Centrepoint Alliance 2023

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Agenda

Recent History

1. The QE era
2. A changing dynamic
3. The new world paradigm

Forward looking

4. Outlook for inflation
5. Outlook for liquidity
6. A change from QE to QT
7. Banking crisis
8. Bankruptcies
9. Macro views by region
10. Public and private markets

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Recent History

The post-GFC Quantitative Easing era

- The ‘QE era’ has been marked by artificially low interest rates
- Many asset returns largely driven by monetary environment
- Compounded by the monetary response to COVID

A rising tide lifts all boats

- Active management has struggled to add value

Recent History

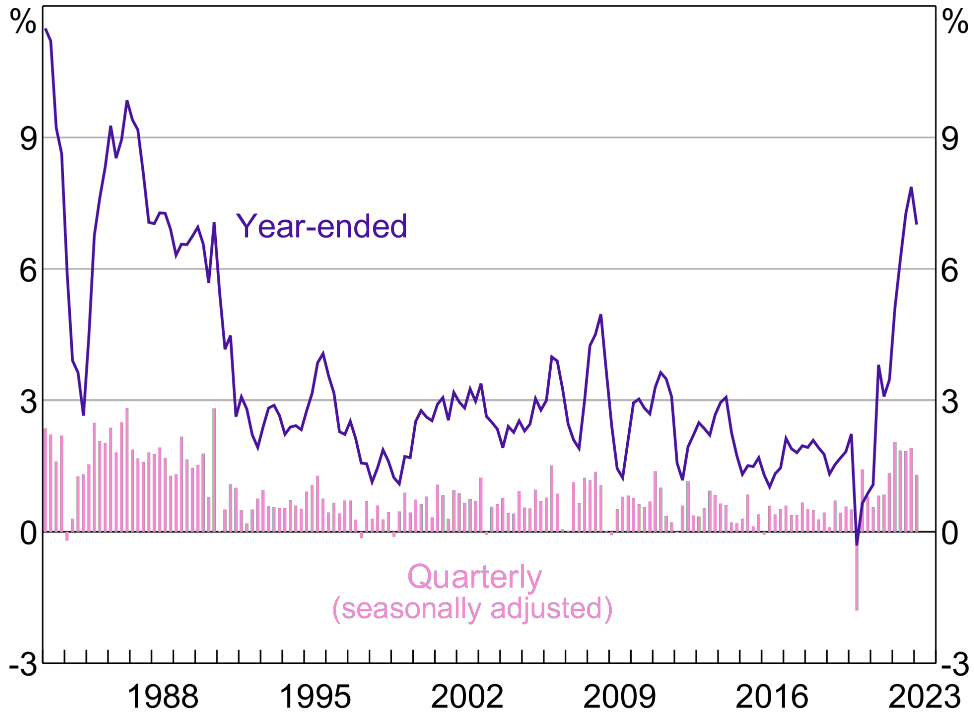
A change in the dynamic

- Supply restricted by COVID related supply chain issues
- Robust demand driven by loose fiscal and monetary policy
- Land war in Europe – energy and food shortages

The return of inflation

…it wasn't transitory

Consumer Price Inflation*



* Excludes interest charges prior to the September quarter 1998; adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA

Recent History

Monetary U-Turn heralds in a new world paradigm

- The era of ‘free money’ is over
- Uncertainty is rife – geopolitical, economic and monetary

