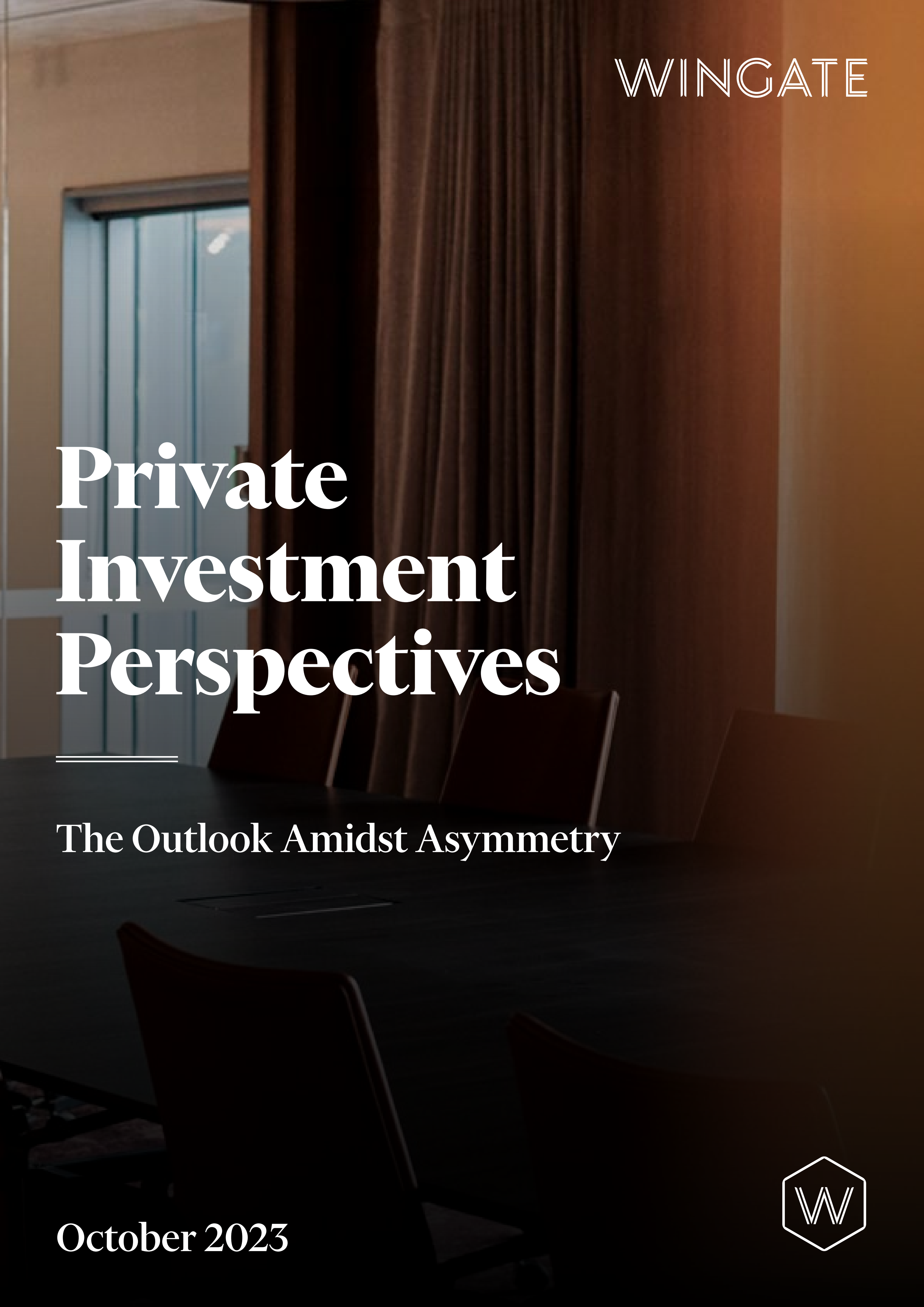

WINGATE

Private Investment Perspectives

The Outlook Amidst Asymmetry

October 2023

In October 2023,

A panel of Australian investment leaders from across varied asset classes to discuss the current landscape and what this means for today's private investors.

