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Editorial

As someone who grew up in the New York area I've savoured the Knicks season which ultimately ended with a championship on Sunday.

Over the past several weeks the Knicks have brought a good deal of joy to my life.

I've reconnected with mates from high school who I don't talk to often enough. I've experienced the gambit of emotions that comes from watching a series of closely fought games. I even hugged a random man in the Sportsmen Bar in Bangkok at 10am after the Knicks epic game four comeback.

Reflecting on the Knicks' run I've come up with three lessons for investors. Is this a stretch? Perhaps. But indulge me this one last editor's note.

Be wary of the shiny objects

The NBA finals was a David vs Goliath match-up.

Playing the role of Goliath was Victor Wembanyama of the San Antonio Spurs – Wemby for short.

He is everything you want in a basketball player. His physical gifts are obvious given his height and his ability to do things that somebody with his size shouldn't be able to do.

Despite only being 22 years old, Wemby has already been anointed as the new face of the NBA. Wemby carefully crafted his image which has worked surprisingly well in a cynical age.

Wemby was widely praised for training with Shaolin monks in China to improve his balance. He was declared an intellectual because he reads and plays chess. The media deemed him a deep thinker when he sat in the park sketching some tree. To me this all seemed a tad performative...but everyone swooned anyway.

The mantle of Goliath's diminutive foe was taken by Jalen Brunson.

On paper Jalen is everything you don't want in a basketball player. He is slow and short – at least for the NBA. When he joined the Knicks the commentators universally criticized the move as Brunson was *“not a saviour in any way, shape or form.”*

Nobody gave David or Brunson a chance.

Yet David confidently told Goliath before battle, *“This day the Lord will deliver you into my hands...”*

And when faced with his own giant, Brunson told the world he wouldn't be backing down either, *“Some guys are always gifted: Amazing length, amazing athleticism. But just put me in front of that guy. That's my mindset. I'm gonna battle.”*

It is human nature to reflexively find some things more compelling than others. In the NBA a 7-foot, 4-inch player with a compelling – if slightly nauseating – narrative is always going to be more intriguing than a 6-foot player who is reserved and rarely speaks.

Investors are naturally drawn to certain things and this can have consequences as high valuations often lead to lower returns. Jeremy Grantham summed it up well in his book *The Making of Permabear* (I read books just like Wemby!) saying,

“Historically, equity investors have overpaid for excitement and sex-appeal: growth, profitability, management skills, technological change and, most of all, acceleration in the above.”

Savvy investors understand this tendency and view markets in a more nuanced and holistic manner. There is plenty of data to back up the benefits of this approach.

Professor Robert Haugen dedicated his academic career to showing that boring shares – those with low volatility – did better over the long-term than the exciting shares investors are drawn to.

In his 2012 paper titled *Low Risk Stocks Outperform within All Observable Markets of the World* he showed that in 21 developed and 12 emerging markets the shares in the lowest decile of volatility outperformed the highest volatility decile in almost every instance. [Read more on his work here.](#)

Professor Jeremy Siegel explored returns across the 20th century and discovered the best performing US share was cigarette company Philip Morris. Why? High dividends reinvested at reasonable valuations.

During a century of innovation none of the companies that invented or commercialized the airplane, medical breakthroughs, the computer or the internet led the list – it wasn't the shiny things that led to the best investor outcomes.

It is easy to be seduced by potential. But a good outcome requires more than the glimmer of promise. It means paying a reasonable price for growth and finding companies with moats to minimise the impact of ruinous competition. These intangibles get lost in the hype over the next great investment.

There was never any hype over Jalen Brunson. Yet he won a state championship in high school and a national championship in university. Now the NBA. He has the intangibles that aren't readily apparent to everyone.

For Wemby talent alone wasn't enough as he missed key shots and turned the ball over at the end of the game. He needs more seasoning, maturity and experience – and maybe this will make him into the champion he was prematurely declared.

Don't lose sight of the definition of success

In a bizarre and childish press conference after the final game Wemby talked about how the Spurs dominated a series where they won one out of five games.

Most of the games followed a familiar pattern. The Spurs would build a big lead and 'dominate' the first quarter. Then the Knicks would come back to win as the Spurs made mistakes and a visibly fatigued Wemby became a bystander.

All that matters in basketball and investing is the end result. As Nassim Taleb said *"It doesn't matter how frequently you succeed if failure takes it all away."*

Like Wemby, investors often can't see the forest for the trees. Executing a plan to achieve a long-term goal is far less exciting than finding the next 10-bagger. Most investors focus on the latter and forget about the former.

The key drivers of success – asset allocation, minimizing taxes and fees, risk management – are ignored in the quest to 'dominate' with the highest returns possible. This pursuit often causes investors to sabotage their long-term returns.

Remember your strategy when things seem too easy

In the beginning of game four the Spurs couldn't miss while building a 29-point lead. I handled this disturbing turn of events with my customary grace by rapidly consuming Changs.

In the second half the Spurs started to miss a few shots and the Knicks inched closer. There were several things the Spurs could have done - take more time off the clock or perhaps throw the ball inside to the guy the Shaolin Monks had to push three cots together to accommodate.

The Spurs did none of those things. Instead, they shot eight straight three pointers as quickly as they could each time they had the ball. This series of poor tactical decisions contributed to the Knicks' eventual comeback.

When times are good it is easy to deviate from a plan. The Spurs didn't think they needed to stick to a strategy when all their shots were going in. Investors don't think they need a strategy when everything goes up.

Standards and discipline get thrown out the window in bull markets. If you are a value investor and the SpaceX IPO is starting to look good it might be a sign you are falling into this trap.

This hubris will catch-up with investors in the next bear market. To paraphrase Hemmingway, this reckoning will occur gradually... and then rapidly.

A strategy doesn't have to be complicated and Buffett came up with one almost anyone can use:

"Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now."

Final thoughts

As the buzzer sounded in the last game Wemby stormed off the court without bothering to shake the hands of his opponents. He ended his press conference by telling the assembled reporters, 'see y'all,

never'. But the first Frenchman to ever say 'y'all' will be back – likely with an entertaining story about an obscure training regime.

Perhaps it will be the Bushmen of the Kalahari or a sherpa in the foothills of the Himalayas that will help Wemby to – literally and figuratively – elbow his way to his first championship at all levels of basketball.

Jalen Brunson will be in the gym. He will be practicing the hypnotic array of crossovers and head fakes that allow him to weave through tree trunks of men for a critical crunch time layup.

Investors will continue be tempted by the next can't miss investment by proselytizing charlatans in well-appointed suits.

Resist the siren song of get rich schemes and instead focus on the un-sexy work of building wealth to create a better life for yourself and those you love. Leave the hype and flash to others and build a life worth living.

Mark LaMonica

Also in this week's edition...

