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Editorial

Following the day-to-day news on Iran is frustrating. There appears to be scant progress on the vaguely defined war aims or a pathway to lasting peace. According to the Wall Street Journal this frustration is ironically shared by President Trump who seems unable to accept that he can't just bend the Iranians to his will.

What is becoming clearer is the economic fallout. The IMF projected global economic growth would fall by 1.30% to 2.00%. The lower projected growth rate is perched on the cusp of the IMF's definition of a global recession.

Global inflation is spiking with Australia expected to follow suit when quarterly CPI is released next week. Will IMF warnings about the inflationary impact of government spending lead to a restrained fiscal response to the economic slowdown? We will find out in mid-May.

Ashley Owen shows [our unique and unenviable position in Australia](#) where the RBA faces higher levels of inflation than other nations. There doesn't appear to be a magic bullet to bring inflation back under control.

The April Bank of America global fund manager survey shows investors forecast oil at \$84 a barrel by the end of 2026. That is significantly higher than the \$55 a barrel prior to tensions in the Middle East. The impact of higher oil prices are beginning to spread throughout the economy creating credit concerns.

National Australia Bank has lifted loan impairment provisions by \$300 million to cover potential stress from sectors directly affected by the Middle East conflict, and broader downside to the Australian economy.

One place credit concerns may manifest is within the private credit space. In the US concerns about lending to software companies upended by AI have led to increases in redemption requests - many of which aren't being honoured. The impact of AI extends beyond smaller software companies and **GQG** outlines [why even Alphabet is seeing challenges to their business model](#).

In Australia much of the private credit lending is to property developers who are being impacted by higher construction costs. This week **Phil Stano** looks [at concerns Australian private credit will go down the same pathway as the US](#).

What makes the current situation troubling is the seeming disconnect between markets and what is going on in the world from a geo-political and economic standpoint.

Markets are always forward looking but it seems hard to foresee the optimistic scenarios that have shares at record highs.

How to respond to economic turmoil

In Groundhog Day the character played by Bill Murray finds himself having to relive the same day again and again. This is a metaphor for a boring life where repetitive routines take over.

Routines might be boring, but they are also the secret to building wealth. If you want to create a secure future get into a routine of saving money to invest following a consistent strategy.

As a reader of Firstlinks it is likely that investing is part of your routine. Routines offer a perception of control in a world where so much seems uncertain.

Like many readers, my own pathway to assert control was always through my finances. When I was younger, I pictured a time when I amassed enough wealth to provide security. This was my way of trying to counteract all the uncertainty I felt about the future.

For me, wealth was never about showing off or nice things – it was about independence. I saved and I invested consistently because it felt like it was another step towards self-determination.

When I felt a vague sense of uneasiness about my life or the future, I thought about how much I would save out of my next paycheck. I calmed myself by projecting the value of my portfolio using assumed savings rates and returns.

I suspect a lot of other people reading this article do the same thing – even if it is done unconsciously. We encourage young people by saying they can be anything they want in life. Yet the experience gained by aging often reveals how happenstance plays a large role in our outcomes. Being intelligent, making good decisions and working hard is a good start...but isn't always enough.

Will Trump's next move in the Middle East plunge the world into recession? Will the next iteration of an AI model replace your job? Will the next superannuation tax or regulatory change alter your retirement outcome?

All of these potential outcomes could be solved by having more money. The problem is that no amount of money will make you feel completely safe. Money is measurable which makes it all too easy to obsess over. That is a formula for always feeling like you need more.

Final thoughts

Forgive this brief deviation from the normal topics I cover. Perhaps it is turning another year older this week. Perhaps it is frustration and a general unease with the state of the world. Maybe I just needed a break from digging through financial studies and investment data.

My reflections this week might just be a result of reading Andrew Ross Sorkin's 1929 where the collapse of the financial system showed the fragility of our expectations that the future will resemble the past.

Investing and life are about accepting uncertainty. It is about self-awareness and the balance between financial goals and what makes your life fulfilling.

Maybe your coping mechanism is to save more, plan more or focus on optimising each dollar you have. And maybe you need a break.

Sometimes life is about opening that nice bottle of wine you are saving for a special occasion. Or going out to dinner with someone you care about and haven't caught up with in a while.

Sticking your head in the sand is rarely the right choice but unplugging for a bit never hurt anyone – just wait until after you've read this edition of Firstlinks.

Mark LaMonica

Also in this week's edition...

David Knox and **Nick Callil** introduce [a proposal to address Australia's 'stranded balances'](#) in retirement by requiring super funds to transition members to pension phase at 65, boosting retirement income and reframing super as a source of income.

Tony Dillon's take on energy security. [Is it time for Australia to double down on renewables?](#)

Billions continue to be spent on the AI build-out. **Jeffrey Tobias** asks [if there is any proof it is working](#).

Cromwell takes a look at replacement cost as a practical lens on relative value in commercial property. [Is now an attractive time for the asset class?](#)

This week's white paper is Fidelity's [latest Analyst survey](#) which focuses on the key questions investment decision makers are asking, helping investors understand how themes could play out across portfolios.

Curated by Mark LaMonica and Leisa Bell

2 billion reasons to fix retirement income

David Knox, Nick Callil

Australia has a well-regarded superannuation system. What we do not have is a retirement income system. These are not the same thing — and the gap between them is costing Australians billions of dollars a year.

In a new paper, we propose a change to how superannuation works as members approach the drawdown phase. The result would be higher balances for Australians as they move into retirement.

More importantly, it would help transform our system into one which achieves its legislated objective: delivering income in retirement.

The 'stranded balances' problem

A symptom of our system's lack of focus on retirement income is the extent of balances held by members aged 65 or over which sit in the accumulation phase but could legally be transferred to pension phase – which we call 'stranded balances'.

From age 65 there is no legal barrier to members moving their super accounts into pension phase, even if they are still working. And as balances in pension phase earn tax free returns (rather than being taxed at 15%), members can boost their retirement wealth simply by instructing their funds to transfer their accounts to pension phase upon reaching age 65.

And yet large numbers of members do not. Using recent APRA data, we estimate that as of 31 December 2025:

- Over 1.5 million Australians aged 65 and over hold stranded balances in APRA-regulated funds.
- The aggregate value of these stranded balances is \$326 billion — an average of over \$210,000 per person.

These individuals are paying more than \$2 billion in additional tax each year. Tax that would not be payable if their balances were shifted to pension phase.

A proposal for change

We propose a change to the law to help rectify this. A new measure – which we call 'MyIncome' – would require funds to take stronger action to transition members into tax-free pension phase from age 65 and require all balances to be moved to pension phase by age 75.

To be clear: we acknowledge that many stranded balances will belong to Australians who have no immediate need to commence drawing down on their superannuation. For example, some will still be earning an income from work. So why are we suggesting a change to the system that encourages them to do so?

There are two reasons:

- In most cases, moving to pension phase will still be in the individual's best financial interests. Our paper provides analysis showing that, in all but a small minority of cases, individual wealth will increase even if pension payments are not spent but held in a low interest savings account.
- Just as importantly: promoting a shift to pension phase and commencing drawdowns will help reframe super as a source of income for older Australians, not just a savings vehicle. The purpose of super is to deliver income. We need positive action to tip members' mindsets – and balances – towards income during retirement.

MyIncome

What are we proposing? Our MyIncome package requires super funds to take specific action at three distinct points in their members' timelines. requirement

From (member age)	Fund action	Applies to
60	From age 60, funds must begin gathering bank account details and verifying member identity.	APRA regulated funds
65	Funds must offer each member a pre-set 'MyIncome' account-based pension. Accepting the offer requires no decisions by the member beyond saying 'yes' - drawdown and investment option settings are designed by the fund.	APRA regulated funds
75	Any balance remaining in accumulation phase* must be transferred to pension phase and an income stream commenced *subject to the Transfer Balance Cap	All funds (including SMSFs)

The cornerstone of this package is the requirement for funds to offer a 'pre-set' account-based pension at age 65. Members would not need to complete any forms, nor make any decisions regarding investment strategy or drawdown level. These settings would be determined by the fund in the same way as investment and insurance are pre-set in MySuper products. This 'easy transfer' arrangement removes a key friction constraining the transition of members to pension phase at age 65.

At age 75 we propose something stronger: all balances (other than those exceeding the Transfer Balance Cap) must be moved to pension phase. This would ensure super balances start being withdrawn to finance retirement spending – consistent with the legislated Objective of Superannuation – and are not used as a de facto bequest device. Enforcement of this measure would require an adverse consequence – such as pensions being paid to the Tax Office – for members who do not provide bank account details.

We do not propose to include a lifetime income stream in MyIncome. While lifetime income streams are under-utilised in Australia and can provide a significant boost to retirement incomes, we have preferred to retain full flexibility given the semi-default nature of our proposal. Introducing a lifetime component to MyIncome could be a possibility in the future.

Importantly, our proposal would not prevent funds from designing their own retirement solutions for members, personalised through the use of cohorting, guidance and personal advice as they see fit based on their membership profile. MyIncome would simply serve as a backstop for those members who do not engage. Further, members would retain full flexibility to change their investment strategy, adjust drawdown rates, take lump sums, or transfer to other retirement products (including lifetime income streams). The aim is to accelerate the shift into the tax-free environment and receiving income — while leaving room for individual circumstances to be accommodated.

A change for the better

MyIncome would not be costless. We estimate an impact to government revenue in the order of \$1 billion per annum. Nor could it proceed without some regulatory change, including the anti-hawking provisions and design and distribution obligations applying to super funds.

But there is a bigger picture here. Despite our superannuation system being admired as a world leader in many respects, it falls short on the final, and arguably most important, part of the journey – the income phase. The MyIncome proposal is a measured response which will help address the \$2 billion that members with stranded balances are missing out on each year.

Further, by normalising drawing down from age 65, it will enhance superannuation's role as a provider of retirement income. For older Australians, it will simply lead to more income – and hence better retirements.

Nick Callil and David Knox have combined experience of over 75 years as actuaries and advisors to a range of leading superannuation funds and are co-authors of ['It's time: here's how to turn superannuation into a retirement income system'](#) published by the Actuaries Institute April 2026.

