



# **STAYING CONSTANT IN AN EVER- MOVING MARKET ENVIRONMENT**

Centrepont Research – Daniel Stojanovski

July 2023



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# AGENDA

1. Research Introduction
2. Western Asset
3. Antipodes Global
4. Active Panel Discussion



# LEARNING OUTCOMES

By participating in this session, you will:



Gain insights into Portfolio Construction along with live participation

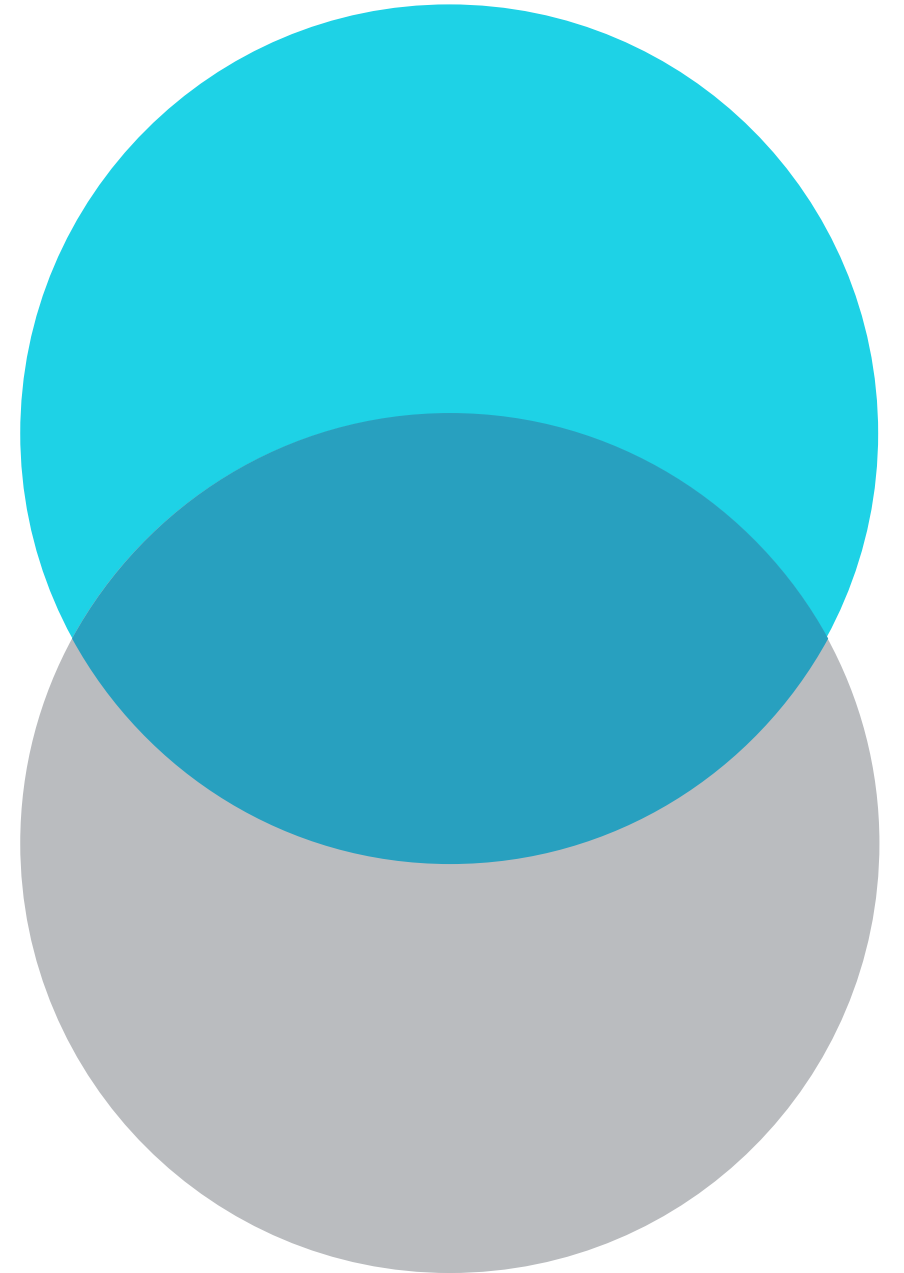


Further understanding in what is shaping global markets and fixed income markets



Understand the nuances of how specific strategies can be used to diversify your portfolios

# INTRODUCTION



# STRATEGIC ASSET ALLOCATION WEIGHTS

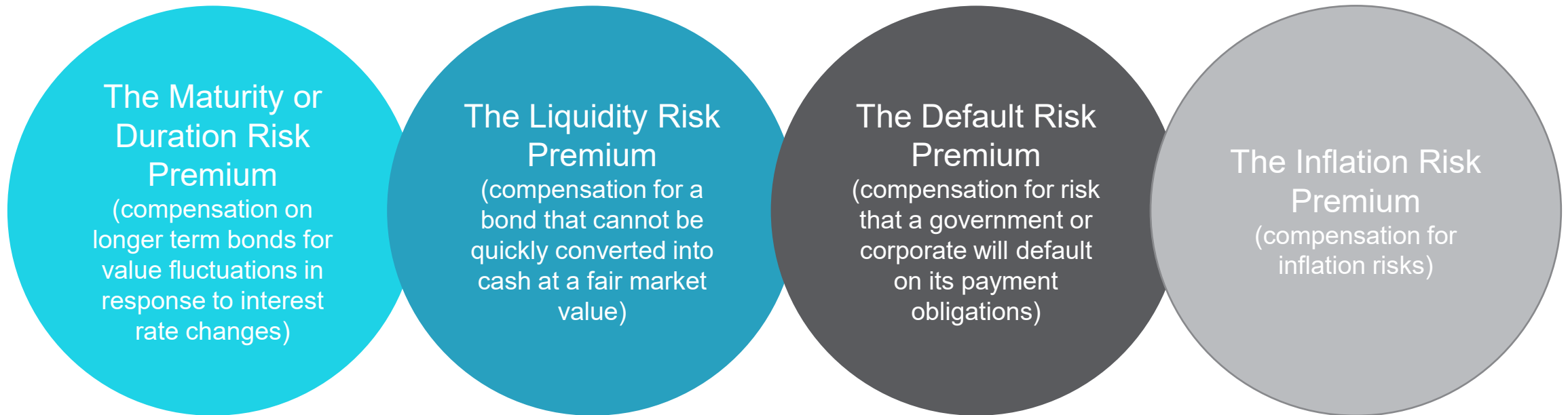
Risk Profiles	G15	G30	G50	G70	G85	G95
	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
	SAA	SAA	SAA	SAA	SAA	SAA
Australian Shares	5%	10%	18%	25%	31%	38%
International Shares	7%	12%	21%	30%	38%	46%
A-REITs	0%	0%	0%	2%	3%	0%
G-REITs	0%	2%	4%	3%	4%	4%
Global Infrastructure	3%	3%	4%	6%	6%	4%
Diversified Alternatives	0%	6%	6%	8%	6%	6%
Australian Bonds	31%	25%	20%	12%	5%	0%
International Bonds	26%	21%	17%	10%	5%	0%
Cash	28%	21%	10%	4%	2%	2%
<b>Growth Assets</b>	<b>15.00%</b>	<b>30.00%</b>	<b>50.00%</b>	<b>70.00%</b>	<b>85.00%</b>	<b>95.00%</b>

# BREAKING DOWN DEFENSIVE ASSETS VIA RISK PREMIA

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## Fixed Interest (Bonds)

In the bond section of the portfolio, we are seeking to harness risk premia in excess of the risk-free rate. These are;



The best way to break fixed income up is via its Duration.

# HOW WE ALLOCATE WITHIN FIXED INCOME – SHORT VS LONG DURATION

## Short / Shorter Duration Fixed Income

Short Duration -These are typically fixed income strategies that are more unconstrained and absolute return in nature having flexible investment guidelines to invest broadly within fixed income markets.

### Short Duration

Absolute Return Bond Funds  
Multi Asset Absolute and Real Return Funds

### Long Duration

Traditional Bond managers  
Credit managers

#### Fixed Income\*

##### Traditional Fixed Income

PIMCO Global Bond Fund — Wholesale Class  
Western Asset Australian Bond Fund — Class A

**Global** Bond and Credit  
**Australian** Bond and Credit

##### Defensive Alternative Fixed Income

Janus Henderson Tactical Income Fund  
Macquarie Income Opportunities Fund  
Ardea Real Outcome Fund

**Aust.** Unconstrained Bond  
**Global.** Alternative Income  
**Aust.** Absolute Return



# BREAKING DOWN GROWTH ASSETS VIA RISK PREMIA

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## Equities

### Market risk premia

(i.e. the index return – not expected to outperform but a powerful return driver)

### Size risk premia

(buying smaller cap stocks)

### Momentum risk premia

(buying stocks that have recently gone up)

*This is not practical in a model portfolio context as it is not a pure risk premia*

### Value risk premia

(buying cheaper stocks)

### Profitability risk premia

(buying stocks with high returns on capital).

### Low volatility risk premia

### Quality risk premia

- When constructing portfolios, we seek to balance the above factors within the equities asset classes by providing a blended exposure.
- All equities managers provide access to the market risk premia to the extent they are fully invested.
- Most equities managers provide access to the valuation risk premium if they are skilful, and some deliver more explicit exposure to this factor than others.

**Remember DIVERSIFICATION is key.**

## HOW WE ALLOCATE WITHIN EQUITIES

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**Diversification is key** – This is why we make sure to understand the role the managers play within our portfolios.

### **Australian Shares**

AB Managed Volatility Equities Fund  
Fidelity Australian Equities Fund  
Allan Gray Australia Equity Fund  
OC Premium Small Companies Fund

### **Investment Style**

Low Vol - Core/Style Neutral  
Growth  
Value  
Small Caps

### **International Shares**

Hyperion Global Growth Companies Fund - Class B  
State Street Global Equity Fund  
Arrowstreet Global Equity Fund (Hedged)  
Antipodes Global Fund — Long  
Fairlight Global Small & Mid Cap Fund (SMID) Class A  
GQG Partners Emerging Markets Equity Fund - A Class\*\*

### **Investment Style**

Fundamental Growth  
Low Vol - Quantitative - Active currency  
Quantitative (Hedged)  
Value - Active currency  
Global Small and Mid Cap  
Emerging Markets

# A FOCUS OF PROVIDING INVESTMENT SOLUTIONS FOR OUR ADVISERS

## Implemented portfolios currently available

Located – FirstChoice Super and Pension  
FirstChoice Centrepoint Managed accounts

Located - VMAPs  
Active Model Portfolio  
- No management fee

Located - VMAPs  
Low-Cost Model Portfolio  
- No management fee

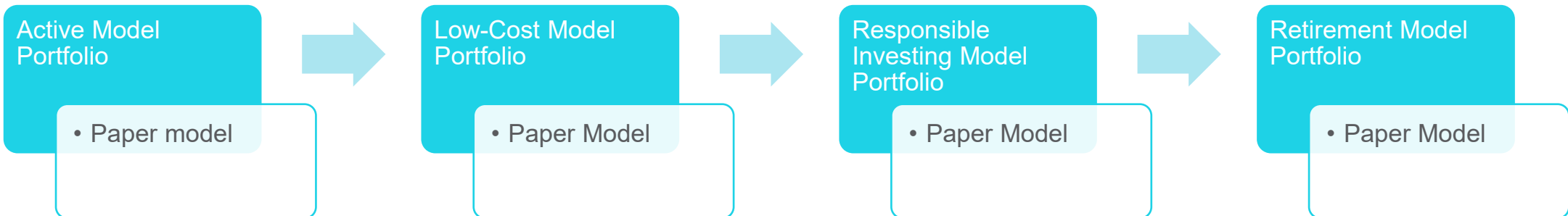
## Implemented investment solutions – proposed

