head on, and offers a guide on how company boards can improve their transparency and how they deal with shareholders.

Finally, in this week's whitepaper, the **World Gold Council** gives a Q1 2024 update on the supply and demand drivers that drove gold to new price highs.

Are term deposits attractive right now?

James Gruber

Last year, like many others, I had spare cash and decided to put some in term deposits, across various terms of up to 12 months, with rates ranging from 4.85% to 5.25%. Now, as more of these term deposits are about to end, I must decide about whether to roll these over or look for alternative uses for the cash.

Everybody's circumstances are different, and in my case, the initial move into term deposits was driven by a need to park money for the short-term, and yields were attractive enough to make this a decent option.

Was it a good decision? If you look at the performance of stock markets over the past 6-12 months, maybe not. The ASX 200 is up more than 10%, including dividends, over the past year, while the S&P 500 has soared by 21%. Year-to-date, the ASX has climbed 3%, and the S&P 500 has surged by 9%.

Stocks weren't the only place that I could have put the money, though. I could have gone into bonds, and the performance of bonds has been anything but stellar. For instance, the yield on a 'risk-free' Australian 10-year government bond has increased from 3.39% to 4.42% over the past year. And when bond yields rise, prices fall.

Another option would have been to build a traditional 60/40 equities/bonds portfolio with the money. If I'd gone with ASX 200 equities and the Australian 10-year government bond, it would have marginally trailed my return from term deposits. Other variations on the portfolio, such as having international stock exposure, may have lifted these total returns.

Overall, the decision to put the cash in term deposits was a low-risk option that provided decent short-term income, though there was an opportunity cost as stocks shot up during that period.

The decision now is if it's worth rolling over these term deposits or not.

Current term deposits on offer

Let's first look at what current term deposits offer. The big 4 banks all offer similar term deposit rates over 12 months. CBA has a 'special offer' rate of 4.75% p.a. for 12 months, ANZ and NAB have 4.70% over same period, while Westpac offers 4.70% p.a. over 11 months.

Interestingly, Macquarie Bank is at 4.65% p.a. for a 12-month term deposit. Yet, it offers a higher 4.85% p.a. 3-month term deposit.

ING Bank has a 4.90% p.a. term deposit for 12 months, while Judo Bank is even better at 5.10% p.a.

The good news is that competition in the deposit space is healthy, especially with the rise of online banks like Judo. That's led to a reduction in many of the terms and conditions attached to term deposits in prior years, though it's still worth checking the fine print on these offers.

Current term deposits on offer

Bank	Rate (p.a.)	Term
CBA	4.75%	12
Westpac	4.70%	11
ANZ	4.70%	12
NAB	4.70%	12
Macquarie Bank	4.65%	12
ING	4.90%	12
Judo Bank	5.10%	12

Source: Banks, Firstlinks

Bank savings and money market funds

What are about the alternatives to term deposits – how do they stack up?

Unfortunately, the savings deposit rates at banks are not as competitive, and remain pitiful. A popular alternative is cash ETFs, where you can get good yields and liquidity. Betashares AAA is the most popular cash ETF and currently offers 4.44% p.a. interest rate. ISEC has a higher yield as it can hold up to 20% in floating rate notes – these carry greater potential return with greater risks than cash.

ASX code	Base fee	Buy/sell spread	Current rate
AAA (Betashares)	0.18%	0.02%	4.44%
BILL (iShares)	0.07%	0.03%	4.47%
ISEC (iShares)	0.12%	0.03%	4.62%

Source: Company websites, Firstlinks

Cash ETFs offer more attractive yields than bank saving deposits. However, they still trail term deposits, with the proviso that the latter locks up money for a period of time (and generally you need to give a month's notice to not incur penalties).

Bonds

This time last year, investors poured money into bond funds and ETFs, and that bet hasn't paid off so far. Bonds are now in their fourth year of a bear market.

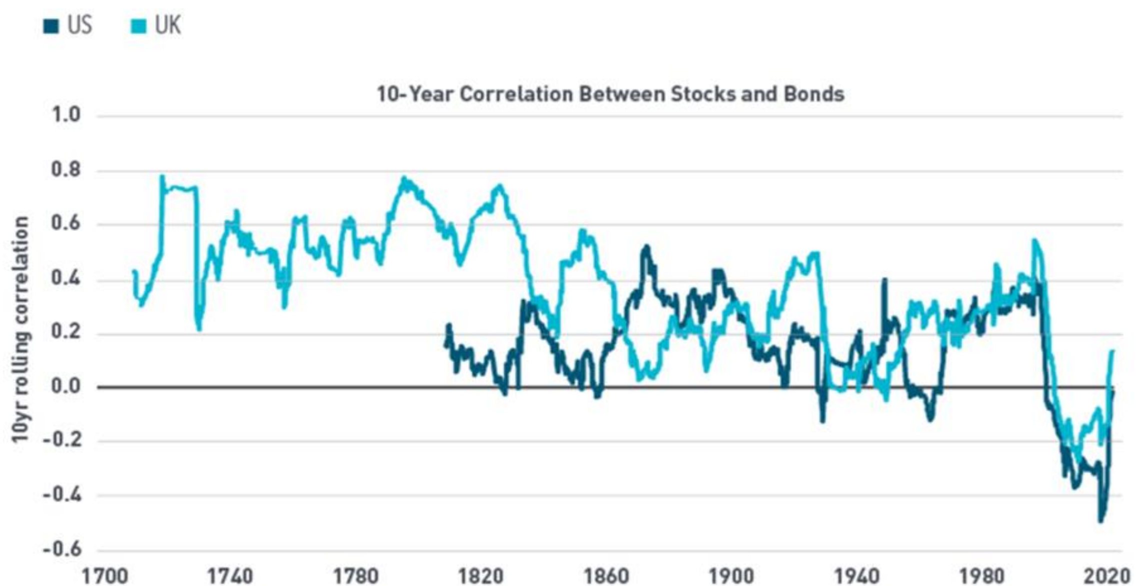
Source: Trading Economics

The question is whether bonds offer value here. The yield on a risk-free 10-year government bond is 4.42%, not as high as that of major bank term deposits. And I remain cautious on bonds for a few reasons:

1. Though bond yields have risen, they still aren't high versus long-term history. Some investors jumped on bonds last year as yields were finally offering *something* compared to the near 1% during the pandemic. That turned out to be a classic case of recency bias – just because bond yields rose from all-time lows didn't make them great value.

2. History shows that bond markets move in long cycles of 30-40 years, and therefore this bear market may have some way to go. History doesn't repeat, and circumstances are always different, but it's certainly worth keeping in mind given the incredible bull market in bond markets from 1981-2020.

3. Recent decades of negative correlation between nominal stock and bond returns have likely come to an end. This may have significant implications for the construction of investment portfolios. Investors had got used to the negative correlation, which meant that when bonds went up, stocks invariably came down, and vice versa. Yet as MFS' Robert Almeida showed in a recent Firstlinks article, positive long-term correlation between stock and bond returns is the norm, and we seem to be reverting to that pattern. If right, it means that bonds can't be relied upon to provide a ballast for portfolios when stocks go down.



Source: Datastream, Goldman Sachs Global Investment Research. Monthly data from 1711 to September 2023.

That said, bonds should still perform well during certain economic environments including deflation and recession. Also, better yield can come from corporate bonds, private credit, and part-debt instruments like hybrids, albeit with higher risks attached.