The ASX's largest stocks are leaving much of the market behind. **Tim Carleton** from **Auscap** shares his thoughts on why [high quality businesses are on sale](#).

Owen A. Lamont from **Acadian** examines something new and unusual in markets: [high value-weighted dispersion](#).

Wealth concentration is at an all time high. **Michael Collins** looks at why [inequality may be a broader threat to economic stability](#).

AI hype is sweeping global markets, however, **Roger Montgomery** thinks its four horsemen could [bring a reckoning](#).

Jason Nassios and **Beth Webster** share why [the budget tax reforms barely scratch the surface](#) and explore what Australia needs next.

Trevor Schmid discusses why [negative gearing did not die on Budget night](#).

Hayden Green explores how [family offices have quietly taken over Australia's private capital](#).

This week's white paper from **GSFM** affiliate, **Man Group**, looks at the growing [divide AI is creating](#) across the technology sector.

Curated by Simonelle Mody and Leisa Bell

High quality businesses are on sale

Tim Carleton

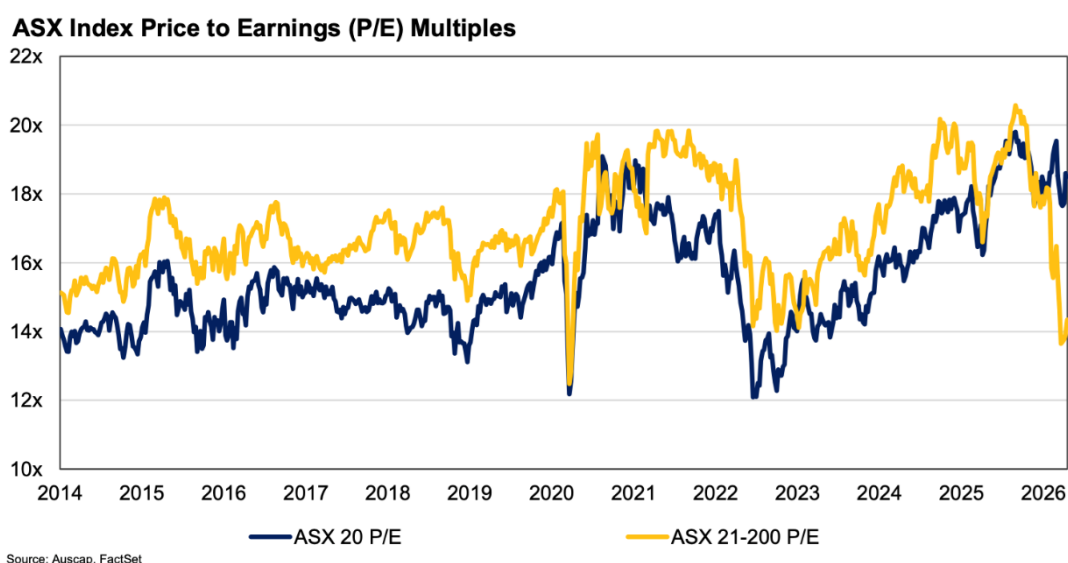
The conflict in the Middle East, along with developments in artificial intelligence and its potential impact on existing business models, has led to a repricing of many securities in recent months, particularly in mid and small capitalisation companies.

Following several years of strong performance, the mood has changed from optimism to extreme pessimism, which is being reflected in valuations. But not all companies will be impacted in the same way, and we see opportunities for investors willing to do their due diligence and thorough company research.

A market divided

The market has certainly become bifurcated in 2026. But larger Australian companies have been less price sensitive to recent developments than the rest of the local share market.

The 10 largest companies in the S&P/ASX 200 by market capitalisation now account for 49.1% of the S&P/ASX 200, while the 20 largest companies (the S&P/ASX 20) account for 63.3%. The S&P/ASX 20 has been, until recently, trading on a near record multiple of one year forward earnings, as seen below.



In contrast, the smallest 180 companies in the S&P/ASX 200 are trading on a forward price to earnings multiple that was last seen very briefly during the COVID-19 panic of 2020.

This is also a reversal of trend as historically the companies outside the S&P/ASX 20 have traded on a higher multiple of earnings than the companies in the S&P/ASX 20.

This likely reflects the expectation that these businesses will deliver greater earnings growth over time than their larger counterparts. Over the past decade the S&P/ASX 200 has delivered earnings per share growth of 0.8% per annum. The companies in the S&P/ASX 200 excluding those in the S&P/ASX 20 have delivered earnings growth of 4.9% per annum.

It is difficult to argue that the continued resilience of the largest companies in the market is based on a superior earnings outlook. We would suggest that the recent and ongoing trend towards passive investing results in capital flowing into companies according to their current size, rather than the prospects for the business, leading to distortions as to how companies are priced.

This is only exacerbated by investor and regulatory pressure for institutional managers to not underperform their benchmark which leads to index replication. This has prompted some of the largest, and most sophisticated, pools of capital in the Australian market to move toward passive investing.

Where are the opportunities?

One factor that has led to lower multiples over the past few months is concerns around developments in artificial intelligence. Artificial intelligence has the potential to upend established business models.

The combined market capitalisation of technology related businesses assumed to be at risk from these developments fell from over \$200 billion to less than \$100 billion in just a few quarters from mid-2025 to early 2026.

But not all technology-based businesses will face the same level of risk, and we think this indiscriminate selloff is creating opportunities. To work out whether a business is exposed, investors need to understand the nature of the economic moat that allows the business to generate strong returns on capital compared to peers. If this is simply a technological solution to a problem, the value of that solution may well be diminished by technological replication at low cost.

But there are many technology related businesses where the technology is not the ongoing and only source of competitive advantage. It may be a key part of the offering, but it no longer represents the sole reason the business is able to generate superior returns on capital compared to peers.

The opportunities for investors therefore are in finding businesses that have seen their share price fall, but for which the chances of disruption appear overstated based on current information.

These kinds of companies may include:

- Businesses that operate in highly regulated markets and/or are systems of record
- Businesses with valuable proprietary data that cannot be scraped or replicated
- Two-sided marketplaces with strong network effects where benefits flow from the aggregation of buyers and sellers
- Businesses that are deeply integrated in client workflow where the risks of error outweigh the potential cost savings, particularly where the technology is adjacent to the product/service, and
- Relationship based industries where the human contact is likely to be an important ongoing feature for clients.