Located – Various Platforms  
Core + Satellite - SMA

Located – Various Platforms  
Income - SMA

MDA solutions

## Paper based models



## INTRODUCING THE PANEL MANAGERS

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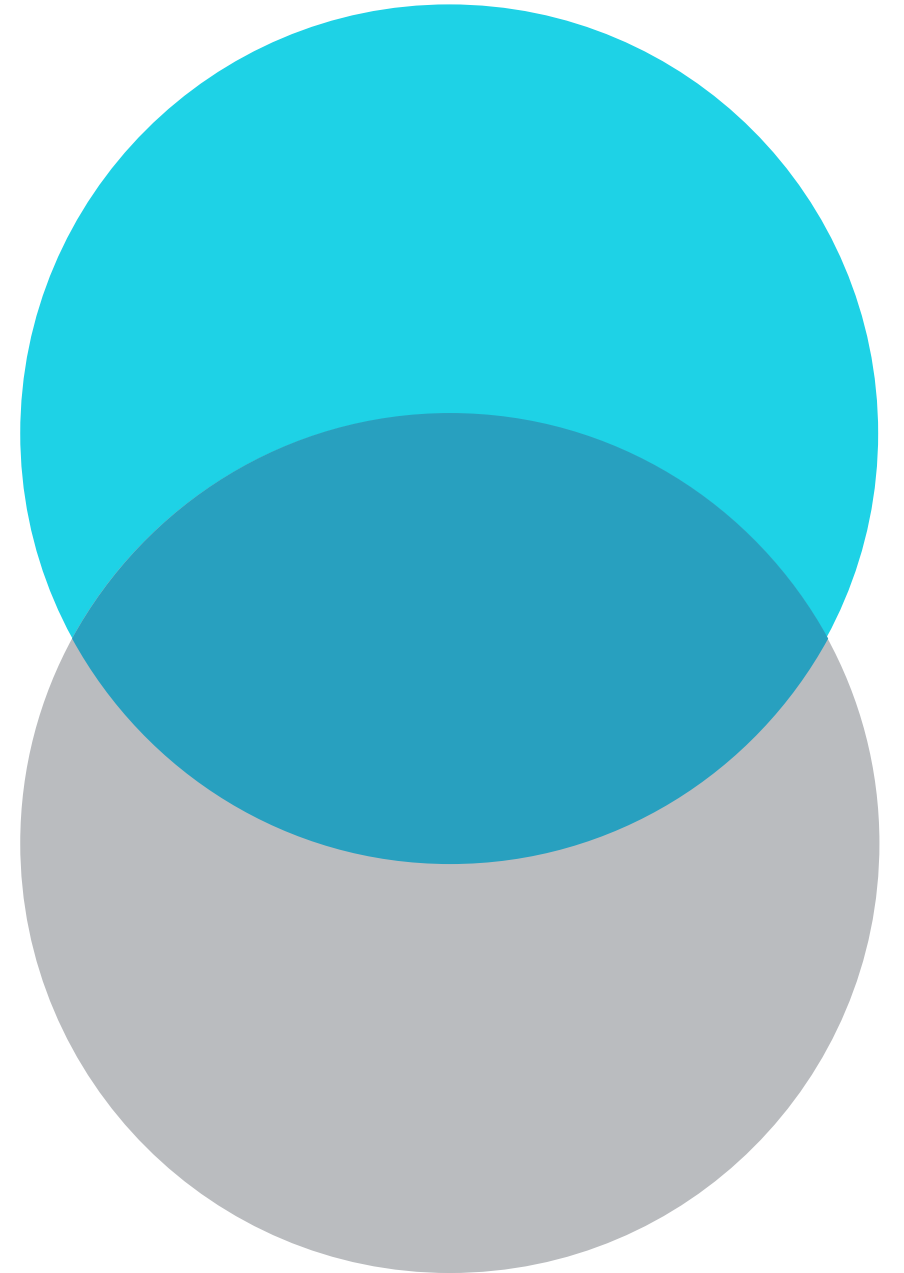
**Western Asset Australian Bond Fund** - Western Asset Australian Bond Fund is a long-duration Australian bond fund that aims to take advantage of mispriced fixed interest securities within various sectors. The fund is diversified across government, semi-government, supranational, credit, securitised assets, inflation-linked bonds and cash. Whilst the majority of the fund is invested within credit, the average credit rating of these securities is AAA. The Fund will only vary +/- 1 year from the duration of the benchmark and aims to be opportunistic with its higher weightings to credit than the benchmark.

*How is it used – It is our Duration manager within Australian Fixed Income*

**Antipodes Global Fund** - Antipodes Global Fund is an active, long-short, global equities manager. The fund is benchmark unaware and employs a value driven investment philosophy to generate a high conviction long/short portfolio. The shorting within the Fund is employed to generate a capital preservation focus. Currency is also actively managed, meaning hedging can vary and currencies can be traded to generate alpha or manage risk.

*How is it used – It is our value manager within International equities*

# WESTERN ASSET



# CPAL Masterclass

Jonathon Costello, CFA



# About Western Asset

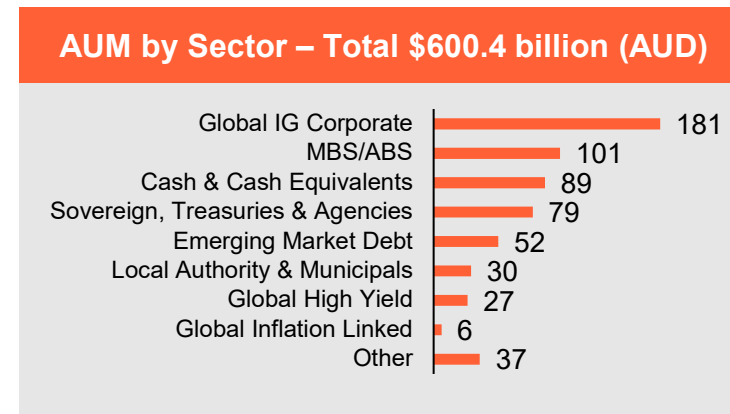
Western Asset is a globally integrated fixed-income manager, sourcing ideas and investment solutions worldwide.

### Western Asset At a Glance

- Founded in 1971. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020
- Fixed-income value investors
- \$600.4 billion (AUD) AUM
  - \$511.7 billion (AUD) long-term assets
  - \$88.7 billion (AUD) cash and cash equivalent assets
- 738 employees

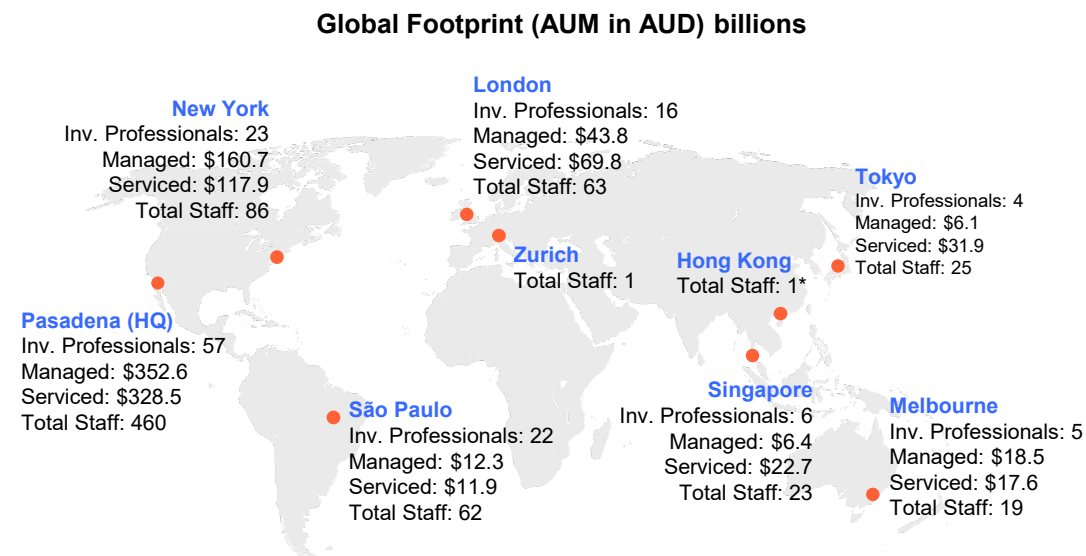
### Organizational Pillars

- Clients first
- Globally integrated
- Team-based
- Active fixed-income
- Integrated risk management



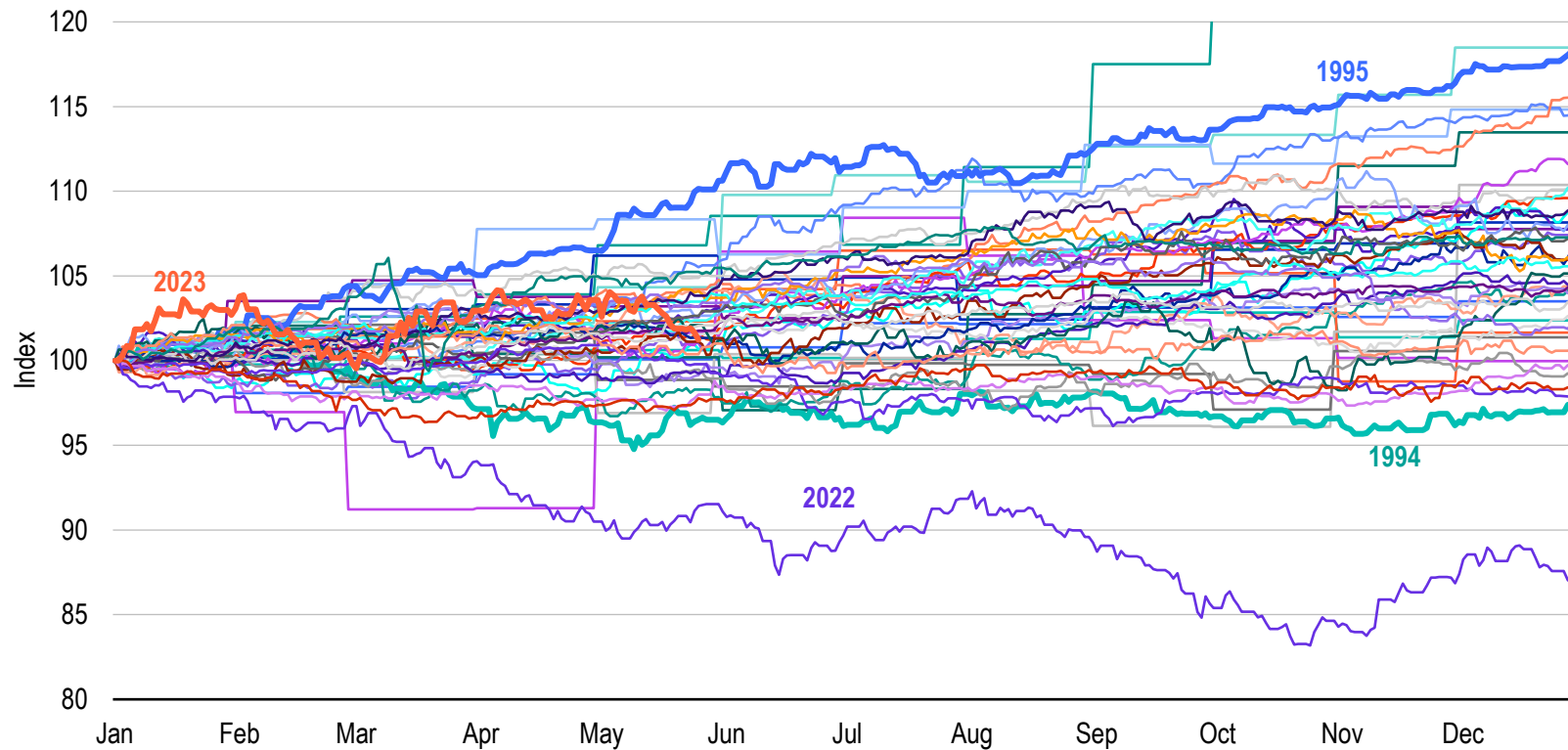
## Western Asset’s Deep Global Integration Allows Us to Source Investment Ideas and Investment Solutions Across Regions

<b>Investment Management</b>	<ul style="list-style-type: none"> <li>• 133 investment professionals on five continents and in seven offices</li> <li>• 25 years average experience</li> <li>• 42 portfolio and quantitative analysts in portfolio operations</li> </ul>
<b>Client Service &amp; Marketing</b>	<ul style="list-style-type: none"> <li>• 166 staff dedicated to client service</li> <li>• Specialized teams to meet individual client needs</li> </ul>
<b>Risk Management &amp; Operations</b>	<ul style="list-style-type: none"> <li>• Independent risk management function with 35 professionals including 12 PhDs</li> <li>• 290 staff dedicated to globally integrated operations</li> </ul>



Source: Western Asset. As of 31 Mar 23 \*Splits time between Hong Kong and Singapore offices

