Investing and prospering in a new economic regime;

it really IS different this time

MODERATOR

Graham Rich

Dean, Portfolio Construction Forum

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2023 ADELAIDE NOVEMBER 20–22

VUCA World

Portfolio Construction Forum

Poll 1: In a VUCA world, quality investment advice and decision-making is invaluable

1. I disagree – my mind's made up
2. I'm not convinced – I'll research it further
3. I'm convinced – I'll implement this as policy
4. I agree – it's already my policy

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PANELISTS

Angela Ashton
Founder & Director - asset consultant
Evergreen Consultants

Jonathan Ramsay
Founder & Director - asset consultant
InvestSense

Jacqueline Fernley
Chief Investment Officer - platform
Mason Stevens

Anshu Sharma
Portfolio Manager and Founder - fund manager - global equities
Loftus Peak

Mirko Cugura CFP®
CIMA®, Director and Wealth Coach - investment adviser & investment committee member
Innate Wealth

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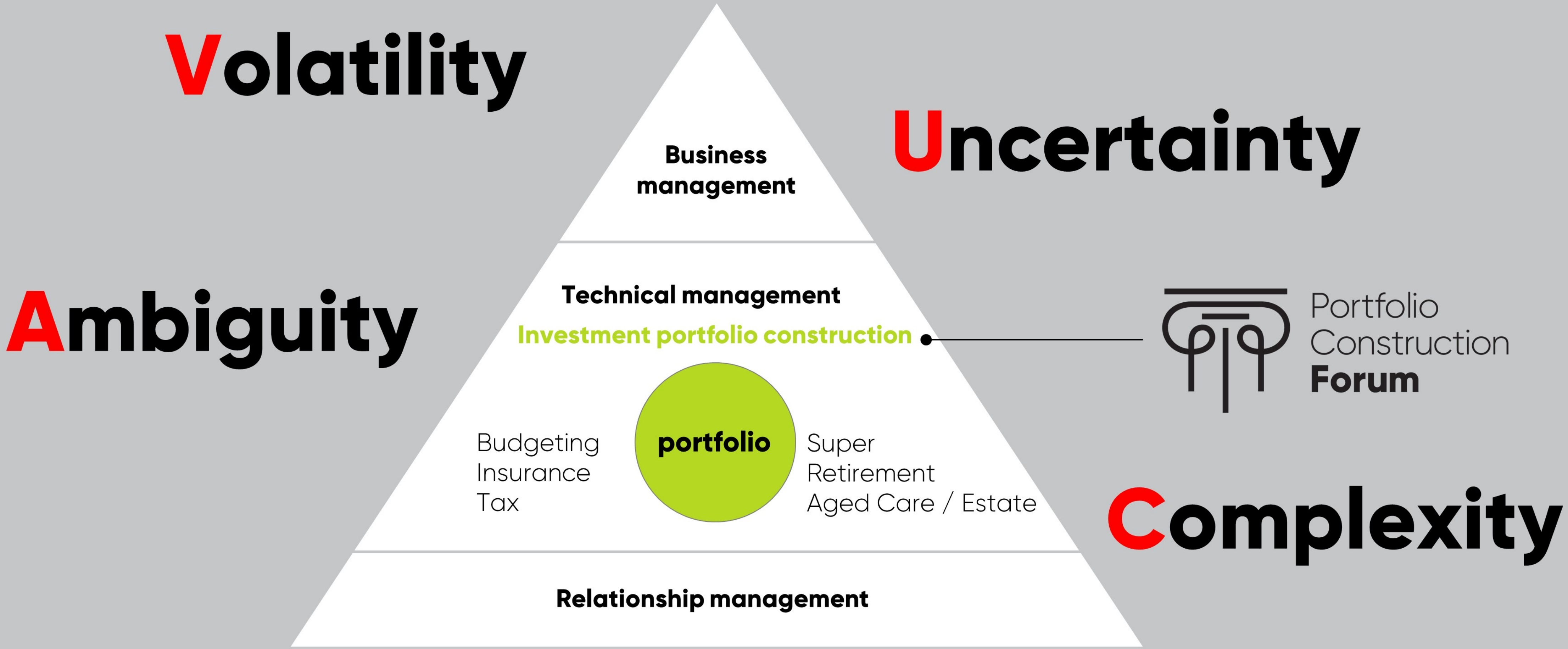
Volatility
Uncertainty
Complexity
Ambiguity

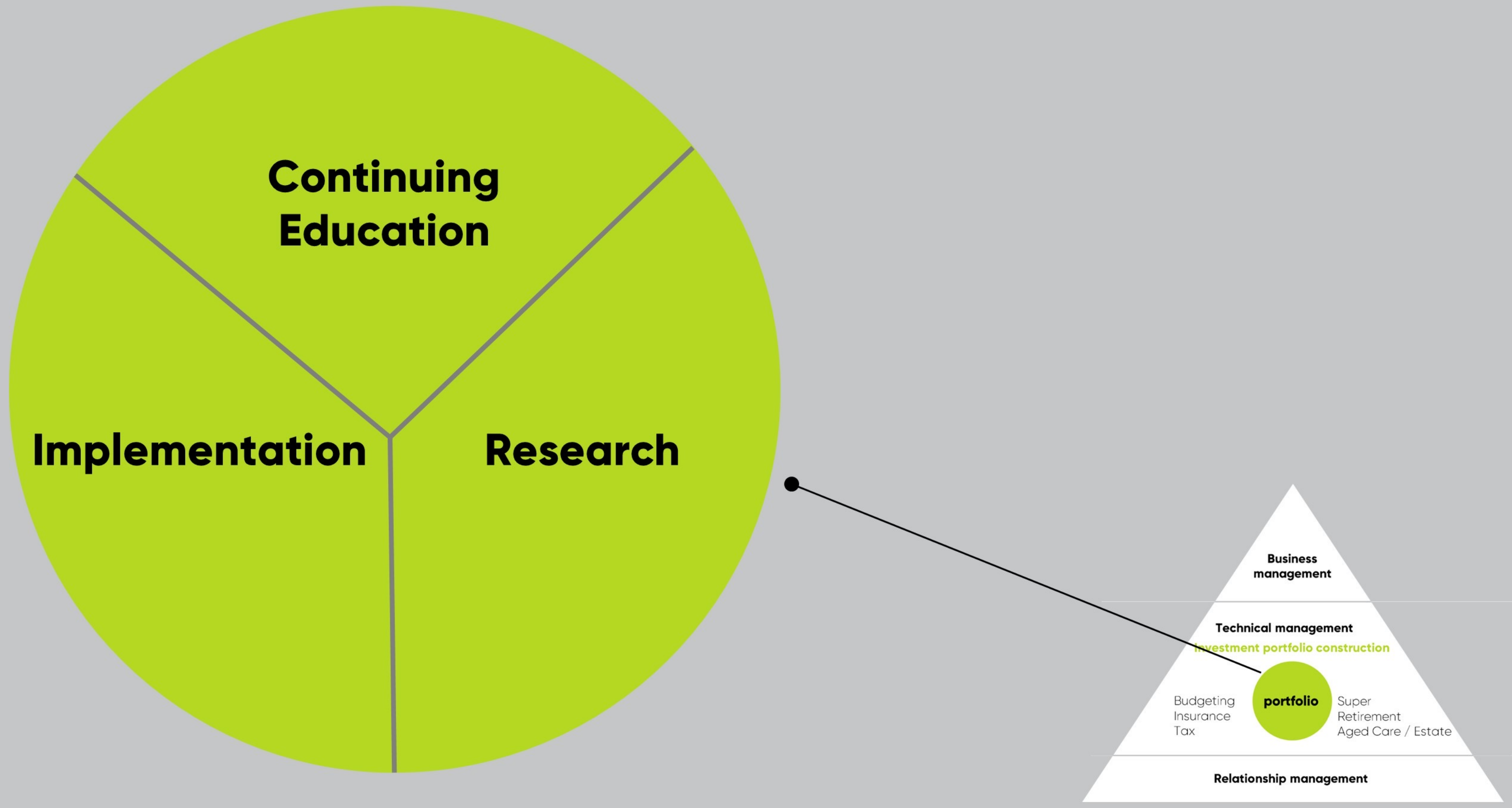
I believe that in a VUCA world, quality investment portfolio construction is invaluable.