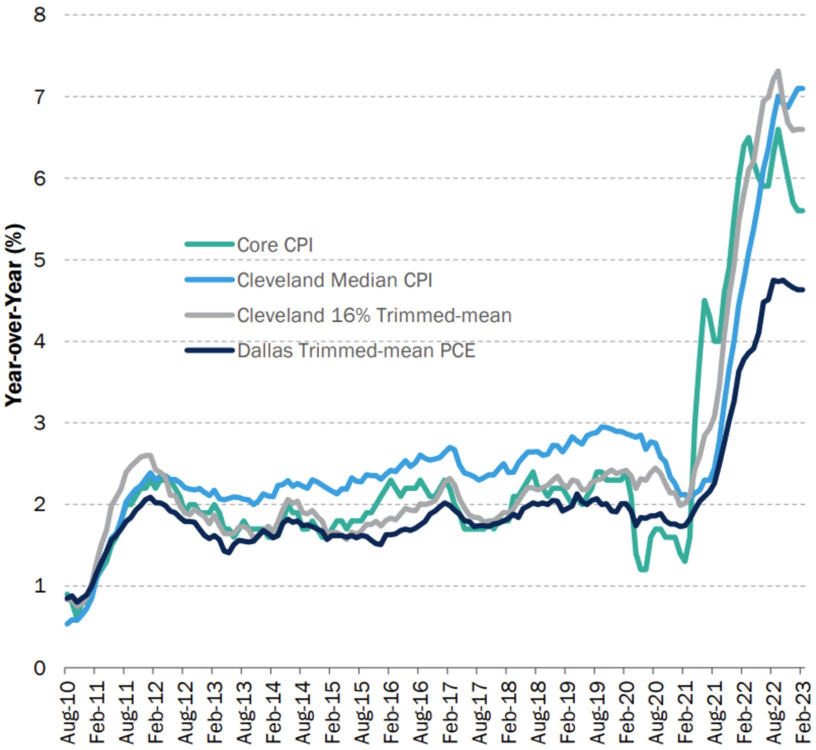
Investors must adapt to the new environment

- Allocation decisions are crucial
- Traditional portfolio structure did not work in 2022
- Alternatives have been underrepresented

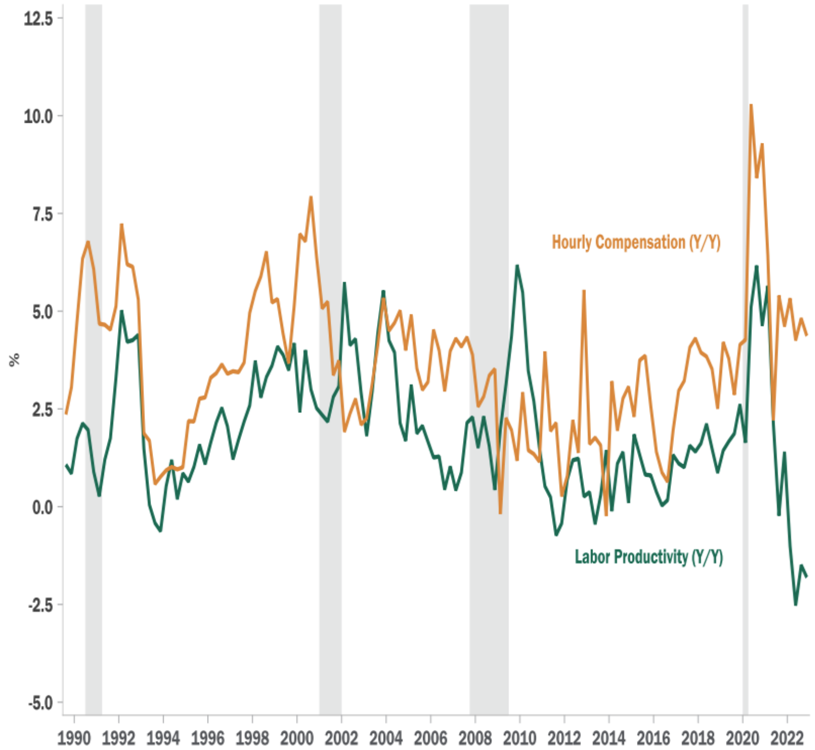
Outlook: Inflation – moving to a higher inflation regime

1. **On-shoring / near-shoring:** Pressures seen during COVID have eased, however near-shoring will be inflationary in the longer term
2. **Tight labour markets:** Seeing a factor shift from capital to labour. Strength in wages likely to keep inflation higher for the next 12-18 months
3. **Clean Energy transition**: Large capex spend required to finance this which will be inflationary
4. **War/defence spending:** There will be substantial costs involved to rebuild Ukraine. Geopolitical tensions also increase the need for greater defence spending

Core Inflation Measures



Unit Labor Cost Drivers (Y/Y%)