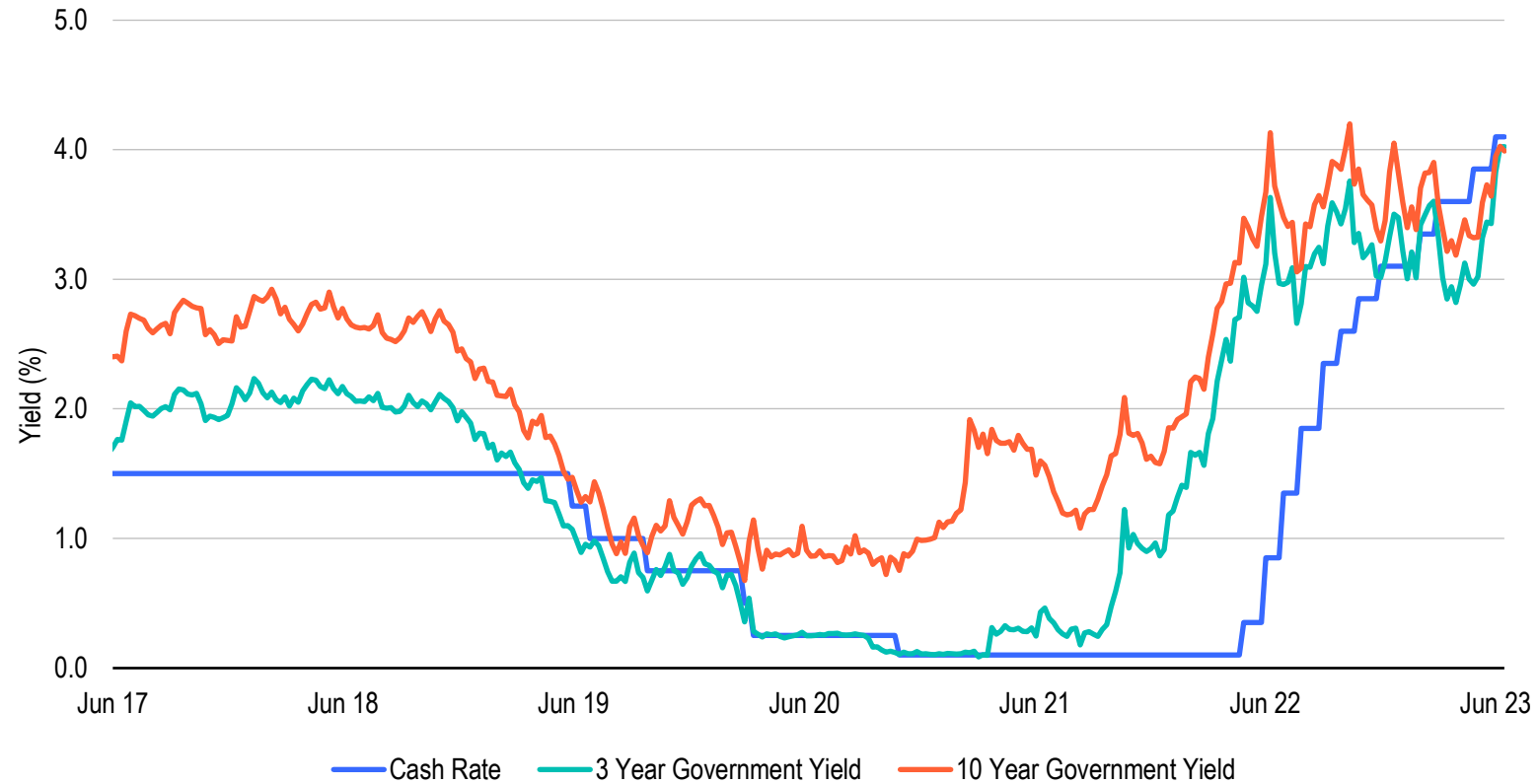
# Index History for Context



Source: Bloomberg. As of 31 May 2023  
US Global Aggregate Index  
Past performance is no guarantee of future results.

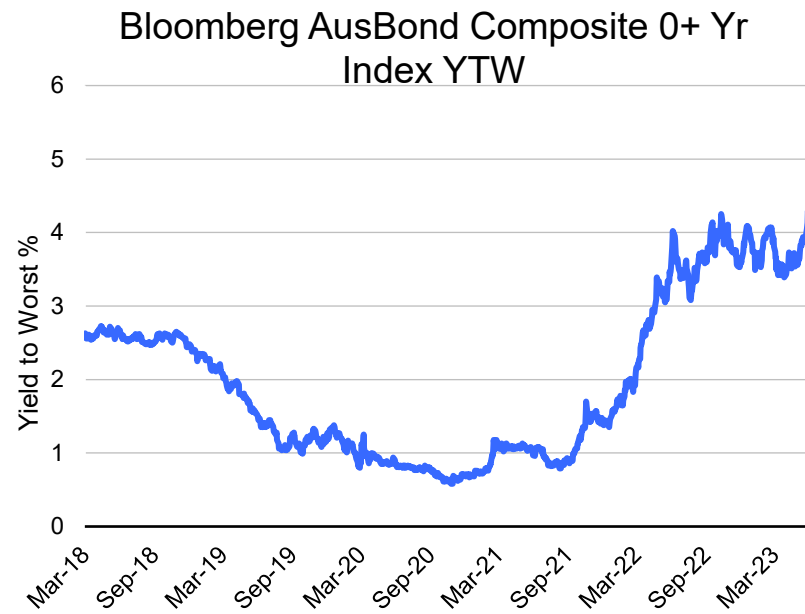


# Australian Cash Rate and Government Yields

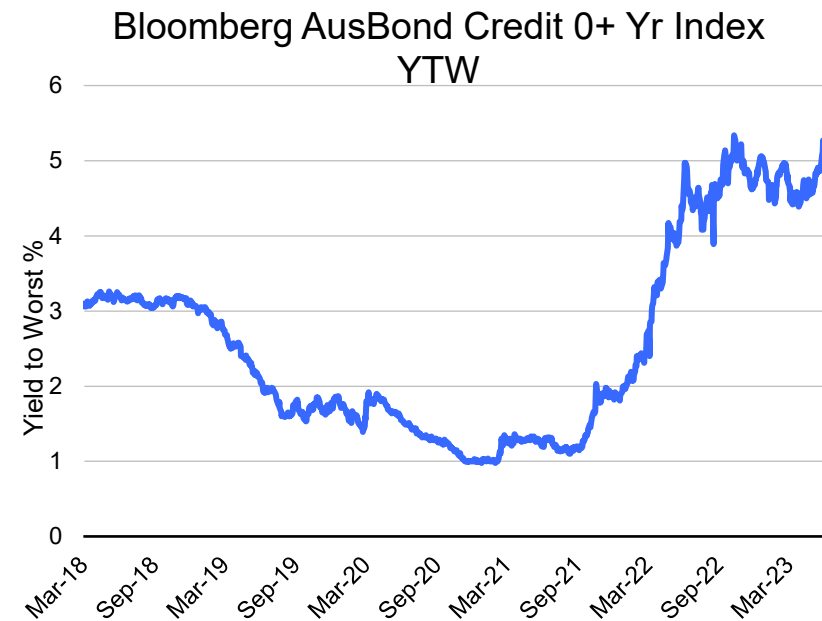


Based on weekly data.  
Source: Bloomberg. As of 23 Jun 23

# Benchmark Yields Attractive



Source: Bloomberg. As at 23 Jun 23

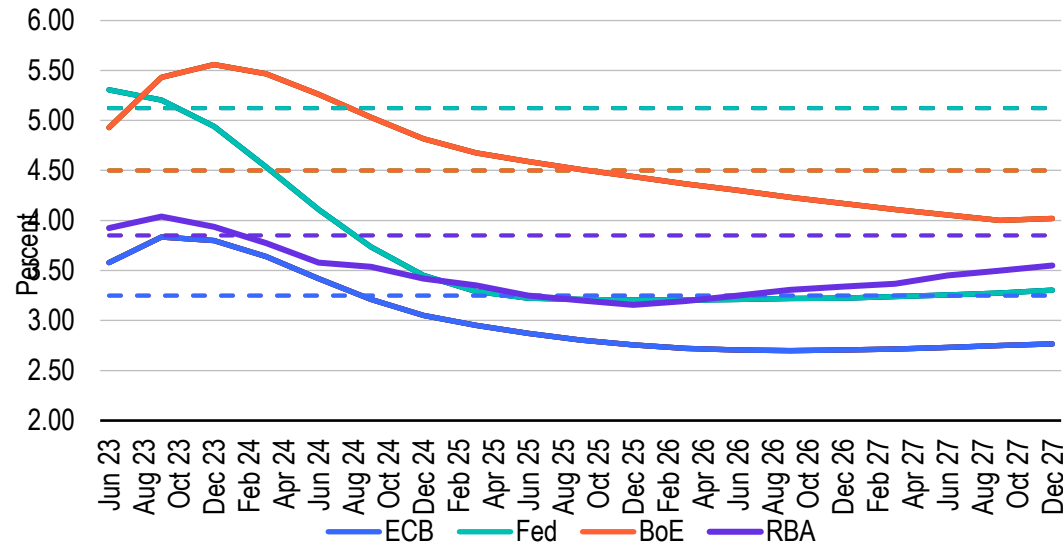


Source: Bloomberg. As at 23 Jun 23

# Market Implied Policy Rate Paths

Policy rate paths implied by futures

## Forward Rates Implied by Futures



- Fed: No more hikes. 2 cuts fully priced by year end.
- ECB: 2 more hikes fully priced. No cut before end Q124.
- BoE: 2 more hikes almost fully priced. No cut before Q124.

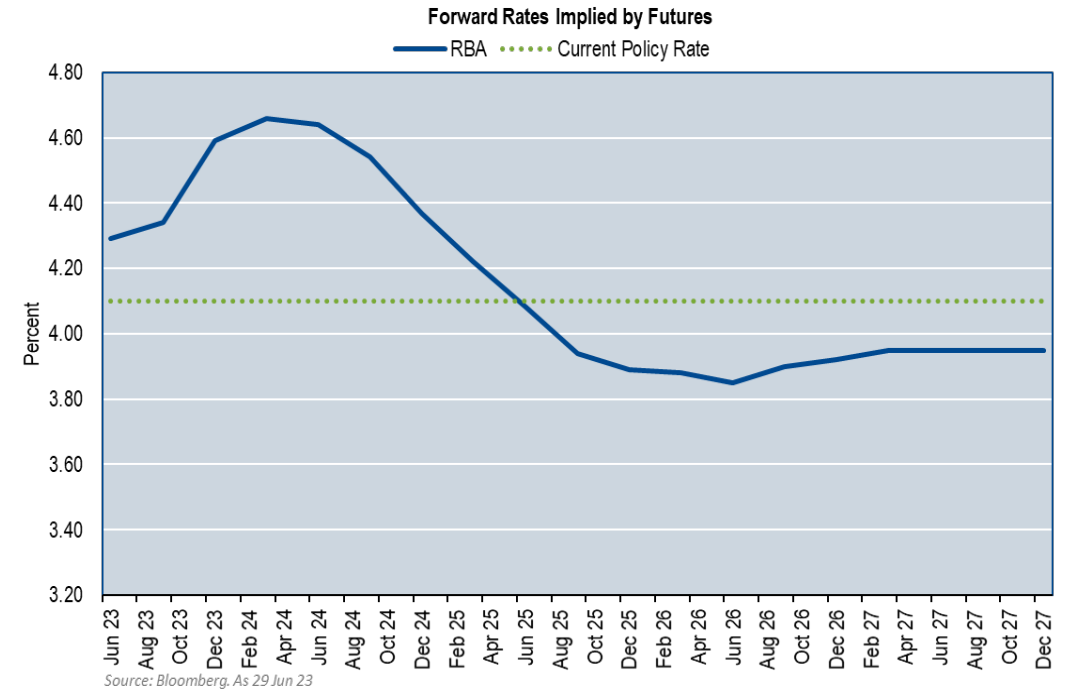
Source: Bloomberg. As 30 May 23  
Dotted lines represent current policy rate levels

# Implied Cash Rate Pricing

Market expectations for cash rates remain volatile

Market Implied Policy Rates				
Meeting	Hikes	%Hike / Cut	Implied Rate Change	Implied Rate
Aug 23	0.49	48.6%	0.12	4.22
Sep 23	0.47	-1.9%	0.12	4.22
Oct 23	1.19	72.3%	0.30	4.40
Nov 23	1.59	40.4%	0.40	4.50
Dec 23	1.90	30.5%	0.47	4.57
Longer Dated Market Implied Cash Rates				
Jun 25	-0.16		-0.04	4.06
Jun 26	-1.08		-0.27	3.83