Quality **investment advice** and **portfolio construction** materially enhance individuals' financial wellbeing.

THE INVESTMENTS AND WEALTH ECOSYSTEM



INVESTMENT PORTFOLIO CONSTRUCTION



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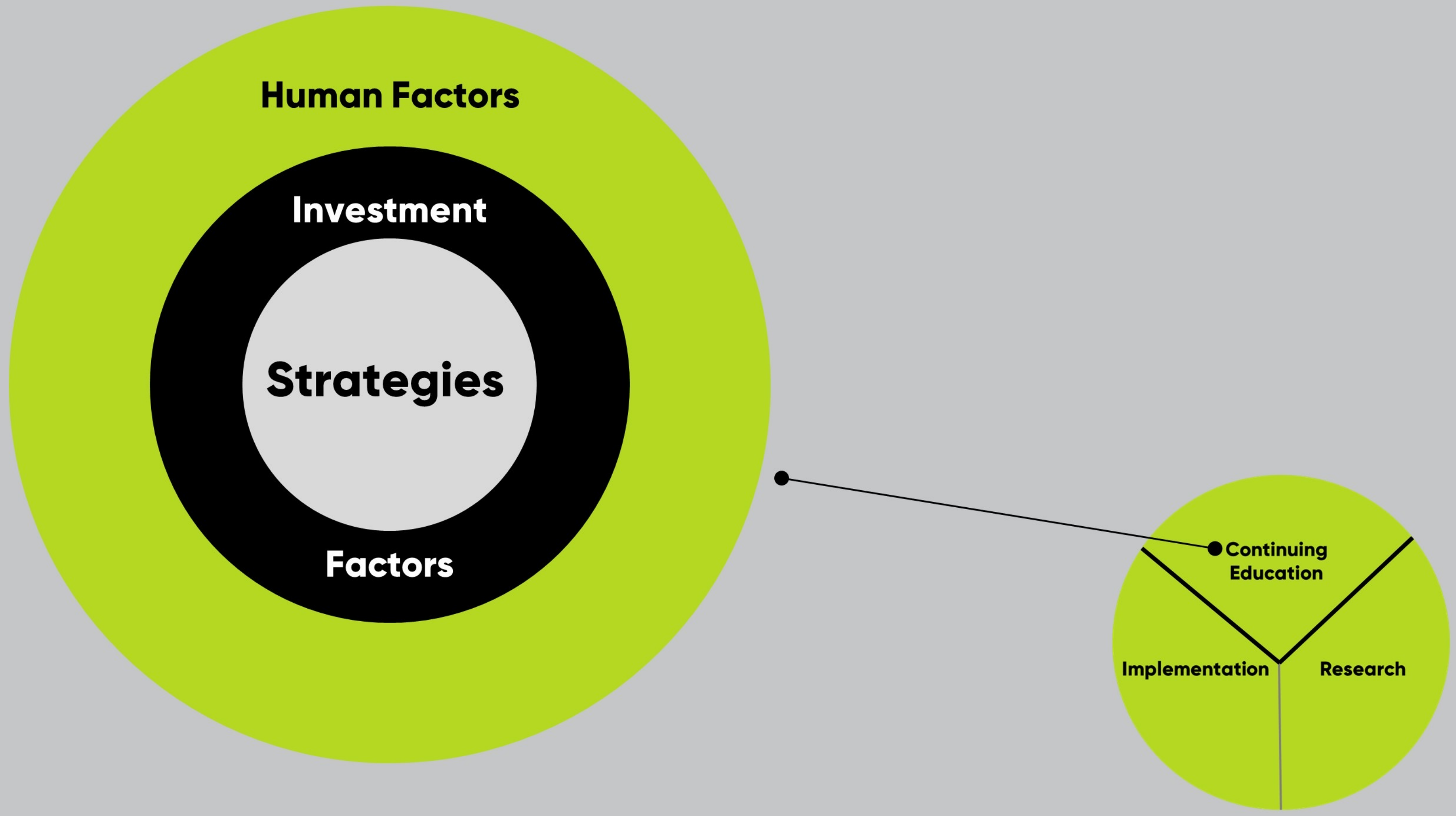
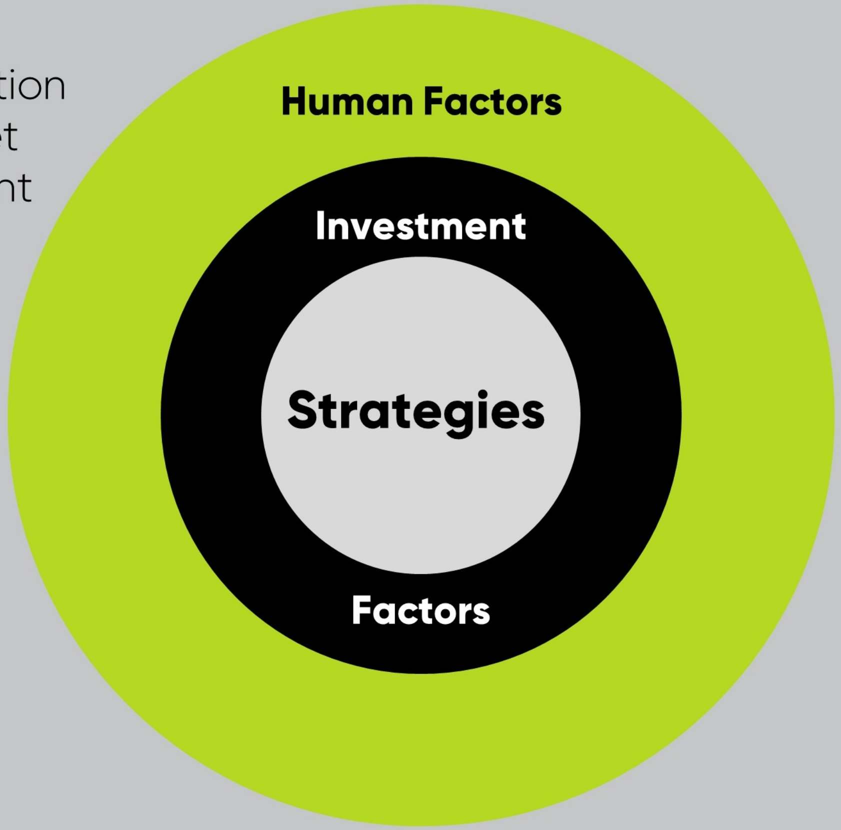


INVESTMENT PORTFOLIO CONSTRUCTION

Strategies
designing robust portfolioconstruction strategies to meet defined investment objectives



Investment Factors

Markets
determining the drivers of and outlook for the investment markets

Investing
researching and identifying quality investment management solutions

Human Factors

Finology
understanding and managing beliefs and behaviours in portfolio construction

Philosophy
developing a coherent set of principles to guide portfolio construction

Investing and prospering in a new economic regime; it really IS different this time