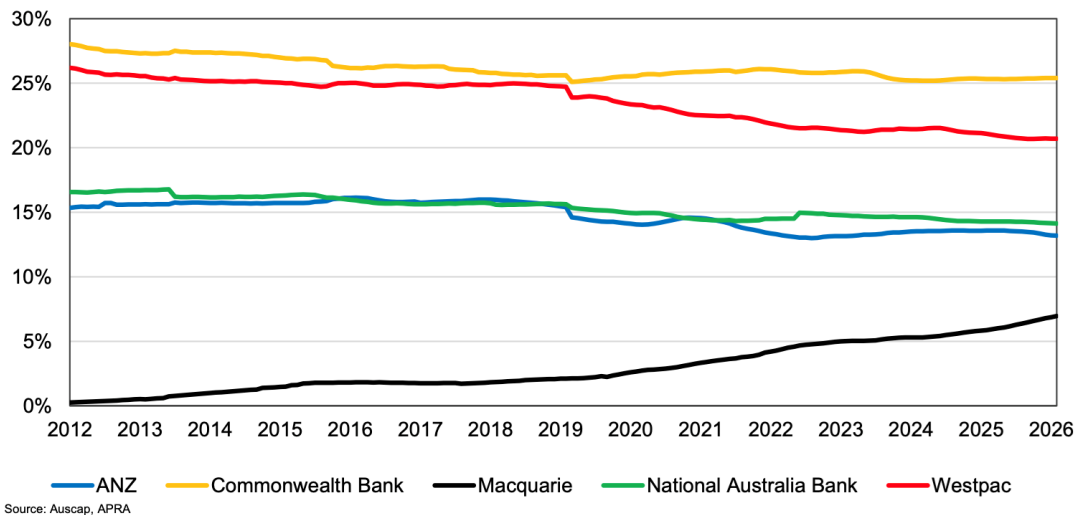
Companies that we believe show some of these characteristics include CAR Group (ASX:CAR), REA Group (ASX:REA), Life360 (ASX:360), and AUB Group (ASX:AUB).

Are there large caps at risk?

In terms of large company valuations versus small, we think the outlook over the next decade for some of the largest domestic companies is increasingly challenged.

The financial sector is a good example of this. The largest four domestic banks, Commonwealth Bank, Westpac, NAB and ANZ, account for 23% of the S&P/ASX 200. But they are likely to be increasingly challenged by Macquarie, especially in the mortgage market.

Australian Mortgage Share



Macquarie is in the unusual position of having a natural competitive advantage despite being the challenger. It has a modern technology stack based on one data platform, a streamlined online-only business model with no legacy branch network costs, and a much lower cost, scalable business model compared to the majors. This is enabling Macquarie to offer considerably better value to both deposit holders and borrowers.

Macquarie's growth looks set to challenge the revenue and earnings of the major banks in the years to come. That the banks are trading on lofty price to earnings multiples at a time of imminent potential disruption speaks to the weight of capital flowing passively into the market. This situation cannot continue indefinitely and reminds us of the German proverb, "trees don't grow to the sky".

Looking ahead

Rather than panic, investors should see the market for what it currently is. There are high quality, competitively advantaged businesses with strong prospects for growing earnings at rates well above the market currently on sale.

Investors who do their research at a company level, and look beyond the largest 20 listed companies, may well be surprised by the long-term returns that can be generated in this environment through patient and rational investing.

Tim Carleton is the Chief Investment Officer and founder of [Auscap Asset Management](#). This article contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person.

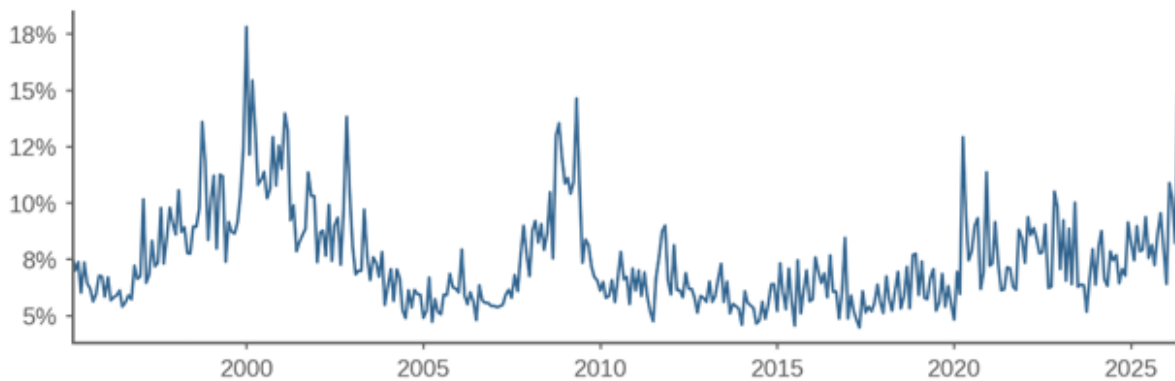
The whirlwind is upon us

Owen A. Lamont Ph.D.

It’s official: the world stock market is now as wild as it was during the tech-stock bubble. Since April 2026, we’ve had epic levels of return dispersion. AI excitement is driving extreme price moves, with some large-cap technology stocks up 50% to 100% in a single month. While it’s normal for small-cap stocks to sometimes rise 50% in a month, it’s not normal for the whole market to be meaningfully impacted by extreme winners. The chamber of dispersion has been opened, the beast of volatility has awakened, and the season of chaos is at hand.

Figure 1 shows monthly dispersion for the MSCI All Country World Index (ACWI) since January 1995, defined as the value-weighted cross-sectional standard deviation of monthly returns.^[1]

Figure 1: Monthly return dispersion in ACWI
 January 1995-May 2026



Source: Acadian based on data from MSCI. MSCI data copyright MSCI 2026. All rights reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.

We see high dispersion in the tech-stock bubble as well as during times of market stress. In recent years, dispersion has been modest, but something really changed in April, with dispersion rising to historic levels. Table 1 shows the five highest dispersion months from January 1995 to May 2026. May and April of 2026 were extraordinary, ranking below only December 1999 and February 2000.

Table 1: Top months ranked by dispersion
 January 1995 – May 2026 (377 months)

Rank	Month	Dispersion
1	December 1999	18.2%
2	February 2000	15.9%
3	May 2026	15.6%
4	April 2026	15.0%
5	April 2009	14.8%
	Average, 1995-2026	7.6%

Source: Acadian based on data from MSCI. MSCI data copyright MSCI 2026. All rights reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.

Today’s high value-weighted dispersion does not merely reflect the market’s high concentration into a small number of names. We’ve had high concentration for several years now, but the high dispersion is new.

One framework to understand recent dispersion is via common risk factors generating return covariation, as measured using stock-level characteristics such as country, sector, market beta, and momentum. In April and May 2026, the stocks that went up were U.S./Korean/Taiwanese technology stocks with high beta and high momentum. Thus, one view is that high realized stock dispersion is a byproduct of high realized factor volatility.

An alternative approach is to focus on individual stocks. Since market return is $\sum w_i R_i$, there are two ways that an individual stock can have a big impact on the market: either by having a big w or a big R . Much ink has been spilled on the topic of market concentration; that is, stocks with a big w . But today we see a different phenomenon: the market is being impacted by stocks with a huge R but only a modestly big w .