Panellists

Farrel Meltzer,
Founder and Executive Chairman, Wingate (Moderator)

Raphael Lamm,
Joint Managing Director & Chief Investment Officer, L1 Capital

Steve Gledden,
Managing Partner, Straight Bat Private Equity

James Stewart,
Portfolio Manager, Global Resources, Ausbil

Andrew Foster,
Portfolio Manager, Private Debt, Wingate

Dan Farley,
Head of Property Equity, Wingate

Stephen Dickinson,
Head of Alternative Investments, Escala

The Investment Landscape:

Geopolitical Forces Shaping Asymmetry

It is known as the inverted yield curve, a peculiar phenomenon in global bond markets where investors can earn higher yields on shorter-term debt instruments rather than locking money up for longer periods to generate higher interest income.

In his opening commentary, Panel moderator and Wingate Founder Farrel Meltzer used a different word to describe the upending of the normal state of the bond market: Asymmetry.

"Over the past three years the number one risk free asset in the world, 20-year US Treasury bonds, has dropped in value by 50 per cent. That is because of the dramatic rise in long-dated 10-year rates. The impact of that really hasn't flowed through the system yet," he said.

"At the same time equities, for the most part, are up. Not dramatically up, but they are up.

We have this asymmetry going on in global investment markets and I don't think we have seen that fully play out yet."

Yield curve inversion is considered by some as a warning signal for the U.S economy of an imminent recession. It has preceded recessions in the past.

This time around, most economists believe the US economy is set for a soft landing.

"If it is a soft landing it is in the price. Because the markets, I think, are priced for a soft landing," Meltzer said.

"So if we are wrong, and it is a hard landing, it is not in the price. If it is not in the price, we need to buckle up. That is a vital factor that needs to be in our thinking. We really can't judge all these dynamics and movements. The key is having a diversified investment portfolio."

Reflecting on the current global geopolitical unrest, Meltzer proffered a second adjective to describe the current state of the world: Dangerous.

"I don't think there has been a time in our lifetimes when the global geopolitical situation has been this unstable," he said, pointing to the current wars in Ukraine and Israel, the tensions between China, Taiwan and US, and the actions of perhaps the most unpredictable actor in the Middle East, Iran.

"The world is a pretty unsettled and unpredictable place."

With the upcoming US election threatening to be a re-run of the 2020 battle between Joe Biden and Donald Trump, Meltzer left the audience with a telling warning to ponder: "If the leaders of the free world are behaving like they are in a circus, that is not good for the world."

"The key is having a diversified investment portfolio."

FARREL MELTZER
Founder and Executive Chairman
Wingate (Moderator)

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A View from the Field

Expert Outlook Across Asset Classes

Commodities - Navigating Uncertainty in Supply and Demand

They were the halcyon years more than a decade ago, when the Chinese economy went through an extraordinary growth phase and there was an undersupply of commodities globally to feed its engine.

“Now we have a much more balanced market, with supply and demand reasonably well balanced for the short term,” said Ausbil Resources Portfolio Manager James Stewart.

Yet he is more optimistic about the outlook for Chinese economy than many.

“What we see in China at the moment, from our perspective, is a government that is definitely supporting the economy. They are telling the consumer to consume. They are gently supporting the population. But on equity markets, no one is prepared to step in because they have been burned so many times with false starts,” he said.

“But we see China stronger than markets are suggesting at the moment. There is still a lot to play out, especially in property. But right here, right now, we see China as stronger.”

While Stewart noted most global investors remained underweight in resource stocks, when asked to nominate his preferred commodities he singled out lithium and graphite due to booming demand for electric vehicles.

Seven of the 10 best-selling cars in China now come with a plug.

Tesla's Model 3, which previously retailed at twice the price of premium mid-sized sedans such as the BMW AG 3 Series, is now the more affordable option.

"We are focussed on electrification. The fundamental demand is there for electric vehicles. In the short term, you have supply lagging. So, we are focussed on chasing that battery thematic. It is now cheaper to drive an electric vehicle in China than an internal combustion engine. It is no longer about subsidies. It is about lithium, graphite and what goes into those vehicles," Stewart said.

He also fears there will be insufficient supplies of copper coming through global commodities markets to feed the energy transition dynamic.

Currently global miners and refiners produce around 25 million tonnes of copper.

But S&P Global has warned that by 2035 production will need to rise to 50 million tonnes to satisfy demand boosted by electrification.

Stewart fears there are not enough mines set to come on stream over the next decade to meet the lofty emission reduction targets set by governments and corporations.

"This is a market we see as incredibly tight," he said.

"Over the next 10 years we think the copper market needs to double, which we see as impossible."