Not much alpha left in this bet

GQG Research

Alphabet's Google changed the game of advertising as Google's seamless integration of ads into its search engine revolutionized relevance and efficiency in online advertising. Google, with its Page Rank innovation and capital-light model, became a dominant force in its industry.

Alphabet now faces a shift from nimbleness toward an infrastructure-heavy approach that slows down the very strengths that once defined its dominance. From here, Alphabet's future is likely to involve lower returns on new investments, higher spending on capital-intensive projects, and less opportunity for the effortless growth and compounding that investors have come to expect, in our opinion.

Below, we highlight three reasons we worry about the investment future of Google, Alphabet's largest subsidiary, and why we do not own the stock as of the date of this publication (23 March 2026). For full disclosure, Alphabet was among our top holdings in early 2024. While we do not currently own the stock, we may consider owning it again in the future should its fundamentals and valuations align with our investment criteria.

1. Challenges from AI and a saturating digital advertising market

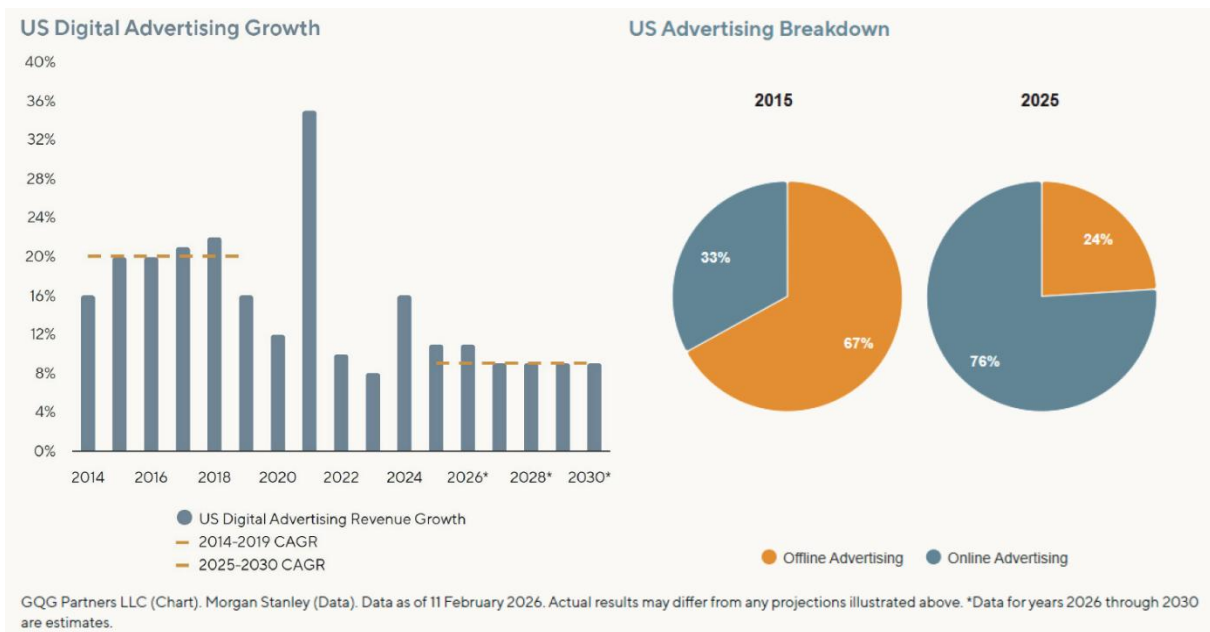
After dominating the search market for years with minimal competition, Google's core search business is now under siege by a new generation of AI-powered competitors.

Google – despite owning its own AI-driven search tool, Gemini – now finds itself grappling with the rise of OpenAI's ChatGPT, xAI's Grok, and Anthropic's Claude. These competitors represent a major disruption to Google's traditional ad-driven model.

Even if Google emerges as the leader in AI search with the integration of Gemini, its business model is likely to suffer, in our view. The traditional search model relied on users clicking through to publisher websites—commonly known as "10 blue links" generating multiple ad impressions along the way. Since Google's incorporation of AI into its search results, which provides direct, synthesized answers, user click-through rates collapsed. Analysts estimate that over 50% of Google searches could now end

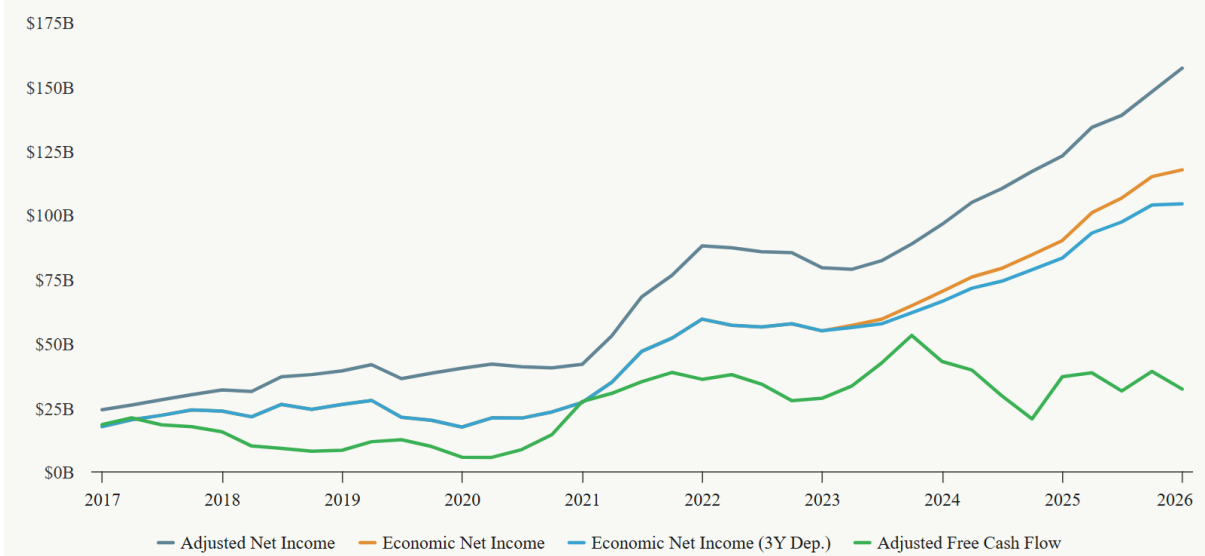
without a single click to any website. This behavioral shift cannibalizes the primary revenue stream that built the business.¹

Advertising bulls argue that AI will expand the total addressable market, suggesting that greater productivity will push advertising to occupy a larger share of GDP. However, historical data argues otherwise. Despite seismic shifts in media from print to radio to television to the internet to mobile, global advertising spend has consistently remained at 1% to 2% of GDP for over a century. We think the strong growth of the 2010s was a recovery from the post-dotcom "lost decade," not a fundamental shift in the market. Today, advertising spend as a percentage of GDP has returned to its 2000 highs, suggesting little room for further expansion.



2. Escalating costs without clear returns

While Alphabet’s core business faces significant challenges, the company has diverted its focus to AI cloud infrastructure. Bulls argue that Google Cloud will accelerate revenue growth and deliver operating leverage. However, the mounting costs and high capital intensity offer no guarantee of a triumphant outcome. This financial strain is already evident, as adjusted free cash flow (FCF) has stagnated since 2021 and is projected to decline in 2026. We think the gap between the optimistic narrative and the sobering reality can largely be attributed to two key factors: stock-based compensation (SBC) and the accounting treatment of capital expenditures.

Alphabet's Adjusted Free Cash Flow Generation Has Stalled


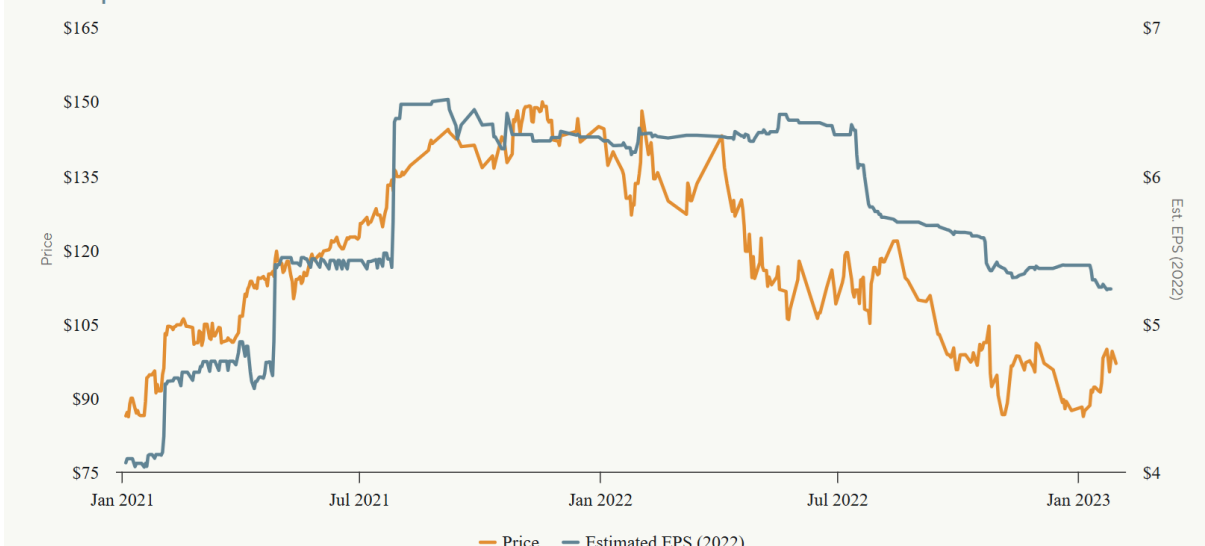
3. Cyclicalty and overvaluation amid slowing growth

Advertising is one of the most economically sensitive line items in any budget. It tends to be the first thing companies cut when conditions tighten. As the world's largest advertising platform, Google is a direct reflection of this cyclicalty. We believe that 2026 represents a similar set up to the 2022 cycle.