Discussion topics

- **Invest in yesterday's themes or get ahead of the next regime shift?**
  - **Jonathan Ramsay, Founder & Director, InvestSense**
- The relationship between equity and debt really is different
  - Angela Ashton, Founder & Director, Evergreen
- Innovation and disruption continue to deliver
  - Anshu Sharma, Portfolio Manager and Founder, Loftus Peak
- Don't hold the consensus secular inflation narrative too tight
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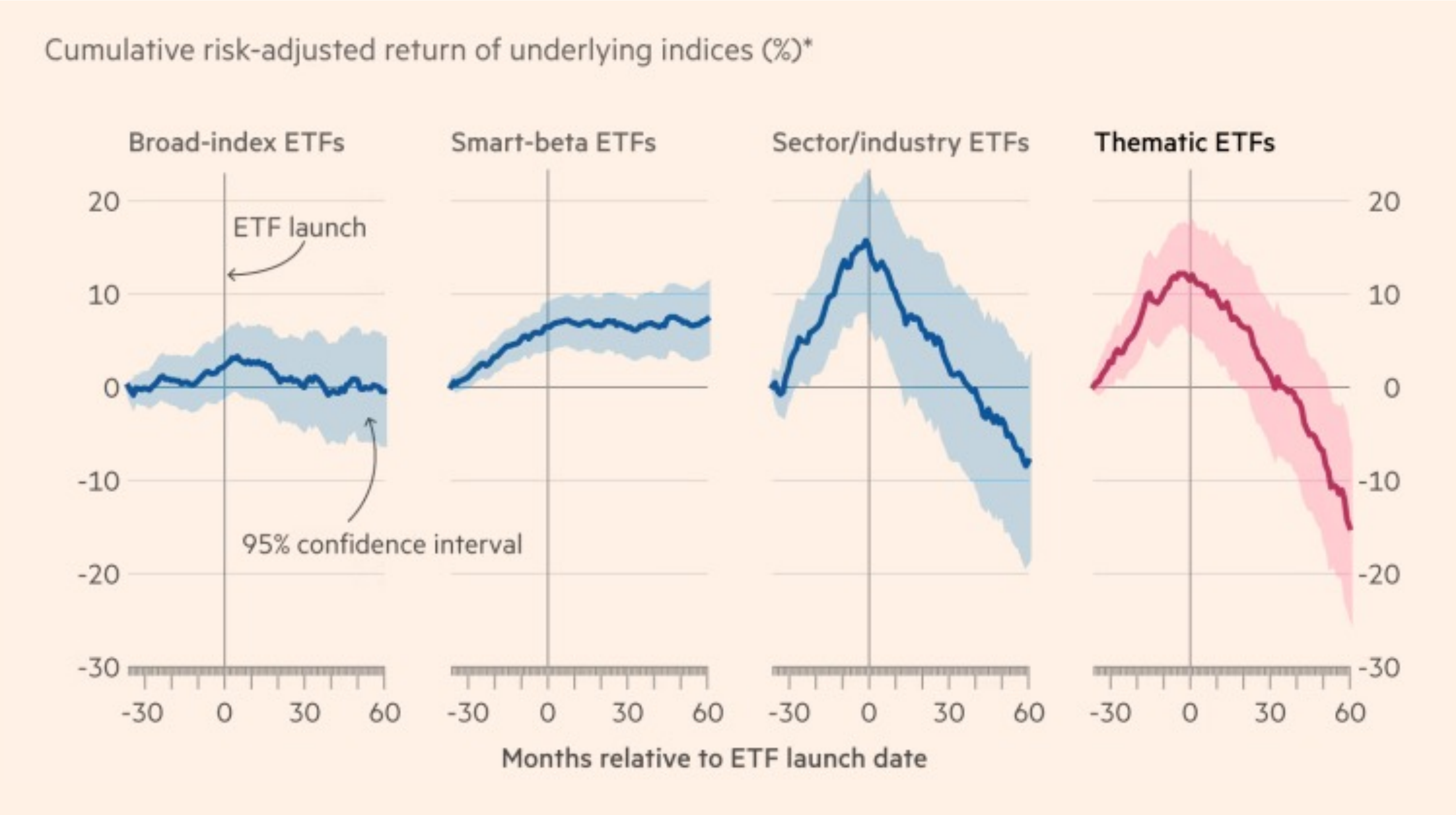
Let's stop doing this