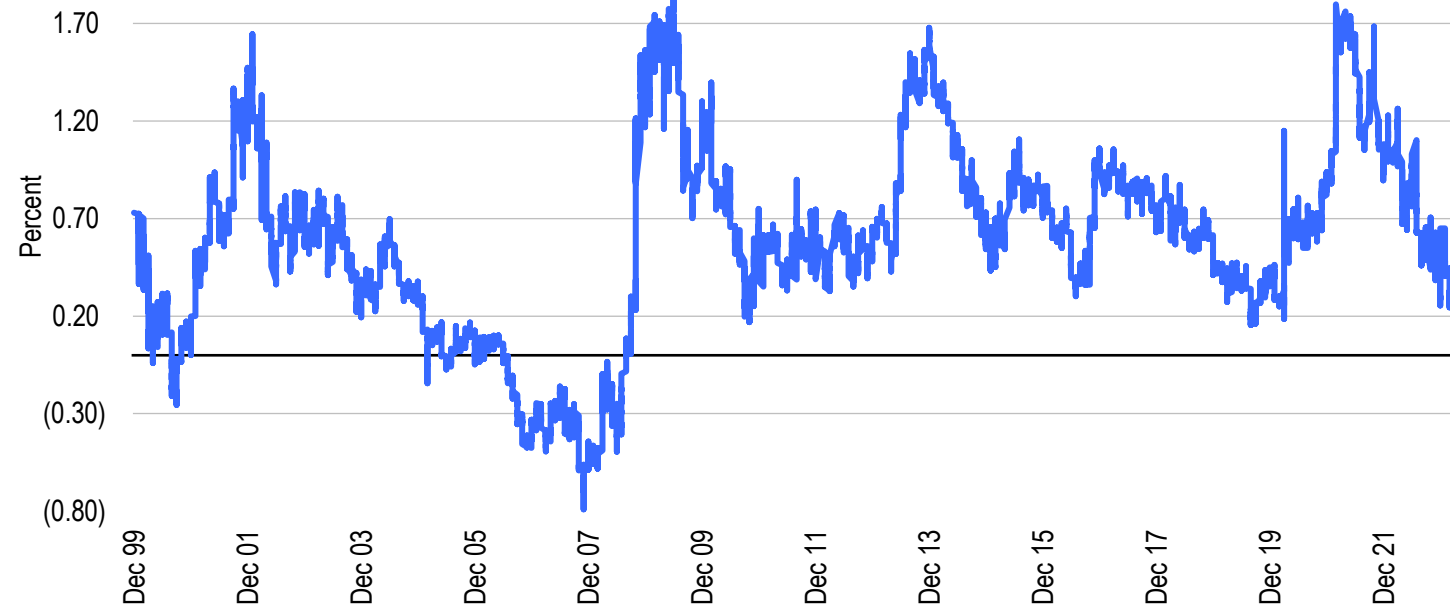
Source: Bloomberg. As at June 30th 2023



# Australian Government Yields

Does yield curve inversion between the 2 and 10 Year bond portend recession?

## Australian 10 Yr vs 2 Yr Government Bond

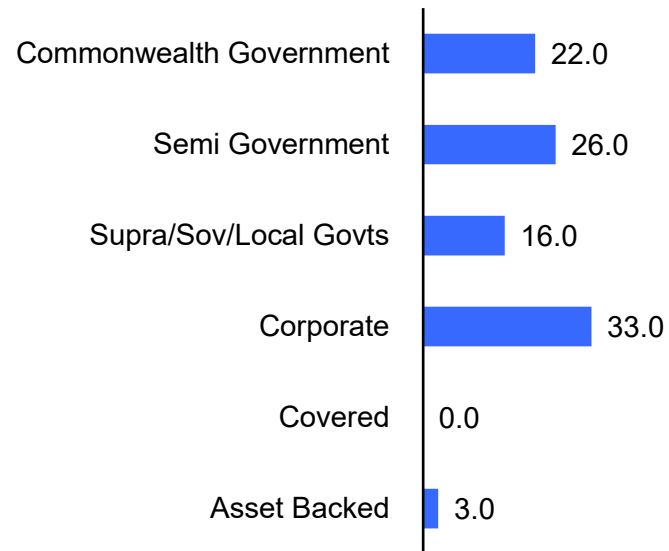


Source: Bloomberg. As 30 Jun 23

# Benchmark Composition – Pre GFC to now

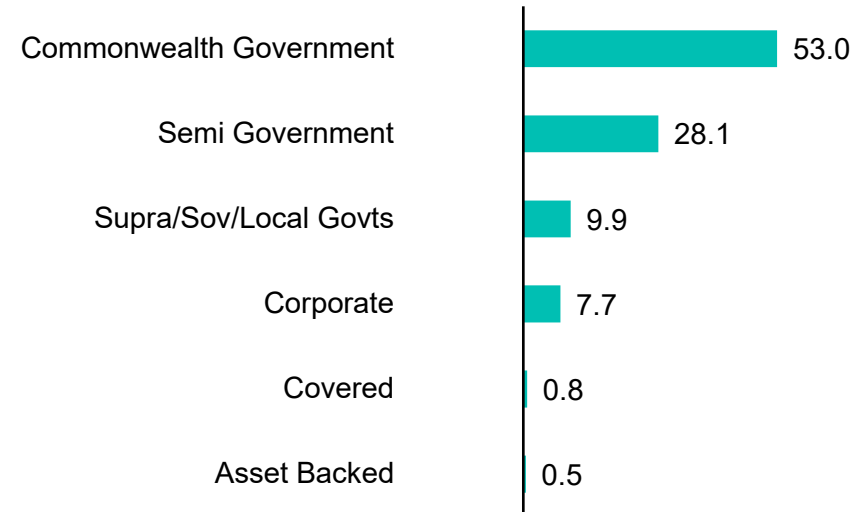
**December 2006**

**UBS Australian Composite Bond Index (%)**



**June 2023**

**Bloomberg AusBond Composite 0+ Yr Index (%)**

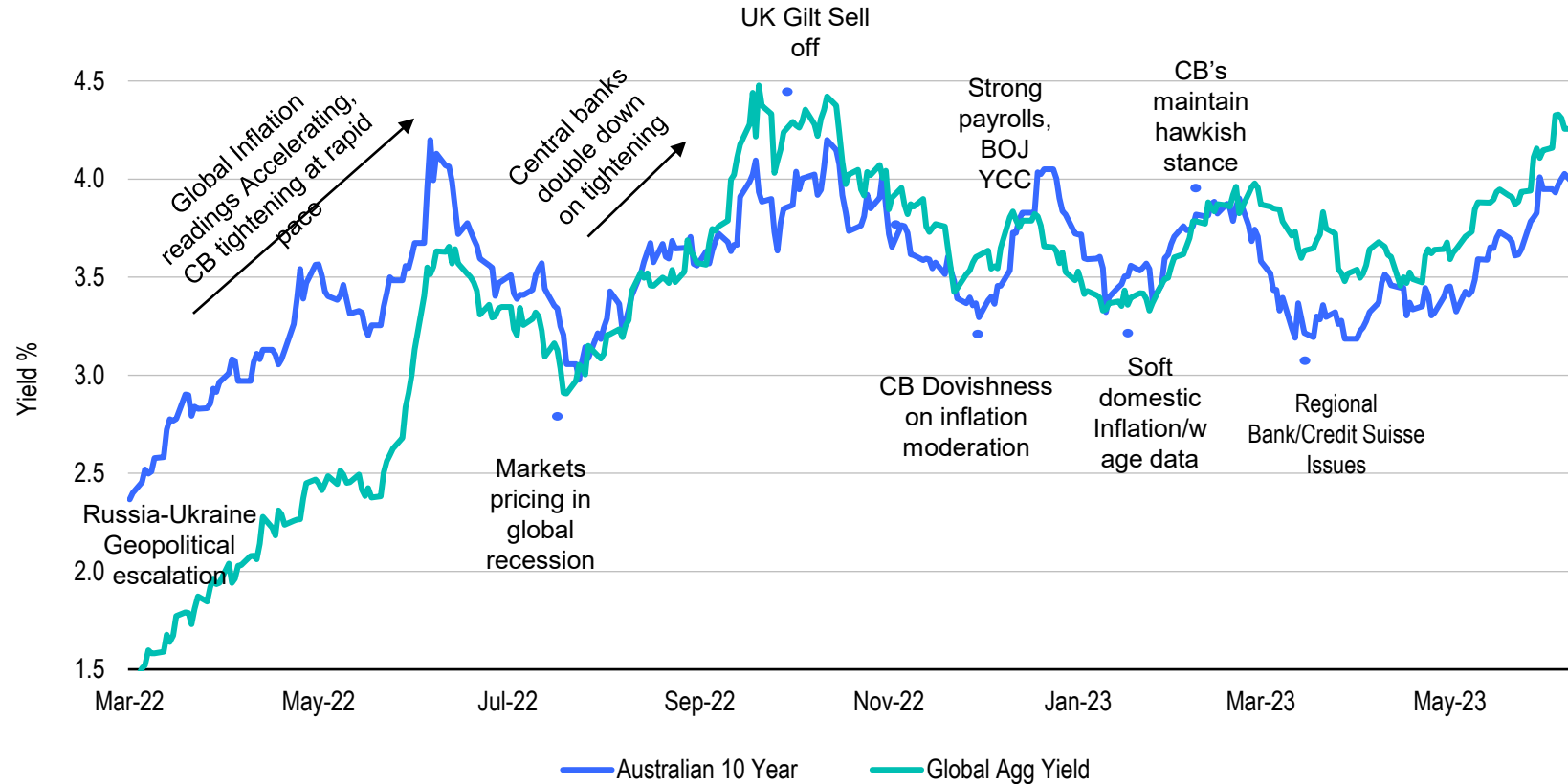


Source: Western Asset

Total may not sum due to rounding. Past performance is not a guarantee of future performance.