A trip down memory lane

During the COVID stimulus boom of 2020-2021, businesses aggressively expanded their digital advertising. Revenue growth for Google Services (search ads, YouTube ads, network ads, and subscriptions) climbed from \$152B in 2019 to \$169B in 2020 (11% year-over-year growth) to \$238B in 2021 (41% year-over-year growth).

After inflation began to ripple through the economy and the Federal Reserve responded by hiking rates aggressively in 2022, the business cycle turned. Alphabet's financial performance responded in the same cyclical fashion: Google Services' revenue growth slowed to 6.7% year-over-year, and net income fell 21% leading the stock to plummet nearly 40% over the course of that year.

2022 Alphabet Estimate Revisions vs. Stock Price


The painful irony is that management, investors, and Wall Street had been warned and still got caught. Google’s management team went on a spending spree leading into the downturn. In March 2021, CEO Sundar Pichai announced in a blog post: “We plan to invest over \$7 billion in offices and data centers across the US and create at least 10,000 new full-time Google jobs in the US this year.”²

As late as February 2022, CFO Ruth Porat was confidently describing “broad-based advertiser strength and strong consumer online activity.”³ When the downturn hit, Google was forced to reverse spending plans and enact job cuts. In a May 2024 post-mortem, departing Porat admitted: “A couple of years ago we actually got that upside down and expenses started growing faster than revenues. The problem with that is – it’s not sustainable.”⁴

Fast-forward to today

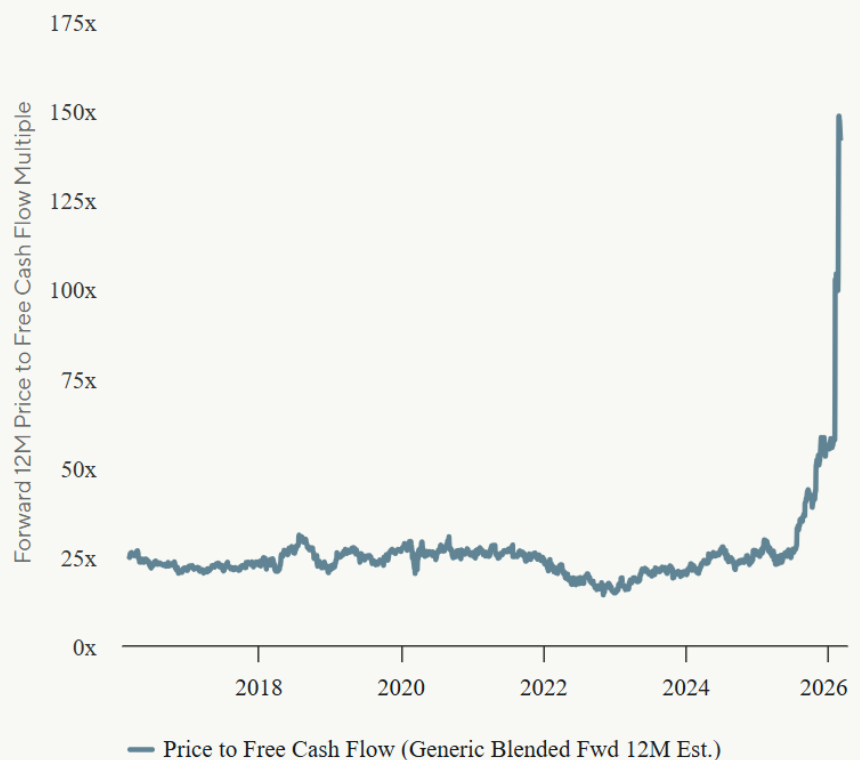
The lessons of 2022 have already been forgotten. Alphabet has embarked on a spending binge far larger than 2021 – this time concentrated in physical infrastructure that cannot be offset by job cuts and must be depreciated over years.

Compounding this, the consumer economy has weakened into a bifurcated “K-shaped” pattern, with clear stress in major cohorts. Yet, consensus still expects double-digit advertising growth into perpetuity.

Current Wall Street estimates have Google Services growing at low-double-digits in 2026, with mid-single-digit net income growth.⁵ If Google Services simply grows in line with the overall digital advertising market, say 8%, we project earnings growth would turn negative, just as it did in 2022. The sensitivity analysis is stark. These are not tail risks; they are realistic scenarios the consensus is pricing as near impossibilities, in our view.

Valuation vs. Fundamentals

Can Alphabet justify its lofty multiple?



Alphabet is currently trading at roughly 27x its expected earnings for the next twelve months, which is near the top of its historical valuation range. We believe this high multiple leaves no room for the company to miss earnings expectations. The situation appears even more concerning on a cash-flow basis, as the stock trades at 133x its expected FCF for the next year – far higher than its pre-COVID multiple of approximately 20x. This is despite the fact that its FCF has stagnated since 2021.

The bottom line

We think Alphabet's pivot from an agile, capital-light business model to one of the world's heaviest infrastructure spenders exposes its weaknesses. The path forward for Google suggests not effortless elegance, but the grinding challenges of maturity, where the returns on effort diminish. In our view, the next few years will likely be marked by estimate cuts and multiple contractions, signaling significant challenges for Google investors.

End notes

¹Chapekis, Athena and Lieb, Anna. "Google users are less likely to click on links when an AI summary appears in the results." Pew Research Center. 22 July 2025.

²Pichai, Sundar. "Investing in America in 2021." The Keyword. 18 March 2021.

³Alphabet Inc. 4Q 2021 Earnings Call. February 2025.

⁴Elias, Jennifer. "Google employees question execs over 'decline in morale' after blowout earnings." NBC Philadelphia. 10 May 2024.

⁵Bloomberg consensus estimates. 10 March 2026.

This is an abridged extract of GQG Partners' recent long-form article "Not Much Alpha Left in This Bet". You can read the full article [here](#). This article contains general information only, does not contain any personal advice and does not consider any prospective investor's objectives, financial situation or needs. Before making any investment decision, you should seek expert, professional advice.

Five simple reasons why Australian cash rates are highest

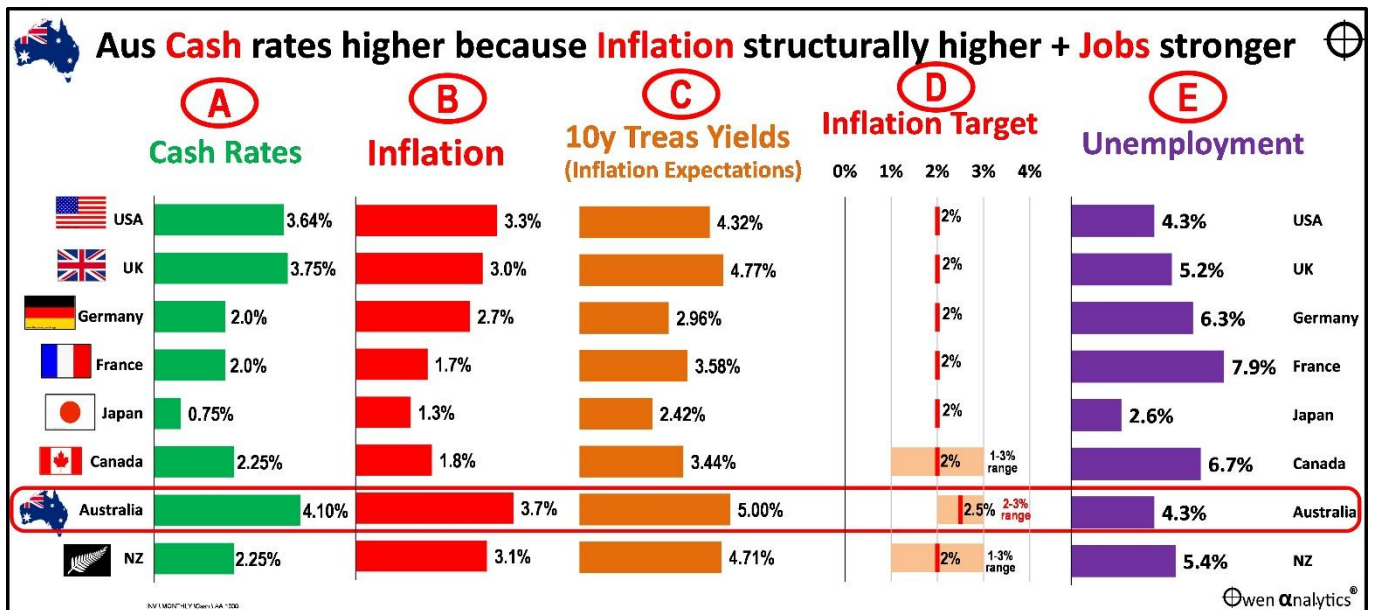
Ashley Owen

This is one of the most common investor questions I receive from advisers, and it is one of the easiest to answer. It's fairly simple.

Australians suffer the highest cash rates amongst their rich country peers (chart A) because Australia has:

1. The highest inflation rate (chart B),
2. The highest medium-long-term inflation expectations ie highest treasury yields (C),
3. The highest central bank inflation target (D) – for no good reason at all,
4. The strongest jobs market eg lowest unemployment rate (E) (apart from Japan which has a declining population and workforce), and
5. The loosest / most undisciplined monetary and fiscal policies during and since Covid.

Bottom line = locked-in structurally higher inflation.



Cash rates (A)

Australia's 4.1% cash rate is much higher than in peer 'rich world' countries. (There are plenty of other countries with higher interest rates of course – including Venezuela with 58%, Turkey 37%, Zimbabwe 35%, Argentina 29%, Nigeria 26%, Brazil 14.75% and others, but they are not our 'rich country' peers.)

High cash rates are more important in Australia than in any other country because we have the highest proportion of variable/floating rate mortgages in the world. The rest of the world relies much more on fixed rate mortgages, which are far less sensitive to changes in short-term cash rates.

Accentuating the problem is the fact that we have the most indebted household sector.