Equities

What about equities, then? After a great run of late, they don't appear cheap. The ASX 100 is trading at 17.2x 2024 earnings, compared to a long-run average of 15.7x. Outside of financials and commodities, the ASX 100 trades closer to 21x. And stocks outside the top 100 are valued at 17.7x earnings.

Taking the 17.2x price-to-earnings ratio (PER) of the ASX 100, that equates to an earnings yield of 5.8%. That isn't much of a premium to ~5% bank term deposit rates given the greater risks which come with equities.

Overseas, the picture isn't much better. The S&P 500 trades at a trailing PER of almost 27x, which equates to a paltry earnings yield of 3.7%.

S&P 500 PE Ratio

Source: Robert Shiller

Emerging markets are the one area of global equities which offer more value, and better earnings yields, though that's been the case for some time and is unlikely to change until China turns around. And emerging markets entail greater risk too.

In sum, while equities are great long-term vehicles, the short-term looks more balanced with valuations a little stretched both here and overseas. And cash including term deposits offer real competition to the likes of equities at this junction.

Term deposit attractiveness will depend on your circumstances

The answer for whether term deposits are attractive will depend on your personal circumstances. Whether you want income or capital gain. Whether you're wanting to park money for a short period or invest long-term. Whether you are looking to take on more risk or not.

In my case, I've decided to roll over my term deposits in Judo Bank at a rate of 5.10% for durations of 6 to 12 months. I like how they offer competitive yields to other assets, with less risk involved. I also like that unlike a year ago, the term deposit rates are higher than inflation rates, which means I'm earning a real return.

The key risks with my decision are:

- We get a soft economic landing and risk assets such as stocks continue to climb at the expense of less risky assets such as cash.
- Inflation re-ignites, resulting in a negative real return on my cash.
- We unexpectedly enter recession, where cash trudges along, but bonds are the major beneficiary.

All up, the risk versus rewards for cash look decent going forward.

James Gruber is an assistant editor at Firstlinks and Morningstar.com.au.

How retiree spending plummets as we age

Ruvinda Nanayakkara

his is an extract from an article originally published on [Actuarial Digital.]()

In my experience, there have been many discussions on an appropriate method to determine an initial level of spending. However, there has been little debate about how retirement spending may change as individuals progress through the active, passive, and frail stages of retirement. I believe this is an equally important consideration when it comes to retirement planning as it could have a significant impact on the level of savings required at the point of retirement.

Defining retirement spending categories

To understand how spending may change in retirement, let's first consider categorising spending into different segments, such as:

- Clothing and Appliances
- Eating and Drinking Out
- Grocery and Food
- Health
- Housing Expenses (excluding rent and mortgage)
- Leisure and Entertainment
- Other
- Cash withdrawals
- Transportation
- Travel
- Utilities and Finance

It is essential to acknowledge that the amount a person allocates to each category at the onset of retirement is likely to change as they progress throughout their retirement years.

The evolution in spending may be influenced by the various stages in retirement: active, passive and fragile.

During the active phase, individuals may allocate a larger proportion of their expenses to travel, transportation, and leisure activities, which may decrease as they age. Conversely, certain expenses, such as healthcare, may increase as they grow older.

When assisting individuals to understand how their retirement spending might change during retirement, it's crucial to comprehend their initial spending and potential adjustments. One approach is to examine how spending patterns correlate with an individual's socio-economic status, as this may often reflect retirees' lifestyle choices and spending tendencies.

Identifying retirement spending patterns

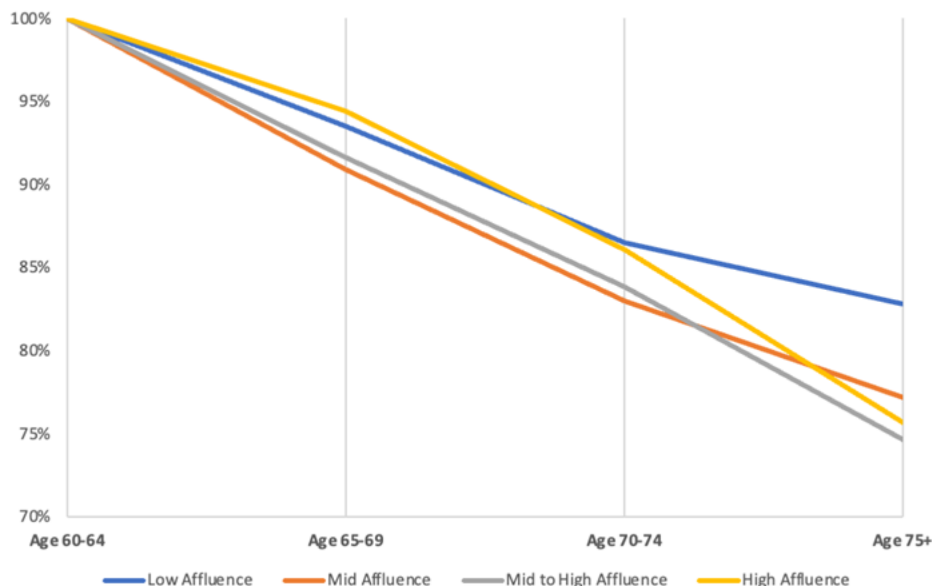
This section considers how spending in retirement varies for different age bands by analysing digital banking spending data from Australian individuals aged 60 and over.

This data was extracted from the *Compare My Spend tool* on the Spirit Super website.

It is important to note that the data looks at the spending of individuals at a single point in time across multiple age bands and it is not a longitudinal study looking at the spending of a single group of individuals as they progress throughout different ages.

The data is categorised by age bands (60-64, 65-69, 70-74, and 75+) and affluence levels (Low, Mid, Mid-High, and High). The affluence levels are defined based on individual spending on different categories and spending behaviour. This categorisation helps identify any distinct spending patterns that might be visible in the data.

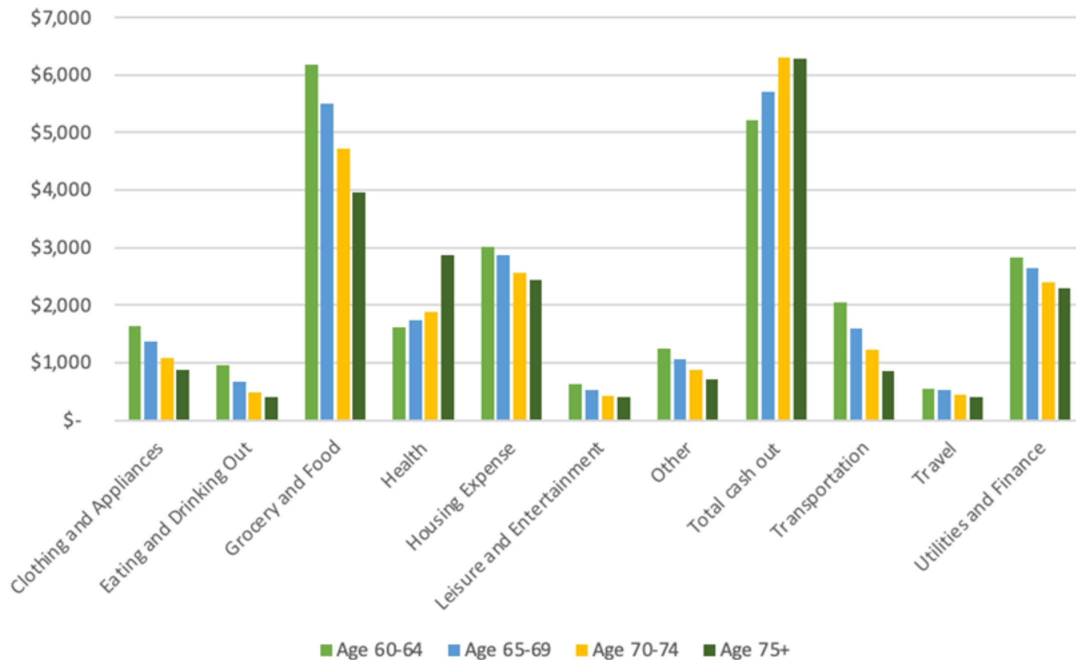
Chart 1: Average retirement spending for different age bands (percentage change)



Using the 2022 banking spending data, the above chart looks at the percentage change in retirement spending, using the age 60-64 age band as the base year, and considering the relative decrease in retirement spending for older age bands.

