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Editorial

The debate over the budget continues and I suspect many Firstlinks' readers have strong opinions. Some of those opinions are well reasoned and rational. Some are based on how particular budget measures impact personal circumstances which is a natural view to take.

But some reactions are fully or partially based on grievances against a particular cohort of people. You've likely heard this grievance-based commentary – 'tax those 'rich' people who don't deserve their wealth' or 'the government is taking my hard-earned money and giving it to lazy, entitled people who don't deserve it.'

At the heart of any grievance-based argument is the notion that one group deserves something and one group doesn't. This is called the belief in justice theory. Coined by social psychologist Melvin Lerner the theory outlines how critical it is to the human psyche to believe that people get what they deserve.

This works both ways – hard work and sacrifice is supposed to pay off while the lazy and ignorant should pay the price.

Traditionally the focus of the belief in justice theory was on the downsides. The origin of the theory stemmed from work done by controversial social psychologist Stanley Milgram. He was the guy who ran experiments where subjects administered increasingly high levels of electric shocks to victims.

The shocks were fake but 65% of all subjects administered shocks at a level they were told would seriously injure the other party. Milgram wanted to explore obedience and how so many people could have participated in the holocaust.

Lerner built on his work and was partially inspired by the lack of empathy he witnessed from other psychologists who had the tendency to blame their mentally ill patients for their condition.

There is more than enough grievance-based commentary, but it is also worth considering the positive aspects of the belief in justice theory. As easy as it is to focus on the negative, I think the main problem we are facing in Australia is an eroding belief that people get what they deserve.

The upside of the belief in justice theory is the promotion of something psychologists call prosocial behaviour. It is prosocial behaviour that improves the way people interact with other people. This forms the basis of a strong society.

Individuals who exhibit a strong sense that people get what they deserve believe their efforts will pay off. Many Australians have lost this faith.

The issues faced by Australians and the proposed solutions

Australian National University's Mapping Social Cohesion project shows the extent of the disillusionment. In 2013 80% of Australians between the ages of 25 and 34 believed Australia was a land of economic opportunity and if they worked hard they would live a better life. By 2025 it was down to 51%.

Housing affordability is the problem and there is a significant amount of research showing the impact of giving up on being able to afford a home. Research from economists at the University of Chicago and Northwestern showed that if there is no realistic prospect of being able to afford a home people increase risky investments / betting, reduce work effort and increase leisure spending.

In contrast research by Seung Hyeong Lee and Younggeun Yoo shows people that see a realistic pathway to home ownership take part in less risky behaviour and work harder.

There is clearly an issue that needs to be addressed with younger generations. To deny this or to blame all young people for their predicament ignores the facts. Will the budget address younger generations concerns in any tangible way? Some are more confident than me – but that doesn't mean there isn't a problem.

In making substantial changes to the tax system there are other considerations that go beyond the dollars and cents. For my completely overlooked generation and older millennials, the rules for building wealth have changed after people have started down the pathway of making a life. They have changed before anyone has fully taken advantage of the previous tax policies.

Tax policy is not a contract. Governments can - and do - change taxes and rules frequently. But building wealth is a long-term endeavour. It means sacrificing today in the hopes of a better future. It takes patience and faith in the future. It means doing the right things with the expectation it will pay off.

There is an implicit faith when these decisions are made that taxes and rules will stay substantially consistent. When things change it can feel unfair which erodes belief in the future as well. To ignore this impact is foolhardy and to downplay the knock-on effects of major tax changes is intellectually dishonest.

Sometimes trade-offs are worth it and many of the previous policies like the 5% deposit scheme tried to avoid hurting one group while helping another. That isn't how life works – somebody needs to lose for others to win.

All Australians would benefit from a more rigorous debate on the effectiveness of the proposed changes in addressing the real issues the country faces. Doing this requires leaving the grievance-based commentary out of public discourse.

The Firstlinks' community is knowledgeable and thoughtful and can easily rise above grievance-based commentary. I would love to hear your thoughts in the comments section on the positive and negative impacts of the budget proposals.

Mark LaMonica

Also in this week's edition...

Inflation doesn't just raise today's bills - it quietly increases the amount needed to retire, while simultaneously making it harder to save. **Jen Richardson** outlines [three steps to take before June 30th to help improve retirement outcomes](#).

AI fears have shifted from bubble talk to disruption anxiety, driving investors toward asset-heavy, "AI-resistant" businesses while punishing many software and service firms. **Matt Reynolds** [thinks this environment may be ripe for stock pickers](#).

Private markets can offer diversification and return potential, but their opacity, scale and wide dispersion of outcomes make manager selection and due diligence critical for non-institutional investors. **Marc-André Lewis** proposes an [approach for investors to get the most out of private markets](#).

True financial success isn't about how much you make, but whether you can sustain it — survival is the only win that matters. **Nick Maggiulli** argues for [building wealth through quiet, disciplined investing](#).

Joe Wiggins outlines how [assets that deliver emotional satisfaction tend to offer lower financial returns](#), as investors accept an "emotional yield" in place of performance which shapes how investors approach ESG and unpopular assets.

Global REITs have fallen out of favour, trading at deep discounts after years of underperformance, despite resilient earnings and improving fundamentals. **David Kruth** [makes the case for REITs](#).

Jason Teh outlines why [Australia's biggest energy bet may already be redundant](#) while a less celebrated government program is exceeding expectations.

This week's white paper is Dexus' latest [Australian Real Asset Quarterly Review](#) looking at the widening divergence between listed and unlisted real assets.

Curated by Mark LaMonica and Leisa Bell

How inflation is quietly moving the goalposts on retirement

Jen Richardson

Most conversations about inflation focus on what it costs you today. The grocery bill. The mortgage repayment. The electricity bill that arrived higher than expected. These are real and they matter. But there is a second effect of sustained inflation that gets far less attention, and it is the one that will follow Australians into retirement long after the current cycle has passed.

Inflation does not just make life more expensive now. It changes how much you need to have saved before you can stop working. And for millions of Australians who are watching their disposable income

shrink while simultaneously trying to build a retirement nest egg, those two pressures are pulling in opposite directions at the same time.

The maths, as I have been saying to clients lately, does not math.

What the benchmarks actually mean in an inflationary environment

The Association of Superannuation Funds of Australia (ASFA) publishes a Retirement Standard each quarter that sets out how much a single person or couple needs in super to retire comfortably or modestly. The most recent figures, updated in early 2026, put the comfortable retirement benchmark for a single homeowner at \$630,000 in super, funding an annual income of approximately \$54,240.

That figure is adjusted quarterly to reflect current prices. What it does not capture is what happens to a retiree who retired five or ten years ago on a fixed drawdown strategy built around an older, lower benchmark. A retiree drawing \$45,000 a year in 2020 on a strategy designed to last 25 years has watched the real purchasing power of that income erode significantly. The same groceries, the same utilities, the same healthcare costs now consume a materially larger share of a fixed income.

The \$630,000 benchmark is a moving target, and the direction of movement is upward. Every year that inflation runs above the assumed rate built into a retirement projection, the gap between what a retiree has and what they actually need widens.

Inflation isn't just about the additional cost of living now. It means you need more in savings and super to meet your needs in retirement. You have less disposable income today and a higher target to hit. The maths becomes very uncomfortable very quickly.

The emotional weight of the comparison trap

Beyond the arithmetic, there is a psychological dimension to sustained inflation that financial planning rarely accounts for. When people compare what their income or super balance could buy five years ago with what it buys today, the gap can feel insurmountable. The comparison trap — what I had versus what I have — is one of the fastest routes to financial paralysis.

Inflation has an emotional charge. It makes people doubt whether they can ever get ahead. And when that doubt takes hold, the response is often to disengage entirely rather than take the small, consistent actions that actually make a difference over time. Financial disengagement during an inflationary period is one of the more expensive decisions a person can make, even though it feels like doing nothing.

The interest rate assumption that catches people out

A widely repeated piece of financial conventional wisdom is that rising interest rates are bad for mortgage holders but good for investors and savers. This is only partially true, and the part that is missing matters.

Rising interest rates benefit savers when the rate on their savings or investments rises above inflation. When it does not — when the return on a term deposit or a conservative investment option sits below the inflation rate — the investment is still going backwards in real terms. A 4.5% return on a cash account against a 5% inflation rate is a real return of negative 0.5%. The nominal number is positive. The purchasing power outcome is not.

For retirees in conservative investment options, or for working Australians who shifted to cash during market volatility, this is a particularly important calculation to run. The rate of return on an investment needs to be assessed against inflation, not just against zero.

Three things worth doing before 30 June

EOFY is a practical moment to address some of the structural responses to inflation that tend to get deferred. Three are worth prioritising.