Australia is the only country to have had to switch from rate CUTS to rate HIKES this year, after the RBA's three unnecessary rate cuts in 2025 (February, May, August). Those 2025 rate cuts were unnecessary because inflation was running above target, the economy was running above capacity, and unemployment was low, fuelling inflationary wage claims. [I warned of this at the time.](#)

Inflation (B)

The latest inflation rates for Australia and other countries (chart B) are to February 2026 – ie BEFORE the impacts of the latest US-Iran war. The exception is USA, which recorded inflation to March running at 3.3% pa. This was a big increase from 2.4% US inflation to February. Most of the increase was due to surging fuel prices in March.

Australia's CPI inflation of 3.7% to February is well above its peers, and will also be higher again in March, with the impact of higher fuel prices directly and indirectly flowing through to many other categories of spending.

Inflation expectations – bond yields (C)

Australia also has the highest medium- to long-term inflation expectations, expressed in yields on 10-year government bonds (and for all other maturities / terms for that matter).

This means current and future taxpayers pay more interest on government debt, as federal and state governments have to borrow to finance their wild spending deficits and also refinance the existing piles of debt.

Central Bank inflation target (D)

The Reserve Bank has always had the loosest / highest / laziest inflation target in the world. Why? There is no good reason or excuse for this.

There is no philosophical or ethical justification for a government to deliberately set ANY positive target for inflation – ie to deliberately engineer CONTINUALLY rising prices and continually debasing the value of its mandated monopoly currency in the hands of its citizens. Deliberate price inflation / currency debasement (even 1% per year) is nothing more than officially sanctioned theft of citizens' wealth.

Governments love high inflation because it means high interest rates, so they can lure in lenders (bond holders) to finance their debts and then repay them in the distant future with debased currency worth a fraction of its current purchasing power.

High structural inflation

The reason or excuse for Australia having the highest inflation target in the world – ie the most aggressive money debasement and theft of citizens' wealth, probably has its roots in our Federation pact.

The formation of Australia at Federation in 1901 was based on three central features for the newly formed nation:

1. high protection barriers to keep out cheaper foreign goods,
2. restricted 'White Australia' immigration policy to keep out low-wage, non-white labour, and
3. centralised wage fixing/indexation to redistribute the windfall profits from protected industries to the protected workforce.

Today both the White Australia immigration policy, and the industry protection barriers are (mostly) long gone, but for some unknown reason we still have the heavy-handed, centralised wage fixing and indexation system, which is a relic from the distant protected past, and now unique in the world.

An additional inflationary feature of Australia's industry structure is that just about every domestic industry (eg banks, retailers, telcos, utilities, toll roads, airlines, ASX, ports, etc) is a monopoly / oligopoly where the dominant incumbents can simply pass on rising input costs to consumers in the form of higher prices, rather than being borne by shareholders.

In addition, Australia has had the highest population growth rate in the world (outside of Africa) since Federation and still has. It also has one of the best (youngest) demographics of any 'rich' country. See: [Australia's remarkable population-led growth \(31 Jan 2024\)](#)

These factors combine to result in Australia's higher structural inflation, which is reflected and perpetuated in our higher central bank inflation target.

Low unemployment (E)

We also have the lowest unemployment rate in the rich world, aside from Japan which has a declining population and declining workforce.

An additional problem for Australia is the fact that the vast majority of hiring is for the government sector or 'non-market' (private sector but revenues/prices are set by government – eg all those private suppliers to government services like NDIS, Home Care packages, construction contracts on public works, etc).

Currently the US also has a 4.3% unemployment rate like Australia, but Australia has a higher workforce participation rate of 64%, compared to 61.9% in the US, so our jobs market is tighter.

Poor monetary and fiscal policies

The RBA and federal / state governments share the blame for the post-Covid inflation we are still suffering. However, true to form, both sides now conveniently divert the blame for rising energy prices to Russia's 2022 invasion of Ukraine, and now the 2026 US-Iran war.

The fact is that the RBA woke up to the Covid stimulus inflation later than the rest of the world, then it hiked interest rates to attack inflation LATER, SLOWER, and LOWER than other central banks.

Then, for some unknown reason, the RBA CUT rates unnecessarily in 2025 when inflation was still running above target, when the economy was running at or above full capacity (inflationary), the unemployment rate was still low (also inflationary), and the government was backing double-digit wage claims.

Meanwhile, federal and state governments have squandered windfall revenue gains from raw material export booms, run war-time-like deficits on mad un-costed spending sprees, run up war-time-like debt piles, supported inflationary wage claims, and wound back four decades of productivity-enhancing industrial relations reforms.

The next time you (or your clients) wonder why Australians suffer the highest interest rates in the 'rich' world, you now have some answers!

Ashley Owen, CFA is Founder and Principal of [OwenAnalytics](#). Ashley is a well-known Australian market commentator with over 40 years' experience. This article is for general information purposes only and does not consider the circumstances of any individual. You can subscribe to OwenAnalytics Newsletter [here](#).

Spending big on AI: So where's the proof it's working?

Jeffrey Tobias

I want to be upfront about something. I am not going to offer a formula for calculating the return on AI investment, because no reliable, universal one exists. What I can offer is a different way of framing the question, because I think most organisations are currently answering it with the wrong data, against the wrong benchmarks, over the wrong timeframe.

The evidence on AI's value is, in fact, far more contested and more interesting than most corporate conversations acknowledge. Understanding the debate properly, I would argue, is a prerequisite for making good decisions about AI investment right now.

A genuinely contested question

The sceptical case deserves to be heard first. Goldman Sachs chief economist Jan Hatzius [stated recently](#) that AI's contribution to US GDP growth in 2025 was 'basically zero', adding that there had been significant misreporting of its macroeconomic impact. A separate Goldman [analysis of corporate earnings](#) found no meaningful relationship between AI adoption and productivity at the economy-wide level.

Nobel Prize-winning MIT economist Daron Acemoglu has argued in a [peer-reviewed paper](#) in *Economic Policy* that AI is likely to increase total factor productivity by less than 0.66% over the next decade. His deeper concern is what he calls 'so-so automation': AI deployments that allow companies to cut headcount without generating real productivity gains, eroding human capability while delivering nothing genuinely transformative.

These are serious arguments, and they should not be waved away. But they are, importantly, arguments about macroeconomic measurement over a 10-year horizon. They tell us less than is often assumed about what is happening inside individual organisations right now.

The measurement gap

Here is where the picture becomes more interesting. The same Goldman Sachs analysis that found no economy-wide signal also found that organisations successfully integrating AI into specific functions [reported median productivity gains of around 30%](#), primarily in software development and customer service. The absence of an aggregate signal is not evidence that AI is not working. It is evidence that the gains are concentrated and localised, not yet widespread enough to move national statistics.

A consistent pattern emerges across major industry surveys. [McKinsey's 2025 State of AI report](#), drawing on nearly 2000 executives across 105 countries, found that meaningful bottom-line impact remains rare: only 6% of organisations qualify as high performers with an EBIT impact of 5% or more. But those organisations share a common approach. They redesign workflows rather than bolting AI on top. They invest in people and process, not just platforms. And they are led by executives who actively champion adoption rather than delegating it to IT.

Meanwhile, the Wharton [Human-AI Research annual study](#) found that three out of every four business leaders already report positive returns on their generative AI investments, while Google Cloud's [second annual ROI of AI study](#) reported that 74% of executives achieve ROI within the first year.

How do we reconcile these conflicting narratives? Researchers at UC Berkeley's Sutardja Centre put it well in a 2025 [analysis of the AI measurement problem](#): we are not experiencing an AI failure. We are experiencing a measurement failure. The instruments we use to evaluate technology investments were built to count things that are large, visible, and land clearly on a balance sheet. What AI is doing, for most organisations, is none of those things.

Where the returns are actually accumulating

In my view, AI return on investment is accruing in four distinct areas, none of which are well captured by conventional measurement.

The first is the accumulation of small, daily recoveries of human time. Consider what ordinary knowledge work looked like before AI became genuinely capable. Drafting a carefully worded email to a difficult client, summarising months of data for a board presentation, producing a first draft of a lengthy report: each took significantly longer than it does today. According to the Federal Reserve Bank of St Louis, employees using generative AI are [saving an average of 5.4%](#) of their working hours each week, with frequent users recovering more than nine hours. [IBM's 2025 Race for ROI study](#) of 3500 senior executives found that 66% reported significant operational productivity improvements. None of this appears on a P&L, but it is compounding, every working day, across every person in an organisation.

The second source of return is what people do with the time AI returns to them. When the tasks consuming someone's afternoon are handled more efficiently, the recovered hours become available for the kind of thinking that operational load has been quietly crowding out: the strategic problem that keeps getting deferred, the client relationship that deserves more attention, the creative work that requires uninterrupted concentration. A senior partner at a professional services firm described it to me this way. For years, she had arrived at the office at seven in the morning to secure two hours of genuine thinking before the emails began. AI gave her those two hours back in the middle of the day. The work did not change. The quality of her strategic thinking did.

The third source is a genuine capability shift. AI is enabling organisations to do things that were previously beyond their practical reach, not just do existing things faster. At my company, The Strategy Group, we recently migrated to a new project management platform and encountered a data compatibility issue that would have typically required two weeks of painstaking manual restructuring.

Instead, we used Claude to build a bespoke conversion application in approximately 30 minutes, without a developer or an IT request. A task that previously would have required two weeks of skilled labour was finalised before lunch. Every organisation has a version of this story: a problem sitting in the 'too difficult, not worth the cost' category for years. AI is making those problems tractable, and the value created is real even when it is entirely invisible to traditional ROI measurement.

Human-centred Intelligence: the fourth return

The fourth source of AI ROI is the one I find most compelling, and the one I believe will prove most consequential over time. It requires introducing a concept I have been developing: Human-Centred Intelligence.

Most practitioners are familiar with human-centred design, the principle that the best products and experiences are built around a genuine understanding of the person at their centre. Human-Centred Intelligence extends that principle into the age of AI. It describes the point at which AI and the human

professional meet, not to replace one another, but to give the human something they have rarely had in adequate supply: the time, the headspace, and the capacity to genuinely focus on the customer.