The chart illustrates for all affluence levels there is a consistent reduction in spending across the age bands. In the *'low affluence'* group, individuals aged 75+ spent approximately 15% less than those aged 60-64. This reduction is even more pronounced for the higher affluent levels, with spending at age 75+ band reducing 20-25% of the spending levels observed at age 60-64.

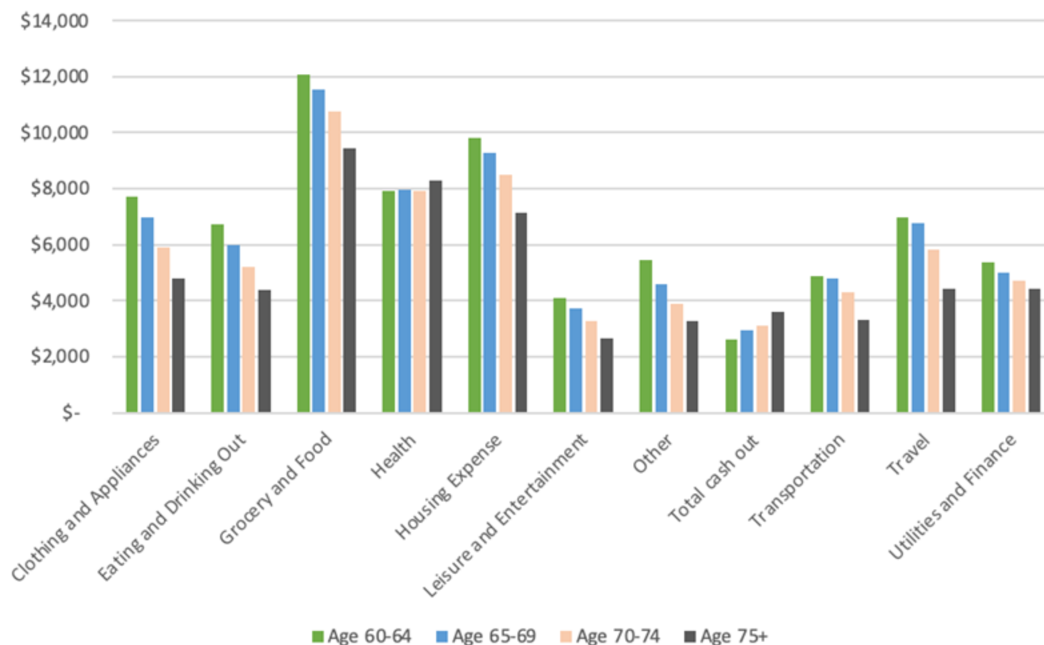
Chart 2: Average retirement spending by categories for 'low affluence' level across the age bands



The chart illustrates, for the '*low affluence*' level, how spending across the categories varies for different age bands.

For the *'low affluence'* level, spending across most categories gradually decreases across the age bands, with the exception of health-related expenses and cash withdrawals.

Chart 3: Average retirement spending by categories for 'high affluence' level across the age bands



Similarly, for the *'high affluence'* level, spending across most categories decreases with age, except for health expenses and cash withdrawals, albeit with less significant increases in health expenses compared to the *'low affluence'* level.

It's important to note that the banking data comprises all digital transactions and cash withdrawals from bank ATMs, excluding rent and mortgage payments. Therefore, it may not represent a complete picture of retirement spending. Furthermore, this data represents a snapshot in time, not a longitudinal study tracking the spending of the same retirees over time.

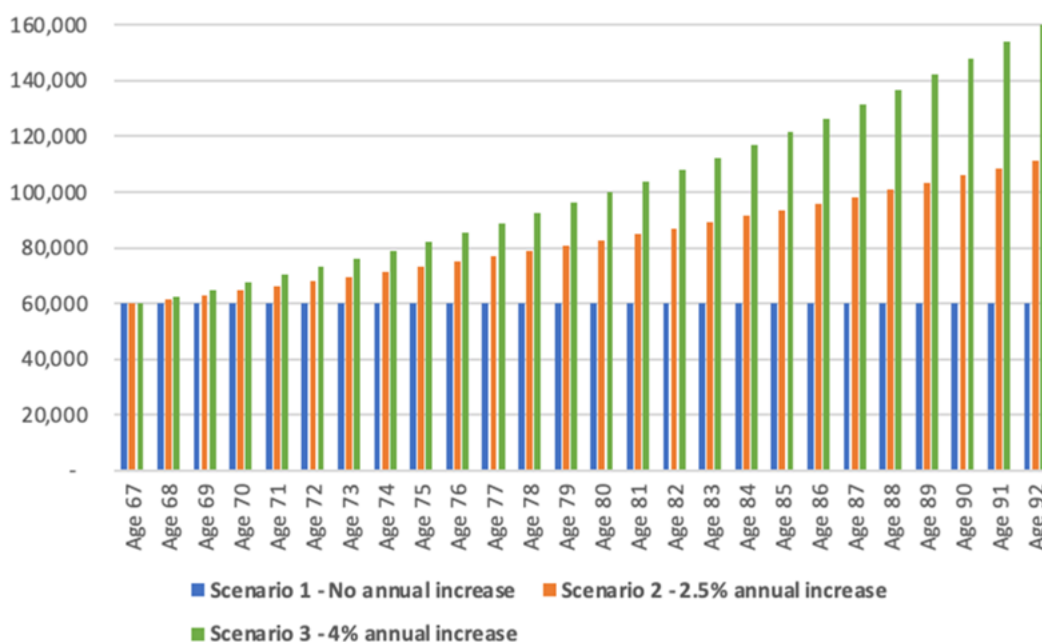
Understanding these limitations is crucial when drawing further conclusions. Nevertheless, the data underscores that retirees do not universally experience the same spending patterns in retirement. The income in retirement should reflect the potential spending pattern.

The impact of retirement spending patterns on the adequacy of retirement savings

To highlight the impact of different retirement spending patterns on the adequacy of savings for retirement, I have considered three different scenarios in the chart below by applying a different level of indexation to the initial income to reflect a spending pattern.

Under Scenario 1, the income remains constant in future nominal dollars and under Scenarios 2 and 3, the income is indexed with 2.5% per annum (in line with assumed CPI inflation) and 4% per annum (in line with assumed wage inflation) respectively.