Table 2 shows the top five contributors to market return in May 2026. As you’d expect, the three largest stocks (Nvidia, Apple, and Microsoft) are on the list.^[2] But also on the list are Micron and SK Hynix, both with beginning-of-month weights less than 1% but giant returns during the month. Of the total return of 5.2% for ACWI in May 2026, 0.9% came from Micron and SK Hynix; they generated 17% of the market’s return while having only 1.1% of market weight.

Table 2: Largest stock-level contributions to ACWI returns—May 2026

Rank	Name	w	R	wR
1	Apple	4.0%	+15.1%	0.6%
2	Micron Technology	0.6%	+87.8%	0.5%
3	SK Hynix	0.5%	+78.6%	0.4%
4	Microsoft	2.9%	+10.7%	0.3%
5	Nvidia	4.9%	+5.8%	0.3%

Sources: Acadian Asset Management LLC, MSCI. MSCI data copyright MSCI 2026.

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May 2026 was very unusual. Table 3 shows the five largest individual stock contributions to index returns ($/wR/$) over all history for stocks with weights less than 1%. Of the more than 800,000 stock-month observations, Micron and SK Hynix in May 2026 rank first and fourth.

Table 3: Largest stock-level contributions to ACWI returns—all months since 1995, stocks with weights $\leq 1\%$

Based on absolute value of the contributions (i.e., stocks with either positive or negative returns)

Rank	Period	Name	w	R	wR
1	May 2026	Micron Technology	0.6%	+87.8%	+0.5%
2	October 2021	Tesla	1.0%	+43.7%	+0.4%
3	December 2024	Broadcom	0.9%	+43.4%	+0.4%
4	May 2026	SK Hynix	0.5%	+78.6%	+0.4%
5	February 2001	EMC Corp	0.8%	-46.4%	-0.4%

Sources: Acadian Asset Management LLC, MSCI. MSCI data copyright MSCI 2026. All rights reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only. Table shows top five stocks in history ranked on $|wR|$ if $w \leq 1$.

What are the implications? First, let’s talk about bubbles. Back in March 2024, [I said](#) there was “no bubble yet” because dispersion was low:

Shiller (2005) describes the “gambler’s excitement” of bubbles, and you can’t have excitement unless prices are going up and down ... Another aspect of bubble-related volatility is price dispersion, that is, some assets go up more than others. What happened in the U.S. in 2000 and 2021 was not that all assets went up, it was rather that some specific types of assets went up a lot, so that the return gap between winners and losers widened.

Well, dispersion isn’t low anymore. While dispersion is only a minor bubble symptom (I don’t include it in my [Four Horseman of the Bubble Apocalypse](#)), anytime you see the latest data looking a lot like 1999/2000, you’ve got to be concerned.

Next, consider the implications for active managers. On the one hand, you’d think dispersion would create opportunities to outperform. On the other hand, risk has gone up; if you’re a long-only manager benchmarked to ACWI and you didn’t hold Micron and SK Hynix in May 2026, you just underperformed your benchmark by 0.9%.

One possible implication of high dispersion is a change in asset manager behavior. According to Petajisto (2013):^[3]

When dispersion increases, some managers reduce their active positions ... because those positions just became more risky and the only way to prevent tracking error from increasing is to scale back active positions, but that action, in turn, pushes prices further away from fundamentals.

The concern is that we have a squeeze-like dynamic where chip stocks go up, which causes active managers who are underweight to buy them, which causes them to rise further.

It’s an open question whether recent dispersion reflects prices deviating from or converging to fundamentals. Dispersion was very high in December 1999 when many technology stocks soared. In hindsight, this dispersion was a deviation from fundamental value, and it eventually reversed when the bubble deflated. However, there’s no law of finance that says high dispersion produces reversals. An extreme case of one-day dispersion occurred on the announcement of a COVID vaccine on November 9, 2020 (‘vaccine Monday’); Netflix and other ‘stay-at-home’ stocks went down, Walt Disney and other

reopening stocks went up. In the subsequent months, these moves were not reversed but instead continued. If the current dispersion comes from 1999-style speculation, we'd expect reversals; if it comes from 2020-style fundamental shocks, we'd expect continuations.

How long will the current market environment last? The high dispersion of December 1999 was followed by subsequent months of high dispersion as the market peaked in 2000 and then fell through 2001. So far in June 2026, we've continued to experience high daily return dispersion. The CBOE S&P 500 Dispersion Index, which is based on forward-looking options prices, is currently near all-time highs, indicating that value-weighted dispersion is expected to be elevated over the next month.

One thing's for sure: high return dispersion tends to amplify performance dispersion across many dimensions including across different asset managers, across different strategies run by the same manager, and across different accounts run by the same manager using the same strategy. Whether today's dispersion proves to be a bubble symptom, a rational repricing of AI fundamentals, or some unstable mixture of both, it's a challenge that every market participant must confront.

Endnotes

[1] *Value-weighted* return dispersion in month t is: $\sqrt{\sum_{i=1}^N w_{i,t-1} (R_{i,t} - R_{Market,t})^2}$ where w is the stock's cap weight at the end of the prior month. Cross-sectional dispersion of stocks in the index is not the same as time-series volatility of index returns. While dispersion and market-wide volatility are positively correlated over time as an empirical matter, it is logically possible to have high dispersion even when the whole market is flat.

[2] References to this and other companies should not be interpreted as recommendations to buy or sell specific securities. Acadian and/or the author of this post may hold positions in one or more securities associated with these companies.

[3] Petajisto, Antti. "[Active share and mutual fund performance](#)." *Financial Analysts Journal* 69, no. 4 (2013): 73-93.

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Inequality destabilises economies

Michael Collins

Australia's billionaires increased their wealth by \$25.7 billion over the past year such that the 20 richest Australians now boast more wealth than the poorest three million households, says Oxfam Australia.

AFR Rich List 2026			
		YoY change	Wealth (A\$bn)
1	Gina Rinehart	2%	\$39.01
2	Harry Triguboff	9%	\$32.28
3	Anthony Pratt & family	-3%	\$25.19
4	Ivan Glasenberg	68%	\$22.38
5	Clive Palmer	-3%	\$19.55
6	Melanie Perkins & Cliff Obrecht	24%	\$17.56
7	Nicola Forrest	35%	\$17.32
8	Andrew Forrest	26%	\$15.93
9	Michael Dorrell	0%	\$13.82
10	Mario, Marcello & Adrian Verrocchi	30%	\$12.76
11	Jack, Sam & Damien Gance	10%	\$12.34
12	Kerry Stokes	-3%	\$12.33
13	Scott Farquhar & Kim Jackson	-45%	\$11.70
14	Frank Lowy	1%	\$10.43
15	Vivek Chaand Sehgal	20%	\$9.64
16	Angela Bennett	7%	\$9.02
17	Richard White	-16%	\$8.87
18	Cameron Adams	26%	\$8.77
19	Alexandra Burt & Leonie Baldock	9%	\$7.86
20	John Gandel	7%	\$7.68
			\$314.44

Source: [The Australian Financial Review](#)

In the US, Federal Reserve data shows the richest 1% of Americans owned a record 31.9% of US wealth at the end of 2025. Plutocrats, the richest 0.00001%, possessed an all-time high 12%, while the poorest 50% owned just 2.5%. The trillion-dollar floats tied to artificial intelligence will send more wealth towards the rich amid talk AI will create an underclass of displaced workers.