For most people in client-facing roles, authentic customer focus has always been in competition with operational reality. The desire to prepare thoroughly for every meeting, to follow up thoughtfully, to anticipate what a client needs before they have articulated it: all of this gets crowded out. When AI handles preparation, analysis, follow-up, and reporting, the professional can be genuinely present with their client in a way that the operational load previously made impossible. From that position, it becomes feasible to deliver experiences that were not previously available: personalisation that previously required an entire team, and the kind of anticipatory service that builds lasting loyalty.

The commercial consequences are measurable. McKinsey's research on [AI-powered customer experience](#) found that AI-enabled approaches can enhance customer satisfaction by 15 to 20%, increase revenue by 5 to 8%, and reduce cost-to-serve by 20 to 30%. Customer retention research consistently shows that a 5% improvement in retention can lift profits by 25 to 95%, and that acquiring a new customer costs five to seven times as much as keeping an existing one. Human-Centred Intelligence is what happens when AI gives professionals the freedom to be at their human best with the people who matter most to their business. That is not a soft benefit. It is a compounding commercial advantage.

The layoff headlines, the payback curve, and what it all means

There is one obvious objection to the argument that AI's value is distributed and hard to measure. If that is true, how have the Block, Duolingo, Atlassian, and others found it clearly enough to cut hundreds of roles and, in the main, [cite AI as the reason](#)? The answer is that those companies are measuring something different: headcount reduction.

When AI handles work that previously required 50 people in a contact centre, that saving is large enough to appear directly on the wage bill. That is genuine ROI, but it is a specific kind, available to organisations running large volumes of repeatable process-driven work at scale. It is not the same as what is accumulating across every desk in organisations that are using AI more broadly. The deeper risk, as Prof. Acemoglu warns, is that organisations automate the wrong things, cutting costs at the margin while destroying the human capability that determines long-term competitive advantage.

Underlying all of this is a timeline problem. [Deloitte's 2025 survey](#) of 1854 senior executives found that most organisations are achieving satisfactory ROI on AI over 2-4 years, significantly longer than the seven-to-twelve-month payback conventionally expected from technology investments. That gap exists because AI is not software you deploy; it is a change in how people work. Such changes have always required longer periods to compound into measurable outcomes.

[McKinsey estimates](#) the long-term opportunity at \$4.4 trillion in additional productivity growth from corporate use cases. Goldman Sachs, in its [more conservative modelling](#), expects AI-driven productivity gains to begin materialising meaningfully from 2027, building through the late 2030s. The bulls and the bears are largely debating timing, not direction.

The proof that AI is working will not arrive as a clean number on a quarterly report. It will show up as time reappearing in people's days, problems getting solved that previously sat untouched, customers experiencing something qualitatively different, and capabilities that simply did not exist six months ago.

The task for leaders is not to find a better formula for calculating AI ROI. It is to develop organisational literacy to recognise value in forms that existing instruments were never designed to see.

Jeffrey Tobias is an accomplished and prominent innovation thought leader and strategist, drawing expertise from the academic, government, entrepreneurial and corporate worlds. He serves as an Adjunct Professor and Fellow at AGSM @ UNSW Business School, and holds a B.Sc (Hons), University Medal and PhD from UNSW Sydney. In 2003, he founded The Strategy Group, where he currently serves as Managing Director.

This article was originally published by UNSW's [BusinessThink](#) research platform.

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Double down on renewables?

Tony Dillon

Volatility is the new world order it seems. Whether it's a pandemic or warfare, with associated supply shocks, we should now almost always expect rolling uncertainty.

The ongoing war in Iran has exposed Australia's dependency on importing hydrocarbons, which has opened up vigorous debate as to how we deal with this. There are those who say we need to double down on the renewable energy roll out, and those who argue we need to extract and refine our own liquid fuels and use our abundance of fossil fuels to our advantage.

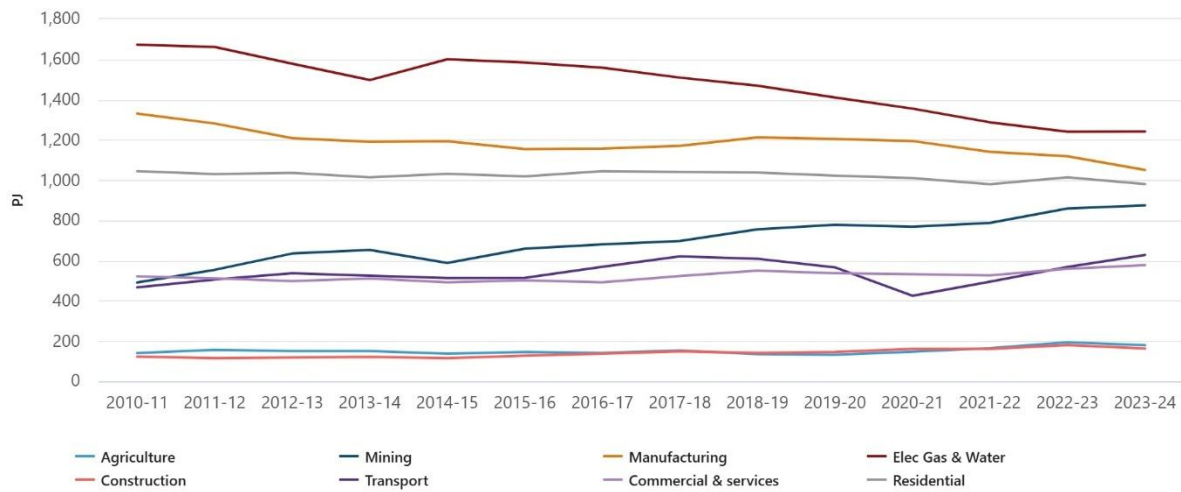
Chris Bowen insists that the nation must build sovereign capability through renewables in response to the fuel crisis. *"In all my discussions with my international colleagues, energy and climate, there isn't one country in the world that said: 'You know what this fuel crisis reminds us? We need more fossil fuels'",* Bowen said. As his boss was flying to Singapore and Brunei to shore up imports of diesel, crude oil, and urea fertiliser to Australia.

Bowen also makes the case that the sun and wind can't be blockaded by global conflicts. That the weather is sovereign. But almost all of our renewables infrastructure, including solar panels and wind turbines, is manufactured in and imported from China.

On the other hand, former UK Prime Minister Tony Blair has accused the Starmer Labour government of taking an ideological approach to net zero, calling on it to approve new oil and gas fields in the North Sea to protect from energy price shocks.

In reality, this should not be an either/or proposition. The question should be whether we are maintaining energy capabilities required of a modern economy as we roll out a renewables based system, and are we mismanaging the balance?

Energy net use by industries and households

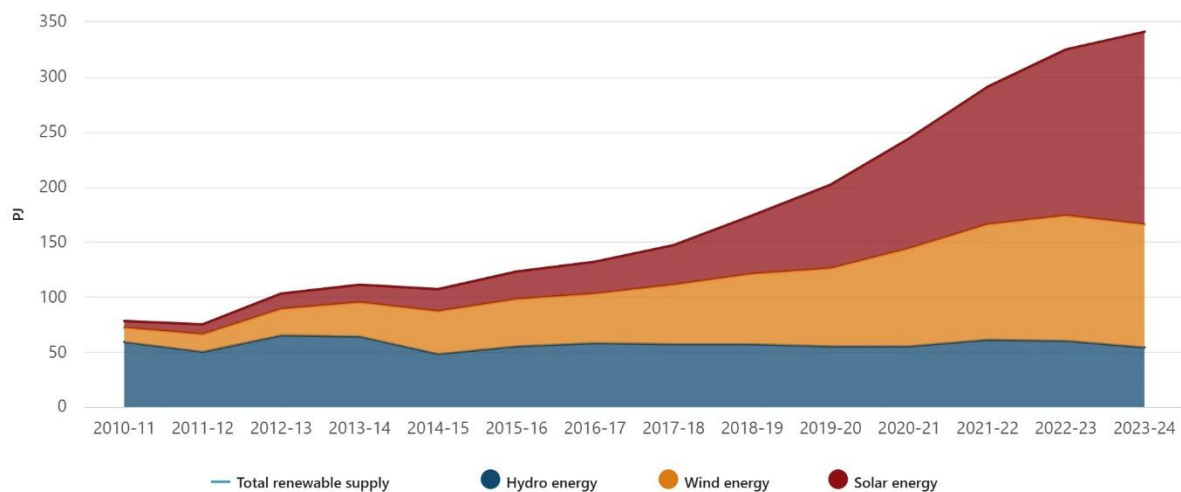


Source: Australian Bureau of Statistics, Energy Account, Australia 2023-24 financial year

Australia’s energy vulnerability is more a result of policy than a lack of resources. We are one of the largest exporters of coal and gas, yet we rely heavily on importing refined liquid fuels to power much of the economy, including transport, agriculture, mining, and industry. Fossil fuels supply around 90% of Australia’s overall energy needs. And while we have been prioritising a transition away from fossil fuel derived electricity, we have been less focused on maintaining fuel security.

Renewable energy sources certainly have a role to play in our electricity system. But as [I have already documented](#), the variable nature of their output requires significant backup, storage, and transmission. Which, when done properly, takes time, investment, and careful sequencing so as to avoid a system of duplication in terms of both infrastructure and costs. And importantly, renewables only address electricity generation, not sectors of the economy that are heavily dependent on liquid fuels. The limitations of transitioning to renewable energy sources need to be recognised.

Renewable energy sources



Source: Australian Bureau of Statistics, Energy Account, Australia 2023-24 financial year

Fossil fuels, however, have a far larger role to play beyond electricity generation, doing the heavy lifting in transporting goods and operating heavy industry. These are energy-dense liquid fuels that are

indispensable in a geographically isolated country like Australia. They are essential to economic continuity and national security. Yet we only have about 30 days' worth of fuel stockpiled at any one time, far below the recommended 90 days required for reasonable security.