The first is to review what your super is actually invested in. Many Australians are in the default investment option chosen by their fund, which may be a balanced or MySuper option. For working Australians with a 15-to-25-year horizon to retirement, a more growth-oriented option has historically outperformed a balanced option over that timeframe and provides better long-term protection against inflation eroding the real value of the balance. This is worth reviewing before the end of the financial year, when people tend to be paying closer attention to their financial position anyway.

The second is salary sacrifice. Anyone earning above \$45,000 pays a higher marginal tax rate than the 15% contributions tax applied to salary-sacrificed super contributions. In an inflationary environment where disposable income is under pressure, the after-tax cost of redirecting a portion of salary into super is lower than the gross figure suggests. It is one of the more efficient tools available within the existing tax framework.

The third is a line-by-line review of recurring expenses. This sounds basic, and it is — but inflation has a way of embedding cost increases across subscriptions, insurance premiums, and service contracts in ways that are easy to overlook because each individual increase seems manageable. Reviewed collectively, the picture is often different. Home loan rates in particular are worth revisiting: the gap between the rate a loyal customer is paying and the rate available to a new customer at the same bank, or at a competing lender, can be material.

The case for not disengaging

The instinct to disengage when financial pressures feel overwhelming is understandable. It is also one of the more costly responses available. The structural tools that exist within the Australian super system — concessional contributions, catch-up contributions for those with balances under \$500,000, the government co-contribution for eligible earners — are available regardless of the inflationary environment. They do not become less valuable because costs have risen. In some cases, they become more valuable.

Inflation changes the numbers. It does not change the fundamentals. Consistent contributions, appropriate investment choices for the time horizon, and a clear picture of current spending are the responses that hold up across economic cycles. The environment makes them more urgent, not less relevant.

[Jen Richardson](#) is an accountant, mortgage broker, and former financial planner with over 30 years of experience in the Australian financial services industry. She is the founder of [My Money Makeover](#), a self-paced financial education program helping women build a calm money system and take control of their financial future.

Three strategies for investing amid AI whiplash

Matt Reynolds

The debate over artificial intelligence has taken a sharp turn. Initial exuberance over AI’s transformative potential sparked investor fears of an AI bubble. But that concern has now been overshadowed by anxiety that the AI juggernaut will steamroll large segments of the global economy.

The evolving narrative has driven starkly divergent outcomes for companies. Investors have fled so-called ‘AI roadkill’ — business models such as software that are expected to be rendered obsolete by AI — favouring old-economy companies that produce physical goods. Although overall returns for the S&P 500 have been negative this year, the energy, materials and industrials sectors have generated solid gains while software and other capital-light industries have suffered sharp declines. Since the start of the Iran war, energy has continued to soar while gains in other asset-heavy industries have moderated.

How should long-term investors think about investing amid these shifts?

My colleague Brittain Ezzes, equity portfolio manager, believes that we are “in the early stages of understanding AI’s impact on business models. For some it will be highly disruptive. For others it will have a more neutral or even a positive impact. But it would be a mistake to underestimate AI’s potential to reshape the economy.” As the AI narrative evolves, here are three areas that Capital Group are concentrating on amid the twists and turns.

1. AI immune businesses

Sectors tied to real assets and physical production — coined by Ritholtz Wealth Management CEO Josh Brown as HALO stocks (heavy assets, low obsolescence) — are perceived to have AI immunity. AI cannot, for example, make hamburgers, replace copper wiring, or ‘vibe code’ jet engines. Arguably, we are seeing a renaissance of the physical economy. There are a number of factors that can potentially perpetuate the rally in capital intensive value stocks.

Tech stocks have trailed asset-heavy sectors and the broader economy

YTD returns across best and worst four sectors in the S&P 500 Index



Sources: Capital Group, RIMES, S&P Global. Figures shown reflect total returns. Data as of 27 March 2026.

For starters, industrial and manufacturing companies appear to be emerging from a long slump. Some companies took steps to streamline operations and cut costs so they would be better positioned to participate in broader growth. For example, within the transportation industry, railroad operator Union Pacific has disclosed plans to acquire rival Norfolk Southern Railway, creating a transcontinental line that would connect stops across the US and Canada. This could help reduce transit times, boost competitiveness with trucking and lower costs for customers. Rival CSX similarly has taken steps to cut costs and boost efficiency.

Among industrials, soaring demand for air travel and rising defence budgets around the world have created strong tailwinds in the aerospace and defence industries. For example, GE Aerospace saw the order backlog for its jet engines rise to \$190 billion at the start of the year. US defence contractor RTX, known for its sophisticated radar and missile defence systems, has seen orders climb as European and Middle Eastern nations seek to modernise their militaries. Some of my colleagues believe we are in the middle of a supercycle for aerospace.

Within the restaurant industry, consumers are still likely to go to restaurants to have humans serve them. Take coffee shop Starbucks, for example, which emphasises the customer experience. CEO Brian Nicole, who has a strong track record of turnarounds in the industry, has demonstrated a detailed knowledge of company operations.

The health care sector has come under pressure because of regulatory and pricing changes but it includes manufacturers of heavily regulated products that are hard to replicate. For example, Medtronic, a maker of surgical devices, operates more than 70 manufacturing plants globally. The company has taken steps to cut costs, including consolidating distribution centres and spinning off its diabetes division. Their businesses have high barriers to entry, and with populations getting older, demand for medical procedures is likely to rise.

2. Babies in the AI bathwater

Companies considered highly vulnerable to AI disruption, referred to earlier as AI roadkill, include a wide range of software, financial and consulting industries. After AI developer Anthropic said in February that its agentic AI tool Claude could automate a range of research and legal tasks, providers LegalZoom.com, Thomson Reuters and FactSet Research Systems suffered steep declines.

My colleague Mark Casey, equity portfolio manager, says that the market appears to have concluded that many software as a service (SaaS) companies will go into perpetual decline as a result of AI-enabled competition. “Probably some of them will, but others seem well insulated from AI risks, and still others seem set to benefit from AI. I am looking closely at many of these companies in search of the proverbial babies that have been thrown out with the bathwater.”

For example, Salesforce, a customer relationship management platform, has been a focal point of disruption fears and its share price has declined sharply this year over concerns that AI tools make it easier for customers and competitors to replicate its functionality. At the same time, the company is taking aggressive steps to integrate AI features into its offerings. The company’s status as a system of record and deep integration with key business workflows may provide it with sufficient advantages to fend off AI-powered competition.

IT consulting businesses such as Gartner and Accenture, which offer research and advice to businesses about technology decisions, have also come under fire.

Both companies have launched initiatives to help clients identify use cases for generative AI, adopt AI tools and integrate them into organisations. What’s more, the complexity of IT decision-making is not getting simpler in the age of AI.

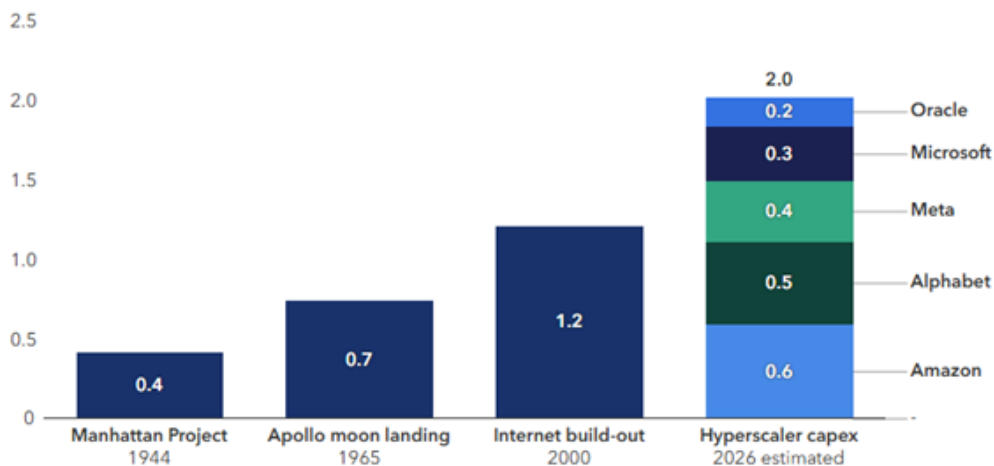
3. AI picks and shovels

You cannot build a new economy without old economy companies. It is well known that the AI buildout relies heavily on makers of power generation and cooling equipment, utilities and mining companies. These are the proverbial picks and shovels supplying AI infrastructure.

The hyperscaler companies driving the AI revolution have committed to investing \$650 billion in capital expenditures, primarily to build out AI data centres. To put this in context, it is more than 2.5 times the amount spent in 2025. The historic spending could account for an estimated 2% of GDP, far larger than other major capital projects in history, including the Manhattan Project and the Apollo space mission in 1965. Those projects led to innovations that reshaped industries for decades and led to the creation of new companies.