L1 Capital Joint Managing Director and Chief Investment Officer Rafi Lamm said his firm was playing its exposure to the copper thematic through its investment in Capstone Copper, a Canadian copper mining company that operates primarily in the U.S., Mexico, and Chile.

The organisation is doubling production over the next two years and is undervalued relative to its peers in the space.

L1 also has exposure to gold, and its current favourite play is Australian miner Newcrest that is about to merge with American gold mining giant Newmont Mining.

"We think that's going to be the go-to name for gold globally and a great place for generalists to play in the gold space. We can see a re-rating of the stock over the medium term."

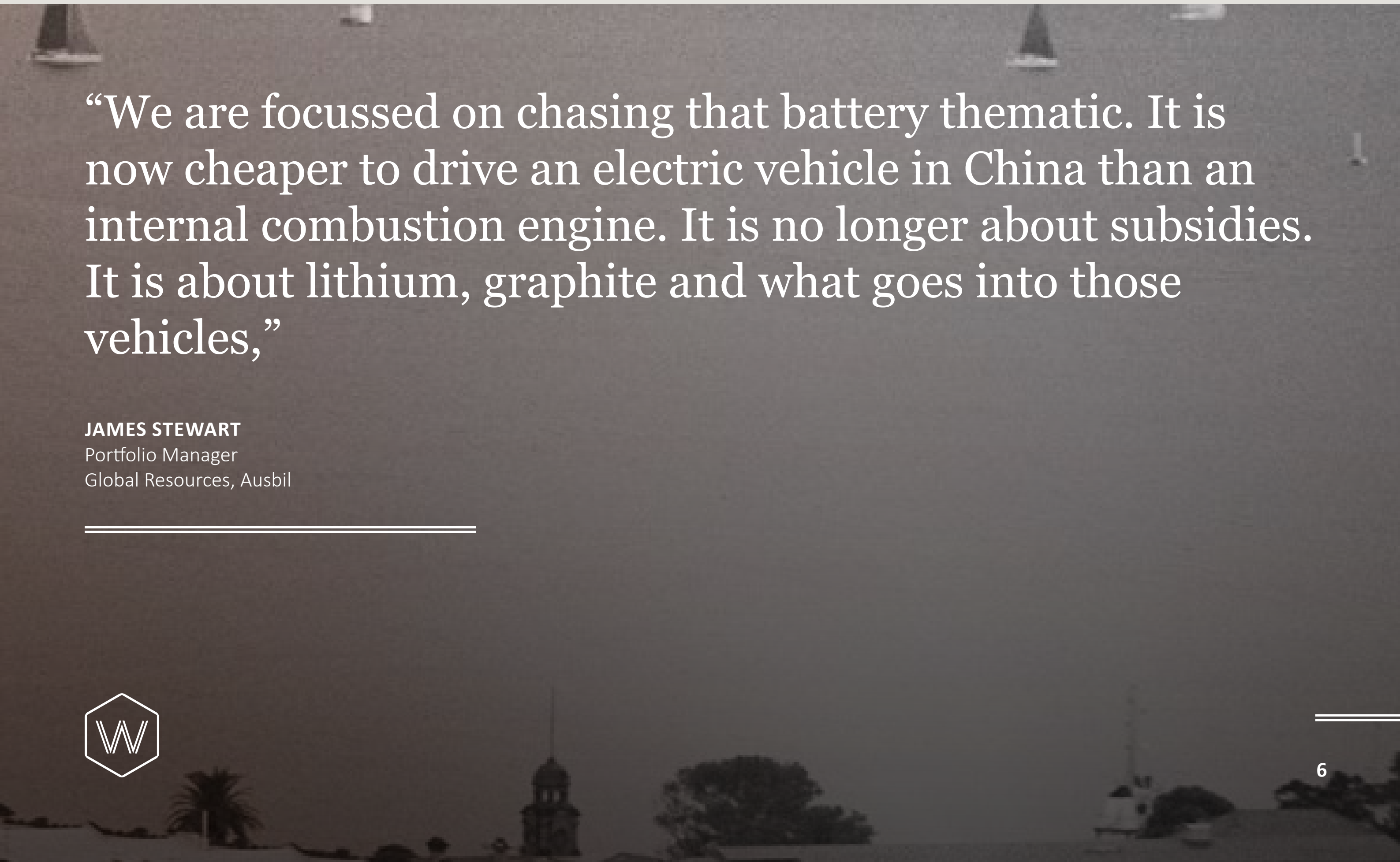
While James Stewart has shied away from investing in gold because of his concerns that "the physical gold market can be moved by one investor in Europe who decides to sell," Farrel Meltzer suggested a further important reason to consider having the precious metal as part of a diversified portfolio.