Germany surely must be a cautionary tale that Australia should heed in doubling down on renewables in a fuel crisis. Prior to the Russian invasion of Ukraine in 2022, Germany had shut down coal and nuclear facilities, ramping up a rollout of renewables plus gas backup imported from Russia. When the war hit and the gas pipeline closed off, Germany faced an energy crisis. It reactivated coal-fired power plants, and extended the running of final nuclear plants yet to close.

Then the German government dug in, claiming renewables was the only way to secure energy sovereignty. By 2024, renewable energy sources powered over 60% of the country's grid, but the economy struggled. In early 2025, a wind 'drought' forced more fossil fuels into the energy mix, and it increased imports of nuclear energy from France, and coal power from other neighbours.

Our geographic location sends the risk of a predominantly renewables strategy even higher than that faced by Germany, because being an energy island, there is no international extension cord to plug into. And because of our isolation, we are building massive overcapacity, with The Australian Energy Market Operator saying we need about nine times the renewable generation we have currently, together with huge amounts of backup and storage. Of course all of this comes at enormous cost.

The German experience has highlighted the importance of backup required within our own borders, which is why all fuel sources should be on the table. Coal, gas, nuclear, wind, and solar. And in the short-term, we need to be actually doubling down on fossil fuels, and in particular, drilling, refining, and storing our own fuel.

With domestic crude production down a whopping 90% since just 2010, with just two oil refineries remaining here, we import 80 to 90% of our refined fuel requirements. We have been left with little sovereign capability when it comes to fuel production, as we have become almost entirely reliant on overseas production.

If we think we have problems securing adequate fuel supplies now, imagine if there was conflict in the Pacific and associated chokepoints like the Taiwan Strait. To build resilience we need to be proactive, and domestic oil exploration and production should be top of the agenda.

[Tony Dillon](#) is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

Private Credit headwinds move onshore

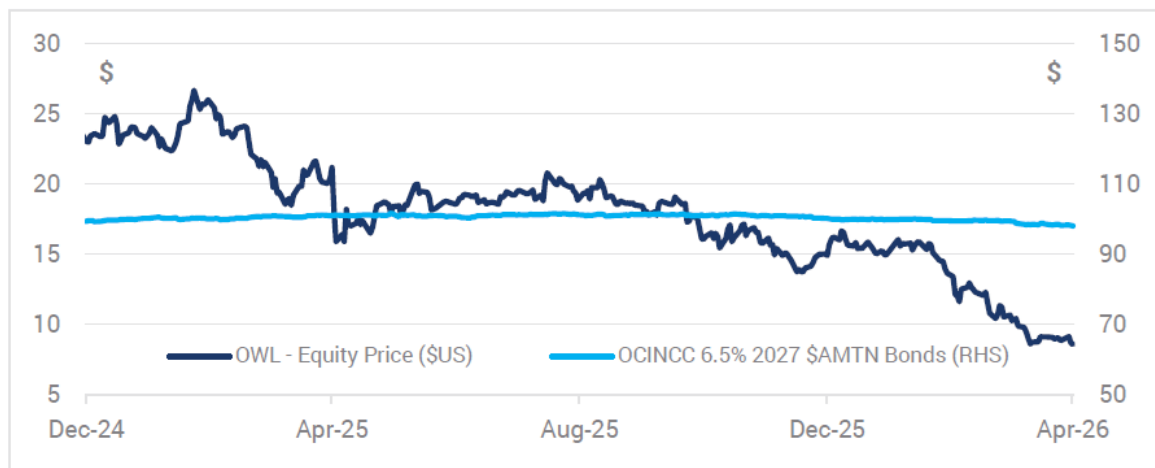
Phil Strano

Before the conflict's commencement, the financial market's main worry was the rise of AI tools and the potential implications for software companies, with substantial declines in their equity valuations being a painful experience for many investors. In being large lenders to the software space, US private credit funds have also been caught up in the turbulence, with fears of spiking defaults and lower returns impacting investor confidence.

Outflows from US private credit funds reached a crescendo last week, with famed lender Blue Owl (OWL) announcing investor redemption requests for 1Q26 totalled \$US5.4 billion from two of its funds with significant software exposure. Investors in OWL's Credit Income and Technology Income funds asked for an incredible 22% and 41% of their capital to be returned. For both funds, redemptions are now effectively gated, limited to 5% per quarter in accordance with the funds' Business Development Company (BDC) structures, resulting in a frustrated queue of investors wanting liquidity.

OWL's share price is now down two-thirds from its peak in early 2025. By contrast, OWL's Credit Income Fund \$A bonds, which are effectively secured against the fund's underlying assets, are less impacted and continue to hold their value (refer Chart 1). These bonds are protected by a significant equity cushion, with fund leverage at just ~0.7x, redemptions gated and a BDC mandated leverage covenant limit in place of 2x.

Chart 1. Blue Owl's debt investors are faring much better than its shareholders



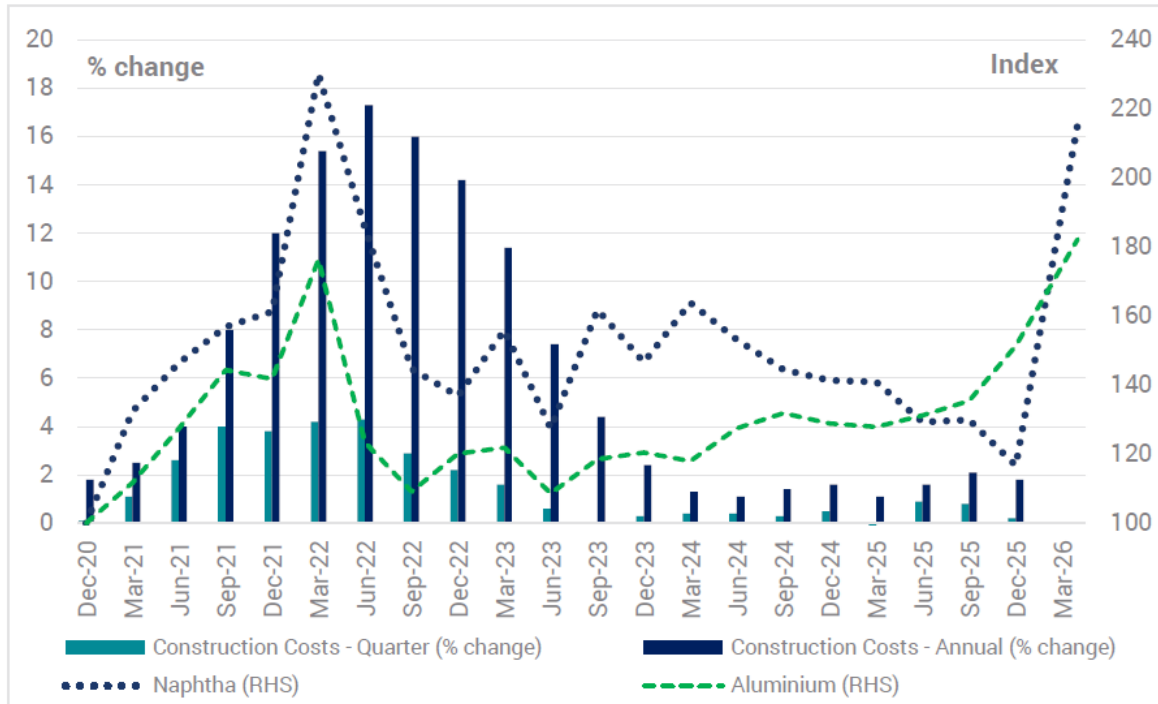
Source: YCM, Bloomberg, Apr 2026.

While we don't have the software concentrations, Australian private credit is significantly more exposed to the riskier side of real estate lending, especially higher yielding commercial and residential development. In many ways, private credit's exponential growth since the GFC was a meeting of minds, with local investors understanding Australian real estate and its resilience through multiple cycles; comfortable loan-to-value completion ratios have acted as a powerful magnet for yield hungry investors.

This brings us back to the current Iran conflict and the impact of inevitable cost escalations and higher interest rates on construction sites across Australia. Already weakened through the 2022/23 period of higher interest rates and cost escalations, property development/construction is enduring another

round of higher costs (refer Chart 2) and constrained demand. For instance, since the commencement of hostilities, naphtha and aluminium prices – key components in plastic and metal building products – have increased by 85% and 20% respectively. Moreover, in being highly correlated (i.e. increased costs impact all developments similarly), a diversity of development exposures might offer only limited protection from credit losses given the systemic risk profile.

Chart 2. The outlook for construction costs appears grim



Source: YCM, Bloomberg, Apr 2026.

This confluence of events, if sustained, is likely to fuel similar redemption pressures in Australia, with more pure play private credit funds likely to close their liquidity gates in the months ahead. While actual losses will most likely be lower than feared, being unable to meet redemption requests for funds that have been marketed with a ‘promise’ of ungated monthly or quarterly liquidity will be damaging to the private credit landscape.

Phil Strano is Head of Australian Credit Research at [Yarra Capital Management](#), a sponsor of Firstlinks. This article contains general financial information only. It has been prepared without taking into account your personal objectives, financial situation or particular needs. Both the Yarra [Enhanced Income](#) and [Higher Income](#) Funds are zero leverage funds, providing attractive yields.

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Five reasons unlisted commercial property is an attractive allocation in uncertain times

Cromwell Funds Management

In this era of heightened geopolitical and macroeconomic uncertainty, portfolio construction increasingly favours assets capable of delivering durable income, capital preservation, and differentiated return drivers. Unlisted Australian commercial property continues to demonstrate qualities that may support these characteristics.