AI spending dwarfs history’s biggest moon shots

Annual investment value as a percent of U.S. GDP (%)



Source: Capital Group, Brookings, Congressional Budget Office (CBO), FactSet, Federal Reserve Board of St. Louis, The Planetary Society. Project costs for the Manhattan Project and the Apollo Moon landing reflect peak annual spending during each project’s lifetime. Hyperscalers represented by Google, Amazon, Microsoft, Oracle, Meta. Hyperscaler Capex 2026 estimates calculated by taking sell-side estimates divided by CBO GDP estimates. As of 28 February 2026.

At the heart of the AI infrastructure build-out are semiconductors, and the flood of investment by the hyperscalers has created historic opportunities for companies across the semiconductor complex. Examples include Nvidia, which makes graphic processing unit chips essential for AI’s large language models, and Broadcom, a maker of networking chips. Both have reported record sales growth in recent quarters. In addition, Applied Materials has seen soaring demand for its equipment as chip manufacturers look to expand and upgrade facilities.

The AI spending boom is also generating growth opportunities for power generation and capital equipment companies. For example, heavy equipment maker GE Vernova has reported a multi-year

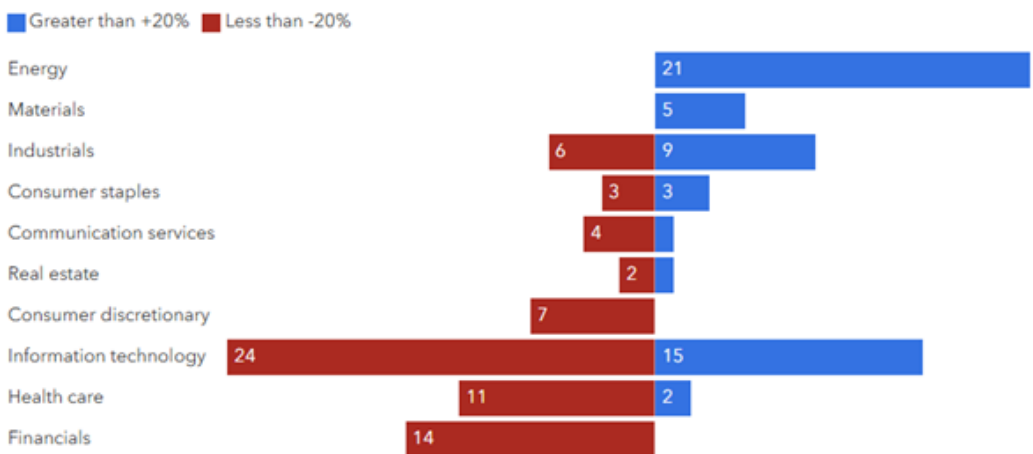
backlog for its gas turbines and extended lead times for electrical equipment orders. Demand for HVAC (heating, ventilation and air conditioning) equipment has also outpaced supply, prompting manufacturers like Carrier Global and AAON to boost manufacturing capacity.

A stock pickers’ market

AI technology remains in the early stages of both development and adoption. Yet it is already emerging as a powerful force in the economy that should not be underestimated. As the AI narrative evolves, it will be beneficial for some companies and serve as a disruptive force for others.

Investing in leading and beaten down sectors calls for selectivity

Count of S&P 500 Index constituents above +20% or below -20% return YTD



Sources: Capital Group, FactSet, RIMES, Standard & Poor’s. Figures reflect total returns. Data as of 27 March 2026.

But AI’s impact will not be uniform. Both the soaring industrials sector and the beaten-down tech sector have included stocks with 20% gains as well as stocks with 20% declines in the first two months of the year. Whether an investor looks for opportunities among those companies whose shares have soared or software and consulting companies whose shares have plummeted, the key for long-term success will be selective investing supported by intensive research.

Matt Reynolds is an Investment Director for [Capital Group Australia](#), a sponsor of Firstlinks. This article contains general information only and does not consider the circumstances of any investor. Please seek financial advice before acting on any investment as market circumstances can change.

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Are private market assets the answer in an unstable world?

Marc-André Lewis

By their very definition, private market assets are not as easy to understand as publicly listed securities and investments. Private entities are not subject to the same requirements when it comes to making information about their operations public, and those investors that are able to conduct appropriate due diligence are usually institutions.

Aside from the large minimum investments required, the sheer scale of private markets means it is very difficult, if not impossible, for retail investors to achieve adequate diversification across all the sectors and sub-sectors in private markets – and that's if they can get access to an investment in the first place.

But there is no doubt that private markets can offer investors important diversification away from public markets, especially in volatile geopolitical periods.

Diversification benefits

One of the major differences between private and public markets is the huge dispersion of returns between investments and investment managers. What that means is the difference between the best-performing private market asset manager and the worst-performing is sometimes five times as much as the difference in performance in listed markets.

The dispersion in the private space can be thousands of basis points, whereas in the listed space the dispersion of returns typically would be closer to 100 basis points in fixed income and 200 basis points in equities.

Therefore, there are huge opportunities for investors to outperform. But equally, if they choose the wrong investment or managed fund, there is the chance that their investment could severely underperform.

A multi-strategy approach

What then is the best way to approach investing across the wide array of private markets that includes, but is not limited to, private credit, private equity, private real estate, private infrastructure, venture capital, and royalty funds?

Due to the diverse nature of each of these asset classes, and the potential for huge gains and huge losses, we argue that a multi-strategy, or fund-of-fund, approach can achieve the best results for retail and high-net-worth investors.

There are many reasons for this, not least of which is it enables investors to have access to specialised expertise in each asset space and not just broad knowledge across private markets as a whole.

To provide investors with enough diversification, a multi-manager operator needs to have scale. Scale can open doors to deals in private markets, and it can also provide negotiating power when it comes to fees.

To be able to conduct appropriate due diligence on each deal or manager, a multi-strategy operator also needs sufficient resources to complete that research and to maintain ongoing due diligence.

Because this information is not public, it takes time and resources to investigate companies and the people who work for them, which can include deep background research and reports into their qualifications and employment history.

Manager and investment profiles

Private equity buyout – 26North

To illustrate the type of due diligence, resourcing and specialist capability required to invest successfully in private assets, it is helpful to examine a private equity manager and its investment approach in more

detail. One manager we favour in the private equity space, and which features within our funds, is 26North, a next-generation alternatives platform founded in 2022 by Josh Harris, co-founder of Apollo Global Management.

26North has built a fully integrated private markets platform spanning private equity, private credit and insurance asset classes, with approximately US\$35 billion of assets under management and around 80 investment professionals as of December 2025. Their private equity strategy focuses on middle-market businesses with durable, defensive and mission-critical characteristics, where complexity or transition creates opportunities for disciplined, hands-on investors.

A defining feature of 26North's private equity approach is its flexible, solutions-oriented underwriting philosophy. Rather than competing solely for traditional leveraged buyouts, the team targets a broad range of transaction structures, including corporate carveouts, opportunistic buyouts, structured equity and corporate partnerships. This flexibility allows 26North to tailor capital solutions to management teams and sellers while accessing transactions that are often less crowded and more idiosyncratic.

The private equity team is led by Mark Weinberg, former Managing Partner in Brookfield's Private Equity Group, alongside a senior group of investors with backgrounds at leading global alternative managers. The team concentrates on sectors where it believes it has a clear competitive edge, including Industrials & Services, Financial & Business Services, and Technology, Media & Telecommunications, while retaining the ability to pursue opportunistic investments in deals where 26North has competitive edge.

What particularly differentiates 26North is the scale and depth of its Alpha Creation Team (ACT), a dedicated group that is fully embedded across the entire investment lifecycle. ACT supports sourcing, diligence and post-investment value creation, partnering closely with portfolio company management teams to drive operational excellence. Its capabilities span data-enabled tools, industry operational expertise across more than 30 industries, and a leveraged operating model designed to accelerate performance improvement and strategic execution.

26North's integrated platform is reinforced by cross-asset class investment committees that facilitate knowledge-sharing between private equity, private credit and insurance teams. As a result, 26North is positioned to bring differentiated insights, sourcing channels and capital markets expertise to its private equity investments, particularly in complex or evolving market environments.

In April 2026, 26North announced the final close of its inaugural private equity fund at approximately US\$5.9 billion, exceeding its original US\$4 billion target. The fund's early investments have spanned a diverse set of sectors including industrials, technology and services, reflecting the breadth of the firm's sourcing network and its ability to execute across multiple transaction types.