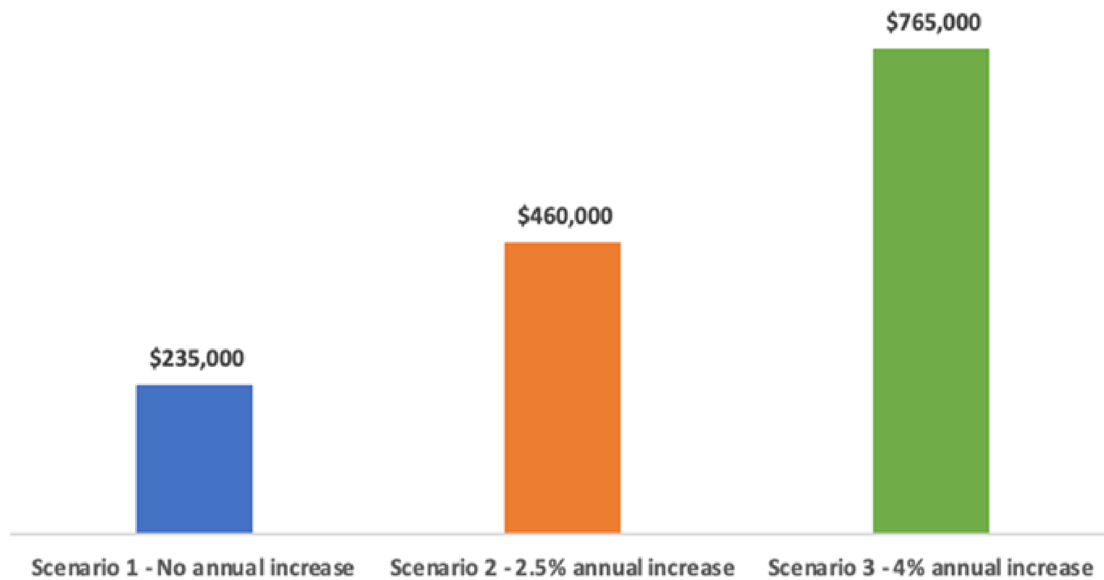
Chart 4: Estimated retirement spending patterns in future dollars



** The chart illustrates the spending pattern in future nominal dollars. In the calculations that follow, the amount of savings required at age 67 to maintain this spending level was calculated by adjusting the deflator in the retirement phase, whilst maintaining wage inflation at 4% per annum in the retirement phase. Age pension is expected to increase with wage inflation in the calculations.*

Based on the three different retirement spending patterns, the amount of superannuation savings required at age 67 to maintain the spending pattern from age 67 until age 92 was calculated. The results are shown in the table below.

Chart 5: Savings required by age 67 to fund spending under different retirement spending patterns based on initial $60,000 per annum level



** Investment return in retirement 7% per annum after all fees and taxes. The income stream is expected to continue from age 67 to age 92. Age pension was included in the calculations and is expected to increase with wage inflation (4% per annum) under all scenarios. Age pension calculation is based on a single-person homeowner with financial assets equal to the required balance and pension rates as of 1 March 2023. The deflator in the retirement phase was changed under each scenario to match the chosen indexation rate and convert the balance savings amount required into today's dollars.*

The chart illustrates that, if retirement spending remains constant in nominal terms, $235,000 is needed at age 67 to maintain that spending level until age 92, after allowing for the Age Pension.

Allowing for a 2.5% annual spending increase requires an additional $225,000 in savings at the point of retirement, over a 95% increase in the amount required compared to Scenario 1. Factoring in a 4% annual increase requires a staggering 225% increase in savings at the point of retirement compared to Scenario 1.

This demonstrates how the assumed retirement spending pattern has a significant impact on the amount of savings required at the point of retirement, and retirees and advisers should consider what spending pattern would be most suitable, rather than simply using the default assumptions.

Ruvinda Nanayakkara is a Fellow of the Institute of Actuaries Australia and is the Manager, Product and Innovation at Spirit Super.

Estate planning made simple, Part I

Noel Whittaker

This is an edited extract from Noel's new book, 'Wills, death & taxes made simple'. We'll feature a second extract in next week's newsletter.

It's a sad indictment of our attitude to this important topic that almost 50% of Australians still die without a will. But it gets worse - apparently for those who do have a will, 70% of them don't know where it is, couldn't locate it easily if asked to, and haven't reviewed it in the past 20 years. This means it's most likely to be outdated and no longer reflect their current circumstances. There's also a common misconception that people don't need to make a will because their wife, husband, or partner will automatically get everything. This is not true.

An effective will minimises the risk of challenges and considers what the beneficiaries will receive after taxes and duties, and makes things as simple as possible for your executor. That's not as easy as you might think, so let's look at key issues to be aware of before you draw up your will.

These include:

- the relevance of asset ownership
- which assets will be distributed as part of the estate and which separately
- the characteristics of different types of assets
- the various types of trusts that may be relevant to inheritances
- Centrelink issues, particularly relevant to anyone receiving the age pension
- property considerations
- extra needs for your will if you have dependent children

Today we'll focus on the relevance of asset ownership.

Understanding asset ownership

When preparing your will it's important to appreciate which assets form part of your estate and can be disposed of via your will, and which assets are not part of your estate and therefore cannot be bequeathed by the will. You must understand the nature of those assets because they may well have different characteristics that could be very important when your will is being prepared.

Usually, one of the first questions a solicitor will ask you at your appointment for a new will is whether you own any property as joint tenants or tenants in common. I am told that a blank look is the typical response; most people just do not know, and if they do know, don't understand why it matters. So let's look at why asset ownership is so important when drawing up your will.

Estate assets are assets held:

- in your name only
- as tenants in common.

Non-estate assets are assets held:

- as joint tenants
- in discretionary trusts
- in superannuation.

Estate assets

Items that you own in your own name are bequeathed through your will. These may range from household goods to a share portfolio.

Anything you own as a tenant in common has a fixed treatment upon death of one of the owners: the survivor/s continue with their present holding, and the deceased person's share passes to their beneficiaries following the terms of their will.

Tenants in common is the usual way that brothers and sisters or friends hold property. In this modern age where divorce and remarriage is commonplace, we find more and more couples are holding all their property as tenants in common, to allow their own children to have their share. If you want your surviving spouse to continue to live in a home you held as tenants in common, you could take advice about inserting a provision in your will that would enable it, and avoid the children of an earlier marriage forcing your new husband or wife out of their home.

Non-estate assets

Anything you own as a joint tenant, in a trust, or in superannuation (which is technically in a trust) cannot be bequeathed via the will. Life insurance is also disposed of according to its own rules, and not through the will.

If a couple hold assets joint tenants, and one dies, the entire asset automatically passes to the other holder irrespective of the terms of any will. This is called the "right of survivorship". This is the usual way that a husband and wife hold the family home. Obviously, you should not hold an asset as joint tenants unless you wish the other holder to have your share if you die first.

It's important to think about the ownership if you are considering making a bequest of a specific property or proposing a testamentary trust in your will. Because a jointly owned property automatically goes to the the surviving owner and is not part of your estate, it cannot pass to a testamentary trust. This could produce

unwanted results. You can change joint tenancy to tenants in common, just make sure you take advice about the tax and stamp duty consequences of doing this before you act.