Still in the US, labour's share of economic output this year has plunged to 51%, the lowest since records began in 1947, while the profit share sits near a record high of 12.1%. That's because real wages have only grown 3% since 2019, while profits have soared 50%.

These statistics are just some of many that hark to the widening gap between the haves and have-nots in most developed and developing countries due to how free-market economic reforms in recent decades created a winner-take-more society.

The rich and skilled thrived as governments took decisions that allowed capital to dominate labour just as new technology and the globalisation it enabled eroded the bargaining power of the semi-skilled and unskilled. The highest marginal income-tax rates were slashed while taxes aimed at the rich such as those on capital gains and inheritances were reduced or abolished. Fighting inflation took priority over

reducing unemployment. A push to maximise shareholder value reigned, while organised labour was defanged through regulation and outsourcing. Government assets were sold, often cheaply, and turned into private monopolies. Low, even negative, interest rates and central-bank purchases boosted asset prices, especially stocks and housing. The other side of the surge in asset prices is that to keep up much of the public became indebted, especially to educate and house themselves.

This all took place, of course, as living standards rose. So what's the problem? It's this. Inequality comes with political and economic risks that threaten future wealth creation.

One political risk stems from the associated feeling that everyone is out for themselves. This impression undermines the social cohesion that lubricates economies and societies. As people become more selfish and insecure, corruption flourishes, crime jumps, anti-social behaviours increase, labour unrest stirs and legal disputes tied to commerce rise.

A second political risk tied to inequality is that resentment against economic injustice nurtures an environment ripe for demagogues promoting populist politics that are economically damaging – note how surveys show the young in advanced countries are leaning socialist. Democracies across the Western world including Australia are prone to a political backlash that undermines economic efficiency whether the populists be left- or right-wing.

A third political risk is the concentration of economic power can undermine democracy because it gives the mega rich too much political power. As the wealthy – or the 'Epstein class' as the unaccountable elite are now known in the US – use their financial muscle to expand their economic interests (via, for instance, subsidies or anti-competitive protections around their assets), the core political institutions of society erode. Rule of law and connected property rights, liberties such as free speech, open debate and fair elections are among protections vulnerable if society tilts towards 'wealthocracy'.

The extreme case with these political risks is that people eventually react when they feel they no longer live in a fair society or one where they or their children have opportunities. Inequality combined with economic hardship can thus lead to labour unrest and upheavals that topple governments and change political systems. Rarely does such turmoil lead to prosperity.

A fourth problem linked to inequality is that unequal societies prove to be faulty and inefficient economies. When too much income and wealth streams to the top, the middle and lower classes are incapable of marshalling the purchasing power needed to fan sustainable economic growth. The lack of aggregate demand tied to the perennial inequality of Latin America has retarded these countries economically as well as politically. Federal Reserve officials have lately warned the loss of demand due to widening inequality increases the risk of a US downturn.

Rising inequality can thus force indebted governments to run larger fiscal deficits to keep the economy running, perhaps to the point (like now) where public debt poses a menace for financial stability.

Another way inequality undermines economic growth is that people don't work as hard if they feel they are not rewarded properly. Another is that inequality directs economic activity towards acquiring government-sanctioned monopolies rather than innovation.

Politicians often talk about tackling inequality. Solutions proffered involve higher taxes on the rich and capital gains and the closing of tax loopholes that favour the wealthy. Governments promise to spend more on education, health, welfare payments and public works, especially in poorer areas. But that

costs money indebted governments don't have. Another category of remedies is to raise minimum wages, tilt employment laws towards labour and tighten anti-competitive regulations. But the first two reduce competitiveness and fan inflation while the third is often window-dressing.

While the end of easy money could cool asset markets and decrease inequality, the indebted will struggle under higher interest rates and any rise in joblessness would devastate these households. Less regulation might allow smaller businesses to rise and challenge Big Business. But vested interests are skilled at pressuring governments to impede capitalism's inherent creative destruction.

The challenge for policymakers is to overcome how no easy solutions loom to tackle the economic and political damage wrought by inequality. But something needs to be done.

It should be noted that some argue that inequality measures would be less alarming if factors such as homeownership, taxes, transfers, pension entitlements and the way people move through income brackets across their lives are taken into account. Perhaps. It's true that the masses are better off these days on GDP-per-capita measures. But people because don't feel better off because they aren't relatively better off.

Sometimes it seems like the only way inequality will be diffused as a political rallying cry is a crisis that destroys wealth, similar to how wars and depressions reduced inequality in for most of the 20th century.

A more optimistic view, however, would be that well-designed policies that promote shared prosperity would help economies and liberal democracies thrive too.

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Have AI's four horsemen arrived?

Roger Montgomery

The four horsemen of the Apocalypse are Conquest, War, Famine, and Death. Artificial intelligence (AI) has 'Conquered'; in the Middle East, 'War' is underway and could take years to resolve, and changes afoot in enterprise-level AI spending would be akin to 'Famine' for AI hyperscalers that have spent trillions on scaling out the technology. All that awaits is the 'Death' of the AI bubble.