Taken together, 26North's emphasis on disciplined underwriting, structural flexibility and deep operational engagement exemplifies the type of specialist, well-resourced private equity platform that we believe is essential for generating attractive risk-adjusted returns in private markets.

Private credit – Canal Road Group

In the private credit space, it is important to invest with a firm that offers decades of experience but is also differentiated from many of its peers. Canal Road checks those boxes.

The firm has a vintage advantage over most of its peers. The average loan life in Canal Road's fund, from underwrite, is about nine months. The firm had the benefit of starting investment post (i) interest rate increases, (ii) persistent inflation, (iii) the current US administration, and (iv) the widespread introduction of LLMs. The negative press hanging over the private credit market is predominantly related to loans underwritten in the 2019-early 2022 window. Loans underwritten in this window that remain outstanding are becoming more difficult (or expensive) to refinance before maturity over the next 12-24 months.

Canal Road is giving equity in its holding company (the same equity the team owns) to Limited Partners ("LPs") committed to the current fund. Management believes this, and each team member's investment in the fund, best align interests between LP and the General Partner. The firm believes the equity will generate meaningful annualised alpha above the returns generated by the underlying fund investment.

The Canal Road team is the same team that built CBAM Partners from US\$0 to over US\$15 billion in AUM and sold it to Carlyle for US\$800 million in 2022. Both CBAM and Canal Road were founded by Don Young and Mike Damaso, who have close to 60 years of combined experience in the credit markets. The team of 14 employees that started Canal Road with Don and Mike held the same positions at CBAM as they do at Canal Road. All 16 of the firm's initial team hold equity, just as they were at CBAM. The current fund is the 25th investment vehicle that the team has collectively worked on since the founding of CBAM.

While the firm has a focus on private credit today, it is expected that it will launch new initiatives in the coming 12-24 months in CLOs, structured products and other offerings in the corporate credit universe.

Looking ahead

Current geopolitical volatility is understandably making investors nervous, but it is just as important as ever to have appropriate diversification across all asset classes. While private markets historically have been difficult for individual investors to access, today they can gain good exposure to this space through a multi-strategy approach offered by a manager with the resources to carefully vet each manager and actively monitor their allocations and performance.

Marc-André Lewis is the Chief Investment Officer of [CI Global Asset Management](#), a fund manager partner of GSFM, a Firstlinks sponsor. This article is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or construed as an endorsement or recommendation of any entity or security discussed. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment.

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Mispriced in plain sight: The case for Global REITs

David Kruth

The last time global real estate investment trusts (REITs) lagged global equities by as much as they do now, Australia was over-excited about One.Tel and living rooms crackled to the sound of dial-up internet.

The dotcom bubble had left REITs for dead. Then the bubble burst and REITs did what neglected asset classes tend to do when normality returns; they bounced back.

Figure 1 shows the US NASDAQ index between 1990 and 1999 outperforming global REITs, while figure 2 shows their resurrection.

Figure 1: NASDAQ vs. Global REITs leading into the Dot-com Bubble

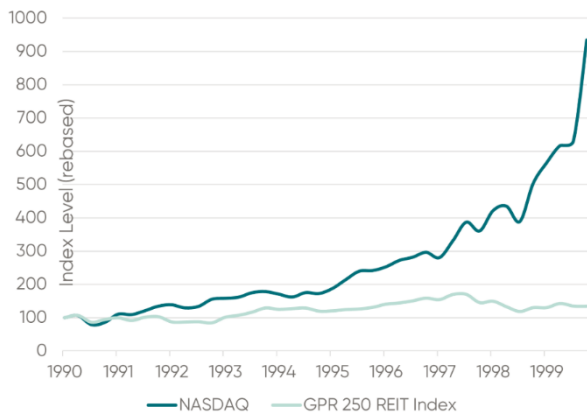
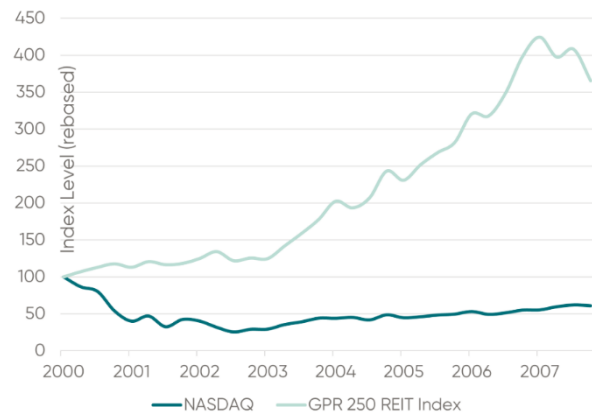


Figure 2: NASDAQ vs. Global REITs after the Dot-com Bubble



Source: JP Morgan Research, DXAM. Past performance is not a reliable indicator of future performance

Today's circumstances aren't identical, but the echoes are audible. Global REITs have now underperformed global equities for four consecutive years, the longest period in over two decades.

Unlike in the Dotcom era and the pandemic, recent pessimism has accumulated slowly. The effect, however, has been the same. Relative to equities, on key valuation measures GREITs are trading significantly below historical averages.

The purported impacts of artificial intelligence (AI) at one end of global markets has created some speculative excess. At the other, in commercial property, there are ongoing macroeconomic concerns, compounded by the shift to work-from-home, white collar employment and cost of living pressures.

The result is that GREITs have been all but forgotten. Relative valuations have plumbed levels not reached in decades.

Figure 3: Price / book value – Global Listed Real Estate vs Equities

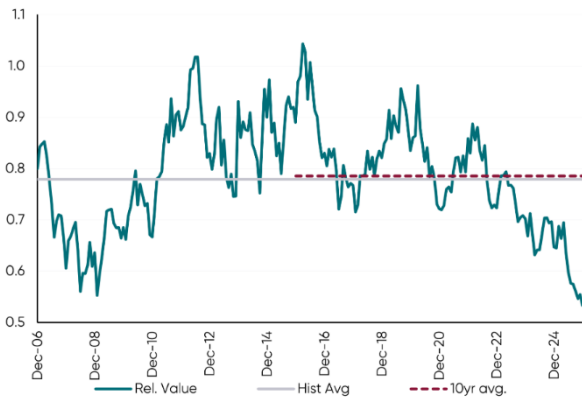


Figure 4: Price / cash flow – Global Listed Real Estate vs Equities

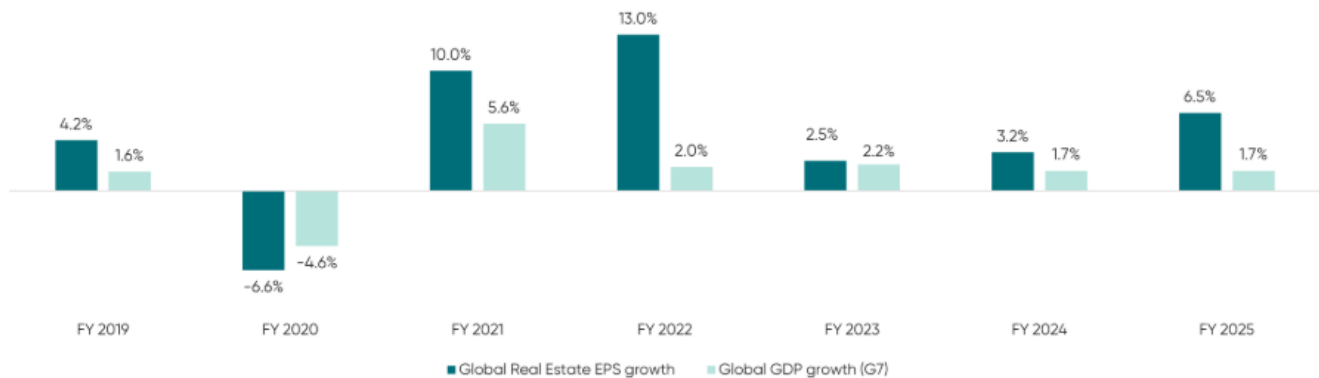


Source: DXAM, UBS. Past performance is not a reliable indicator of future performance.

For an active investment strategy, where investment decisions are based on data more so than narrative, this is a time of opportunity.

The evidence is compelling. GREIT earnings rebounded strongly after the pandemic and have actually exceeded economic growth after conditions normalised. While the returns in the chart below suggest some volatility, they do not substantiate the discounts implied by public market pricing. Indeed, earnings growth shows increasing momentum, in our view.

Figure 5: Historical global real estate sector earnings growth vs. GDP growth*



Source: IBES, Datastream, UBS, DXAM.

*This graph has not been prepared by DXAM and the information in it is predictive in nature. Global EPS & GDP growth (YoY) is average of US, UK, EU, AU, JP, HK, and Singapore.