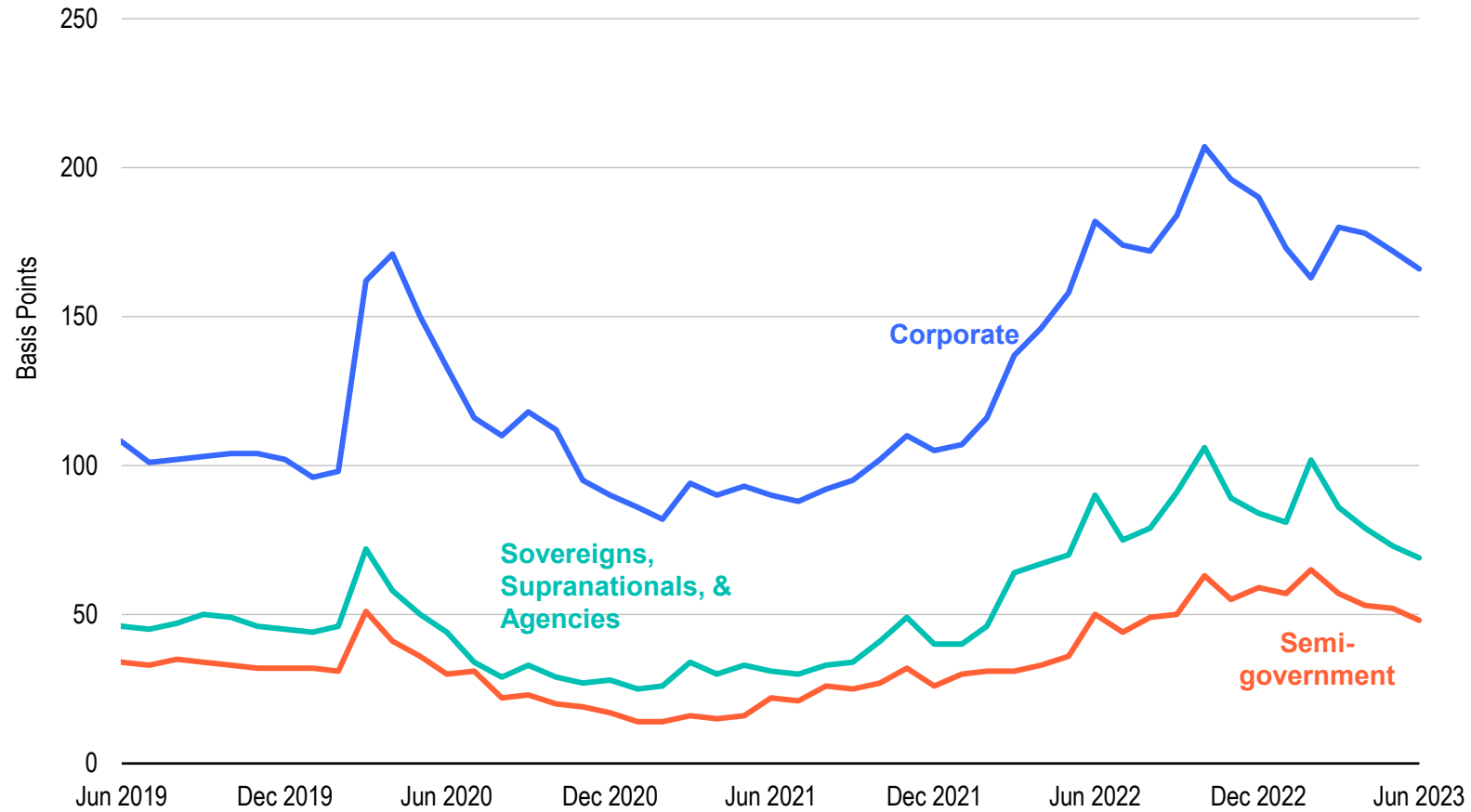
# 10 Year Bond Yield

A wild ride for yields with active management critical



Source: Bloomberg, Western Asset As of 23 June 23

# Australian Bond Spreads

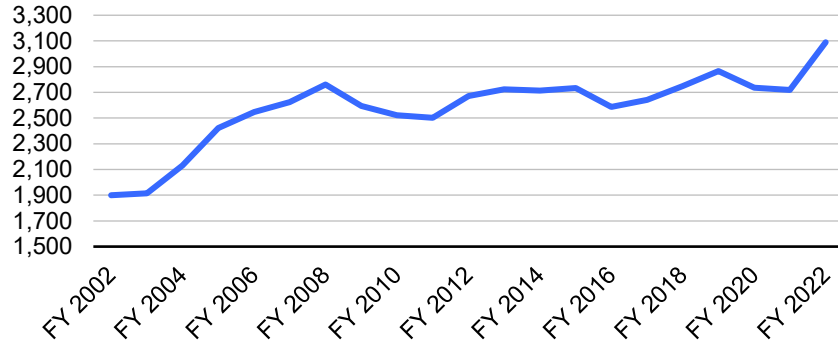


Source: Bloomberg. As of 30 June 23

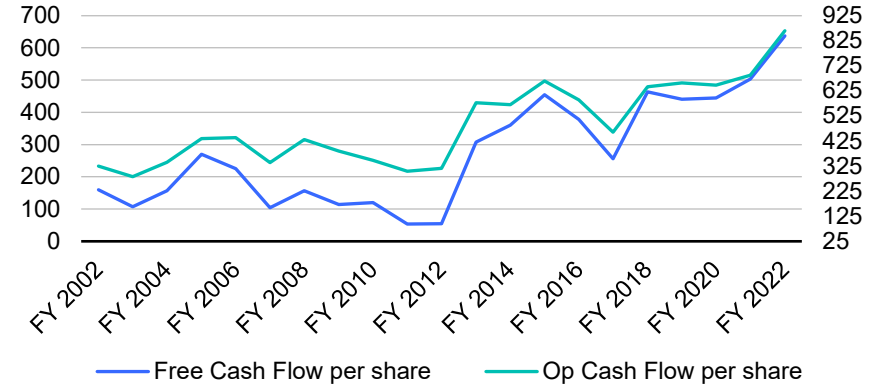


# Cash Flow and Debt Metrics Support Investment-Grade Credit

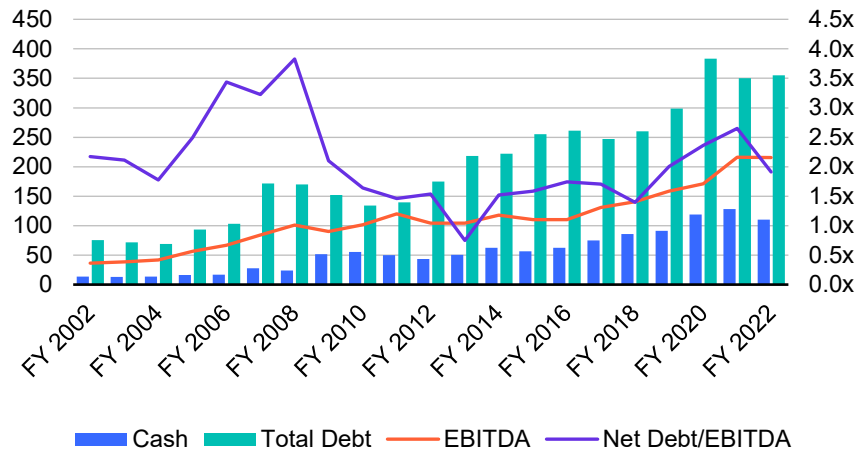
### ASX 200 - Sales Revenue per Share



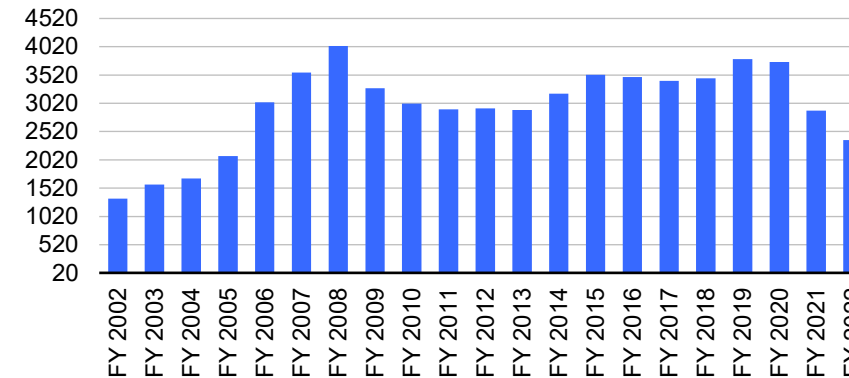
### ASX 200 - Cash Flows



### ASX 200 ex Financials & Energy - Leverage



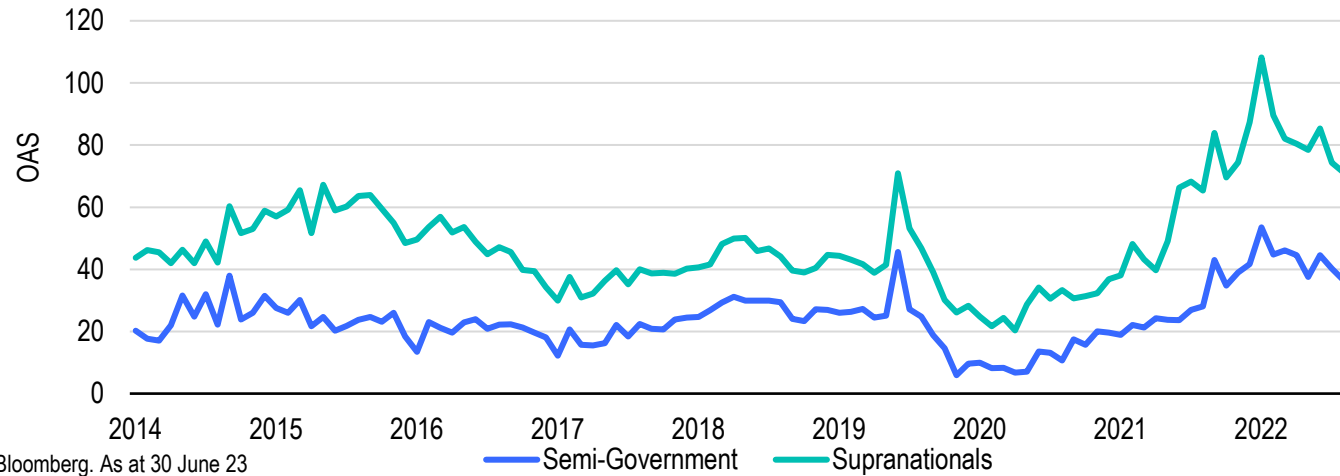
### ASX 200 Net Debt



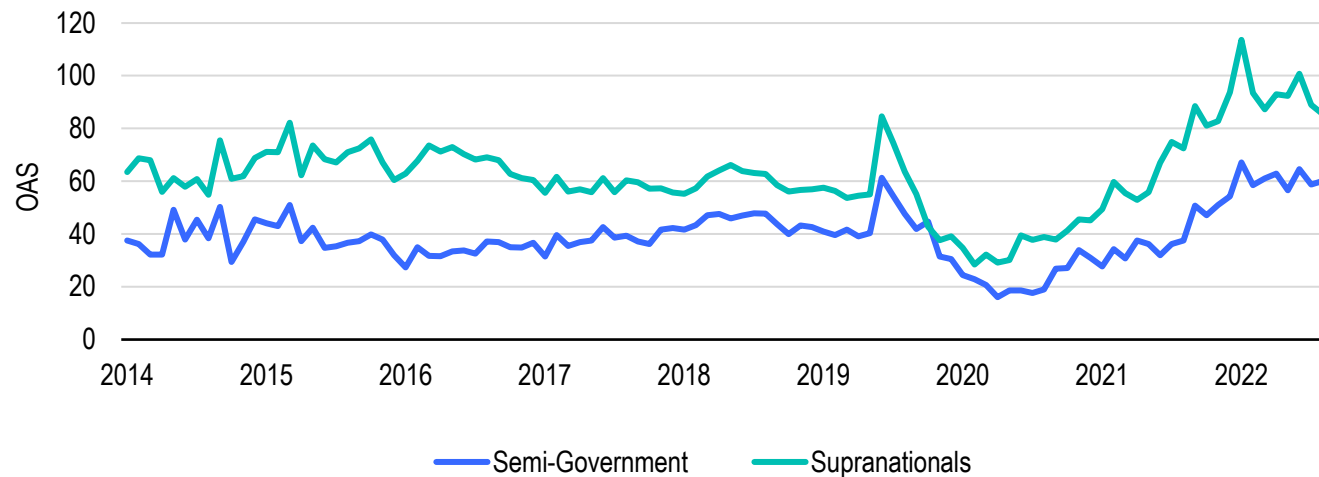
Source: ASX, Bloomberg. As of 31 Dec 22

# Australian Bond Spreads

## Australian Semi-Government vs. Supranational Spreads (3-5 yr)



## Australian Semi-Government vs. Supranational Spreads (7-10 yr)

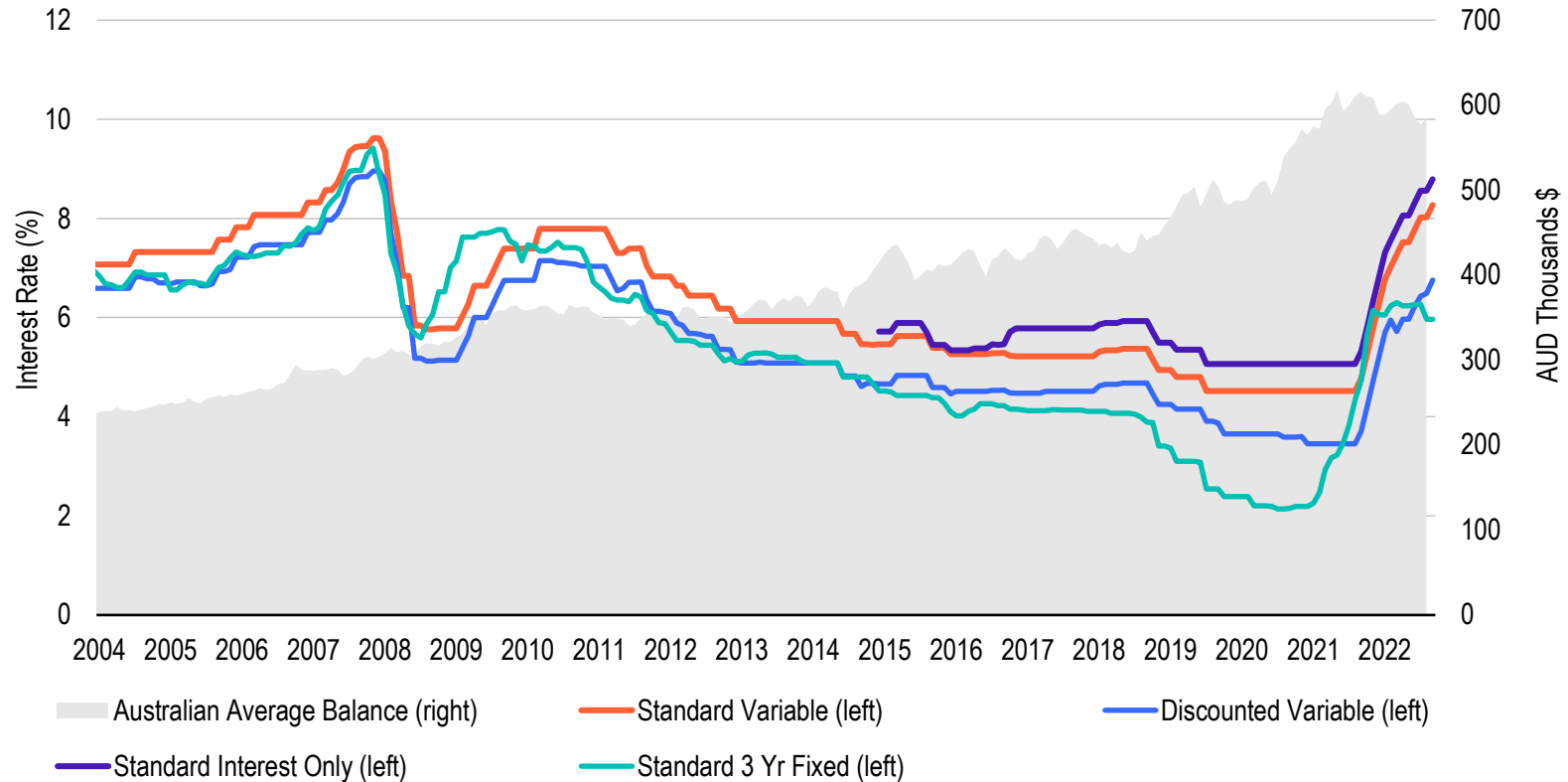


Source: Bloomberg. As at 30 June 23

# Household Sector – Rates and Loan Size

Roll off of fixed-rate loans and delays to the full impact of variable rates changes a key consideration for the RBA