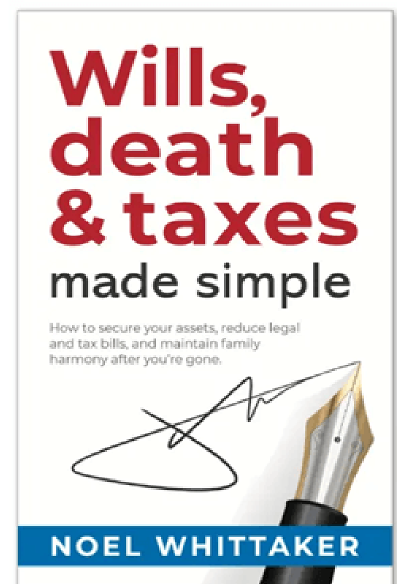
Case study

David and Susan have both been married before. He has two children from a previous marriage, and she has four. As they don't intend to have any more children, they hold assets as tenants in common. This enables David's children to have half the proceeds when he dies and Susan's children to have half the proceeds when she dies. The position would be different if the assets were held as joint tenants and David died. David's half would pass directly to Susan and how much she then gave to David's children would be at her discretion.

When David and Susan are preparing their wills, they need to think about what should happen when one of them dies. Is the intention for the survivor to remain in the house as long as it's convenient for him or her, or is the preference for the property to be sold and the proceeds split between the beneficiaries? A life tenancy is seldom a good option for reasons I'll discuss later, but the survivor could be given the right to buy the property on the death of their partner, or even occupy it for a specified time. This is a complex area, and you'll need expert advice.

In addition, most older couples have joint bank accounts, which can save a lot of hassle when one of the partners dies, because the account continues as normal. You just need to take evidence of their death to the bank and then the account will revert to the survivor. It's also becoming common, as Australia's population ages, for an older person to have a joint account with one of their children. This can be invaluable when the older person passes away and there are ongoing bills to pay for the deceased's estate.

Such a joint account provides ease of access, but if other siblings do not even know of the existence of this account, there could be some tension if the older person dies and the bank account—which may have a considerable balance — passes automatically to the joint-owner sibling. Therefore, make sure there is full disclosure within the family: that all the children know of this joint account and its ultimate purpose of paying expenses such as probate costs, solicitor fees, rates and the other bills that keep coming after a person away. Keep in mind that the more transparent you keep the finances, the less chance there is of squabbles later.



If property is held in a trust it is also a non-estate asset, and the trust deed should be carefully considered before drafting your will. The succession plans in the trust deed need to line up with your will and your wishes. Assets held in a trust cannot be bequeathed in your will because it's not you personally who owns them, but the trustee of the trust fund. Your wishes could be carried out by either amending the trust deed or inserting a clause in your will — but only if the trust deed permits. Again, this is a complex area and you should consult a specialist succession lawyer about it.

Noel Whittaker is the author of 'Retirement Made Simple' and numerous other books on personal finance. See noelwhittaker.com.au. This is an extract from Noel's book, Wills, death & taxes made simple, and is for general information only.

Markets are about to get a whole lot harder

Robert M. Almeida

The market value of equities, whether public or private, represents a range of assumptions about future returns on capital. When profit forecasts change, market values adjust accordingly. The adjustment can be quick in public markets or slow in private ones, but they're inevitable.

Looking back at the remarkable period of wealth accumulation enjoyed by investors since the end of the global financial crisis, the catalyst was significant net income growth by companies regardless of region or style. While some materially out-earned others, such as US large-cap growth companies, return on capital and stock prices were relatively high and faced minimal interruption.

Leaving aside the COVID-lockdown-stimulus-driven quarters, a global savings glut and falling fixed investment helped drive years of economic stagnation that weighed on corporate revenues. Yet many businesses around the world were still able to generate remarkable return rates thanks in part to falling capital and operating costs.

While that's how we got here, what matters now is where we're going. Since 2022, both capital and operating costs have risen. Below we explain why we don't expect them to revert to prior lows and what that could mean for risk assets.

Two important – and intertwined – factors

In a remarkable feat, the Bank of England has compiled a 5,000-year history of interest rates. In it, we're told that the year 2021 marked the all-time low for rates. To put that into perspective, for those, like me, born before the early 1980s, our lifetimes comprise a period when interest rates hit both 5,000-year highs and lows.

Three years later, and despite a tight labor market and a quarter-million new jobs being added monthly, market participants continue to discount a loosening of global monetary policy. While that may prove true, and I'm not suggesting otherwise, the more important consideration is what happens to yield curves and long rates down the road.

While overnight and short rates will likely fall before long, too many investors seem to be counting on a collapse in long rates and a resurgence in cheap capital costs. In my view, any reduction in short rates is more likely to result in more positively sloped yield curves than in precipitous declines in long-end borrowing costs. More important, I think borrowing costs, whether for the consumer, enterprises or government entities, are unlikely to revisit all-time lows because aggregate demand is too high, labor too scarce and the need for capital investment too strong.

A question I'm often asked when I share this view is, "In the event of market stress, won't policymakers want to manipulate yields curves?" Sure. However, wanting to do something and having the ability to do it are two different things, and it was a lot easier to manipulate yield curves when savings were high, spending was low, labor was plentiful (thus possessing little bargaining power), and growth and inflation were weak.

What's changed?

Today, what's changed is that household savings are now being spent on food, shelter and energy and companies are spending to shorten supply chains (more on this later) at a time when labor is expensive and in short supply. All this spending is growth- and inflation-accretive. Also, inflation today isn't only higher but more volatile than in the slow growth, low inflation paradigm, while budget deficits are far larger than in the recent past. This has led to policy constraint being dictated by the bond market, as we saw in the United Kingdom during the LDI crisis 18 months ago. This matters for risk assets because the hurdle rate to generating positive net income has gotten a lot higher.

Another factor is globalization. Globalization and just-in-time inventorying were tremendous catalysts for profit growth because warehousing goods is costly. Less inventory on hand means more working capital and higher operating and profit efficiencies. Low-cost manufacturing, particularly in Asia, meant many western conglomerates could slash labor expenses. The outsourcing of manufacturing meant that multinationals could decrease tangible fixed investment. All else equal, when capital intensity declines, profits rise. But when globalization allowed developed market companies to become asset-light businesses, it also ushered in a decade of economic stagnation in the 2010s. Thus, globalization isn't without risks, and more of those risks have been exposed during the pandemic and the ongoing Russia-Ukraine war and conflicts in the Middle East.
Changing face of globalization

A prerequisite for just-in-time inventorying and globalization was global peace. Ships got bigger and could hold more containers because the oceans were made safe by post-World War II alliances. Corporations needed to be sure goods would arrive exactly on time, and they were. As that confidence grew, and the benefits of economies of scale accrued, the percentage of the world's traded goods via the seas more than doubled. At the same time, shipping costs deflated and profits soared.

Shipping is still cheap, but its cost is rising. More concerning, a global pandemic, two hot wars and a cold one have reduced the certainty that a critical part will arrive just in time. Meanwhile, labor arbitrage with Asia has ended because manufacturing in Asia is no longer cheap and hiring people is difficult almost everywhere.

Globalization isn't over and neither is just-in-time inventorying. But I'm arguing supply chains will become less stretched, cost more or both.

It's time to be selective

Societies, like economies and financial markets, are cyclical. Throughout history, tough times have produced tough people. Those tough people, through the adversities they face, create soft times. Soft times create soft people. Those soft people ultimately produce tough times, completing the cycle.

In my view, the policy response to the global financial crisis and the pandemic purposely created a soft-business operating environment that produced high returns for owners of capital. Life, business and investing aren't easy. Yet investing was recently made easy by the overwhelming policy response.

Portfolio returns will likely become more leveraged to business fundamentals as the aforementioned dynamics play out. We believe securities of companies positioned to successfully navigate the new higher-cost paradigm should comfortably outperform those who aren't ready.