There are other reasons for investors to be enthusiastic

First, commercial property is primarily an investment in an income stream. Leases are contractual and long-term, rents typically rise with or ahead of inflation and revenue is reliable. GREITs are classically defensive assets, with growth potential.

Due to booming equity markets, many investors are now underweight real estate. This is an opportune time for investors to rebalance their portfolios, lock in some gains and increase their exposure to GREITs, in our view.

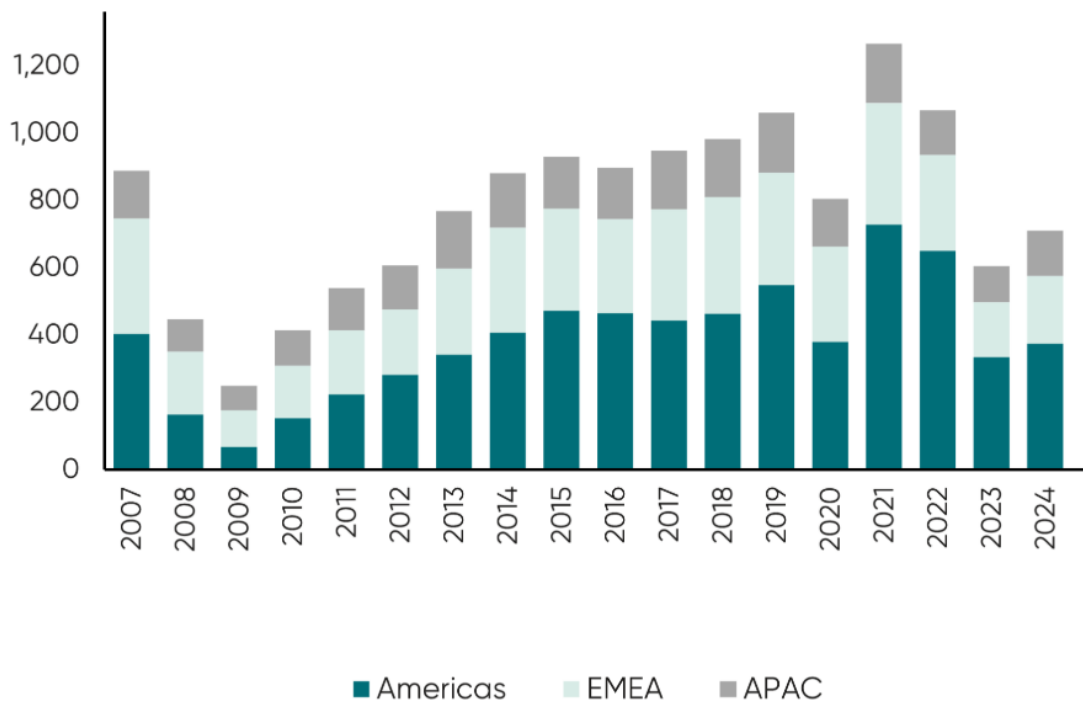
Second, these defensive characteristics are available at compelling prices. We believe GREITs might be well positioned to outperform equities, offering dividend yield, earnings growth and valuation upside. On a risk-adjusted basis, low-teens returns may be a realistic expectation, although not all GREITs are created equal.

Third, the strength of the investment case is unlikely to be undone by expanding supply. Construction and financing costs are now higher and projects have been delayed or shelved. Implications of this dynamic is likely to be ongoing market rental tension, benefiting incumbent REIT landlords.

According to JLL forecasts, across office, industrial, retail and other sectors, completions in 2026 will be lower than in the 2021–25 peak. Supply is tightening, not expanding. That’s good for GREIT earnings growth.

Fourth, private market transactions support valuations and prospective earnings growth. Private buyers, deploying real capital, tend to be more pragmatic than investors in listed markets. The recent increase in mergers and acquisition activity bolsters the investment case.

Figure 6: Direct commercial real estate transaction volumes (\$bn)



Source: UBS/JLL

Fifth, inflation and interest rates are moving into more favourable territory. Historically, GREIT returns have been strongest when inflation is in a 2–3% band. Current running yields for global REIT portfolios are in the mid-single digits.

Let’s say that dividend yields contribute 3–5% and earnings grow at mid-single digits, too. Even if GREIT share prices stay exactly where they are, this would imply returns in the high single digits.

However, it’s quite possible the valuation discount closes over the next few years – we can’t say when exactly, but that’s usually what happens. Add these factors together and low-teens total returns are plausible, especially on a risk-adjusted basis.

For investors seeking a more defensive posture without sacrificing the potential for total returns, this is an ideal time. That’s why we believe global listed property looks less like a relic and more like a mispriced opportunity hiding in plain sight.

How best to access the opportunity?

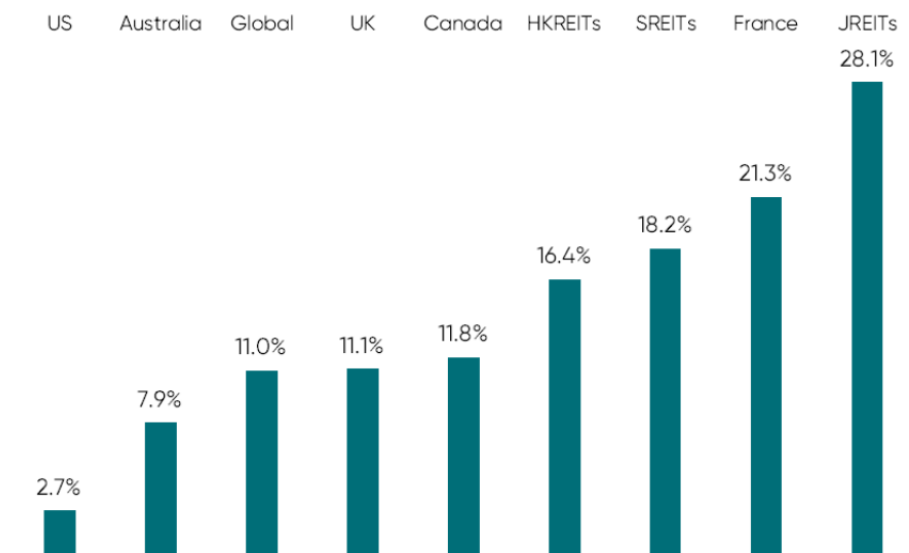
It would be opportune, at this point, to raise a vested interest. As an active GREIT funds manager, we would naturally make the case for active management. Nevertheless, the facts speak for themselves, this is an active manager’s market.

1. Dispersion creates opportunity

In 2025, performance dispersion, the spread of investment returns from their average across global REITs was unusually wide.

Country returns ranged from low single digits to more than 25%. Sub-sector outcomes spanned from negative mid-single digits (residential) to almost 30% (healthcare).

Figure 7: Country performance CY2025



Source: DXAM, UBS

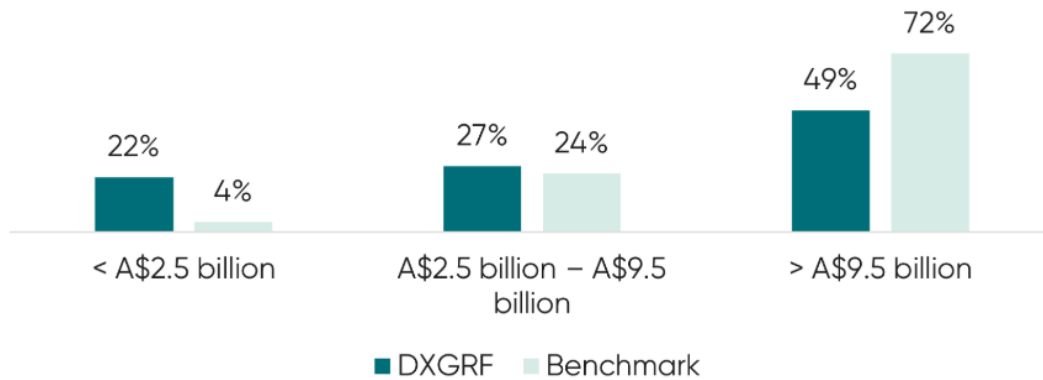
This is not typical of a market moving in lockstep on macro factors. Instead, it reveals significant differences in Global REIT portfolios and their respective balance sheet strength and management quality. Index returns hide a good part of this story. The average is rarely the most attractive part of the market.

These are not circumstances in which index funds do well because selection is critical to performance. Active managers are forward-looking; index funds are built on a view of the past. In performance terms, that contrast is usually most evident when the cycle turns. We believe we have reached such a point.

2. The limits of Index investing

It is a mathematical inevitability that global REIT indices are biased towards large-capitalisation stocks. The chart below makes this case. About 72% per cent of the benchmark’s weighted average is in companies with market capitalisations of over A\$9.5 billion.