The so-called BRICS economies- a bloc comprising Brazil, Russia, India, China, and South Africa- are emerging as a powerful force in the global economy and increasing their efforts to develop mechanisms for settling bilateral trade in local currencies as an alternative to the US dollar.

Meltzer suggested gold could be a somewhat unexpected beneficiary of the US dollar's long-term decline. The precious metal offers central bankers an immediate source of diversification, which explains the sharp rise in central bank gold purchases since early 2022.

"We could be seeing the de-dollarisation of the world. China, Russia and Brazil are now trading their commodities in local currency, not in US dollars," Meltzer said.

"China has been a huge buyer of gold, as are other Central Banks, and they have been selling US Treasuries. That adds weight to the gold thesis. In a diversified portfolio, consider it."



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JAMES STEWART
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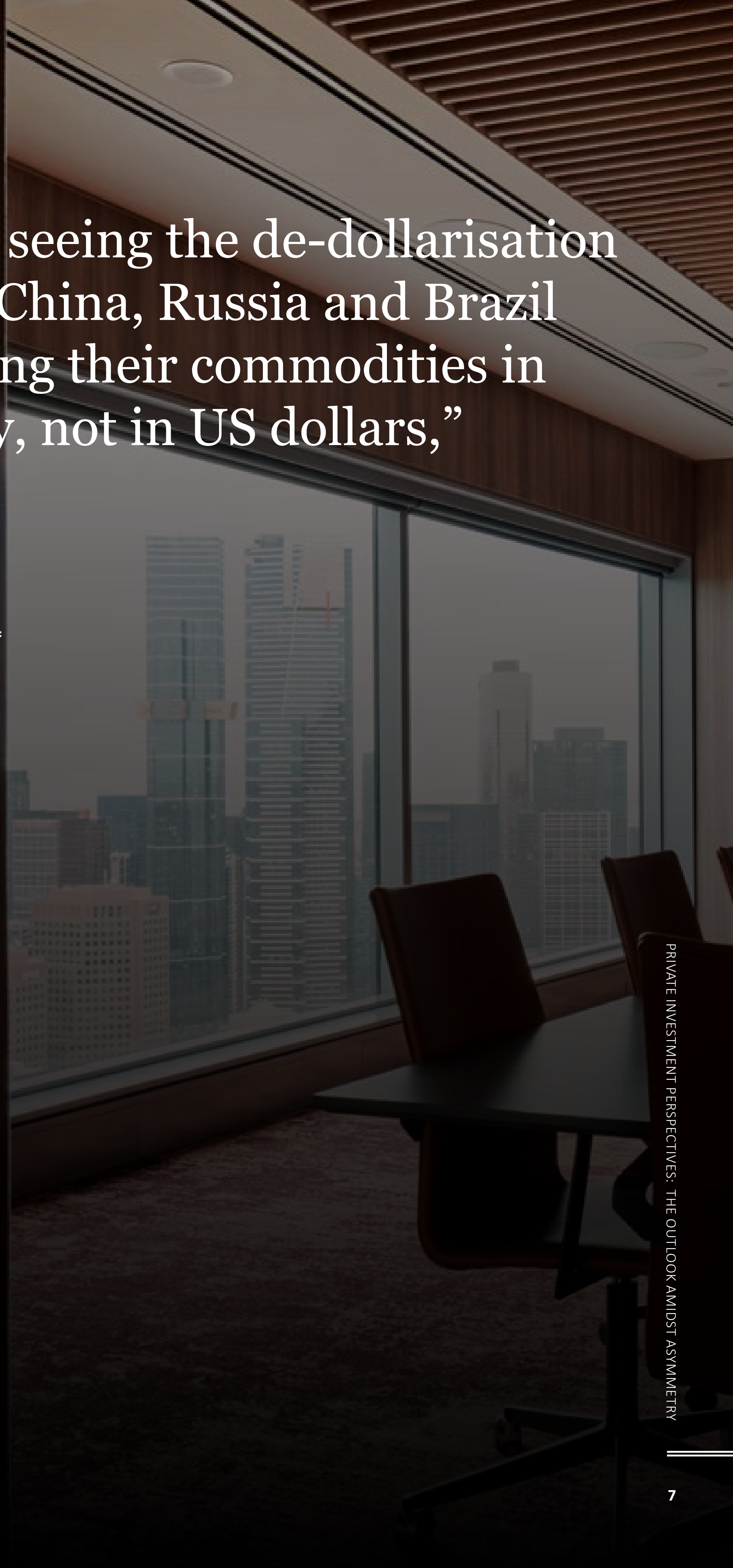