Source: PineBridge, 2023

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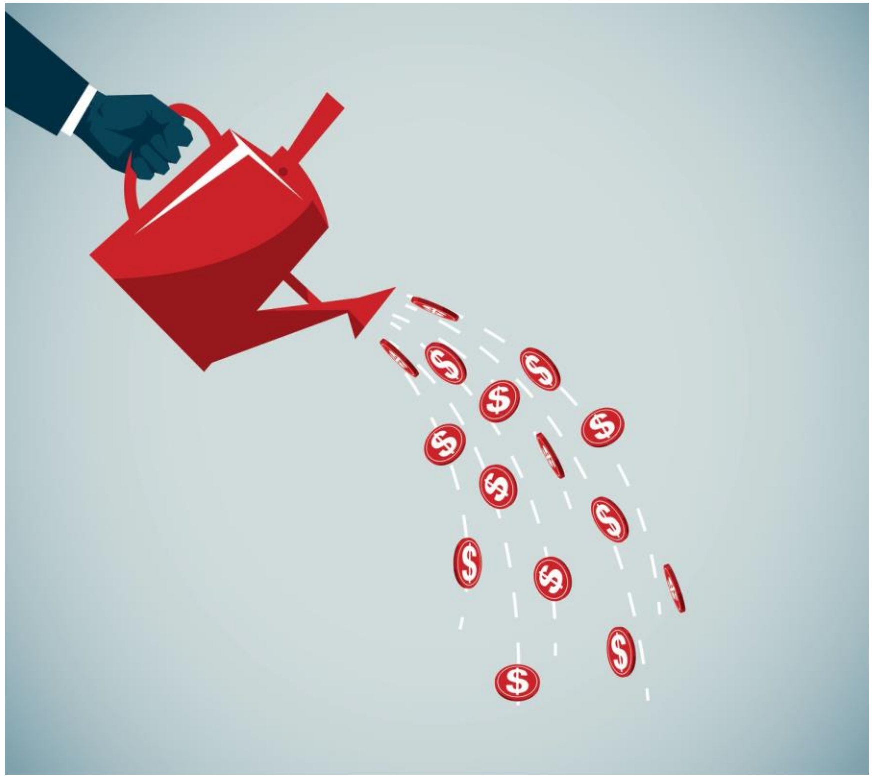
Outlook: Liquidity

- Agreement amongst most investors that liquidity has declined
- Current environment also gives rise to the risk of a significant liquidation event
- Primary victims of a liquidation event would be crowded equity market names and illiquid asset holders
- Managers seeing a slowdown in capital recycling activities
- Some institutional investors are very cautious – holding record amounts of cash (up to 10-15%)
- Discussion that some US defined benefit plans are effectively leveraging up to meet liquidity requirements