Figure 8: Weighted average market cap (AUD)



Source: FactSet, DXAM

These are the most researched and widely owned securities in the sector. They also tend to be held across multiple passive vehicles and large institutional mandates. While this concentration can dampen mispricing, it can work the other way, too. Balance sheet weaknesses or structural challenges can be embedded in index exposures at precisely the wrong point in the cycle.

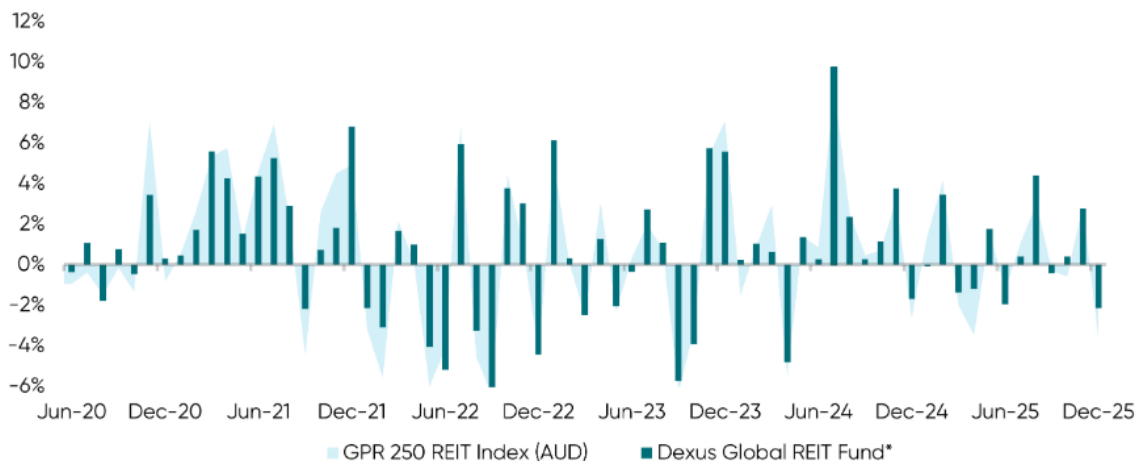
As the chart shows, the Dexus Global REIT Fund has significantly higher exposure to small and mid-capitalisation stocks that are under-represented in indices and under-covered by research houses. This is where valuation anomalies are more likely to arise. Indeed, this is where we are finding the best opportunities.

3. Capital preservation focus boosts total returns

Our Fund’s objective explicitly emphasises lower volatility, steady income and capital preservation alongside total returns. Capital growth is an important but secondary consideration.

The latter, however, works in concert with the former. In 74% of down markets since inception, the Fund has outperformed the benchmark. This isn’t relevant just to income-focused and risk-averse investors. Avoiding permanent capital impairment during weaker periods compounds over time and boosts performance.

Figure 9: Periodic Fund vs GPR 250 REIT Net Index*



Source: DXAM as at 31 December 2025

*Past performance is not a reliable indicator of future performance. Returns after all fees and expenses. Assumes

distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Returns and values may rise and fall from the one period to another. Fund's inception date used to determine the return: 1 April 2020. Dexis Global REIT Fund performance Index/Benchmark is the FPR 250 REIT Index (AU).

Our current positioning, for example, reflects a willingness to be underweight in areas where expectations appear elevated and overweight in segments where supply constraints and demographic trends are working in our favour. This allows us to target low teens total returns over the coming years whilst maintaining our mandated concentration on capital preservation.

4. Direct markets are validating value

Direct commercial real estate transaction volumes are improving along with private capital fundraising and debt issuance, as we noted earlier. But, as the table below shows, there has also been a steady stream of value affirming, take-private transactions and corporate activity in listed property.

REIT Name	Date	Status	Fund Weight	Index Weight	Total Return
Bluerock Residential	Dec-21	Privatisation	4.00%	0.00%	102.89%
RPT Realty	Aug-23	M&A	4.00%	0.00%	22.96%
AIR Communities	Apr-24	Privatisation	1.20%	0.40%	12.81%
Retail Opportunity Investments Corp	Nov-24	Privatisation	3.00%	0.14%	28.73%
Urban Logistics REIT Plc.	May-25	M&A	3.75%	0.00%	48.69%
City Office REIT	Jul-25	Privatisation	4.00%	0.00%	78.72%
Plymouth REIT	Oct-25	Privatisation	2.00%	0.00%	138.20%
Kennedy-Wilson Holdings	Nov-25	Privatisation	0.75%	0.00%	88.34%
Alexander & Baldwin	Dec-25	Privatisation	1.00%	0.00%	42.76%

Source: FactSet, DXAM

These aren't theoretical valuation exercises. Private buyers, with long-term capital and detailed asset knowledge, are willing to pay more than the value public markets have ascribed to these assets.

Index funds capture such outcomes only in proportion to their index weights. Active managers can capture them more fully and are positioned to do so.

5. Historic discount offers a great opportunity

Global REITs have underperformed global equities for four consecutive calendar years, a record stretch over more than three decades of data. Relative to equities, the sector now trades significantly below historical averages.

In this environment, passive index funds ensure investors own the market's aggregate exposure, warts and all. Active management helps concentrate investor capital on companies with defensible cash flows, prudent leverage and exposure to sectors with constrained supply. It also allows the purchase of those GREITs offering the biggest valuation discounts.

The return profile

The best opportunities in global listed property often don't exist or aren't material among index ETFs. Dispersion across countries, sectors and individual securities is high. Direct market transactions are validating private values above listed prices while balance sheet strength and asset quality differ markedly.

For investors seeking increased property exposure, with an emphasis on income and capital preservation, this is not a time to own the average. It is a time to be selective.

David Kruth is Portfolio Manager of the [Dexus Global REIT Fund](#). [Dexus](#) is a sponsor of Firstlinks.

Survival is the only success

Nick Maggiulli

In 2015, Tai Lopez started running his now famous "[Here in my garage](#)" ad on YouTube as a way to promote his 67 Steps self-help course. The ad featured Lopez standing in front of a brand-new Lamborghini before panning over to seven bookshelves he had installed to fit 2,000 books he had recently purchased.

Following the release of the ad, Lopez became an overnight sensation. Despite being widely ridiculed, "Here in my garage" was a massive success that, [according to some sources](#), generated over \$50 million in revenue for Lopez. Based on this success, Lopez founded a marketing business that did well as his YouTube following grew.

However, by 2019, Lopez shifted his focus and created a holding company, Retail Ecommerce Ventures LLC ("REV"), to invest in distressed brick-and-mortar stores. REV raised \$112 million from investors to buy companies like Radio Shack, Pier 1 Imports, and Linens N Things.

Unfortunately, this is where things went south. As these distressed investments failed to pan out, REV allegedly started missing payments to investors, and everything came undone. In September 2025, Lopez [was charged with fraud and running a Ponzi scheme by the SEC](#).

I've been thinking about Lopez's story a lot over the last six months. How does someone who's won the game end up losing so badly? I don't mean to pick on Lopez either, because it's happened with so many others. Sam Bankman-Fried went from [the world's richest person under 30](#) to a [25-year prison sentence](#). Elizabeth Holmes went from [the cover of Forbes](#) to [11 years in prison](#).

All of these falls from grace illustrate a deeper truth—survival is the only success. It doesn't matter what you do in life if you can't sustain it. You could make \$100 million, but if you end up in a prison cell or broke, who cares? That's not success. In fact, it's the opposite.

Using this definition, you are more successful than Tai Lopez, Sam Bankman-Fried, and Elizabeth Holmes. I am too. If you don't believe me, ask yourself one question: Would you trade places with any of them?

I know I wouldn't. I bet you wouldn't either. There's no amount of money and fame that is worth the loss of reputation and freedom.

Here's the funny part though—Lopez, Bankman-Fried, and Holmes all could've enjoyed their success if they had just stopped earlier. Lopez and Bankman-Fried had real, profitable businesses. They didn't need to chase after more. Holmes could've failed with Theranos (without the fraud) and I guarantee she'd get funding for her next venture.

But they didn't stop. Why? Because greed is a hell of a drug. Greed drives people to behave in absolutely irrational ways. It drives some people to risk everything for just a little bit more. It's the most *negatively* asymmetric payoff you could imagine—the upside is capped, but the downside is unlimited.

And yet people still make this trade all the time. There are people out there doing it right now. They may look successful today, but they won't hold onto their success.

I was reminded of this after recently re-reading [Fooled by Randomness](#) by Nassim Taleb. Taleb tells a story of a trader who is rewarded with larger and larger bonuses each year by pursuing a high risk, levered strategy. The trader outperforms all of his peers, further affirming that his approach is best. All is well until something happens in the market that the trader wasn't expecting. Their strategy blows up and they lose everything.