Global and Australian Equities:

An Active Management Advantage

Equities have been a great place to be over the long haul, delivering index investors a minimum return in the mid-single digits, according to Rafi Lamm, and active management could take those returns into double digit territory.

"We can worry a lot and we do, we worry constantly. But if you are diligent and really understand what is happening with companies, you can add a lot of value," he said.

As co-CIO of one of Australia's largest Hedge Funds in L1 Capital, his biggest current focus is the energy transition.

"There are two sides to that coin and we think you can make money on both sides. We can play on the short and long side," he said.

"At the moment one of our overweight positions is being long traditional energy. We think that there has been a long period of underinvestment because of uncertainty about the energy transition and that is going to result in long term tight markets."

Citi estimates global calendar 2023 demand for oil to grow 1.6 million barrels per day, with 2024 demand expected to grow to by 1.7 million barrels.

While electric vehicles may now be cost neutral in China, Lamm said consumers in places like Nigeria, Indonesia and other emerging economies where millions of people are coming out of poverty and into the middle class would still be wanting to buy ICE (Internal Combustion Engine) cars.

Air travel is also set to continue to grow at least 5 per cent every year.

"You will get 1 million barrels a day of demand growth for oil for years to come," Lamm said.

"In 20 years time we are going to be using as much or more oil than we are today, even though investors have basically given up on it."

Oil and gas multi-nationals are also under pressure to fund the energy transition and they face growing pressure from investors to pursue capital management initiatives in the form of dividends and buybacks.

"The key for these companies in America and Australia is not just making really good money but handing back money to shareholders at a rapid rate. That is what is going to lead to a re-rating of these stocks," Lamm said.

"We think conventional energy stocks look very good over the next 3-5 years. The volatility in the Middle East may settle down in the short term but we are going to still see strong free cashflow generation for the next 10-years."

More generally Lamm, said he was seeing an increase in demand for Australian equity products from offshore institutional investors, especially in the Middle East and Singapore.

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RAPHAEL LAMM
Joint Managing Director &
Chief Investment Officer, L1 Capital

Private Equity

A Partnership Approach for the Long Game

Steve Gledden has always pitched the modus operandi of the $250m private equity fund he runs as different to the traditional sector operators, famed as "Barbarians at the gate".

The Founder and Managing Partner of Straight Bat Private Equity, which takes its name from the cricketing passions of its key backer- the family office of Flight Centre co-founder Geoff Harris- says his firm focusses on "honest, decent, straight forward, reliable, consistent, long-run performance."

He sees strong opportunities ahead for Straight Bat, which invests in mature and profitable medium-sized Australian businesses with revenue between $10m-$100m, EBITDA (earnings before interest, taxation, depreciation and amortization) of between $5m-$25m and EBITDA margins greater than 20 per cent.

Its primary return to investors is in the form of dividends.

"What we are doing in private equity is different. We play the long game- we invest in mature, robust and high growth profitable businesses. We invest in businesses we want to own forever. We like private markets because they are objective. We invest in businesses that do real things, their value goes up and down based upon their actual results, not what the market says," he said.

Gledden said there was currently plenty of business owners looking for long-term partnerships, while also being able to crystallise some of their hard-earned wealth.

"We go on the journey for a long period of time. If you want to realise '20-30 bricks' (a part sale), keep control of your business and have a long-term partner, we are the firm," he said.

Straight Bat has also invested in a firm called ProviCo (Protein Vitamin Company), which manufactures functional dairy ingredients and specialised dairy nutrition products that are supplied into the domestic and international markets.

Its Dennington Milk Processing facility near Warrnambool makes advanced proteins that are exported to China in infant formula products.

Gledden said despite ongoing questions about the Chinese economy, there were good niche opportunities for protein supply with the rising middle class in China.

"I think there are specific opportunities. You've got to look through the big macro concerns about China to see those opportunities," he said.