### Average Owner Occupier Home Loan Balance vs. Mortgage Rates (LHS)



Source: RBA, ABS. As of 31 May 23. Australian Average Balance as of 30 Apr 23

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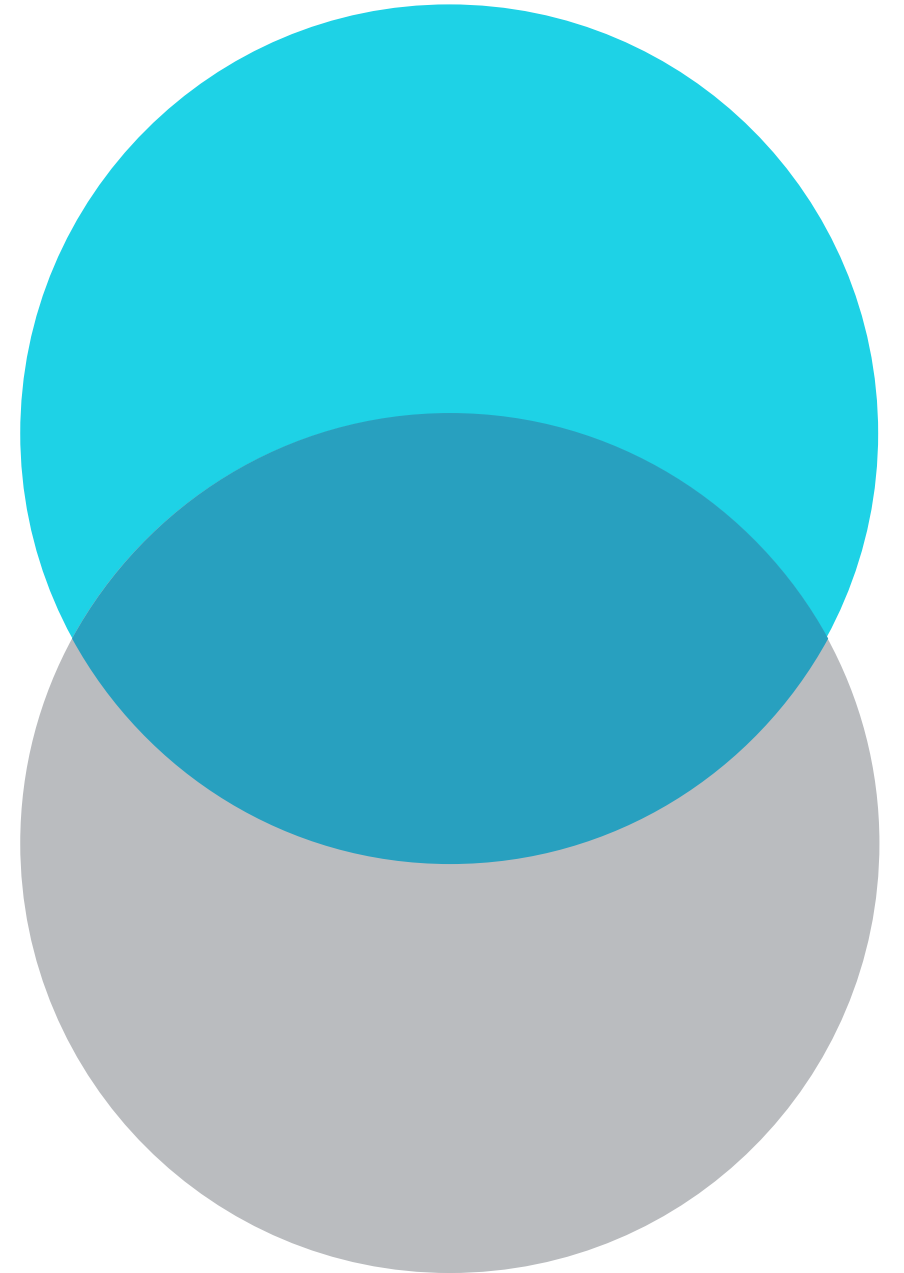
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# ANTIPODES GLOBAL FUND





# **Staying constant in an ever-moving market environment**

## Centrepoint Masterclass Series

July 2023

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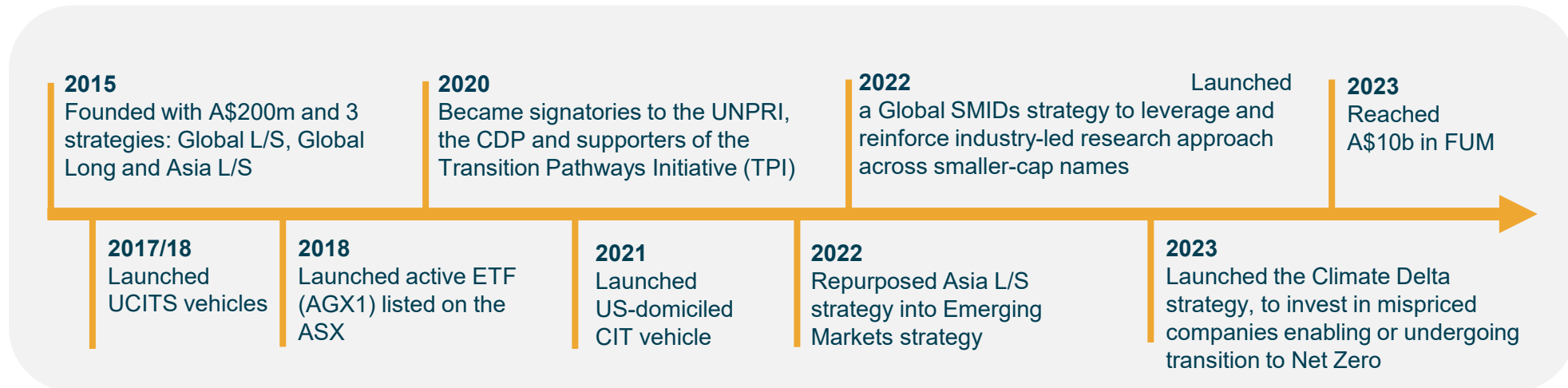
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## Firm overview

- Specialist global equities manager, long-short and long-only offerings
- Founded 2015
- A\$10 billion AUM
- 32 investment professionals, 40 staff in total
- Offices in Sydney, London and North America
- Majority employee owned, A\$20m+ co-invested

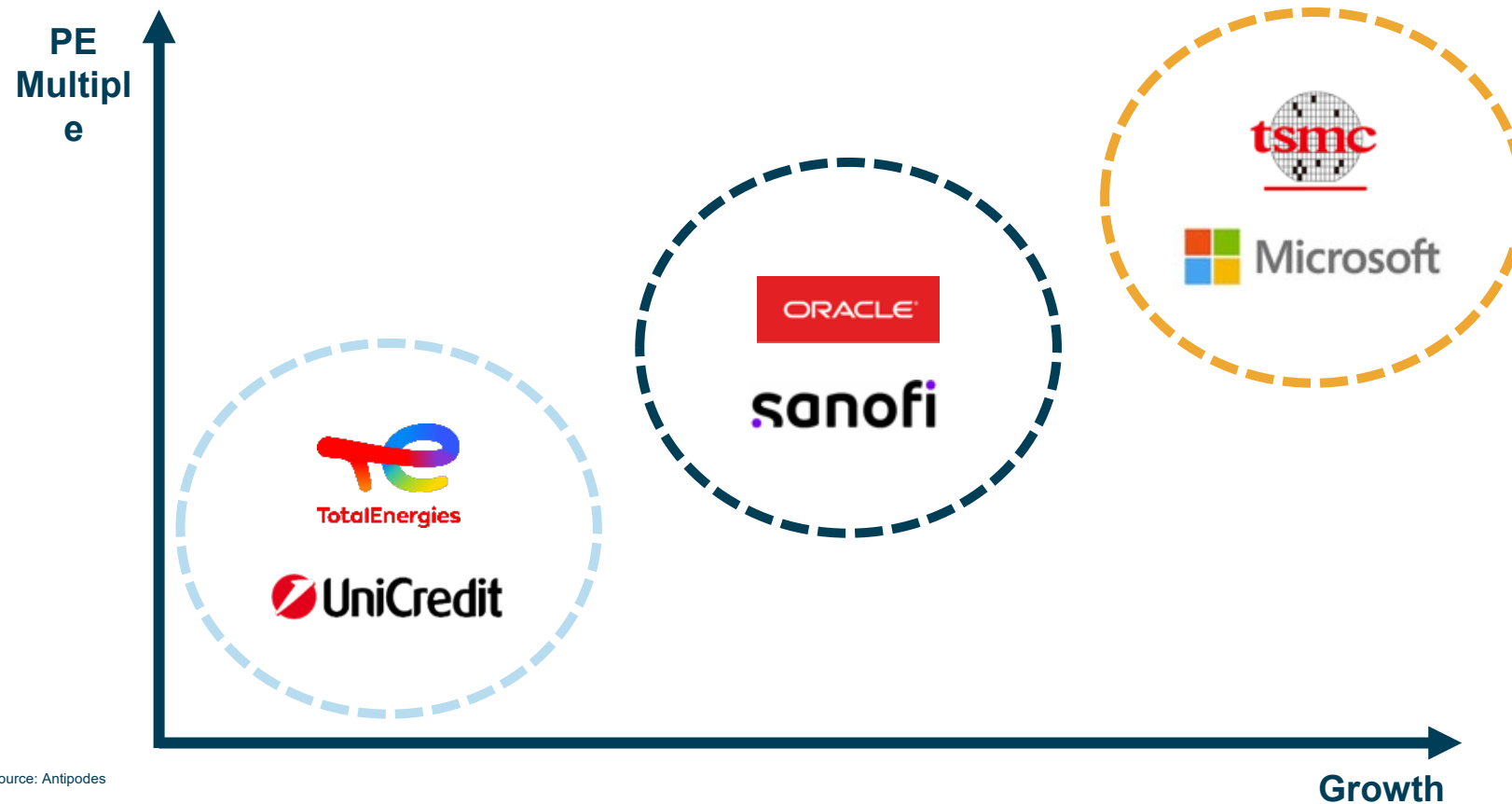


\*As at March 2023



# Pragmatic Value - resilient businesses at attractive valuations

- We invest across the continuum of low to high growth at the right multiple
- We are agnostic as to the level of growth as long as the multiple paid reflects this trade-off