As the societal, economic and market cycle works to completion, the current, soft business operating environment will change. Adversity will rise but the new paradigm is not likely to allow policymakers to soften the blow this time. And that's why I think discretion regarding what portfolios you own is advised.

Robert M. Almeida is a Global Investment Strategist and Portfolio Manager at [MFS Investment Management](). This article is for general informational purposes only and should not be considered investment advice or a recommendation to invest in any security or to adopt any investment strategy. It has been prepared without taking into account any personal objectives, financial situation or needs of any specific person. Comments, opinions and analysis are rendered as of the date given and may change without notice due to market conditions and other factors. This article is issued in Australia by MFS International Australia Pty Ltd (ABN 68 607 579 537, AFSL 485343), a sponsor of Firstlinks.

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Why commodities deserve a place in portfolios

Erik L. Knutzen, Hakan Kaya

Take out the second half of 2023, when we moved to a neutral view, and we have been positive on commodities since way back in October 2020. At the time, we cited the 'reflationary forces' likely to be unleashed as we left the worst of the COVID-19 pandemic behind us. A few weeks later came news of a successful vaccine.

A lot has happened since then. So, why have commodities been such a persistent overweight view, and why do we continue to favour them for the year ahead?

Disruption

We think commodities tend to do well in three environments.

In a reflationary environment, economic growth is rebounding from a slowdown and consumers and corporations restock depleted inventories, generating steadily rising demand for commodities.

An inflationary environment—or, more precisely, an unexpected spike in inflation—is largely caused by rapidly rising commodity prices, whether due to an unexpected disruption of supply or an unexpected burst of demand.

Finally, commodity prices often rise in a geopolitically volatile environment. This can be due to conflicts or disputes causing actual supply disruptions, and subsequent spikes in inflation, particularly if those tensions erupt in key production or transit areas for critical commodities like oil. But consumers often start paying a premium to secure supply even at the mere fear of disruption—and gold often benefits as a perceived catch-all tail-risk hedge.

A supportive backdrop

In 2021, the reflationary escape from the pandemic steered our view. In 2022, we upgraded our view to the highest overweight, anticipating reflationary forces becoming inflationary: An unexpected burst of demand fueled by fiscal stimulus packages ran up against the constraints of disrupted supply chains; and Russia's assault on Ukraine made the geopolitical environment much more volatile.

Last year could have seen geopolitics stabilize around a stalemate in Ukraine, and rapidly rising interest rates trigger a disinflationary economic slowdown. That is largely why we shifted to a neutral view over the second half of 2023. Instead, economic activity moderated but proved much more resilient than many had expected, and the Hamas attack on Israel added a second major geopolitical flashpoint in a commodity-rich location.

The result is that 2024 looks set to be another year of reflation and geopolitical uncertainty—with the latter significantly raising the tail risk of a return to problematic inflation. In our view, that's a supportive backdrop for commodities, as both a core exposure to economic growth and a hedge against inflation surprises.

Reflation

The asset class has certainly been making headlines. Crude oil and gold are up 18% and 16%, respectively, since the start of the year. Unprecedented deficits in the cocoa market, caused by poor weather and crop hoarding, have seen prices in this commodity run up by 140% so far this year.

Our base scenario is reflationary: sticky inflation and a global economic recovery leading to relatively high nominal growth. This could be positive for both equities and commodities.

The last three weeks have given us another blow-out U.S. payrolls report, the third hot U.S. inflation release in a row, exceptionally strong U.S. retail sales, and the latest in a series of upgrades to the International Monetary Fund's global growth forecasts. Even China, a persistent laggard since the pandemic, has managed to stimulate forecast-beating first-quarter growth of 5.3%. The 2023 manufacturing recession appears to be behind us, and Europe, in particular, has begun to restock after running down its commodity inventories.

We think this backdrop favours energy and industrial metals.

Typically, oil demand grows at about half the rate of the global economy. Inventories have been drawn down at a faster-than-normal pace over the past six months—and given current outlooks for expansion, we think demand could increase by around 1.55 million barrels per day this year. Given OPEC's cautious production approach, and little prospect of U.S. shale oil stepping into the breach, it could be a significant challenge to meet this demand.

Structural demand for copper and other industrial metals is already strong, in our view, as they are critical for the electrification and decarbonization of the economy, as well as for the build-out of 5G and datacenter infrastructure. The turn in manufacturing adds a cyclical impetus, and these commodities have also tended to benefit the most from non-recessionary rate cuts.

Risks

Among the risks to this reflationary scenario, the two we consider most likely would be supportive of commodities, in our view.

The first is geopolitical volatility. The recent escalation of Israel-Iran tensions highlights the vulnerability of Iranian oil and the flow of oil through the Strait of Hormuz. Although a complete closure by Iran is improbable, due to Oman's control over the shipping lanes, we see heightened risk to oil infrastructure and supply routes from proxy actions.

The war in Ukraine still poses threats, too. Ukrainian attacks on Russian refineries are causing significant disruption, and Russian export facilities are also at risk. There are also new sanctions on Russian-produced metals to contend with.

Meanwhile, beyond the front-page geopolitical risks, more localized political risks can also cause outsized disruption. Take the Cobre copper mine in Panama, for example. Its owner, Canada's First Quantum, has been forced to close it following public opposition and a ruling from the country's Supreme Court that the terms of its contract were unconstitutional. This could remove as much as 2% from global copper supplies, which were already looking constrained due to large cost and production cuts from Anglo American.

The second risk is a return of problematic inflation—or the related risk of systemic volatility caused by debt-sustainability concerns or a loss of confidence in fiat currencies. Along with the deteriorating situation in the Middle East, this appears to be the main driver of the 2024 gold and silver rally. We see precious metals not only as beneficiaries of the structural decarbonization trend, but as hedges against the potential for the reflationary cycle to become uncomfortably hot.

Unique backdrop for outperformance

We believe the backdrop of sticky-but-declining inflation and high nominal growth is largely positive for risky assets, but that full valuations in some parts of the market, together with inflation and geopolitical tail risks, support a broad and balanced exposure.

That creates a meaningful role for commodities in a portfolio, in our view. Thanks largely to the diversity within the asset class and its unique supply-and-demand dynamics, we believe it is one of the few investments that stand to benefit from our base scenario for 2024 while also having the potential to outperform significantly should tail risks to that scenario be realized.

Erik L. Knutzen, CFA, CAIA and Managing Director, is Co-Head of the Neuberger Berman Quantitative and Multi-Asset investment team and Multi-Asset Chief Investment Officer, and Hakan Kaya, PhD, is a Senior Portfolio Manager. Neuberger Berman is a sponsor of Firstlinks. This information discusses general market activity, industry, or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. It is not intended to be an offer or the solicitation of an offer.

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What's next for Australian commercial real estate?

Patrick Barrett, Sasanka Liyanage

A year ago, the idea that the Australian economy could maintain a steady pace against a backdrop of escalating interest rates and normalising inflation was viewed as an outside chance. However, the 'Goldilocks economy' – where growth is not too hot or too cold, but just right – looks increasingly possible (but not guaranteed).

Market commentators seem to have reached consensus that interest rates have passed their peak, and the subject of debate has turned to the speed and degree of interest rate reductions.

Given the resilience in economic conditions and strength of the labour market, central banks may maintain higher policy rates for longer than originally anticipated. This restrictive environment could also have a more detrimental slowing effect. However, falling inflation and the eventual transition to lower interest rates should support market confidence over the medium term.