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STEVE GLEDDEN
Managing Partner
Straight Bat Private Equity

The Advisor View:

Emerging Asset Classes in Alternatives

Escala Partner's Head of Alternative Investment Stephen Dickinson said he saw some of the best emerging opportunities in the alternative class in the royalty finance sector, a form of funding where investors provide capital to a business in exchange for a percentage of future sales revenue.

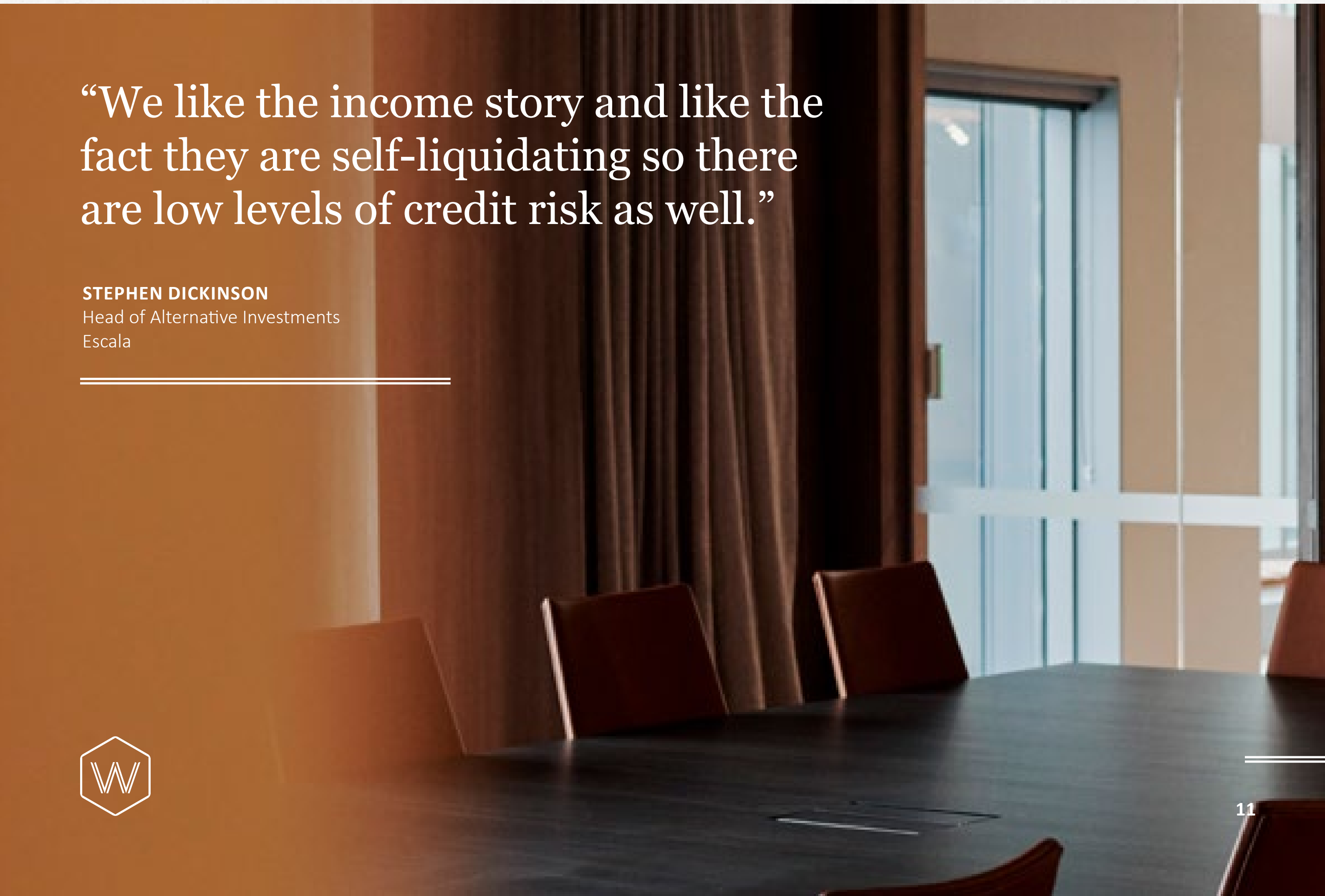
Escala has its exposure to the opportunity through a large offshore group that invests via funds, co-investments and direct investments.

"There are many interesting opportunities within the sector. We take a diversified approach. From the intellectual property space such as pharmaceutical and music companies, the energy transition space such as green metals, US natural gas, carbon offset, and to water entitlements in Australia and the US. One of the newer opportunistic sectors is in fishing rights in Australia which is providing some interesting opportunities."