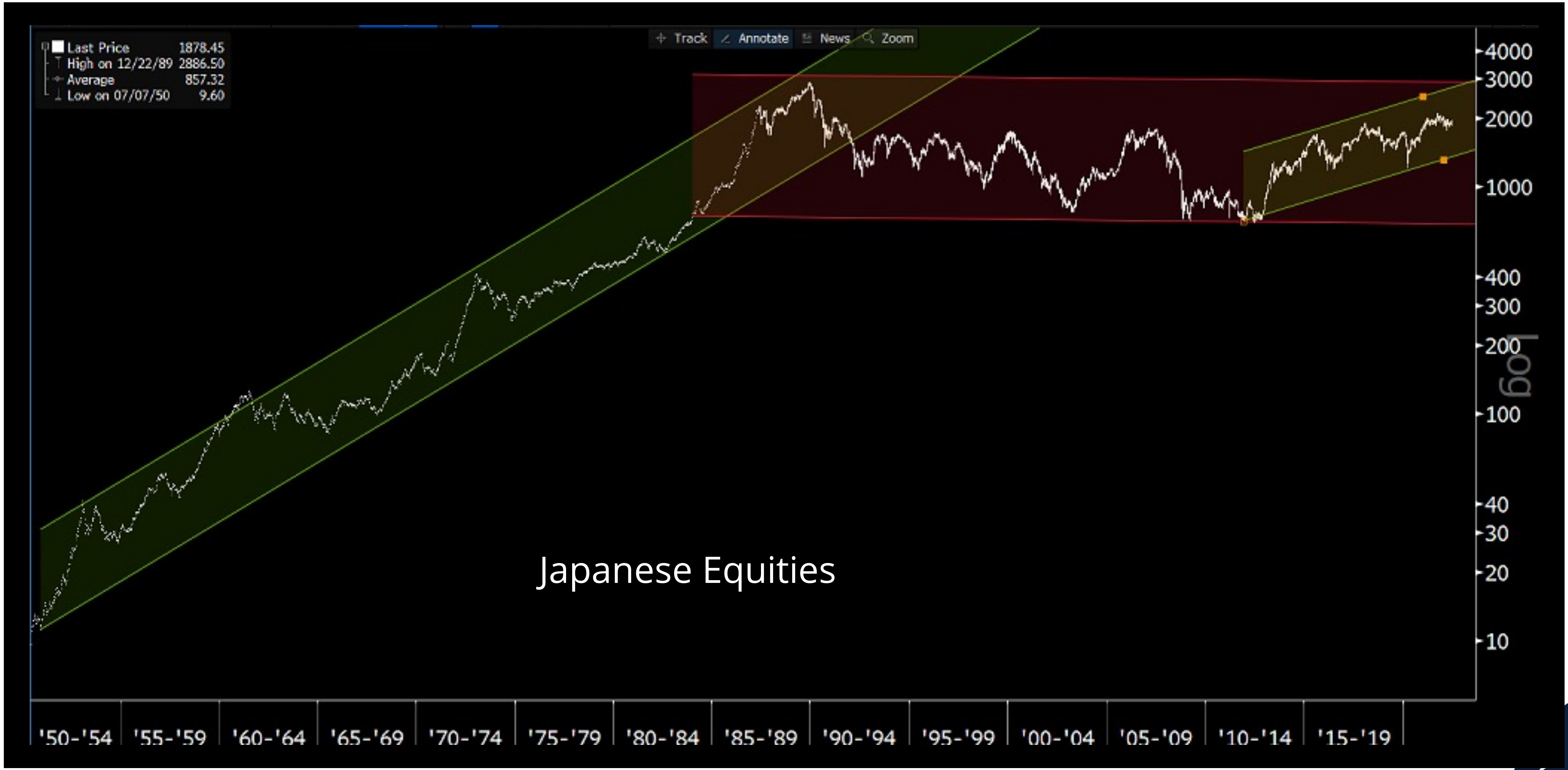


Source: Ben-David, Franzoni, Kim and Moussawi via FT.COM

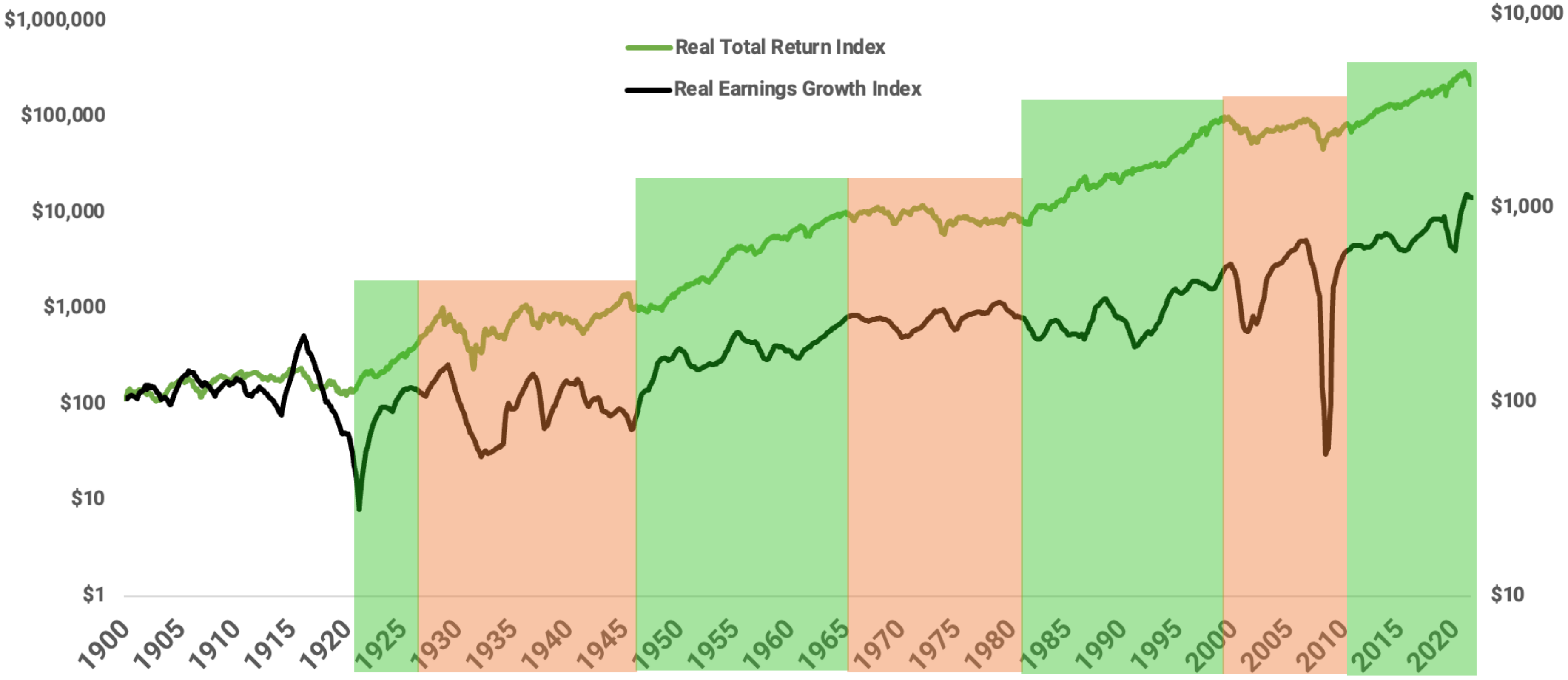
Knowing what regime you are in is not just a thematic/tactical issue

Source: Bloomberg

It could be very Strategic



First of all, you need earnings growth



Source: Shiller, InvestSense

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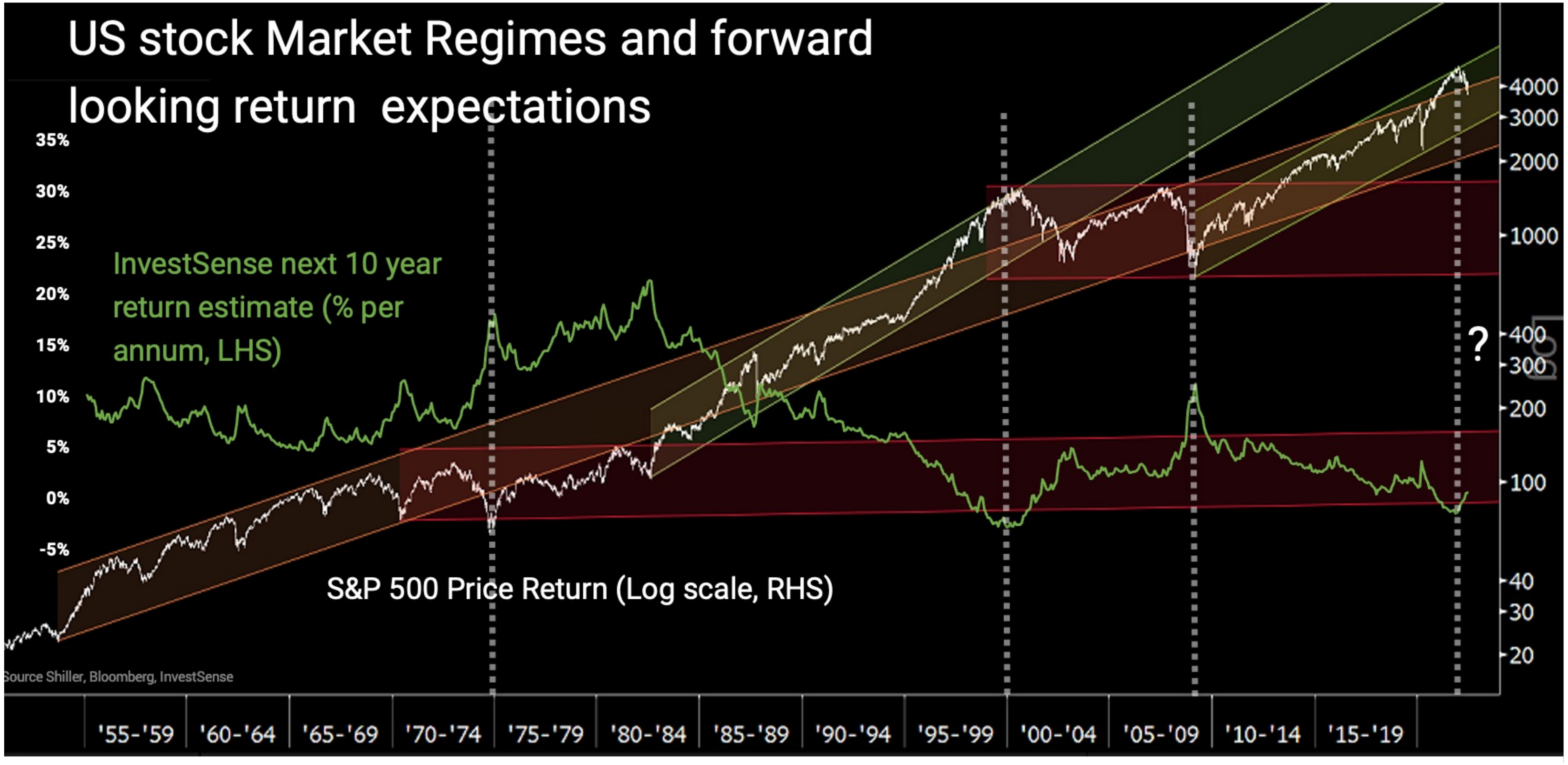
But valuation is also a necessary condition