Taleb's story demonstrates why survival is the ultimate financial goal. Because it doesn't matter how you perform for a month, a year, or even a decade. All that matters is what you can keep in the long run. Whether you can make it to the end game.

This is why I'm not a fan of those who "generate income by selling options." These people are trading *immediate* rewards for *future* risks. And when those future risks inevitably arrive, many of them get wiped out. As Taleb writes:

Options sellers, it is said, eat like chickens and go to the bathroom like elephants.

Unfortunately, option sellers are the *opposite* of investors. They collect rewards now for risk later. Investors take risks now for rewards later. So which do you want to be?

You don't have to sell options or run a Ponzi scheme to fall victim to this either. There are plenty of ways that retail investors do this on a much smaller scale. They put most of their money into a single stock because it's surging upward. They juice their returns with leverage or chase the latest trend.

All of these work great...until they don't. Unfortunately, when they stop working, you can lose more than just your capital. You can lose your confidence too. That's where the psychological cost of investing shows up. You start to question whether you know how to invest or whether you're just lucky.

This is why survival matters far more than short-term performance. Because survival allows you to compound your money for a longer period of time. And it's this compounding that builds true wealth.

There's a great irony in this though. Because the people who compound their money for decades aren't the ones you typically read about. There's no headline for someone who invested consistently for 40 years and retired comfortably. There's no documentary about someone who built a small fortune while working a 9-5 job. But these are the *real* financial success stories. Everything else is just noise.

It reminds me of [this interaction](#) I saw not too long ago about index investors:

Kris Kay | **444 Capital** @thekriskay · Mar 1
I've never met a serious investor that only invests in index funds

64 13 107 145K

Morgan Housel @morganhousel
Have met plenty of rich ones though.

9:47 AM · Mar 2, 2026 · **77K** Views

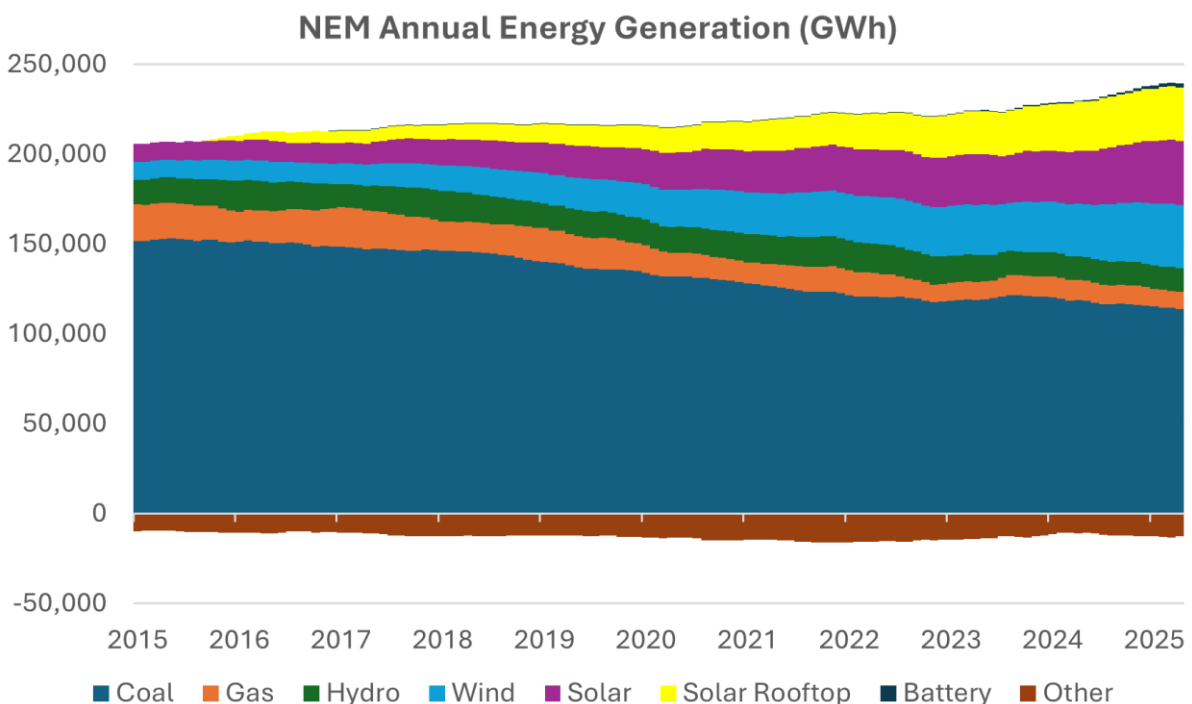
So, if you want to be financially successful—just survive.

Nick Maggiulli is the creator of personal finance blog [Of Dollars And Data](#) and the Chief Operating Officer at [Ritholtz Wealth Management](#). For disclosure information please [see here](#). This article was originally published on the [Of Dollars and Data blog](#) and is reproduced with permission. If you liked this article, consider [signing up for Nick's newsletter](#).

\$42 billion too late

Jason Teh

Australia's electricity mix has changed dramatically over the past decade. The chart below tells the story of coal in steady retreat and rooftop solar surging from a rounding error before 2015 to 14 percent of National Electricity Market (NEM) generation by 2025.



Source: OpenElectricity

That transformation created a new problem. A grid that generates enormous solar surpluses during the day and loses that generation as the sun sets develops a structural imbalance in the evening. The 6pm to 9pm window is the grid's critical stress point: supply falls, demand peaks, and prices spike. Two energy storage projects now define Australia's attempt to solve it. Both exceeded their original budgets, but for entirely different reasons, and one is at risk of looking like a white elephant.

Snowy Hydro 2.0: The nation-building bet

In March 2017, Prime Minister Malcolm Turnbull announced Snowy Hydro 2.0 as a nation-building response to Australia's energy crisis. South Australia had suffered a state-wide blackout in September 2016. Electricity prices were surging as domestic gas prices rose sharply after new LNG export facilities linked the east coast gas market to international prices for the first time. Hazelwood, one of the NEM's largest and cheapest coal-fired generators, was weeks from closing. The political pressure to act was intense.

The project proposed linking two existing reservoirs — Tantangara at the top and Talbingo at the bottom — via a 27-kilometre tunnel through the Snowy Mountains. The scheme uses cheap electricity during the day to pump water uphill into Tantangara, then releases it back down through turbines to generate power when electricity is expensive in the evening. At full capacity, the project would add 2.2 GW of dispatchable generation to the NEM.

The original \$2 billion cost estimate was produced without a detailed feasibility study. A subsequent study revised that to \$3.8 to \$4.5 billion, and the project was formally sanctioned by the Morrison Government in February 2019. Construction began in 2021, and the cost estimate has since risen to at least \$12 billion. Independent analysts at the Victoria Energy Policy Centre now estimate the all-in cost at \$42 billion.

The Cheaper Home Batteries Program: A cost-of-living bet

The Cheaper Home Batteries Program launched in July 2025 as rising electricity bills put household energy costs at the centre of the 2025 federal election campaign. The scheme addressed a clear market failure: despite solar sitting on one in three rooftops, only one in 40 households had a battery. The high upfront cost was the barrier. Batteries offered households a direct way to reduce their exposure to retail tariffs and relieve cost-of-living pressure.

The scheme offered households a 30 percent discount at the point of installation, targeting 1 million installations by 2030 with an original budget of \$2.3 billion. Within five months, 155,000 new batteries had been installed, roughly matching half the entire fleet accumulated over the prior decade. The budget was on track to run out by 2026, and in December 2025 the government responded by tripling the budget to \$7.2 billion, doubling the installation target to 2 million and quadrupling the storage target to 40 GWh.

The financial case was compelling from day one. Most household batteries operate in self-consumption mode, charging from rooftop solar during the day and discharging at night instead of buying grid power at around 38 cents per kWh. Without a battery, that solar would be exported to the grid at around 5 cents. Based on typical evening consumption of around 10 kWh, the arbitrage is worth about \$1,200 per year in bill savings

Some households go further by enrolling their battery in a Virtual Power Plant (VPP), a network where an operator coordinates discharge in response to grid conditions. In exchange, households earn a fee from the operator ranging from \$300 to \$600 annually, or on more sophisticated plans, a share of returns from capturing price spikes with the potential to exceed \$1,000 annually. In NSW, the state government adds up to \$1,500 upfront for connecting to a VPP on top of the federal rebate, making enrolment a compelling financial proposition.