What Dickinson likes about the space is its low correlation to traditional and alternate asset classes.

"We like the tax efficiencies the sector gives us, including low corporate taxes, patent boxes and zero taxes on US royalty streams where they are properly structured. Think of them as longer-dated cash flows," he said, noting pharmaceutical royalty streams were typically 7-10 years, while for music titles it could be as long as 70 years.

"We like the income story and like the fact they are self-liquidating so there are low levels of credit risk as well."



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STEPHEN DICKINSON
Head of Alternative Investments
Escala

From Outlier to First Choice:

Private Debt's Moment in the Spotlight

Over the past 20 years, the non-bank sector has gone from being a somewhat limited lending option for sophisticated property developers to often being their preferred choice.

Wingate's Lead Portfolio Manager Private Debt, Andrew Foster, said there were several reasons why the growth of the sector had accelerated further in recent years.

"In recent years, we have seen unprecedented volatility across the globe – with COVID, the Ukraine war and unprecedented rain along the Eastern Seaboard, yet the returns in this sector were incredibly stable," he said.

"And going forward, given the prospect of more geopolitical conflicts, the green energy transition and more climate related events, investors are looking for a stable, consistent home for their funds."

"At the same time, we have seen a continual retreat by the banking sector over the past decade or so, driven by regulation and the banks' increasingly having to and wanting to play in a set of rails. They have been unwilling to play outside those rails. That means the lending market for private debt has increased."

Yet recent numbers issued by the RBA indicate non-bank lenders account for only five percent of Australia's financial system, tracking far behind the US and Europe, indicating there will continue to be growth in this sector.

"In summary, private debt offers a very attractive opportunity, with stable returns in a time of uncertainty," he said.

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ANDREW FOSTER
Portfolio Manager, Private Debt
Wingate

> “For us it is really about focussing on assets that have existing cashflow at acquisition and active asset management led upside,”

DAN FARLEY
Head of Property Equity
Wingate

The Cautious Great Australian Dream:

Property Outlook

Wingate Direct Property invests in income-producing or ‘core-plus’ commercial properties primarily in the office, industrial and retail commercial sectors. Since October 2020, it has successfully acquired $250 million of property via five direct transactions across a range of asset classes.

But Wingate’s Head of Direct Property, Daniel Farley, said the firm was currently taking a cautious approach to all commercial markets.

“We are ensuring a ‘cash is king’ approach when it comes to opportunities. That is as a purchaser. But in holding existing assets it is important to prioritise good covenants and contracted cashflow. For us it is really about focussing on assets that have existing cashflow at acquisition and active asset management led upside,” he said.

Wingate remains committed to growing its platform by creating a stable and reliable track record of single asset syndicates with 4-year initial investment terms, with the potential for extensions.

The focus is on secondary office space in prime gentrifying locations that have the benefit of active management upside, most notably in the Brisbane CBD, underpinned by $16bn worth of infrastructure development for the 2032 Olympics.

“The bigger end of town is difficult. But we are seeing the smaller tenants doing all they can to get staff back into the office,” he said.

While Farley said Wingate was not yet seeing a large volume of transactions, the pricing margin between seller and buyer was getting closer.

“We think the next two quarters we will see more activity,” he said.

Panellist's Perspectives:

Predictions to October 2024

To close the Panel, experts were asked two questions about key economic and political forces shaping the current investment landscape and to offer their predictions for 2024:

	What will the RBA official cash rate be in October 2024?	**Who will be US President in October 2024?**
Farrel Meltzer	4.0%	Nicky Hailey
Dan Farley	4.1%	Joe Biden
Steve Gledden	4.1%	Joe Biden
Rafi Lamm	3.5%	Michelle Obama
Andrew Foster	3.6%	Michelle Obama
James Stewart	4.35%	Joe Biden
Stephen Dickinson	4.1%	Joe Biden

An Audience Perspective

Allocating Capital and Diversification

At the conclusion of the panel, the audience of investors was asked to rank from 1-9 where they will be allocating their own investment and capital for the coming 12 months.

The audience response was as follows:

1 Private Debt
(most capital allocated)

2 Property

3 Australian Shares

4 Private Equity

5 Global Shares

6 Cash

7 Other Alternatives

8 Bonds
(Least capital allocated)

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