Source: Bloomberg, Shiller, InvestSense

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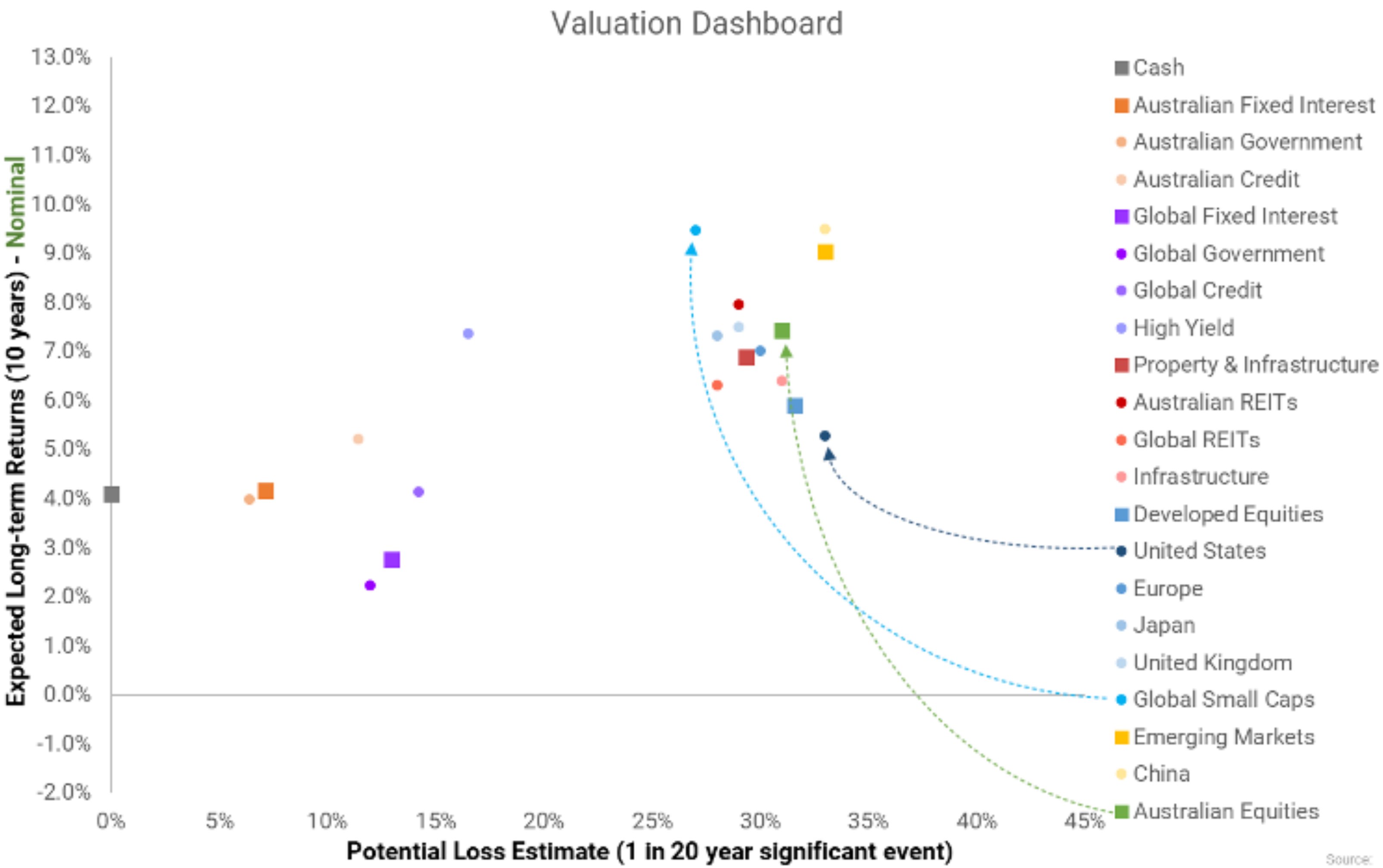
Looking Forward – where do your candidates sit on this chart?



Note: Forward looking estimates are based on InvestSense's Valuation Dashboard methodology and are not a guarantee of future outcomes.

Source: InvestSense,

"The future is already here – it's just not very evenly distributed." William Gibson

Investment Economic Implications			
	Good	Bad	Likely Sequence
Artificial Intelligence	Productivity/corporate profits	White Collar Employment	Bad then Good
Automation	Productivity/Corporate Profits	Blue Collar Employment	Good then Better
Green Transition	Climate, Productivity (Long-Term)	Productivity, Inflation	Bad then Good
Deglobalisation	Onshoring	Inflation	Bad then Worse
Healthcare	Longevity, Productivity	Inflation	Bad then Good
Deficit spending	Nominal Growth?	Inflation, Higher Bond Rates	Bad then Good
Regulation		Corporate Profits	Bad then Good

"It is difficult to make predictions, especially about the future." Danish People

The World's Top Ten Largest Companies by Market Capitalization (ex Aramco)

1980: Peak Oil	1990: Japan will take over world	2000: TMT bubble	2010: China will take over world	2022: Only Tech can deliver growth
IBM	NTT	Microsoft	Exxon Mobil	Apple
AT&T	Bank of Tokyo-Mitsubishi	General Electric	PetroChina	Microsoft
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple Inc.	Alphabet
Standard Oil	Sumitomo Mitsui Banking	Cisco Systems	BHP Billiton	Amazon
Schlumberger	Toyota Motors	Wal-Mart	Microsoft	Tesla
Shell	Fuji Bank	Intel	ICBC	Facebook
Mobil	Dai ilchi Kangyo Bank	NTT	Petrobras	Nvidia
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	TSMC
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	Berkshire Hathaway
Eastman Kodak	Exxon	Deutsche Telekom	Nestlé	Tencent Holdings

Source: GaveKal

Poll 2: Invest in yesterday's themes or get ahead of the next regime shift?