Consider these four observations:

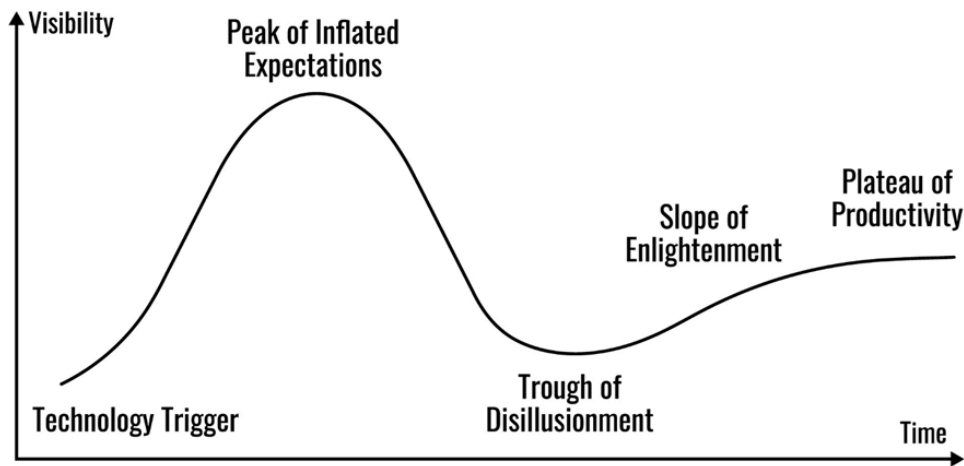
- 23 May 2026, Rapid Response Podcast: Uber COO, Andrew Macdonald, says spending Uber's entire AI budget in the first four months of the year, primarily on Claude Code, has not produced "more useful consumer features". In other words, drawing a link between spend and revenue "is not there yet." Meanwhile, Uber CEO, Dara Khosrowshahi said AI "Token Maxxing" has no connection to delivering genuinely valuable products.
- 29 May 2026, Axios reports that an AI consultant revealed that a client company had forgotten to set a usage cap on employee licenses for Claude, resulting in a US\$500 million expenditure in just one

month. As AI costs surge, businesses are feeling financial pressure, and senior execs are publicly questioning the yield from AI spend.

- Ask a Large Language Model (LLM) to answer a question, and about 100 tokens are used for every 75 words produced. But ask an AI agent to create a worker to follow a competitor’s announcements, to track property opportunities or to alert a fund manager to a new investment theme, and, according to analysis from U.S.-based SemiAnalysis, almost 100,000 tokens will be used even before an answer is generated.
- As quickly as AI has emerged, customer AI experimentation (which has triggered massive revenue increases for the likes of Anthropic, largely from token-maxxing leaderboards at Meta and Amazon) is now giving way to budgeted and considered token usage. The dreamers and builders are moving out, and the accountants are moving in. Enterprises that earlier embraced AI at all costs are publicly adopting a return on investment (ROI) lens.

Worryingly, this shift is occurring just as stock markets have turned hyper-exponential, and Private Equity valuations also reflect maximum hype.

Figure 1. General purpose technology (GPT) booms and busts, Gartner’s hype cycle



Source: Gartner

According to reports, NVIDIA CEO Jensen Huang, speaking at a recent employee meeting, discussed staff concerns about ‘running AI intensively every day, merely wasting tokens on superficial efforts without boosting productivity.’ His response is perhaps telling; He noted that when people encounter any new technology or tool, the initial period of experimentation or “unfamiliarity” produces “imperfect usage”, adding, what matters is taking the first step to embrace new technologies – “It’s fine to waste a little money, but never waste time.”

Huang’s words reflect the certainty of AI’s adoption, which I don’t contest. But will enough revenue from AI customers be generated to provide a reasonable return on the investment made by hyperscalers and data centre developers?

It would be unusual if this time is different

It might be worth remembering the words of journo Derek Thompson, who wrote in his November 4 newsletter, *AI Could Be the Railroad of the 21st Century. Brace Yourself*, “Memories are short, and

prudence and natural risk aversion are no match for the dream of getting rich on the back of a revolutionary technology that “everyone knows” will change the world.

The global railway mania of the 1800s bankrupted thousands of investors, wiped out hundreds of companies, but left nations with a rail network that powered a century of industrial dominance. Similarly, when the fibre-optics/internet/broadband boom of 1999 crashed in early 2000, it vaporised \$US5 trillion in market value, but it also laid the wiring on which the Internet Age was built. Similar stories can be told about the electricity bubble, aviation, broadcast radio and automobiles.

Indeed, about three-quarters of General-Purpose-Technology (GPT) booms share a similar pattern of colossal over-investment, financial carnage through creative destruction, then lower prices and decades of productivity gains assembled on the residual infrastructure.

At the core of today’s AI boom is a GPT on the scale of electricity or the internet, and the infrastructure being built will support decades of economic activity. And unlike the Dot.Com bubble, the investment isn’t billions in speculative debt being loaned to ‘pre-revenue’ companies with no path to profitability. This time, the investment is coming (so far) mostly from companies with strong balance sheets. But beyond that core, the classic signs of every bubble are on display.

It would be unusual, given the great enthusiasm or hype, the high asset prices, the overbuilding, the uncertainty of future demand, indeed, the many elements that conform to past bubbles, if this boom doesn’t also conform to the pattern illustrated in Figure 1. It would indeed be a first.

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Budget tax changes only scratch the surface. Here are 4 reforms Australia needs next

Jason Nassios, Beth Webster

Is Australia finally getting serious about tax reform, or just testing the waters?

The 2026 federal budget makes some long-debated changes to capital gains tax, family trusts and negative gearing. This has sparked fresh debate about whether the tax system is pulling its weight, especially when it comes to housing.

The reality is these changes are small. Taken together, they are expected to improve the budget position by just [0.2% of GDP by 2031](#), with most of that coming from new minimum taxes on trusts.

If these reforms are only scratching the surface, what would real tax reform look like?

There are four structural changes we should implement now to put our tax system on a stable and sustainable footing.

First, replace stamp duty

Stamp duties on property transactions cost anywhere from to A\$35,000 to almost [\\$60,000 on a \\$1 million property](#) depending on the state, with concessions available for first-home buyers.

This system taxes Australians when they need flexibility most. Whether workers are moving to be closer to their new workplace, or finding a home that fits a growing (or shrinking) family, stamp duties add a large, upfront tax bill to relocate. Annual land taxes avoid this problem, raising revenue [without discouraging moves](#).

State governments are reluctant to make this change because they would suffer a short-term loss of revenue. Transitions should therefore be phased in [over a long time horizon](#). The federal government could help speed this up through time-limited funding support or incentives.

Second, tax windfall profits

Australia under-taxes windfall and monopoly profits. These are profits that exceed what is needed to encourage investment.

Nowhere is this clearer than in the taxation of natural resources. The [Petroleum Resource Rent Tax](#) (PRRT), intended to capture a fair share of profits from Australia's gas exports, generated on average [\\$1.6 billion in annual tax revenue](#) over three years around the start of the Ukraine War oil supply shock – far less revenue than expected as global prices surged in 2021-22.

Corporate tax comes with drawbacks; it does not distinguish between normal and excess returns and so it discourages investment. However, it is one of the few channels through which windfall gains are taxed in Australia.

The policy challenge is not simply to cut or raise corporate tax, but to replace its most negative features while preserving – and strengthening – its role in taxing super profits.

Third, we must tax 'bads'

Taxes can play an important role in pricing activities we wish to discourage, such as carbon emissions.

Australia's current approach relies heavily on regulatory mechanisms such as the [Safeguard Mechanism](#), which requires facilities to reduce their carbon emissions. It achieves limited reductions, and often at a higher cost than necessary.