28kWh NSW Household Battery Payback

	Self-consumption only	VPP enrolled
Self-consumption savings @ 10kWh	\$1,200	\$1,200
VPP income	None	\$300–\$1,000
Annual benefit	\$1,200	~\$1,500–\$2,200
Est. Battery cost (post federal rebate)	\$10,000	\$10,000
NSW VPP incentive	none	\$1,500
Battery cost (post Federal and VPP incentives)	\$10,000	\$8,500
Expected Payback	8.3 years	3.9 to 5.6 years

Source: Vertium

Scaled to 2 million households, those individual decisions become a grid-scale resource. At 2030 target scale, 2 million households drawing from batteries rather than the grid removes the equivalent of 50 percent of NEM summer peak demand from the wholesale market entirely. That is without any coordination. With coordination, the impact is even greater. Given state government incentives, VPP enrolments could reach 30 percent of batteries installed by 2030. Six hundred thousand batteries discharging at an average rate of 7.5 kW gives a peak dispatch capacity of 4.5 GW, covering a further 15 percent of NEM summer peak demand and about double Snowy Hydro 2.0's discharge capacity. Any price spikes that remain will be targeted by those VPP batteries, leaving little commercial headroom for Snowy 2.0.

Dispatch Capacity Versus Peak NEM Demand

	Dispatch (GW)	% of NEM summer peak (30 GW)
Batteries 2030 — total fleet (no VPP)	15	50%
Batteries 2030 — 30% VPP	4.5	15%
Snowy 2.0	2.2	7%

Source: Vertium

The commercial implications extend beyond Snowy. Gas-fired peakers earn the bulk of their revenue running precisely when evening prices spike. AGL and Origin are building their own grid-scale batteries to capture the elevated prices in the evening ramp, even as distributed household batteries work to eliminate them. Origin has argued that more gas-fired peaking capacity is needed as coal retires, a position that has genuine merit for multi-day winter periods when solar is weak and batteries cannot recharge in time. That argument is harder to sustain on the daily evening ramp, where batteries are already proving their case. In Q1 2026, the peak summer quarter, AEMO reported that batteries delivered an average of 1.1 GW into the evening peak, directly reducing reliance on gas. Gas-fired generation averaged just 712 MW for the quarter, its lowest level since 1999. For AGL and Origin, the

structural question is not whether household batteries affect their peaking revenue. It is how quickly that effect is felt.

Snowy faces the same commercial pressure on the evening ramp, but its position is more nuanced. Unlike gas peakers, it can store energy and dispatch it without burning fuel. But like gas peakers, it can sustain output for far longer than a home battery. A home battery is exhausted within five to six hours at full discharge. Snowy can sustain 2.2 GW continuously for approximately 18 hours to four days depending on reservoir levels, becoming genuinely irreplaceable during the prolonged overcast periods that Origin describes. That is a legitimate grid service for those rare instances, but it could easily be met by existing gas-fired peakers without costing taxpayers a cent.

Conclusion

Both schemes exceeded their original budgets, but that is where the similarity ends. Snowy Hydro 2.0 was a single concentrated bet — costed without engineering rigour, committed without market validation, and now carrying an estimated price tag of \$42 billion. The home battery scheme was messy in its first iteration, but it mobilised private capital at a scale that forced the government to expand the subsidy to \$7.2 billion to keep pace with demand. One budget blew out because demand exceeded expectations. The other blew out before it produced anything.

Snowy is 70 percent bored, has missed six consecutive completion deadlines, and is realistically not expected to operate until the early 2030s. By then, the battery scheme will have run its full course — 2 million homes, 40 GWh of distributed storage, and years of evening peak prices already compressed. Snowy will arrive, at extraordinary cost, to find the market it was designed to serve already transformed. That transformation has a price.

The price of that transformation: \$7.2 billion. The price of Snowy 2.0 could be \$42 billion too late.

Jason Teh is the founder and Chief Investment Officer of [Vertium Asset Management](#). This article is general in nature and does not constitute or convey personal financial advice. It has been prepared without consideration of anyone's financial situation, needs, or financial objectives. Before acting on the areas discussed and contained herein, you should consider whether it is appropriate for you and whether you need to seek professional advice.

Do investors accept lower returns from assets that make them feel good?

Joe Wiggins

It is easy to think about the merits of any asset class as based entirely on its financial return prospects, but what if an asset provides a different benefit — what if it makes us feel good? Are we then happy to accept a lower financial return? [A forthcoming paper by Elroy Dimson, Kuntara Pukthuanthong and Blair Vornatz](#) seeks to answer this question by appraising the investment performance of collectibles such as classic cars, art, wine and stamps. They find evidence of lower financial returns for assets with a positive emotional value. This has broader implications for our investors than simply the world of violins and carpets.

The limitations around the data on collectibles means the methodology applied for the study is complex – it is not straightforward to calculate a Sharpe ratio for English 18th century furniture – but I will describe the approach in simple terms. The researchers compared the returns of 13 collectible asset class categories over up to 110 years to a risk-appropriate portfolio of liquid securities. They were seeking to answer the question – how does the performance of collectibles compare to traditional, liquid market portfolios of equivalent risk?*

And the answer was that the collectibles underperformed by an average of 2.5% per annum. The researchers contend that while the liquid asset portfolio has only a financial return element, the collectibles have a non-financial return – what they call an ‘emotional yield’ – which is the reason for the performance gap.

What the authors define as an emotional yield is some emotional benefit that is derived from owning the asset. They define this as private enjoyment and social signalling. If I own a valuable painting, there is some utility from the fact that I enjoy looking at it, and from what other people think it says about me that I own it.

If an asset brings us some form of pleasure or enjoyment, then we require a lower financial return from holding it.

Although the methodology underpinning the paper is complex and necessarily imperfect, the idea that the emotional impact of an asset has an influence on its returns is a compelling one. How we feel has a huge impact on our decision making and judgement, but is incredibly difficult to either acknowledge or measure. It seems perfectly aligned with human behaviour – and indeed rational – that if we have two assets, one in which owning it makes us feel good and one where ownership generates no emotional benefit, we will be content with a lower financial return from the one which is more affecting.**

One unanswered question is the extent to which investors know that they are receiving a lower return. With assets such as collectibles, deriving high quality returns data is inevitably difficult, and there is no reasonable way for anyone to compare performance to a ‘risk equivalent’ portfolio of liquid assets. It would be interesting to explore whether investors would be willing to explicitly make this type of trade-off.

The wider implications of emotional yield

While the paper focuses on the world of collectibles, the notion that the presence of an emotional yield impacts our required return has potentially broader ramifications. The authors touch upon – but do not explore in detail – the potential for the concept to be meaningful for ESG investors. If we believe our investments are doing good, that makes us feel good, and therefore we benefit from a positive emotional yield and may accept lower returns.

This seems plausible although the level of emotional yield we might derive from holding an asset, must be related to the strength of emotions elicited. For tangible assets – such as jewellery or coins – this can be incredibly strong, as we have full ownership and can hold, see and feel an object. Information about partial ownership of a company and the ESG-related activities it is undertaking is far less salient. To generate an emotional yield, investors need to be made to feel something.

We have discussed only the potential for a positive emotional yield, but what about the opposite situation? Do investors require a higher return for assets that take an emotional toll? Those that make

us feel bad for owning them. As with ESG, it is fair to question the emotion that can be generated by simply owning stocks and bonds which can often feel abstract. Even taking this into account, however, it would seem reasonable that we want to be compensated for holding assets that make us feel discomfort or some level of guilt. It is perhaps an idea that can be applied to value investing more generally given the negative sentiment that is likely to surround anything falling into that categorisation.***

One other important implication that the authors highlight about the impact of the existence of an emotional yield – on collectibles in particular – is the potential limitations of tokenisation. By their analysis investors owning collectibles achieve a lower return which is offset by the positive emotional impact of full ownership. If a collectible is tokenised and ownership is fractional, an investor bears the cost of the lower financial return, but without the emotional yield. I don't get to enjoy the painting hanging on my wall, but I might well pay for it.

* There is a lot of complexity in the methodology which might not make for enjoyable reading in a 1000-word blog post. Please do read the full paper for details.

** When I refer to emotion here, I am talking specially about how holding the asset makes us feel, not the emotions that price fluctuations might provoke.

*** In a way, we can think of the higher returns required for owning more volatile assets being a form of emotional yield. We want recompense for the stress and anxiety of ownership.

Joe Wiggins is Director of Research at UK wealth manager, [St James's Place](#) and publisher of investment insights through a behavioural science lens at www.behaviouralinvestment.com. His book [The Intelligent Fund Investor](#) explores the beliefs and behaviours that lead investors astray, and shows how we can make better decisions. This article was originally published on Joe's website, [Behavioural Investment](#), and is reproduced with permission.

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