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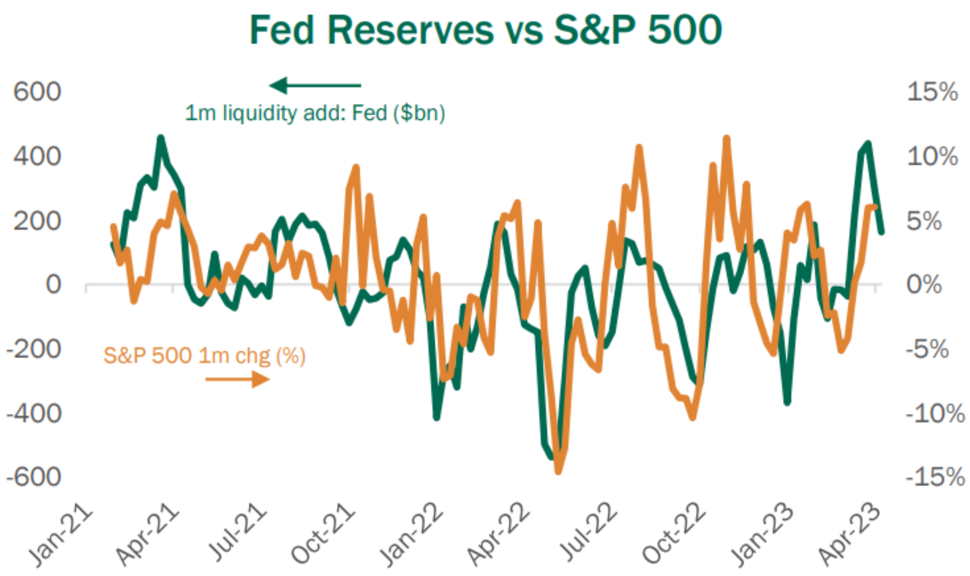
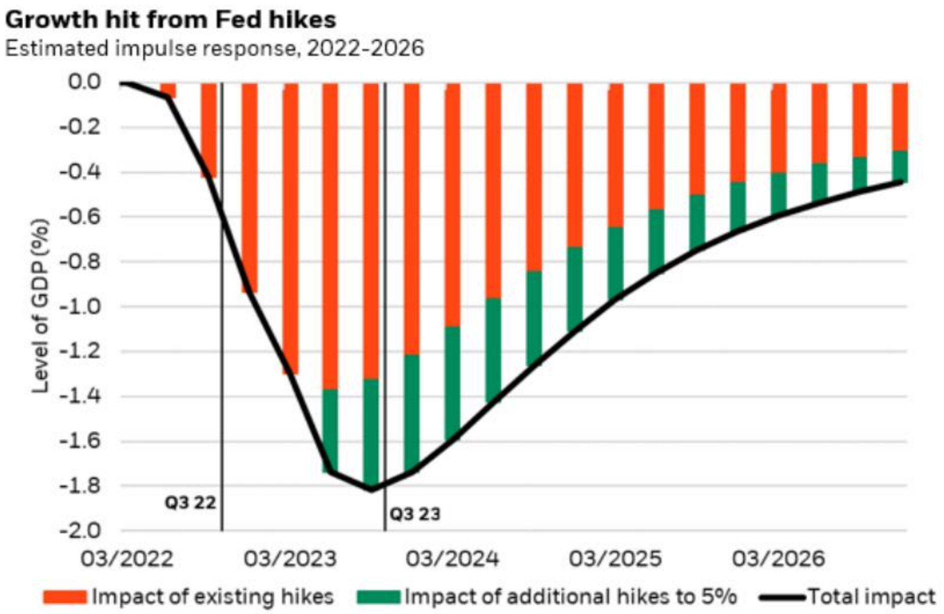
Broader macro views – system change from QE to QT

- Central bank liquidity has been a key driver of markets – what happens when the Central Bank 'put' is no longer available?
- Recession typically comes 13 months after the last rate hike
- Expectation is for future cycles to be shorter and sharper – more rates, currency and other market volatility





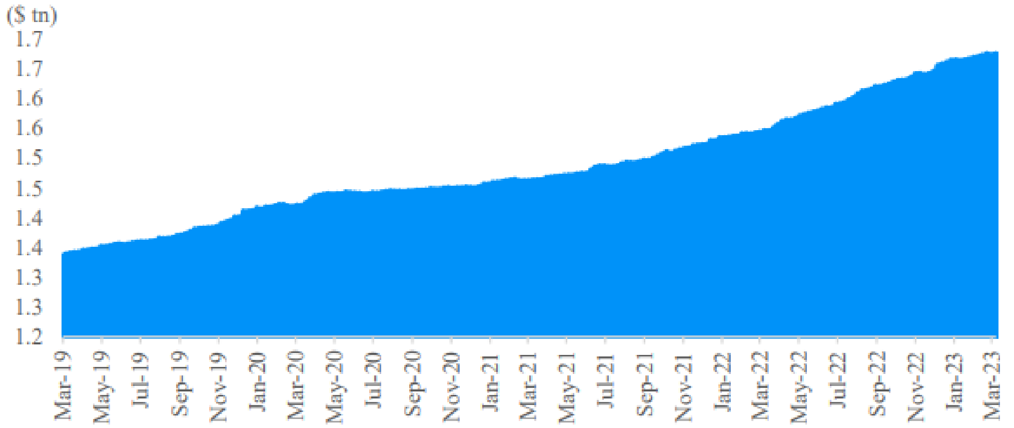
Source: BlackRock Investment Institute, Institute for Monetary and Financial Stability, Goethe University Frankfurt, December 2022.