A well-designed, broad-based carbon price would provide a clearer signal to [cut emissions](#) across the economy. It would also raise revenue that could be used to offset costs for households, support affected industries or fund broader tax reform.

If Australia is serious about emissions reduction and productivity growth, more direct pricing of ["economic bads"](#) should be part of the solution.

Fourth, reform tax on business investment

Past proposals to reduce company tax in Australia suffered because they deliver windfall gains to foreign multinationals and dampen [above-normal profit taxation](#). This reduces revenue, making changes politically difficult.

Relative to a company tax, a [cash flow approach to business taxation](#) increases the incentive to invest while continuing to tax above-normal profits.

A [cash flow tax](#) is levied on revenues. A cash flow tax treats investment costs as an immediate tax deduction, rather than gradually depreciating the investment. A switch of this kind would be revenue neutral.

A switch in the way we tax profits would bring other benefits.

For many years, unclear intellectual property rules have made it easier for companies to shift profits to other, low-taxing places. The rise of digital services from Facebook, Google, Booking.com, Airbnb, Uber, Didi and other digital behemoths has ramped this up a gear.

It is estimated that the five largest tech giants recorded A\$15 billion in revenue in Australia last year, but combined they paid only \$254 million in tax at an [effective rate of 1.7%](#).

These companies are platforms that act as intermediaries between producers and buyers. The nature of our location-based corporate income tax system means some companies can shift their profits to minimise their tax bill. Cash-flow taxes present a practical path forward, by taxing consumption where it occurs rather than where the mobile profits end up.

Land, natural resources and economic super profits cannot relocate or disappear in response to taxation in the same way that labour, investment and transactions can. A system that relies more heavily on land, rent, and resources would be both more efficient and more robust.

Pressure for change

Australia has undertaken [major tax reforms](#) in the past, often in response to moments of economic pressure.

That pressure is building again. An ageing population, increasing demand for public services, and a more competitive global environment all point to the need for a tax system that supports, rather than hinders, growth.

Beyond the four measures we expand on here, an efficient means of [taxing roads and transport](#) as we transition to an electric vehicle fleet should also be high on the agenda of national cabinet.

The Conversation

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Negative gearing: quarantined, not killed

Trevor Schmid

Negative gearing did not die on Budget night. It was placed in quarantine, which sounds gentler, right up until the arithmetic is done. Since 12 May, commentary has split into two camps: one declaring residential property investment dead, the other insisting nothing has changed because existing holdings are grandfathered and new builds are exempt. Both camps are wrong, for the same reason. Neither has calculated what quarantining a loss costs. This article does the sums, and the answer for a typical investor is about half the tax benefit.

A caveat first: none of this is law yet. The measures were announced in the [2026-27 Budget](#) to start on 1 July 2027, and bills change between announcement and assent. But the grandfathering line was drawn at 7:30pm on Budget night, so anyone buying today is already living under the proposed rules.

What 'quarantined' actually means

From 1 July 2027, negative gearing for residential property will be limited to new builds. Investors who buy a newly constructed dwelling can keep deducting net rental losses against salary, exactly as now. Investors who buy an established dwelling after Budget night cannot.

Here is the part the headlines skipped: those losses are not denied. [The ATO's summary](#) confirms they can still be offset against other residential property income, including capital gains, with any excess carried forward indefinitely. Interest, rates, insurance and agent fees all remain deductible. What changes is when the deduction arrives and what it lands against. The deduction is deferred, not denied: the tax equivalent of 'the cheque is in the mail', except this mail can take a decade.

The change applies to individuals, companies and most trusts, but not superannuation funds (including SMSFs) or widely held trusts. Commercial property and geared share portfolios are untouched.

The \$17,000 haircut: a worked example

Consider an investor on the top marginal rate (47% including Medicare levy) who buys an established unit for \$750,000 with a \$600,000 interest-only loan at 6%. Rent starts at \$30,000, a 4% gross yield, growing at 3.5% a year. Cash expenses of \$7,000 grow at 3%. The hold is 10 years.

Year one produces a \$13,000 net rental loss. Under the old rules, that returns \$6,110 in tax immediately. Under the new rules, it returns nothing. Yet.

Year	Net rental loss	Old regime tax benefit	Quarantined losses (cumulative)
1	\$13,000	\$6,110	\$13,000
3	\$11,290	\$5,306	\$36,450
5	\$9,453	\$4,443	\$56,290
7	\$7,481	\$3,516	\$72,255
10	\$4,246	\$1,996	\$88,305

Source: author's calculations.

Notice what the 'nothing has changed' camp misses. On an ordinary interest-only structure at current rates, this property never turns cash-positive within the decade. All \$88,305 of losses ride along to the

sale, where they offset the capital gain. Under the new CGT settings, that gain is taxed at a minimum 30% of the indexed amount, so the loss bank returns roughly \$26,500. Once. In year 10.

Discounting both streams at 6%, the old regime's annual refunds are worth about \$32,100 today, while the new regime's single deferred offset is worth about \$14,800. The cost of quarantining is roughly \$17,400, or 54% of the tax benefit, even though no deduction was ever formally denied. The ATO is not confiscating deductions; it is running a cloakroom with no fixed closing time.

The damage has two sources. One is time value: a refund in year 10 is worth far less than refunds along the way, and the investor funds the shortfall from after-tax salary in the meantime. The other is rate compression: losses that once deducted against salary at 47% now land against a gain taxed at 30%, so each dollar of loss buys 17 cents less relief purely because of where it lands. Under the old regime, maximum leverage maximised the tax benefit. Under the new one, heavy leverage on a low-yield established dwelling maximises the deferral penalty.

The carve-outs do the steering

This is less a revenue measure than a traffic system, and every exemption points capital somewhere. New builds keep full gearing, and their buyers can even choose at sale between the old 50% discount and the new indexation, a rare case of the tax system offering a genuine choice that does not require a private ruling. Commercial property and shares keep immediate deductibility, improving their relative appeal. And SMSFs sit outside the quarantine entirely, which mechanically improves residential property's standing inside super. Steering geared property into super was presumably not the plan, but tax incentives are like water: they find the cracks.

Lessons from 1985 (and Wellington)

Australia quarantined negative gearing once before, between July 1985 and September 1987. Folklore blames the experiment for Sydney rent spikes; the data is murkier, with rents rising in some cities, falling in others, and interest rates in the teens muddying everything. Both sides have now been citing the same two years of data for four decades, which must be some kind of productivity record. New Zealand offers a cleaner test: it ring-fenced rental losses in 2019 and the ring-fence survives today, through a change of government. Property investment across the Tasman did not end; it repriced. [Grattan Institute](#) modelling suggests prices 1% to 2% lower than they would otherwise be, while industry modelling warns of materially fewer housing starts. Hold all of these numbers loosely.