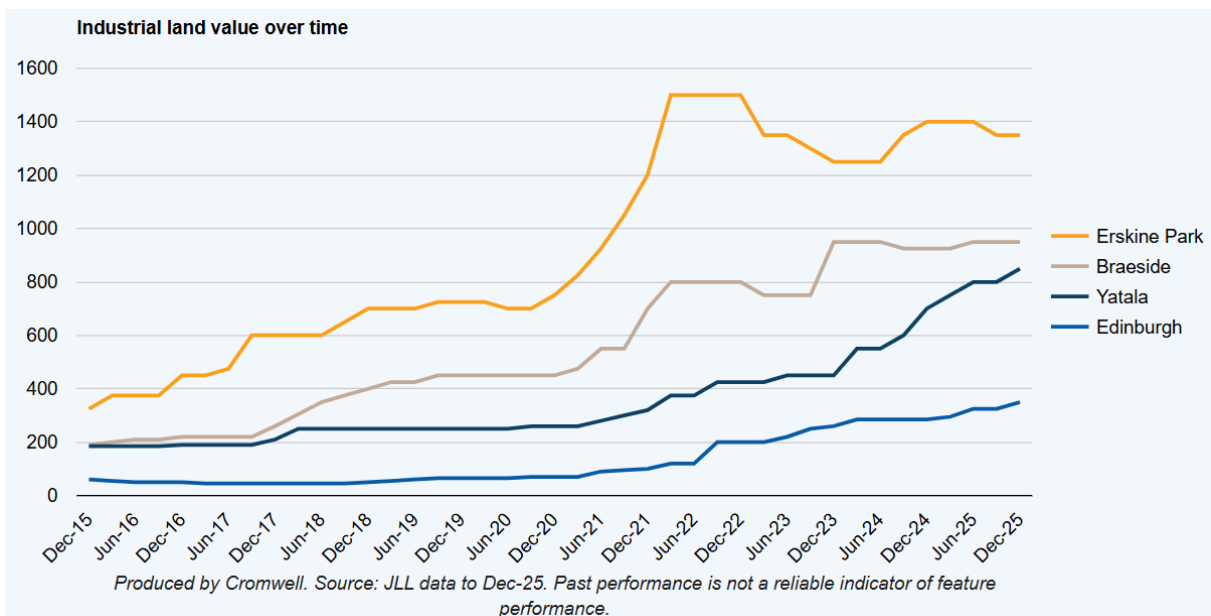
The immediate backdrop is hard to ignore. On 12 March 2026, the International Energy Agency said the war in the Middle East was creating the largest supply disruption in the history of the global oil market¹. At the same time, the IMF has warned that financial stability risks have increased as trade and policy uncertainty remain elevated.

A fractured landscape demands decision-makers weigh risk and resilience more heavily than a decade ago. This note highlights some of the reasons why an allocation to unlisted Australian commercial property is important in today's uncertain environment, offering attractive returns underpinned primarily by space market fundamentals rather than daily swings in sentiment.

1. Exposure to a scarce, real asset base

Unlike financial securities, commercial property is anchored to land, planning rights and physical improvements. Like residential property, land comprises a sizable proportion of total asset value, typically 30-60% depending on the commercial property sub-sector². While exposure to land does not eliminate downside, it does mean value is supported by a real, location-specific asset that cannot be readily replicated.

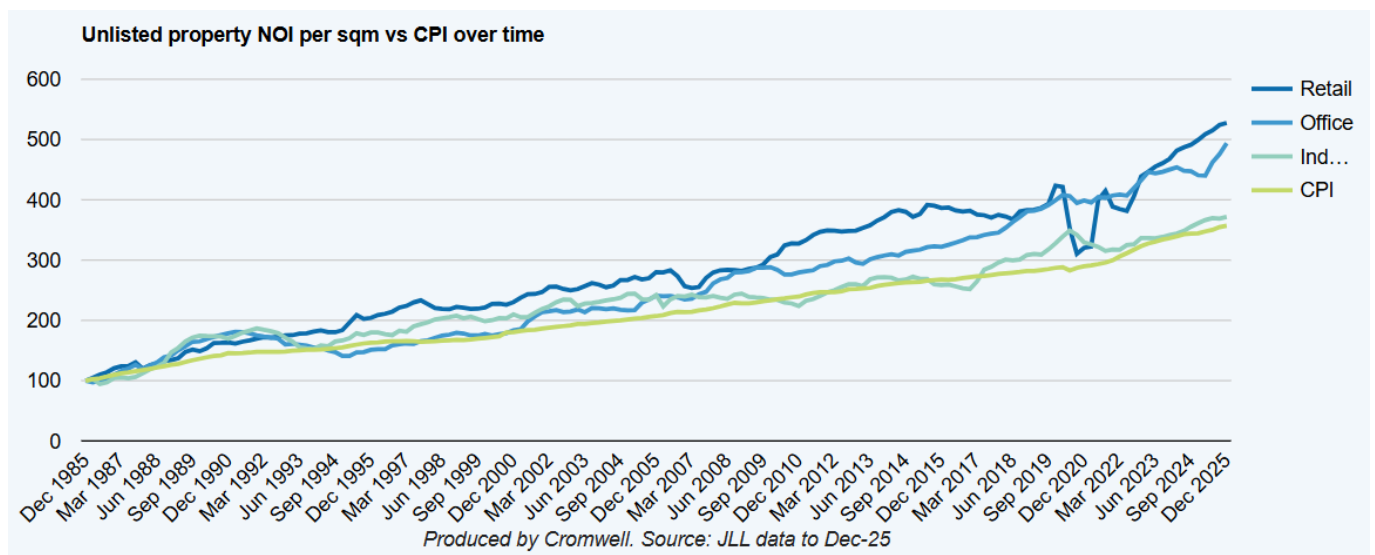
The practical importance of that scarcity is clearest in well-located urban markets. For example, just 4% of Sydney's serviced industrial-zoned land remains undeveloped³, and Brisbane is expected to run out of developable industrial land in less than five years⁴. Such shortages limit potential supply, driving land value appreciation and underpinning long-term rent growth.



2. Inflation protection

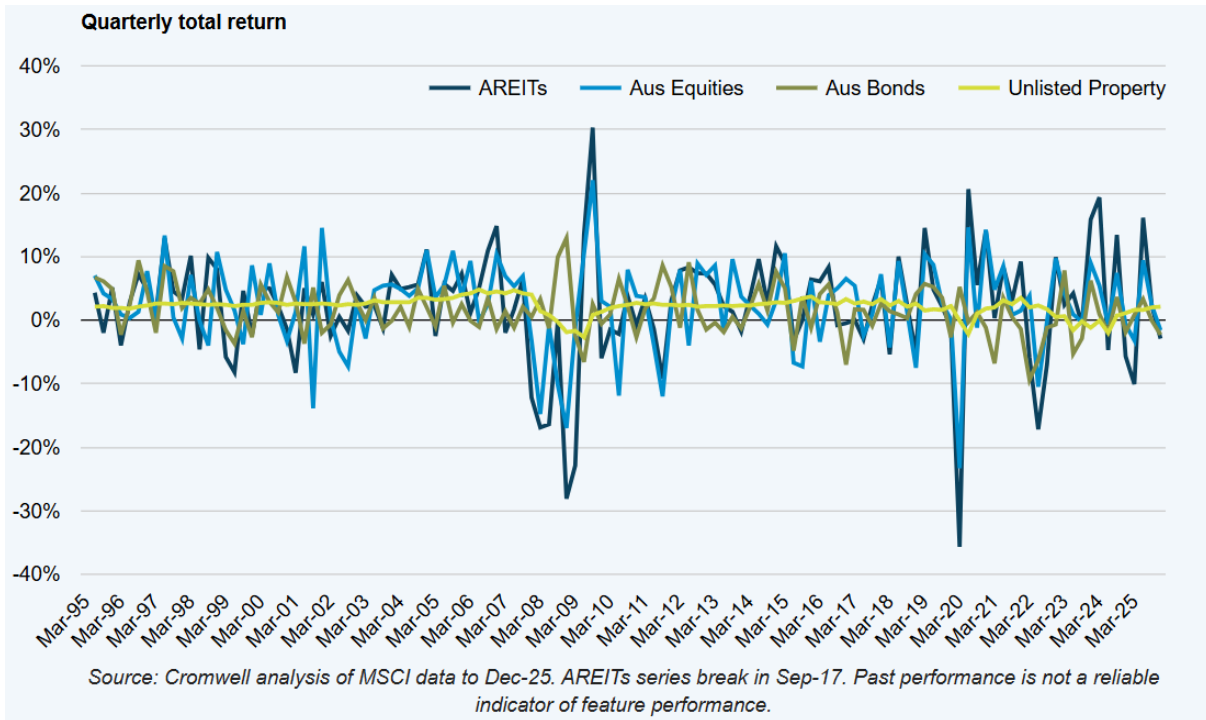
The income profile of commercial property further strengthens its position in uncertain environments. Australian commercial lease structures typically incorporate annual rent increases, often linked to CPI (e.g. CPI + X%). This helps defend investors from income erosion in real terms, which is particularly important when price pressures are proving persistent.

Inflation also influences the supply side of the equation. Construction costs have increased by approximately 30-45% across Australia's major capital cities over the last five years, with further escalation of 20-30% expected through to 2029⁵. This has contributed to higher replacement costs and rendered most new developments commercially unfeasible, constraining the delivery of new supply. CBRE estimates office economic rents have increased by 30-60% across the major CBD markets since 2020, far exceeding market rent growth, with further increases expected through to 2030⁶. For owners of well-located existing assets, this dynamic supports income growth as competing supply is unlikely to be delivered until market rents (and/or valuations) significantly appreciate.