Source: Antipodes

## Is it time for optimism or caution?

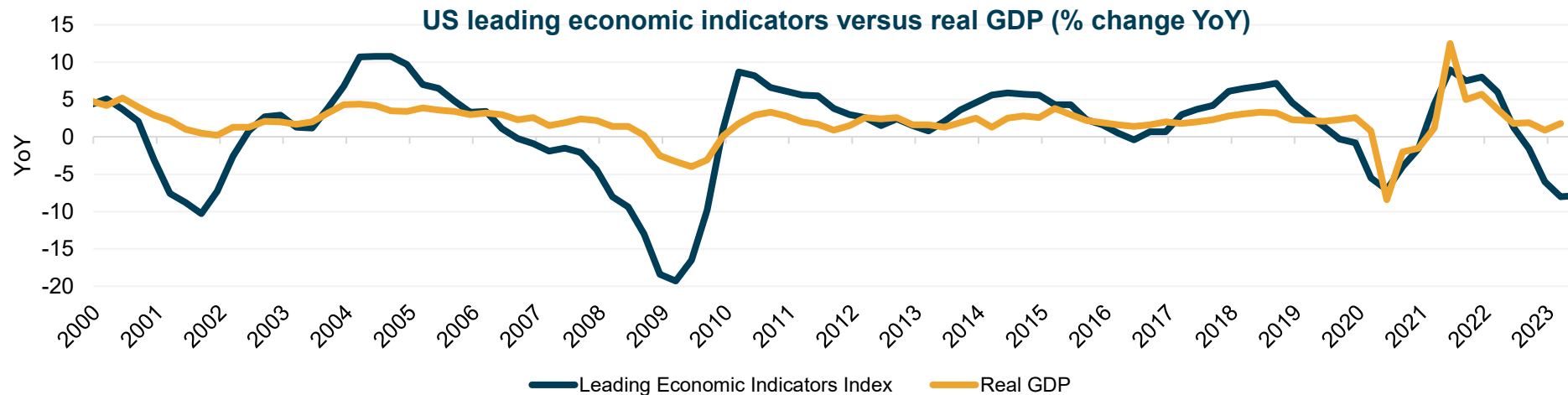
- Outlook – what are the macro indicators suggesting?
- How is Antipodes positioning the portfolio?
- 3 key portfolio holdings



# The most anticipated recession in the West is yet to arrive

## But the leading indicators suggest it's coming

- **Outperformance of services is unsustainable** → manufacturing leads services in all downturns
- **Sharpest tightening since the 80s** → rate hikes and QT take time to wash through to the real economy
- **Policy makers do not have the same flexibility** → bullets spent during economic expansion
- **Monitor potential offsets** → tight labour market, NBFIs plug the credit gap, resilient non-resi investment



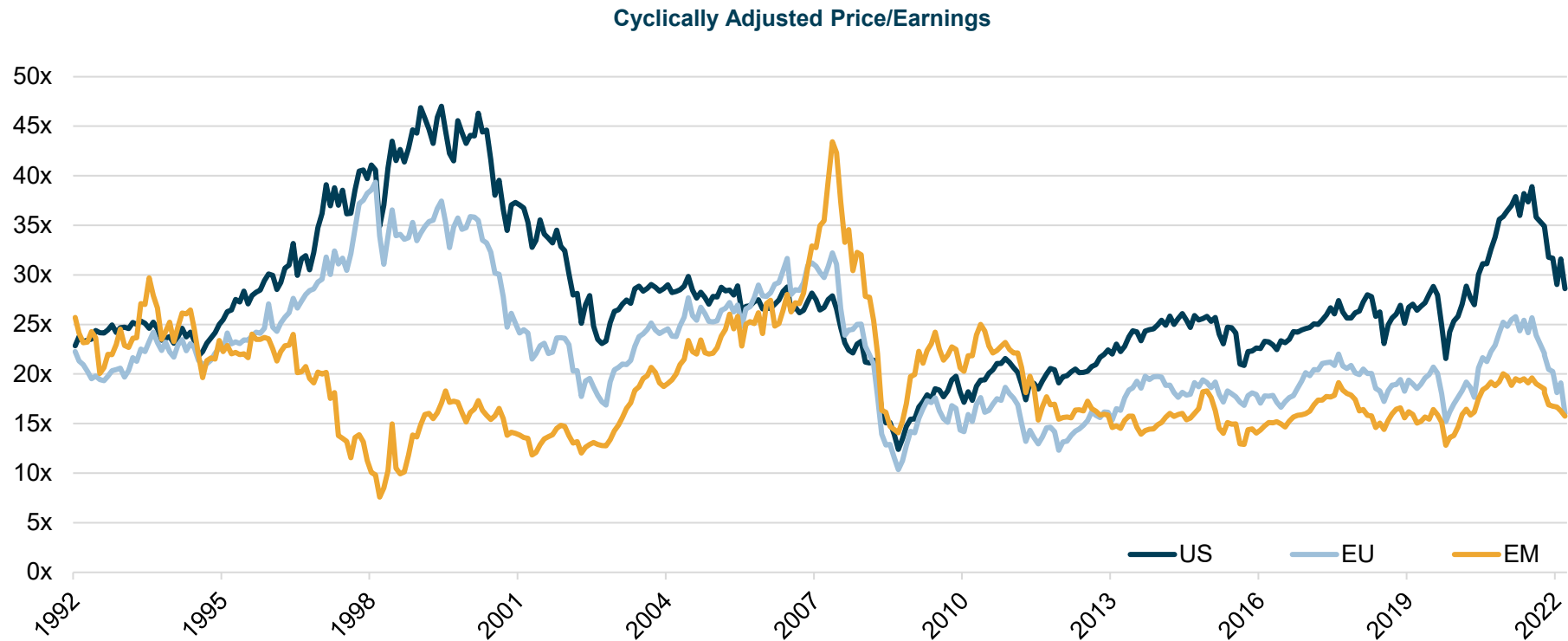
### Leading Indicator Index

**Financial Components:** Leading Credit Index, S&P500 Index, 10-yr Treasury bond spread (over Fed Funds rate)

**Non-Financial Components:** Average consumer expectations for business conditions, ISM Index of New Orders, building permits (private housing), average weekly hours (manufacturing), manufacturers' new orders, (non-defense capital goods excl. aircraft), manufacturers' new orders (consumer goods and materials), average number of initial applications for unemployment insurance

# Is the blue sky scenario already in the price?

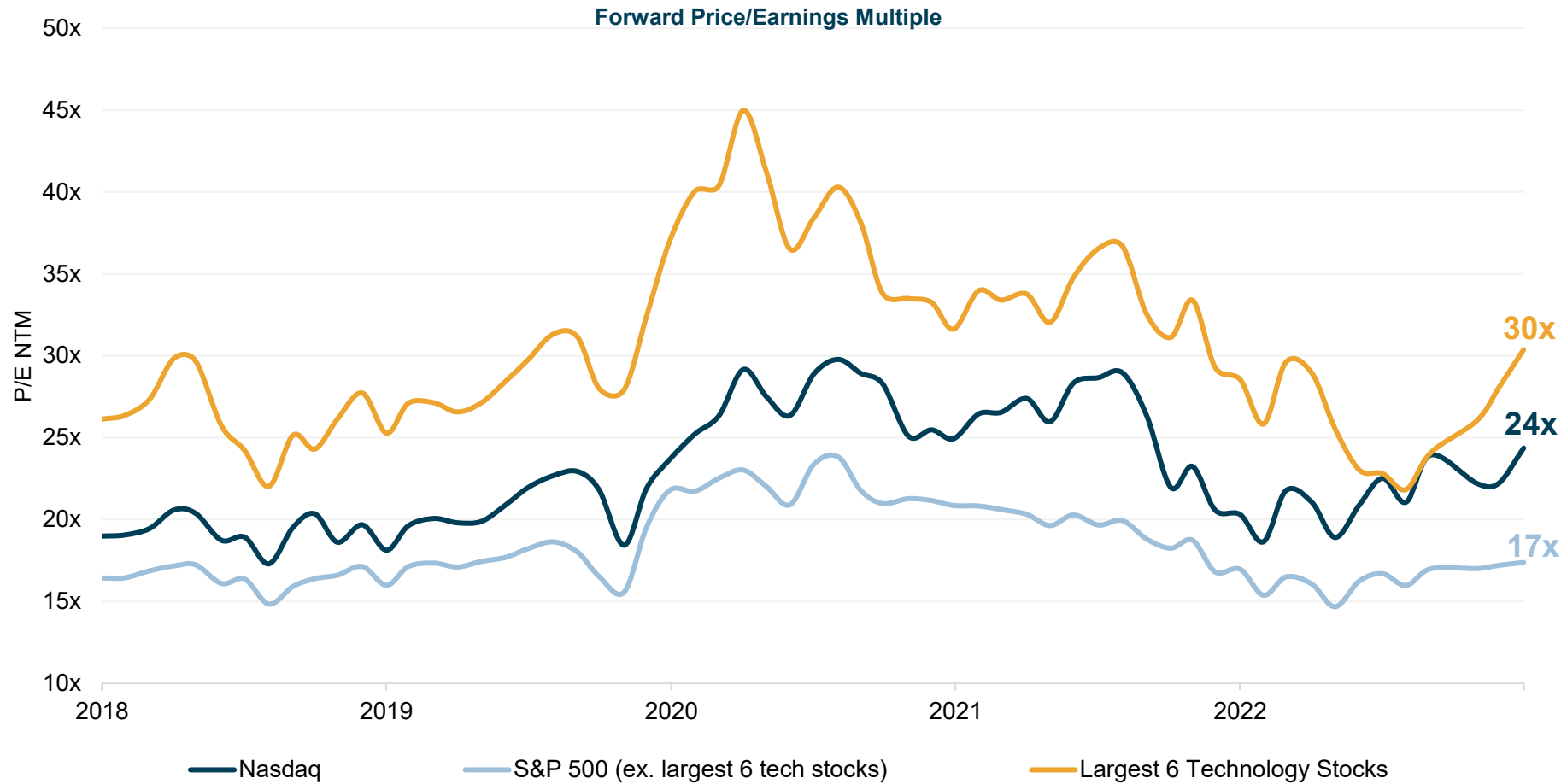
- Consensus forecasts have FY23 earnings flat year-on-year, despite tightening in place
- Market is expecting dovish rate cuts over next 12 months
- Risk: Fed overtightens or takes too long to pause with the focus on inflation



Source: FactSet, Antipodes

# Don't anchor to yesterday's winners

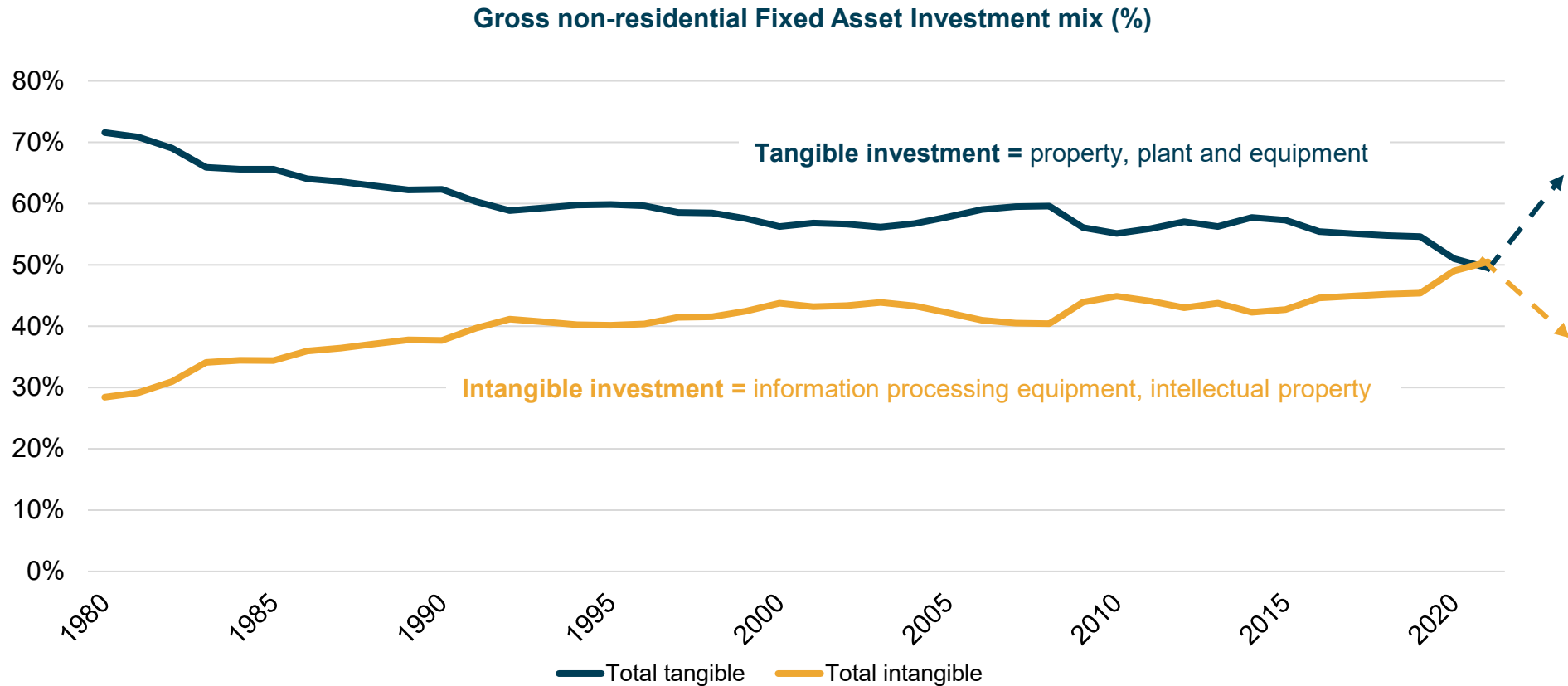
Beware of growth traps as the range of outcomes widens