Not too hot, not too cold – signals from the listed property market

The outlook for the global and Australian economy has strengthened with the sustained reduction in inflation and increased confidence in the downward trajectory for interest rates. Importantly, the easing in price pressures is unfolding, without a material deterioration of economic growth and labour markets. Australia's growth has been solid, while the labour market has been resilient. For the commercial property market specifically, Australian Real Estate Investment Trusts' (A-REITs) performance can often serve as a litmus test and what we've seen in the most recent reporting period is driving a more positive outlook.

In the March quarter of 2024, the A-REIT sector outperformed in a transitioning economic landscape, demonstrating resilience amidst a backdrop of moderating inflation. A-REITs capitalised on the favourable 'Goldilocks' market conditions, which supported an impressive +16.8% return for the S&P/ASX 300 A-REIT Accumulation Index, outperforming the +5.3% for Australian equities (ASX200) and highlighting the sector's strong investor appeal following tough market conditions in 2023.

This is a significant shift in sentiment from 2023, where investor appetite for A-REITs waned given higher borrowing costs, valuation adjustments and a dearth of market transactions.

Further insights from the half-year reporting season

The Australian listed real estate market can also give us further insights into the outlook for commercial property valuations.

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The February 2024 A-REIT reporting season highlighted that most sectors have been positively impacted by surging population growth and the consequent spike in consumption and real estate demand across the Retail and Industrial & Logistics sectors. Rental growth was particularly strong in the Industrial & Logistics sector, while leasing spreads (the difference between new rents compared to prior rents) turned positive for retail mall operators.

The March 2024 quarter witnessed the commencement of a series of strategic and corporate activities, including Bunnings (ASX:BWP) script bid for Newmark (ASX:NPR), bond issuances, and large property transactions. These events all signal a positive shift in market sentiment.

Optimism was further bolstered by expectations that interest rates in this cycle have now peaked, with speculation now turning towards the anticipated timing and magnitude of interest rate cuts. These outcomes, if they play out as anticipated, could enhance the sector's investment appeal through potential capital gains and lower borrowing costs.

The listed A-REIT market and direct real estate investment

Central bank policies have made great progress in reducing inflationary rates from the recent peaks. However, it remains above their target range with the 'last mile' of reductions potentially more challenging.

For listed markets, the exact timing of any rate cut matters less than the overall trend, particularly due to the relationship between bond yields and real estate prices. Listed A-REITs, which are more liquid than direct real estate investments, can directionally lead the direct real estate market by six to twelve months. This predictive directional ability of A-REITs suggests that they will likely foresee and respond to shifts in direct real estate valuations before the actual underlying physical market rebound occurs. This pattern is evident, as despite cap rates in Australia not expected to bottom out until June 2024 (depending on specific property market sector it could be later in 2024), the listed market has already seen five months of positive returns since November 2023.

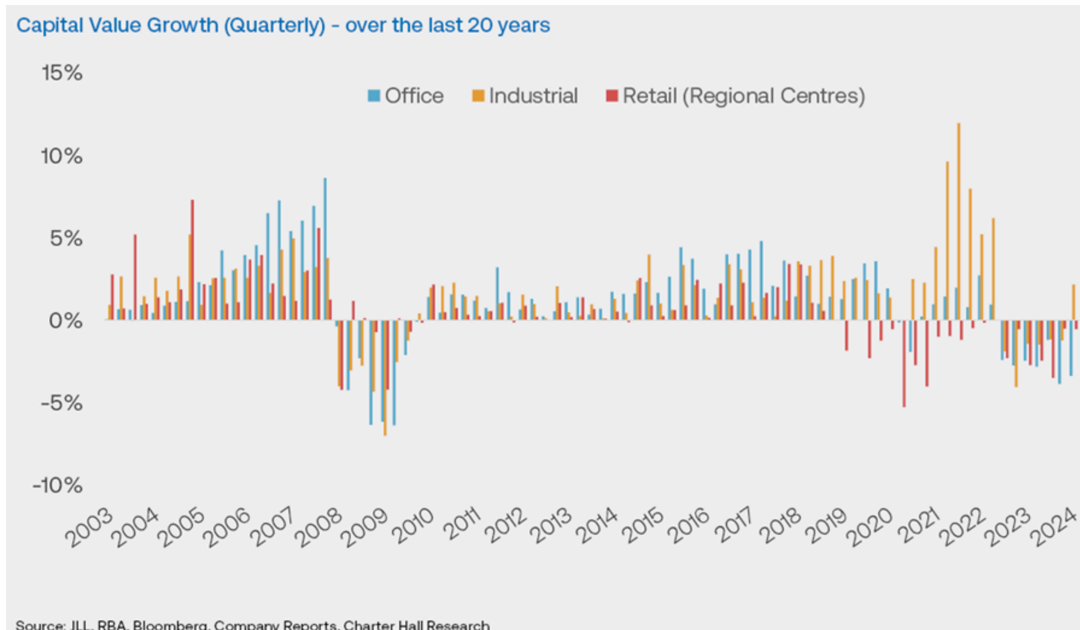
4 key factors that will influence commercial property valuations

1. Interest rates

The more positive market conditions have supported leasing demand across most real estate sectors, with low vacancy rates and strong rental growth evident for high-quality assets. Despite this, the adjustment to higher interest rates generated notable challenges across investment asset classes, including commercial property valuations.

Significantly higher borrowing costs coupled with an adjustment in valuation yields outweighed the positive impacts of higher rental growth over the past year.

This resulted in the largest asset devaluations since the Global Financial Crisis, as shown in the chart below.



Over the near term, the positive contributions from sustained rental growth are expected to have a positive impact on returns. Looking further ahead, falling interest rates and lower borrowing costs should generate capital gains and promote investor confidence, following a period of an adjustment in purchaser pricing expectations and overall valuation declines.

2. Leasing demand

Leasing demand for high-quality real estate has been strong. The economic momentum has been boosted by surging population growth, a fundamental demand driver across real estate. The latest migration numbers reported another large net population increase, with the total number of permanent and long-term arrivals up 548,000 for the year to Sep-2023 - an all-time high. This large addition to the population adds to overall consumption requirements, generating increased demand across the market's Retail and Industrial & Logistics real estate requirements.

3. Supply

Higher interest rates and tight labour markets have exerted material pressures across both existing and future development pipelines. Combined with Australia's stringent and challenging planning controls, this significantly reduced construction activity over the past couple of years and will impact the overall development supply.

Insufficient supply and sustained demand intensified the scarcity of high-quality and modern commercial property assets. This is most evident across the Industrial & Logistics sector where low vacancy rates and sustained demand continue to drive strong rental growth of 18% nationally over the past 12-month period. Notable growth also emerged across certain Prime office markets. Over the past year, rents increased by 19% across the Brisbane CBD. This significant growth will help offset the negative valuation pressures from the adjustment to higher borrowing costs.

Similar trends have emerged across the Retail sector. Many retailers were forced to renew leases in existing assets given prohibitively high build costs and few alternate new asset opportunities. Notwithstanding this, existing assets also face greater functional obsolescence risks. Not all real estate is created equal, and a broad range of requirements can render assets undesirable to tenants. More recently, the credentials relating to technology and environmental sustainability have become more prominent in tenant demands. Managers of obsolete assets could face compounding issues of falling tenant demand and higher maintenance costs.

Ultimately, the immediate challenges can only be resolved by a notable reduction in construction costs or a sustained and significant growth in market rents. However, it appears that the challenges faced in new building supply could take years to resolve.

