



NAVIGATING THE CURRENT: GLOBAL MARKET INSIGHTS & COLLABORATIVE FORECASTING

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Daniel Stojanovski – Head of Research



DISCLAIMER

General Advice Warning

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LEARNING OUTCOMES

By participating in this session, you will:



Gain insights into the current economic environment



Further understanding in what is shaping global markets and fixed income markets by insights from managers



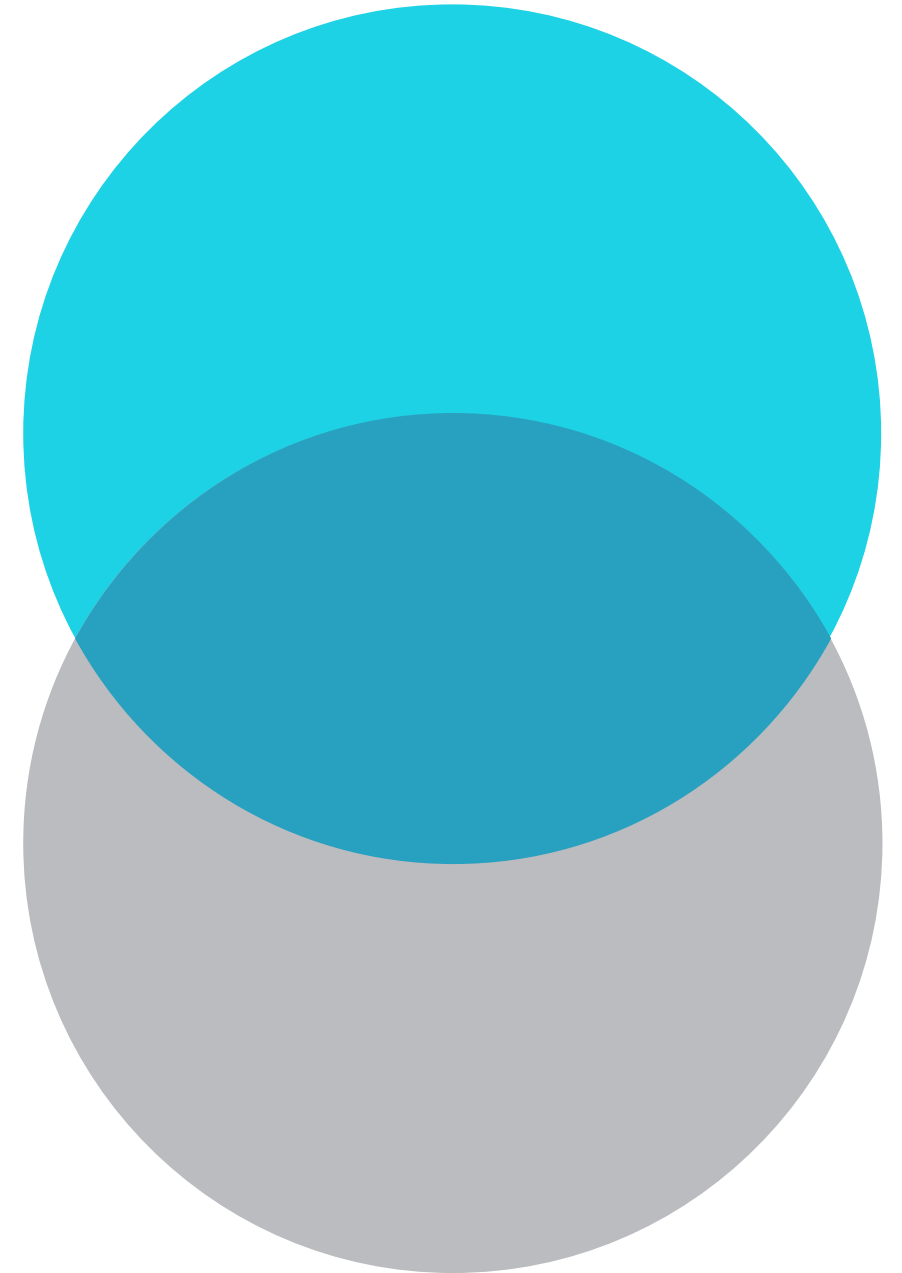
Understand the nuances of how specific scenarios that can effect what strategies we use in portfolios