Source: PineBridge, 2023

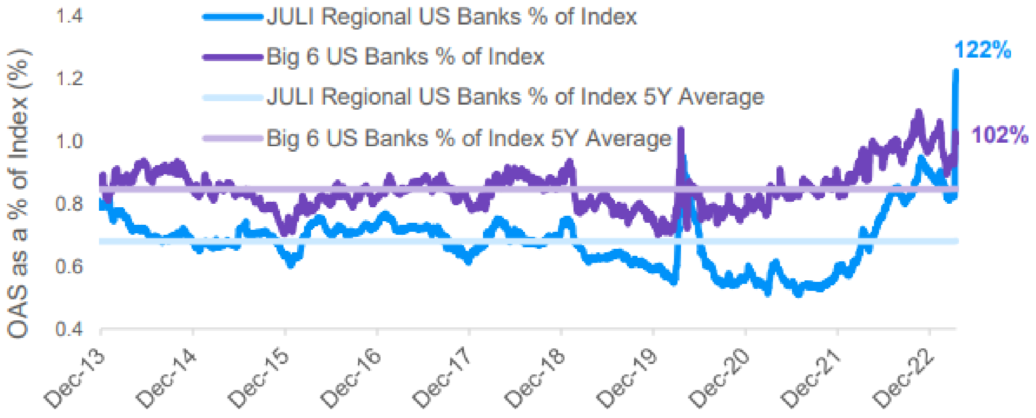
Outlook: Banking Crisis

- Banking concerns more contained to the US than Europe given exposure to regional banks
- In the US, falling bank reserves will continue to tighten credit conditions
- Some views that most regional banks will disappear – many are insolvent unless rates go down and they have high exposure to Commercial Real estate
- Regulatory capital relief likely to be a crucial part of the go-forward proposition, but the US Fed has a lot on its plate!

3) Asset Quality: Average CRE exposure as a percentage of loan mix (as of 4Q22) is ~20% for *mid-sized regional banks



Relative value of regional banks is reflecting the increased risk



Source: JP Morgan, 2023

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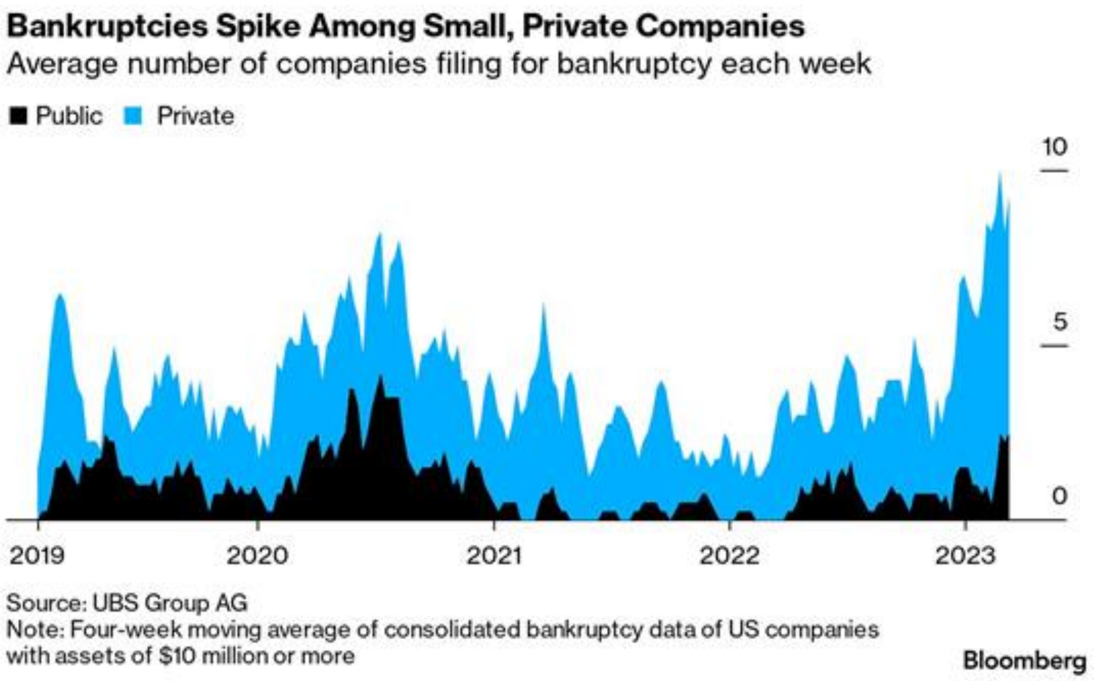
Broader macro views – bankruptcies