Source: FactSet, Antipodes

# Return to a “tangible” led CAPEX cycle

## Position for tomorrow’s secular winners

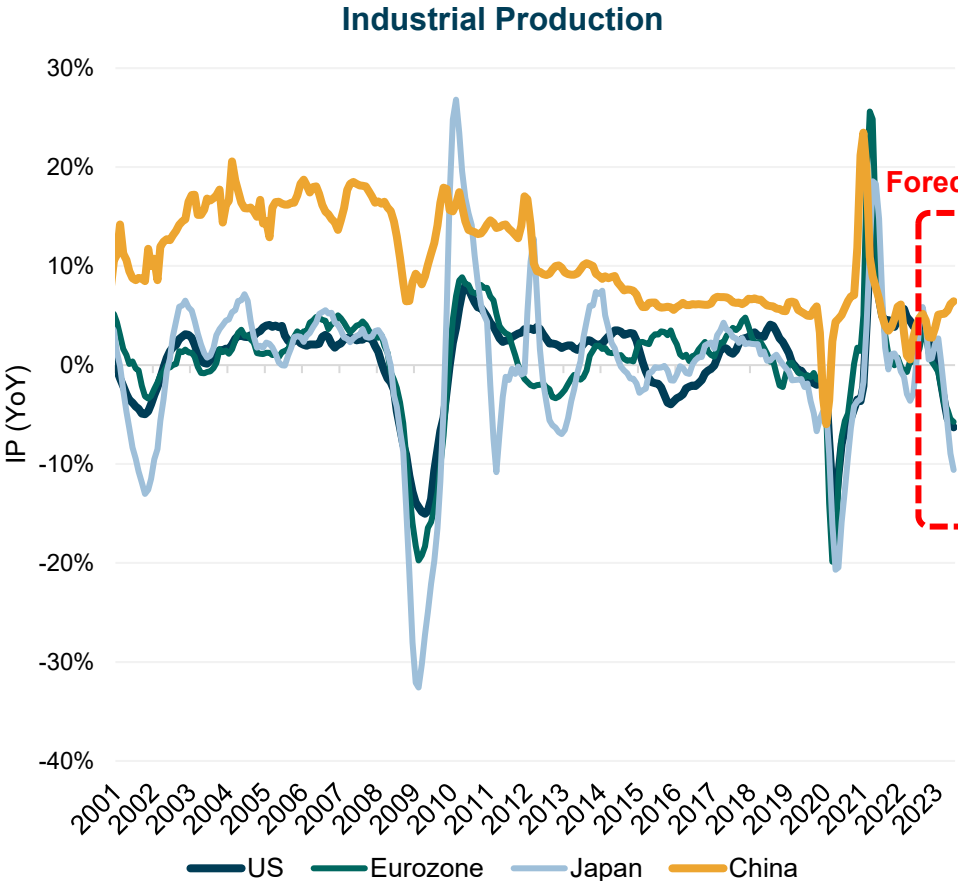


Source: US Bureau of Economic Analysis

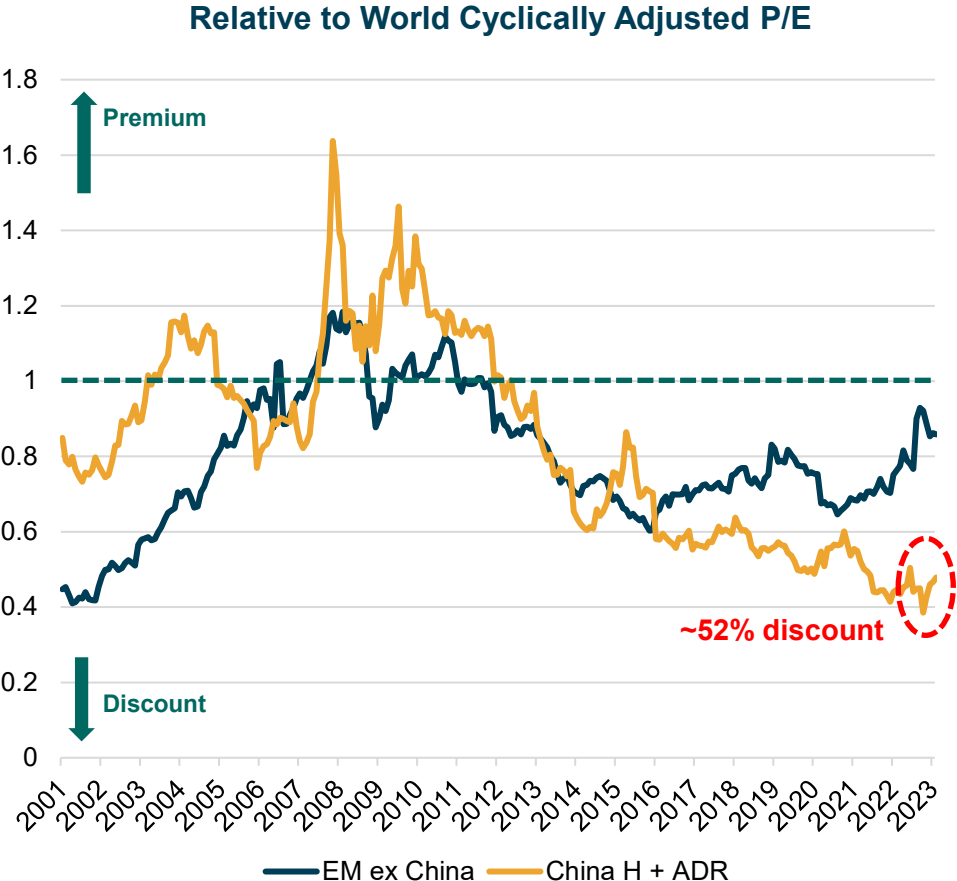
Solves for risk rather than productivity → more inflationary

# Valuations factoring in geopolitical risk and a tough economic outcome

## China H and ADR listings are at a historically large discount



Source: Antipodes, Factset

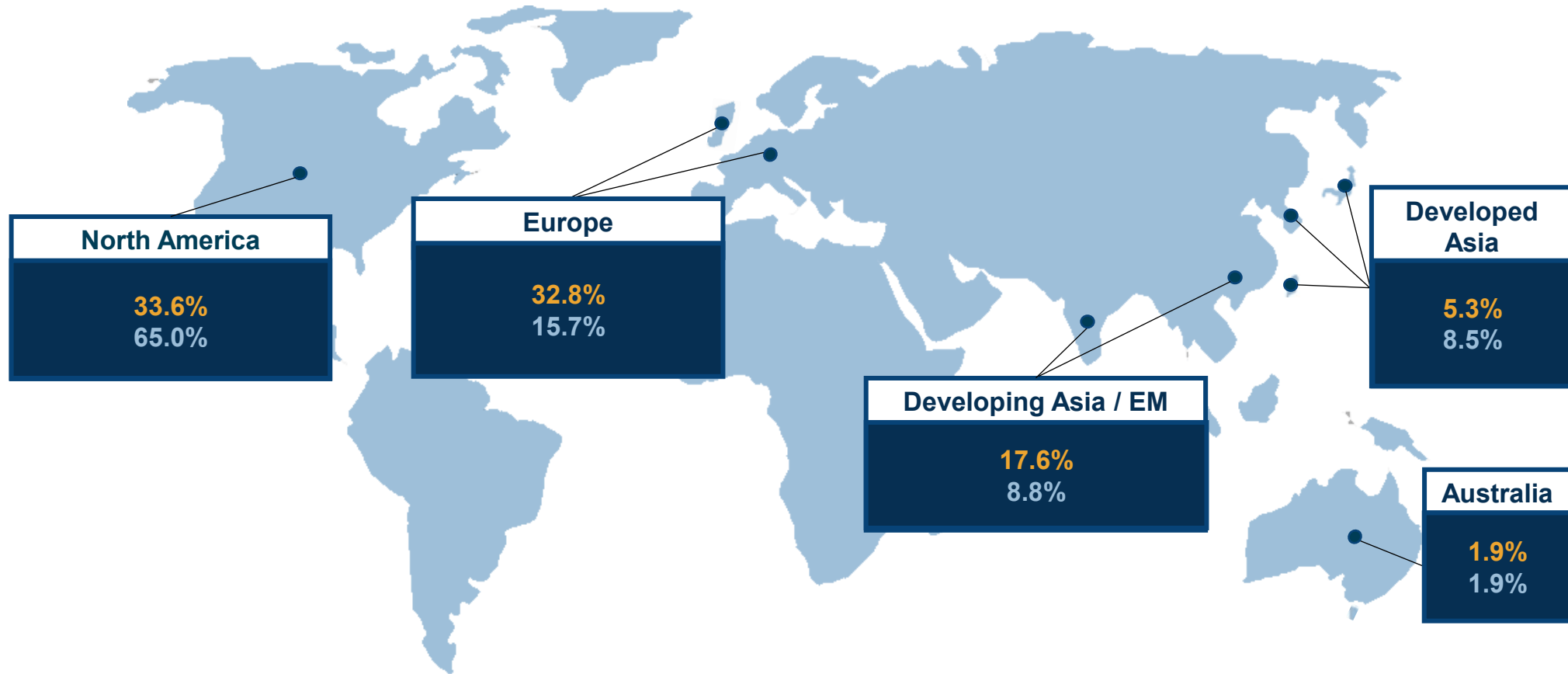


Source: Antipodes, Factset

# Regional long positioning

Key:



Antipodes Global Fund - Long  
MSCI ACWI



As at 30 Jun 2023  
8.8% held in cash



# Global Long-Short exposure

Cyclicals	Developed Markets 17.4%		Emerging Markets 19.8%		
	Consumer Meta TESCO	Financials Capital One UniCredit mandiri		Consumer 中国平安 PING AN Midea Alibaba.com	
Investment trends	Connectivity / Compute 8.9%		Energy Transition 18.8%		
	Hardware tsmc SEAGATE	Infrastructure Frontier COMMUNICATIONS Terna Driving Energy	Oil & Gas TotalEnergies	Industrials SIEMENS SIEMENS ENERGY	Materials Teck
Defensive	Software incumbents 9.2%		Healthcare with pipeline / Staples 19.2%		Defence / Aerospace 1.5%
	Microsoft SAP ORACLE	sanofi MERCK DIAGEO Heineken		THALES	
Tail Risk Protection	Tail risk		Single stock shorts		Gold 3.7%
	Credit (13.9%) Equity (4.4%) 		(19.1%) 		NEWCREST MINING LIMITED BARRICK

As at Jun 2023  
Source: Antipodes  
Exposures are representative of Antipodes Global Long Short strategy.

# Summary

- **Monetary policy acts with a lag** → the full effect of this current tightening will likely be felt into 2024
- **Starting valuations of US equities are already elevated** → earnings downgrade cycle is yet to begin
- **Defensively positioned for a “negative pivot”** → Fed easing later with the economy already contracting
- **Opportunities in Europe and China** → Outlook incrementally positive

**Pragmatic value**

**Resilient businesses with pricing power**

**Cheap insurance to protect against tail risks**

# THANK YOU

Questions