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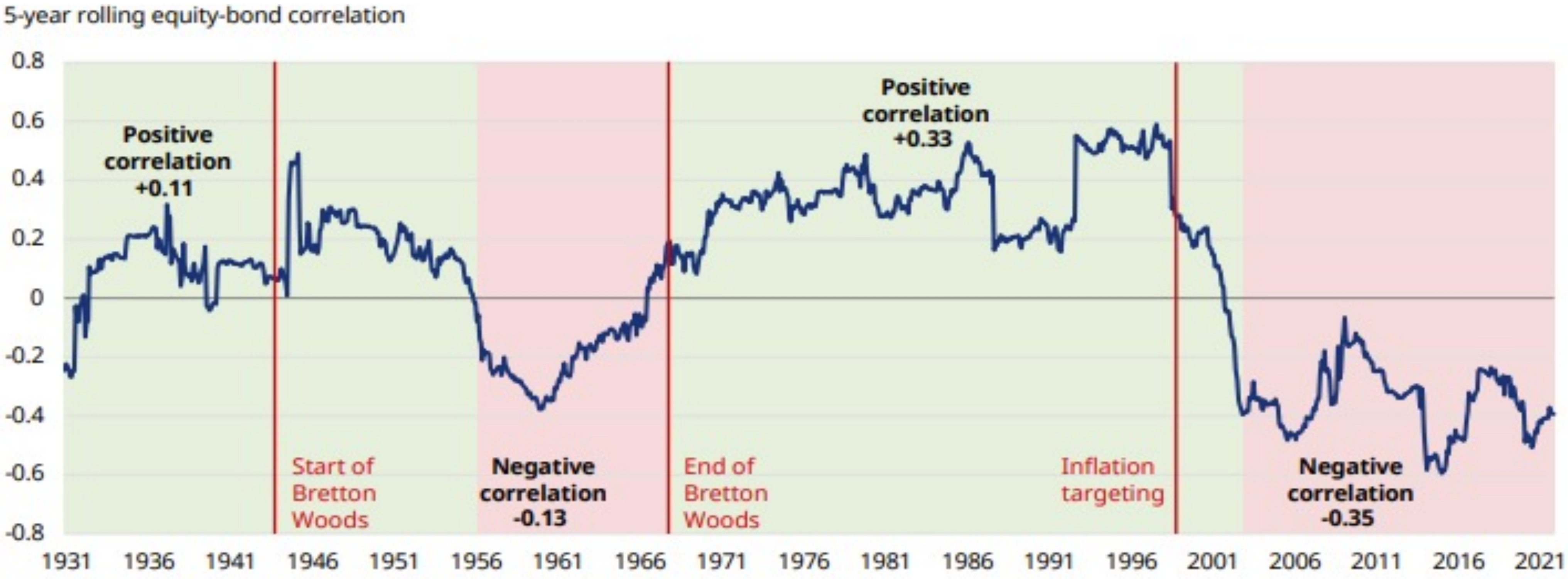
The Relationship Between Equity and Debt really is different



Past performance is not a guide to future performance and may not be repeated.
Source: CFA Institute, Datastream Refinitiv and Schroders. Notes: equity and bond returns are based on US large-cap equities and 10-year US Treasuries. Data to 31 December 2021.

Source: Evergreen Consultants

Poll 3: The relationship between equity and debt really is different

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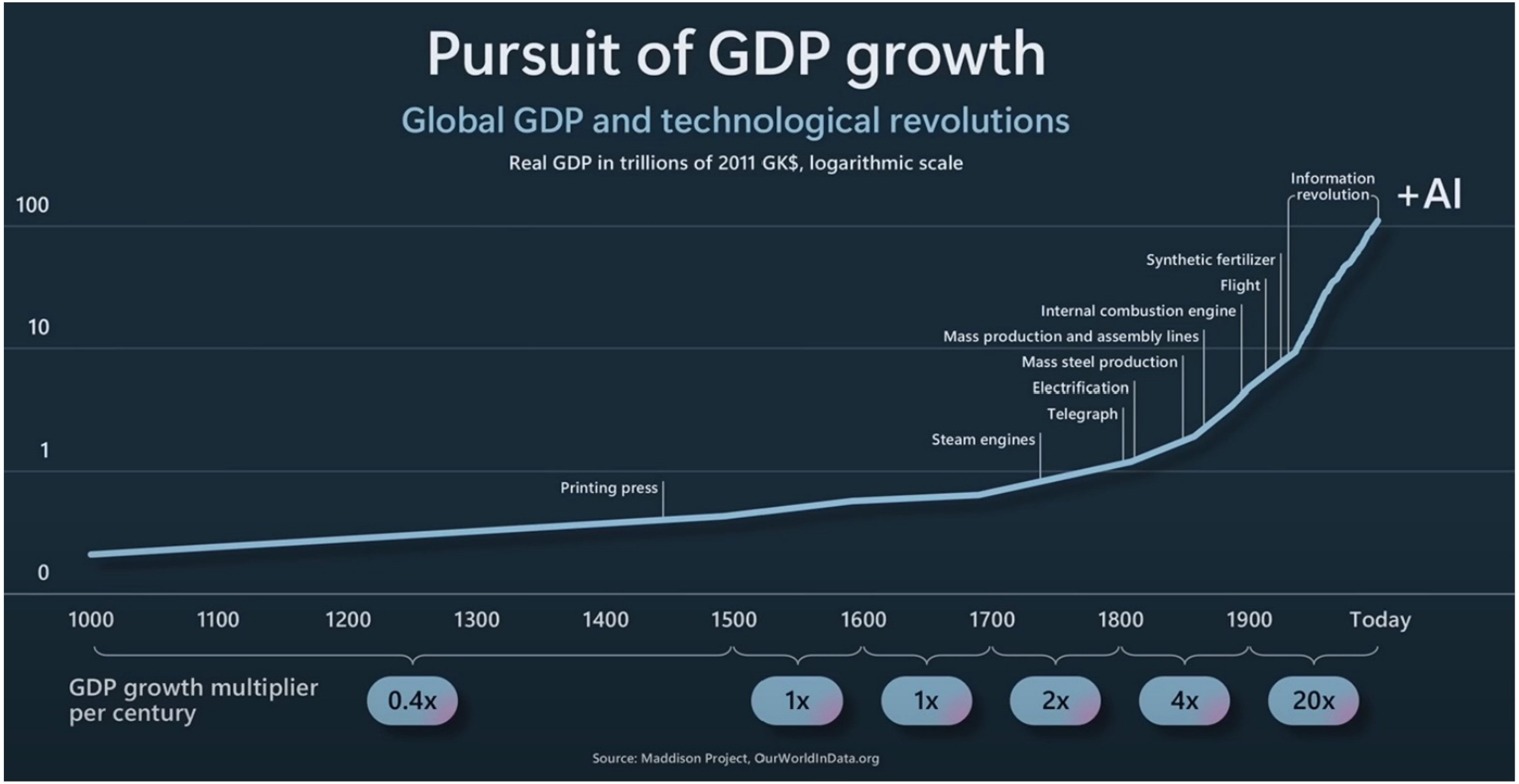
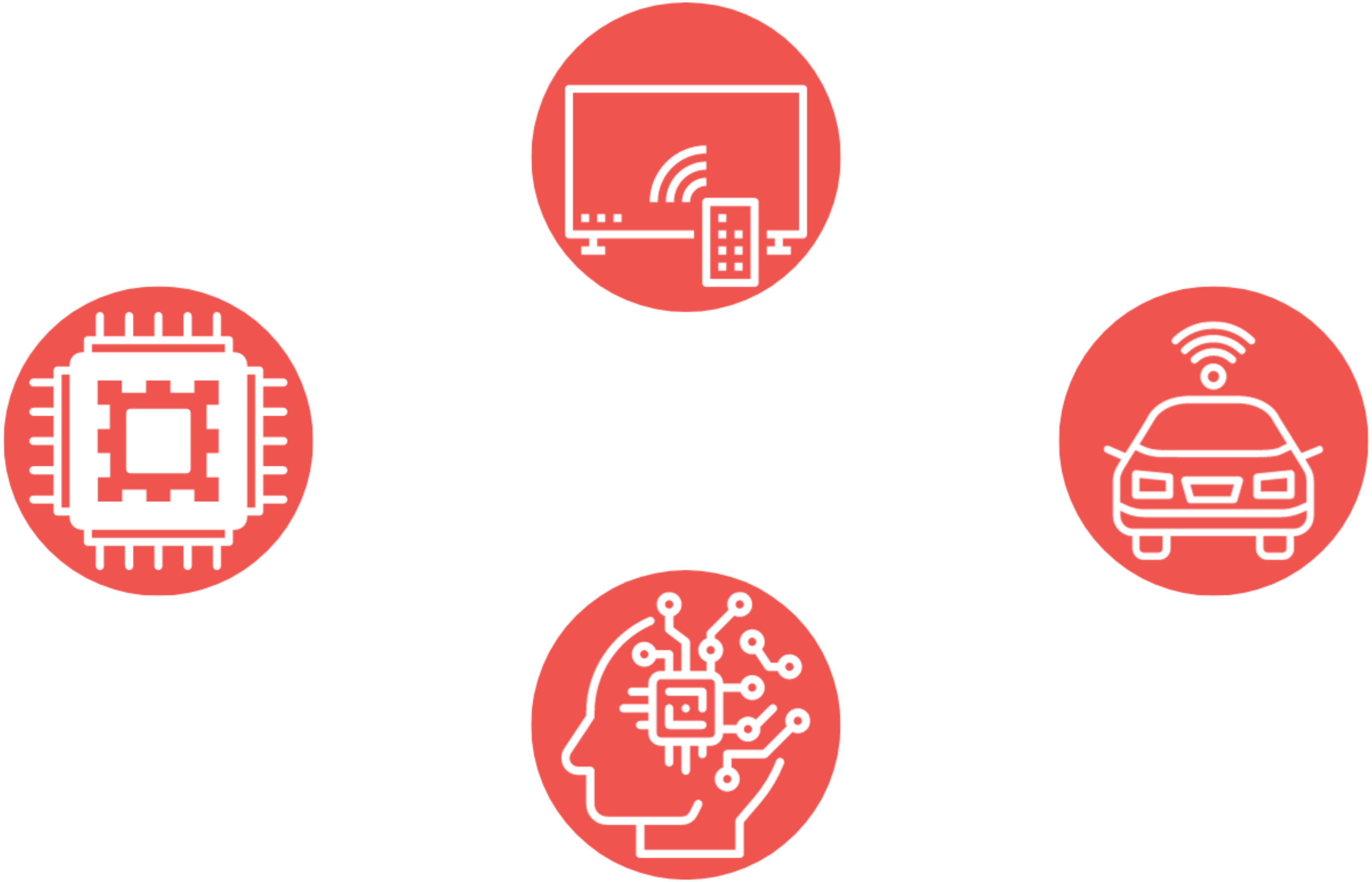
The Journey…