4. Macroeconomic factors

Other factors will also fuel consumption activity. As inflation continues to fall, real wages will increase. Incomes will also be boosted by a series of Government initiatives. The Stage 3 tax cuts are legislated to commence in July 2024 and will boost household disposable incomes. Additionally, the Federal Government is set to increase minimum and award wages from July which will likely be close to 4%. Moreover, conditions across the labour market have remained strong. Employment growth has been significant with approximately 900,000 jobs added over the past two years. Meanwhile, the unemployment rate has hovered between 3.5%-4.0% since mid-2022. This will continue to support growth across the major real estate sectors.

Outlook

The interest rate outlook, leasing demand, supply and macroeconomic factors are being factored in by the listed A-REIT market – and point to current conditions being positive for sustained rental growth across high-quality real estate.

If the Goldilocks conditions continue, we can anticipate improved returns in the medium term for Australian commercial property. This follows one of the most challenging periods for the sector in the last decade.

Industrial & logistics indicative valuations moved back into positive territory over the recent quarter, with the positive impacts of rental growth outweighing the drag from capitalisation rate adjustments. The sustainability of this recovery will be more evident as a larger number of managers undertake valuations. Notwithstanding this, the recent result certainly signals the stabilisation in conditions and approach to inflection points.

Sasanka Liyanage is Head of Research and Patrick Barrett is a Portfolio Manager, Listed Securities at Charter Hall Group, a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any person, and investors should take professional investment advice before acting.

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Board games: two hidden risks for stock pickers?

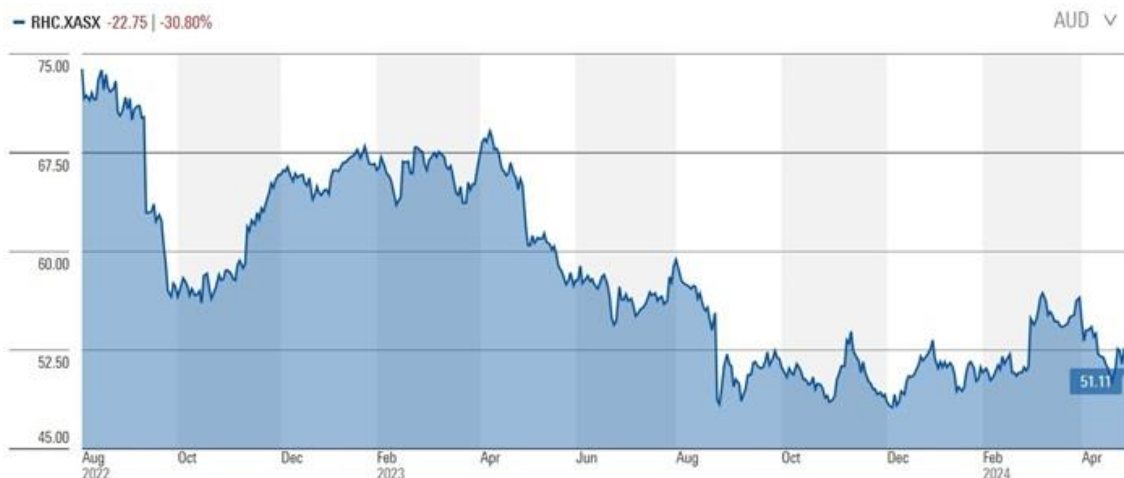
James Gruber, Joseph Taylor

Simon Mawhinney has experienced a takeover or two in his time. Allan Gray, the investment firm he joined as an analyst in 2006 and now heads up, has built its track record on taking a contrarian stance and buying cheap equities. Because low valuations often attract buyers, takeouts are a common exit for Allan Gray investments whether they like it or not.

Unfortunately, Mawhinney often lacks confidence in those deciding whether a takeover should happen, and at what price. “I’m not saying this is the norm”, he starts, “but there are instances where boards have a completely distorted view as to what a company is worth”.

You might expect Mawhinney’s main gripe to be with directors letting buyers steal companies for too little. But he’s just as scathing about boards that expect too much from buyers. He sees Ramsay Healthcare (RHC) – which saw a deal with Kohlberg Kravis Roberts (KKR) collapse in September 2022 – as a prime example.

> *“You can't expect someone to take over a company without accounting for potential downside risks in the price somehow. Ramsay wanted to extract every single last dollar from the would-be buyer. By the time there was sort of some agreement, things had changed, and the deal fell over. Look at what's happened to the shares since.”*



Source: Morningstar.com

Things can, of course, go the other way. A few years ago, Allan Gray were the biggest shareholder in construction group UGL. Mawhinney says the board’s expectations were “frighteningly low” here, no doubt influenced by a mining downturn and project write-offs that had battered the shares.

> *“CIMIC ended up buying that business for around four times earnings. At times like that, you would expect boards to take a long-term view of the world and not be preoccupied with short-termism.”*

But Mawhinney thinks boards have strong incentives to do otherwise. Chief among these is the desire to avoid criticism – or a court case – from shareholders obsessed with getting a quick return. This can make lowball offers look more attractive than they really are, a situation Mawhinney sees written all over Nationwide Bank’s bid for Virgin Money in the UK.

> *“Nationwide’s offer valued Virgin Money at 0.65x net tangible assets. The cheapest major bank in Australia trades well above 1x, but the board probably felt they needed to recommend the offer because it was 40% above Virgin Money’s prevailing share price. But just because it's a 40% premium, does that make it cheap? We should be comparing the offer to the underlying value of the company, not to the share price”.*

It's little wonder why Allan Gray don't want boards to get carried away by pessimism or fall prey to short-term thinking. After all, they are the very same fallacies Allan Gray try to exploit by buying out of favour shares. If the company's board fall prey to these biases, it can cap the pay-off from what Allan Gray see as a real behavioural edge.

When it comes to building better boards for shareholders, Mawhinney stresses the need for quality over quantity. "Boards have become a box ticking exercise more than anything else. We're getting to boards with ten, twelve people. I'd rather a board that's half the size, pay each member double and attract really good talent. People with fire in their belly and some energy."

As well as boards, Mawhinney is cautious of another powerful group that usually fly much further under the radar – proxy advisors. These firms consult large passive shareholders like mutual and index funds on how to vote on matters like AGM resolutions and takeover proposals. This gives them a huge amount of power over corporate governance, even if they own zero shares.

> *"There are times when the proxy firms highlight things that other shareholders might miss, in which case there is definitely some good that comes from it. But recently, like is the case now with Woodside, I think the proxy firm's influence is far in excess of what it should be."*

Mawhinney was referring here to Glass Lewis, which recently advised clients to reject Woodside Energy's climate report and block the re-election of its chairman Rochard Goyder. Woodside was a major position for Allan Gray's equity fund as of March 31st and they disagree with Glass Lewis's recommendation.

Mawhinney's caution on proxy advisors is partly down to the scale of Glass Lewis and its peer Institutional Shareholder Services, which hold an estimated 95%+ market share between them.

> *"They write these things on thousands of companies, thousands. There is no way that it can all be thoughtful and in-depth. A lot of it is quite superficial and I think the Glass Lewis report [on Woodside] was particularly poor."*

He also thinks their need to retain subscribers pushes proxy advisors to publish occasionally "off the wall" research to keep things interesting. It isn't the first time Allan Gray have disagreed on the right direction for one of their portfolio companies, and it probably won't be the last.

Joseph Taylor is an Associate Investment Specialist for Morningstar and Firstlinks.

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