- Bankruptcies are beginning to spike as the cost of debt bites
- Some of the 'zombie companies' drowning under onerous debt loads, but not all
- Sunday 14 May 2023: Seven large companies file for bankruptcy - without precedent in 15 years of data being tracked by Bloomberg



48-Hour Flurry

Seven companies filed for bankruptcy in a two-day span this week

Company	Assets	Liabilities	Description
Athenex	$100M - $500M	$100M - $500M	Biopharma
Cox Operating	$100M - $500M	$100M - $500M	Energy
Envision Healthcare	$1B - $10B	$1B - $10B	Physician staffing
Kidde-Fenwal	$100M - $500M	$1B - $10B	Fire protection
Monitronics International	$1B - $10B	$1B - $10B	Security systems
Venator Materials	$1B - $10B	$1B - $10B	Chemicals
Vice Media	$500M - $1B	$500M - $1B	Media

Source: Chapter 11 petitions
Note: Asset, liability ranges are estimates

Bloomberg

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Learning outcomes

Recent History	QE and the impact on financial markets
	Macroeconomic drivers of inflation in 2021/2022
	Global monetary response

Outlook	Inflation
	Liquidity
	QT
	Banking crisis
	SME bankruptcies
	View by region
	Public and private markets

Macro views by region

Europe

Slightly more bullish sentiment – consensus: no expectation of recession

United States

More bearish sentiment – most investors expecting a recession, but not this year (other than JP Morgan)

China

China re-opening tailwind hasn't been as strong as expected

Japan

Widespread view that Yield Curve Control is unsustainable

Public and private markets

PUBLIC EQUITY

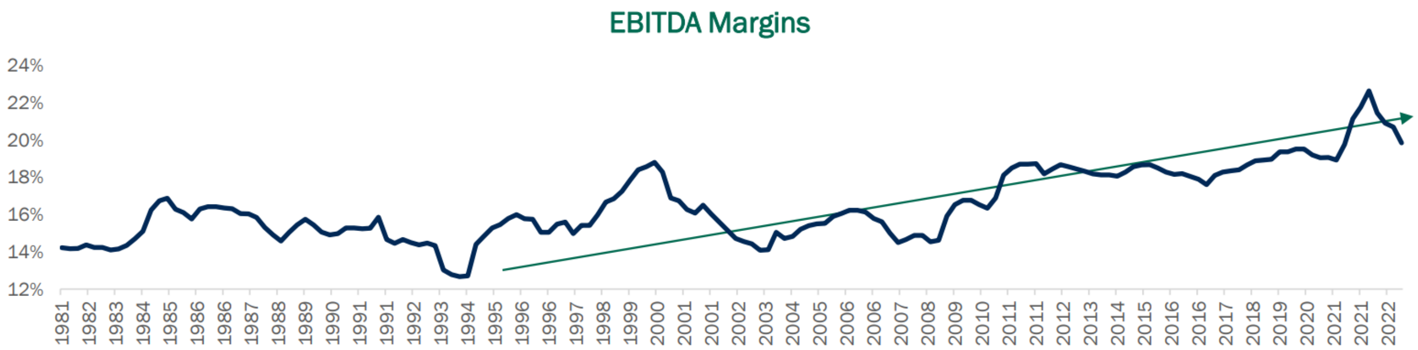
- **Expecting headwinds:** increased volatility in earnings and rates
- **Margin pressure:** developed market EBITDA margins which have benefitted from low rates, secular growth and globalisation are now under potential pressure

PRIVATE EQUITY

- **M&A:** A lot of strategic transactions – carve outs and add-ons. More take-privates and buy and builds
- **Exits**: Public markets better in the US than Europe, but options very limited. Continuation vehicles viable but limited by number per fund due to concentration limits

PRIVATE CREDIT

- **Better terms:** Documentation and terms have become more lender friendly (e.g. stronger covenants and call protection)
- **Strong illiquidity premium:** structural factors means this premium is unlikely to be eroded in the current environment



Source: PineBridge, 2023