Pursuit of GDP growth
Global GDP and technological revolutions
Real GDP in trillions of 2011 GK$, logarithmic scale
100
10
1
0
Information revolution
+AI
Synthetic fertilizer
Flight
Internal combustion engine
Mass production and assembly lines
Mass steel production
Electrification
Telegraph
Steam engines
Printing press
1000
1100
1200
1300
1400
1500
1600
1700
1800
1900
Today
GDP growth multiplier per century
0.4x
1x
1x
2x
4x
20x
Source: Maddison Project, OurWorldInData.org

What drove growth over the last 15 years?

USD billion	U.S. online retail spend	Global online advertising spend	Global smartphone revenue	Global gross domestic product
2007	136.0	39.6	23.6	58,361.1
2022	1,032.8	532.0	451.1	96,882.4
CAGR	**+14.5%**	**+18.9%**	**+21.7%**	**+3.4%**

What comes next? Substance over stories



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For more on AI from Loftus Peak, scan the QR code.

Poll 4: Innovation and disruption continue to deliver

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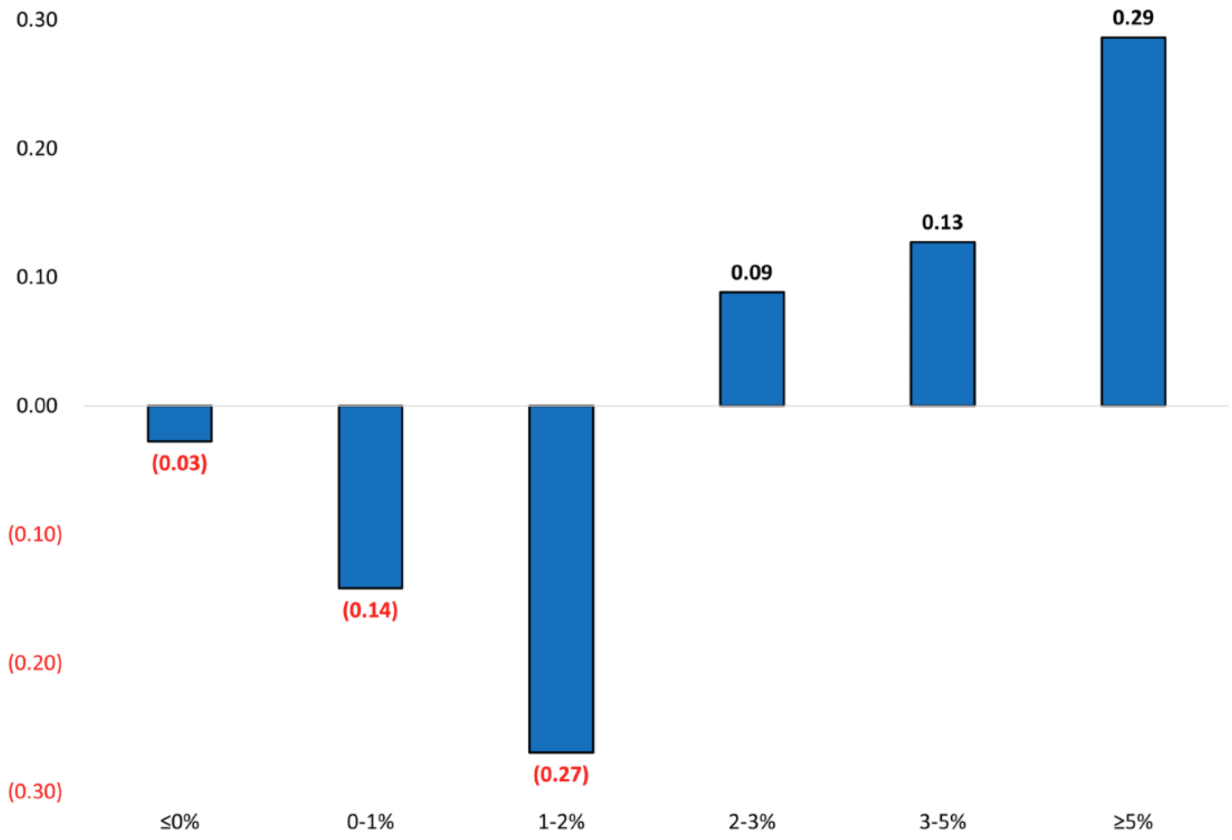
Stock bond correlations and inflation