What investors should do now

Existing holders are grandfathered, and their main risk is legislative drift while the bill passes. Selling and rebuying now carries a hidden cost, because the replacement asset enters the new regime. Prospective buyers face a sharper fork: a new build keeps immediate deductibility, while an established dwelling carries the quarantine cost above, which belongs in the offer price. SMSF trustees should re-run their comparisons rather than rush, since a tax wedge is a poor sole basis for an asset allocation. And anyone with a negatively geared plan needs fresh cash flow modelling, because the refund that used to co-fund the shortfall now arrives at the end, not along the way.

Quarantining changes the timing and destination of tax benefits. In leveraged investing, timing and destination are most of the game. The example investor loses no deduction on paper and roughly half

its value in practice. It is a repricing of property investment, and the best-placed investors will be the ones who did the present-value arithmetic before the market did.

[Trevor Schmid](#) has more than 20 years' experience across superannuation, financial advice and member education. This article is general information only and does not consider any individual's objectives, financial situation or needs.

Family offices have quietly taken over Australian private capital

Hayden Green

Between 2020 and 2024, Australian family offices grew from 10% of all domestic private capital investors to 40%. Superannuation funds (the giants long assumed to dominate Australian private markets) fell from 48% to 13% over the same period. The figures come from the Australian Investment Council's Private Capital Yearbook, and they describe the most significant reordering of Australian private capital structure in modern history.

The reordering matters because it changes who is funding Australian private equity, private credit, and venture capital, and on what terms. It also reshapes the platforms, deal structures, and capital pathways available to wholesale investors more broadly.

Why super funds are stepping back

The conventional story is that super funds are growing too large to invest efficiently in private markets. There is truth in this. Industry funds like AustralianSuper, with over A\$390 billion in assets, simply cannot deploy meaningful capital into mid-sized private deals without creating concentration issues. A \$50 million commitment to a venture fund is a rounding error for them but a transformational raise for the fund manager.

A second factor matters more. Super funds face structural constraints around liquidity, member services, daily unit pricing, and APRA reporting that limit how aggressively they can allocate to illiquid positions. The Your Future, Your Super performance test, introduced in 2021, has also made super funds more cautious about any allocation that risks underperforming the benchmark in any single year. Private markets, with their multi-year vintage cycles and J-curve dynamics, are difficult to defend against single-year performance comparisons.

Family offices face none of these constraints. They operate without redemption obligations, without APRA frameworks, and with time horizons measured in generations. Where super funds have been forced to retreat, family offices have stepped in.

What family offices are actually buying

The UBS Global Family Office Report 2025, surveying 317 single family offices managing US\$1.1 billion each on average, recorded private equity allocations at 21% of total assets in 2024. Private debt allocations doubled from 2% in 2023 to 4% in 2024. The Australian-specific picture broadly tracks the

global pattern, with single family offices typically allocating 10-25% of portfolios to private equity and venture capital combined.

Within those allocations, the Australian-specific pattern shows three distinctive features.

Direct deals and co-investments now dominate sourcing behaviour. Roughly 43% of family offices globally perform deal sourcing entirely in-house, and Australian family offices have been particularly active in forming informal club structures with domestic and international peers. The motivation is practical: shared diligence costs, reduced fee leakage, and access to deal flow no single family office would see independently.

International orientation is the second feature. US family offices keep 86% of their portfolios in North American assets, a luxury Australian family offices cannot replicate. The ASX does not host the companies driving global secular growth themes (AI, defence technology, space, biotech). To access those themes, Australian capital must travel offshore, increasingly into private markets where the relevant companies still sit.

Private credit allocation rounds out the pattern. ASIC's Report 820 estimates the Australian private credit market at A\$200 billion, having grown 500% over the past decade. Family offices have been among the largest beneficiaries of the bank retreat from middle-market lending, often allocating directly rather than through pooled funds. The growth has not been without quality issues, and ASIC's surveillance work has identified meaningful variance in disclosure and valuation practices across the sector.

The original observation

The conventional reading of this shift is that family offices are filling a gap left by super funds. The more interesting reading is that family offices are now setting the terms.

Australian family offices have collectively shifted private capital toward direct deals, co-investments, and selective fund commitments. This has had two cascading effects on the broader market.

Fund managers have had to adapt. Pooled vehicles with 2-and-20 fee structures are facing real fee pressure for the first time in two decades. Managers who once dictated terms to LPs now find themselves negotiating co-investment rights, fee reductions, and bespoke allocation arrangements to retain family office capital. The Australian Investment Council has noted that co-investment activity has accelerated meaningfully since 2022.

A new class of intermediaries has also emerged to serve direct investing demand. These include curated private market platforms providing SPV access to specific pre-IPO companies, secondary marketplaces, and multi-family club structures. NonPublic, the platform I run, sits within this category alongside international peers like Forge and Hiive. The common thread is that they exist because demand for direct exposure to specific names has grown faster than existing fund infrastructure can serve.

Pricing, structure, and access in Australian private markets are now being shaped by family office preferences rather than super fund mandates. That changes the texture of the market significantly.

Implications for individual wholesale investors

For Australian wholesale investors operating below family office scale, several practical points follow from this shift.

The 20-25% allocation discipline is a useful starting reference. Even with significantly higher net worth and longer time horizons, family offices treat private markets as meaningful but minority, not a core holding. Copying that sizing ratio is generally sensible.

Structure matters as much as sizing. Family offices have moved toward direct and co-investment exposure precisely because it reduces fee drag and improves control. Individual wholesale investors can access similar advantages through SPV-based platforms without needing the capital scale that pure direct investing demands. Patience is also more important than most individual investors recognise. Liquidity in private markets is structural, and capital committed today may not return for five to ten years. The investors who succeed in this asset class build positions methodically over multiple years rather than chasing tactical opportunities.

Platform selection has become unusually consequential. Family offices have been highly selective about which intermediaries they work with, prioritising regulatory standing, fee transparency, and diligence quality. ASIC's increasing focus on private markets through Reports 820 and 823 suggests the regulatory bar will continue rising. Platforms operating to higher standards today will likely look better positioned in two years than those waiting for compliance pressure to force change.

What changes from here

Three forces will continue reshaping Australian private capital through 2026. The intergenerational wealth transfer (estimated at A\$3.5 trillion over the next 20 years) will accelerate family office formation and bring younger principals into decision-making roles. ASIC's regulatory focus on private markets will tighten standards across the sector. And the pipeline of high-quality opportunities (with SpaceX, OpenAI, and Anthropic all heading toward potential IPOs in 2026-2027) will continue to provide attractive deployment for capital that has shifted from super to family office channels.

Australian private capital has effectively been re-architected over the past five years. The implications for fund managers, platforms, and individual investors are still working through the system.

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