3. Lower volatility

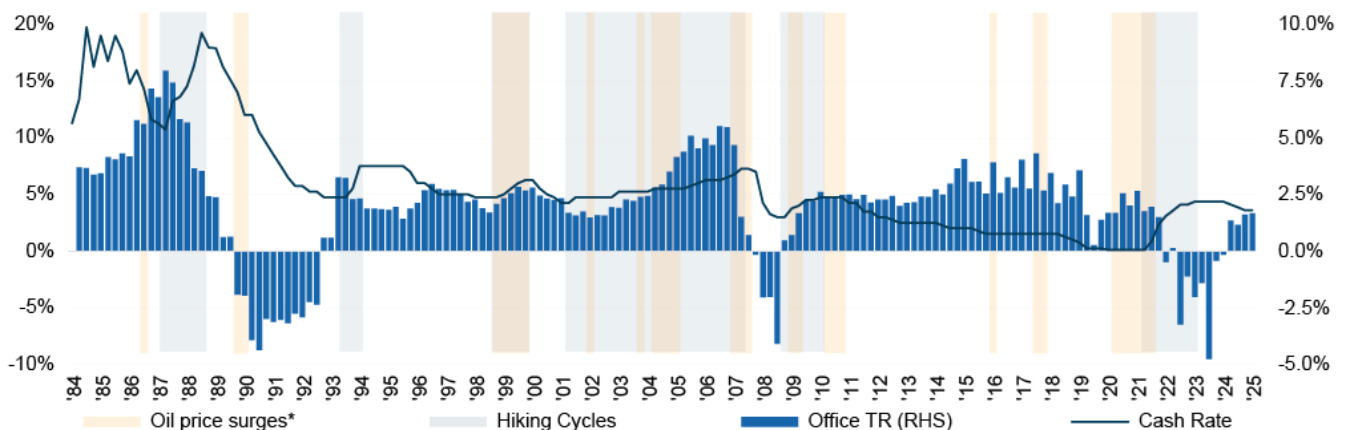
Income durability is complemented by a return profile that is less exposed to short-term market volatility. Commercial property income is typically contracted over medium to long durations, providing visibility over cashflows. Valuations in unlisted markets are appraisal-based and reflect leasing outcomes and capital market evidence, rather than intraday repricing. This approach can dampen short-term volatility and focus outcomes on underlying asset fundamentals across an appropriate investment horizon, rather than constant sentiment swings. This distinction becomes more pronounced in periods where listed markets are reacting rapidly to geopolitical or macroeconomic developments.



4. Performance driven by space market fundamentals

Interest rates are an important consideration, influencing discount rates, debt costs, and transaction liquidity. However, unlisted property performance is usually more dependent on space market fundamentals – demand and supply levers and the resultant vacancy conditions. Using CBD office as an example, analysis over the last 40 years indicates a strong negative correlation (-0.7) between vacancy rate and total return. Further, analysis of past cycles shows returns tend to outperform during rate hikes compared to the year prior. Similarly, unlisted commercial property has not been consistently impacted by oil price shocks historically.

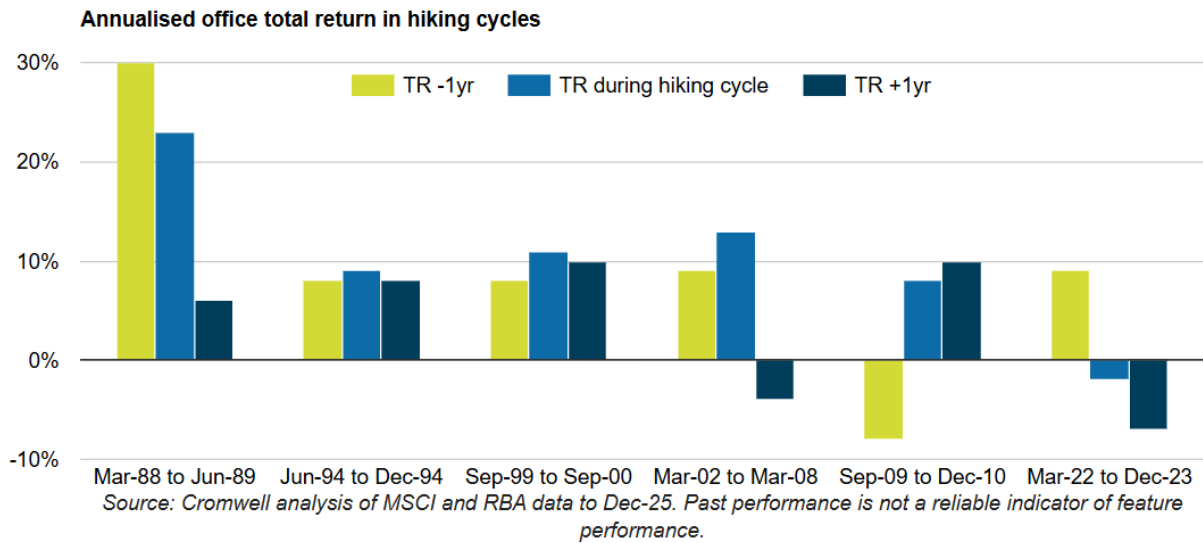
Office quarterly total return vs cash rate



Source: Cromwell analysis of MSCI, RBA, and World Bank data to Dec-25.
*Quarters where Brent Crude annual price growth >40%. Past performance is not a reliable indicator of future performance.

The key underwriting question, therefore, is not the trajectory of the cash rate or the price of oil, but where vacancy is heading and which assets still retain pricing power with tenants. Positively for commercial property, economic expansion and jobs growth remain solid, supporting space demand. At

the same time, a dearth of supply, exacerbated by higher-for-longer inflation and rising interest rates, bodes well for a tightening in vacancy and stronger income growth across quality assets.



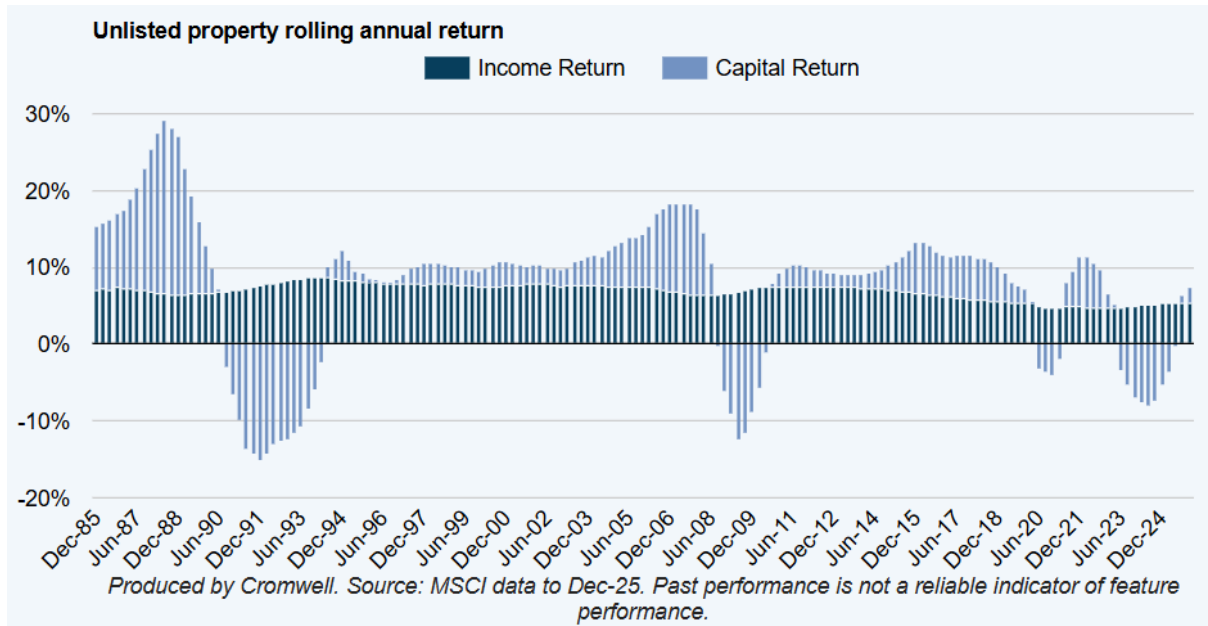
5. Genuine diversification

Unlisted commercial property has different return drivers compared to other asset classes such as equities and bonds – lease structures, tenant covenants, asset quality and local market conditions, rather than interest rates, earnings cycles and risk premia. This differentiation results in largely uncorrelated returns, providing diversification and resilience within a broader portfolio, particularly in periods where equities and other liquid assets are more directly influenced by macroeconomic or geopolitical developments. The relatively stable income component of total return further enhances its role within a diversified allocation.

30y total return correlation matrix

	Unlisted Property	AREITs	Aus Equities	Aus Bonds
Unlisted Property	1			
AREITs	0.13	1		
Aus Equities	0.11	0.71	1	
Aus Bonds	0.01	0.09	-0.24	1

Source: Cromwell analysis of MSCI data to Dec-25. Past performance is not a reliable indicator of future performance.



Where to be selective now

Office (quality bias):

Focus on well-located, efficient and sustainability aligned assets with strong transport connectivity and credible NABERS and Green Star pathways. The office sector has experienced the sharpest repricing in the recent cycle, and there is emerging evidence of improved leasing conditions in higher quality assets, where active leasing and capital expenditure execution are key differentiators.

Neighbourhood & convenience retail:

Neighbourhood and convenience-based centres continue to benefit from their nondiscretionary tenant mix and long-dated leases, which can support more predictable rental income. Transaction activity in this segment has remained resilient as investors prioritise income visibility and covenant quality.

Industrial & logistics:

While returns have moderated from the exceptional conditions seen in recent years, occupier demand remains focused on well-located, infill assets. Space availability and future supply are both constrained within this segment of the market, supporting positive rent reversion upon lease expiry. Ageing stock and rising obsolescence present an additional opportunity set for active managers with value-add capability.

Conclusion

Over the long-term, Australian unlisted commercial property has demonstrated resilient returns through periods of conflict and oil shocks, with performance supported by income and leasing fundamentals. Unlisted commercial property offers a compelling combination of income stability, inflation linkage, and real-asset backing. When combined with underwriting discipline, discerning asset selection, and active management, these characteristics reinforce its role as a core allocation within diversified portfolios, particularly in periods of heightened volatility.

Footnotes:

¹International Energy Agency [Oil Market Report \(March 2026\)](#)

²Cromwell analysis of Victoria Valuer-General 2025 statistics

³Sydney Industrial and Logistics Land Supply, CBRE (Feb-25)

⁴No room to grow – Industrial Land Supply & Vacancy Report, Property Council of Australia & SA1 Property (Sep-25)

⁵TPI % Change Calculator and Q1 2026 Construction Market Update, RLB (Mar-26)

⁶CBRE (Feb-26)

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