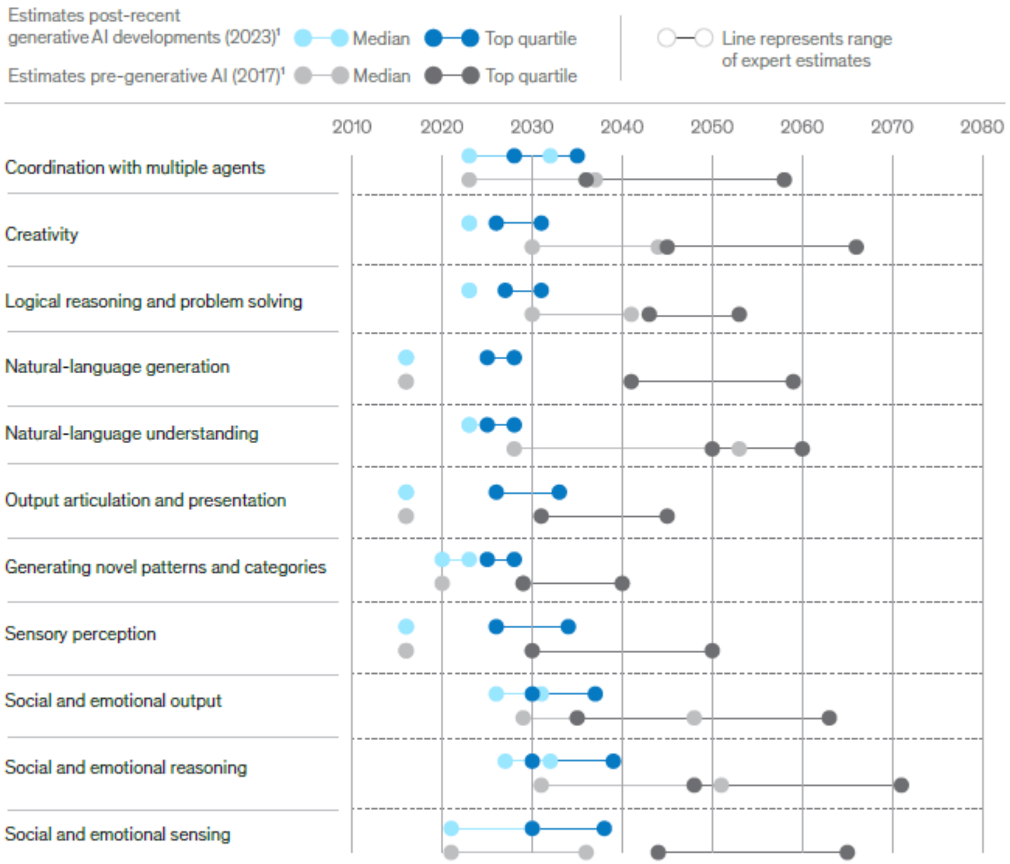
Mean trailing 12 months Stock Bond correlation by Headline CPI in US



- Takeaway - based on data back to 1871 the stock bond correlation is no longer negative when headline inflation is between 2-3% - therefore bonds no longer provide diversification benefit in that environment.

Source: 42 Macro

Technical capabilities – level of human performance

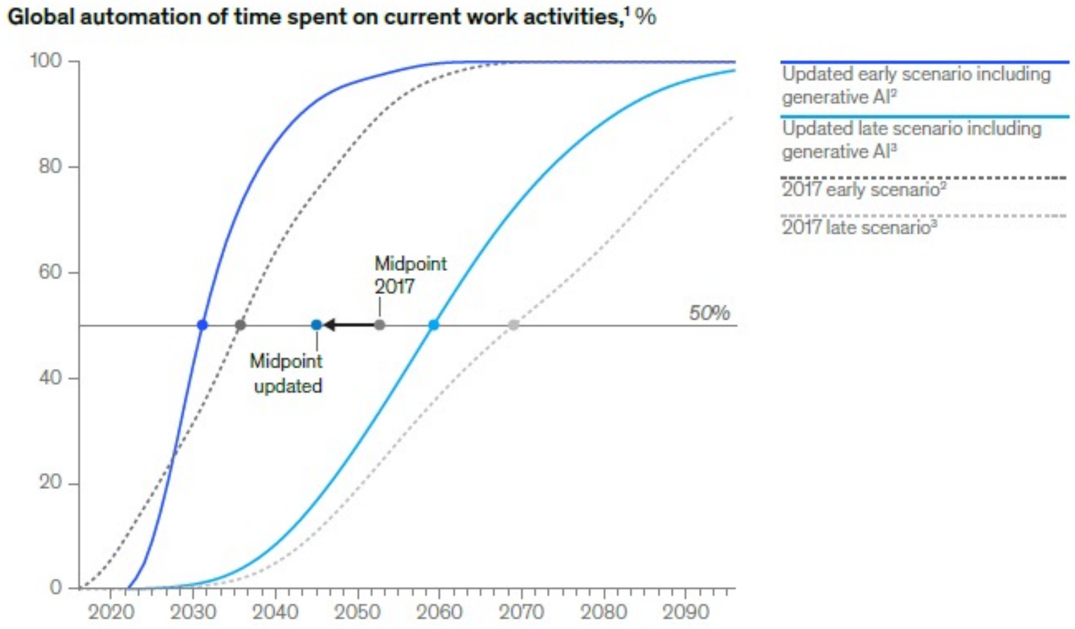


[1]Comparison made on the business-related tasks required from human workers. Please refer to technical appendix for detailed view of performance rating methodology.
Source: McKinsey Global Institute occupation database; McKinsey analysis

"The human mind is wired to think linearly, but the universe runs exponentially. This is why we so often underestimate the power of new technologies." –

Peter Diamandis

50% automation expectation bought forward a decade



[1] Includes data from 47 countries, representing about 80% of employment across the world. 2017 estimates are based on the activity and occupation mix from 2016. Scenarios including generative AI are based on the 2021 activity and occupation mix.
[2] Early scenario: aggressive scenario for all key model parameters (technical automation potential, integration timelines, economic feasibility, and technology diffusion rates).
[3] Late scenario: parameters are set for later adoption potential.
Source: McKinsey Global Institute analysis

McKinsey & Company

Generative AI is likely to have the biggest impact on knowledge work, particularly activities involving decision making and collaboration, which previously had the lowest potential for automation.

What do we think we know?

- GDP – forecasts vary but they are potentially large
  - GS – increase global GDP by 7% per annum – (~$7tn)
  - McKinsey - $2.6-$4.4Tn per annum (62 use cases across 16 business functions)
  - McKinsey - $6.1-$7.9Tn total economic benefits incl major use cases and productivity gains across knowledge workers' activities
  - Centre for Economic Policy Research found that AI could boost global GDP by 4-6% per year by 2030
- Automation - expectations of automation potential continue to increase
  - Potential to automate work activities that absorb 60-70% of employees time today
  - Half of today's work activities could be automated between 2030-2060
- Productivity
  - GS - annual productivity growth estimated to be 0.3-3.0pp higher (GS base case 1.5ppt higher DM and 1ppt higher in EM economies)
  - McKinsey – annual productivity growth of 0.2-3.3% annually through to 2040 – depending on the rate of technology adoption and redeployment of worker time into other activities

Inflationary or disinflationary

- Increased Productivity = Technological deflation: when businesses become more efficient and can produce more goods or services with the same or fewer resources, this can lead to a decrease in the prices of those goods and services.
- Wage and Employment Dynamics: If automation displaces workers and leads to significant unemployment or wage stagnation for certain segments of the workforce, it can put downward pressure on consumer spending and potentially lead to deflationary trends.
- The scarcity of human labor has been a double-edged sword throughout our history: on the one hand, it has held back economic growth because greater production would require more labor; on the other hand, it has been highly beneficial for income distribution since wages represent the market value of scarce labor. If labor can be replaced by machines across a wide range of tasks in the future, both points may no longer hold, and we may experience an AI-powered growth take-off at the same time as that the value of labour declines.

If AI is as big a deal as many people think it could be, look for higher growth, higher incomes, higher real interest rates and lower inflation.

Poll 5: Don't hold the consensus secular inflation narrative too tightly

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CIMA Society

Certified Investment Management Analyst® Society of Australia

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The professional community for investment management analysts in Australia and New Zealand

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Poll 6: A continuous thirst for quaternary education is essential

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Q&A

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Poll 7: Investing and prospering in a new economic regime; it really IS different this time

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Portfolio Construction **Forum**

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Meet the speaker zone

Thank you for attending this session

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