AGENDA

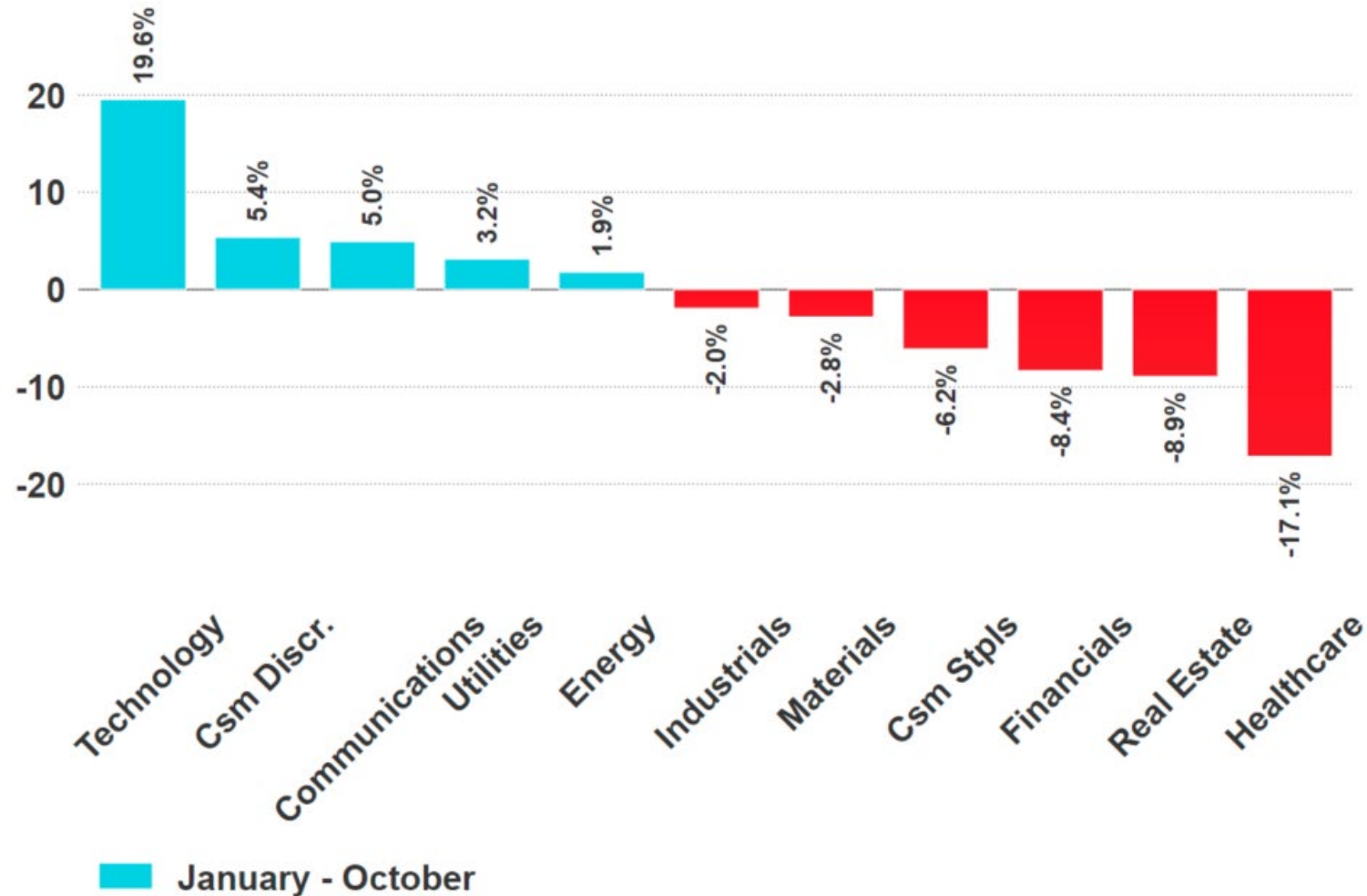
1. The Economic Tapestry – Current market environment
2. The Global Pulse – Research study tour insights
3. Collaborative Forecasting Workshop - Active Discussion

THE ECONOMIC TAPESTRY – CURRENT MARKET ENVIRONMENT



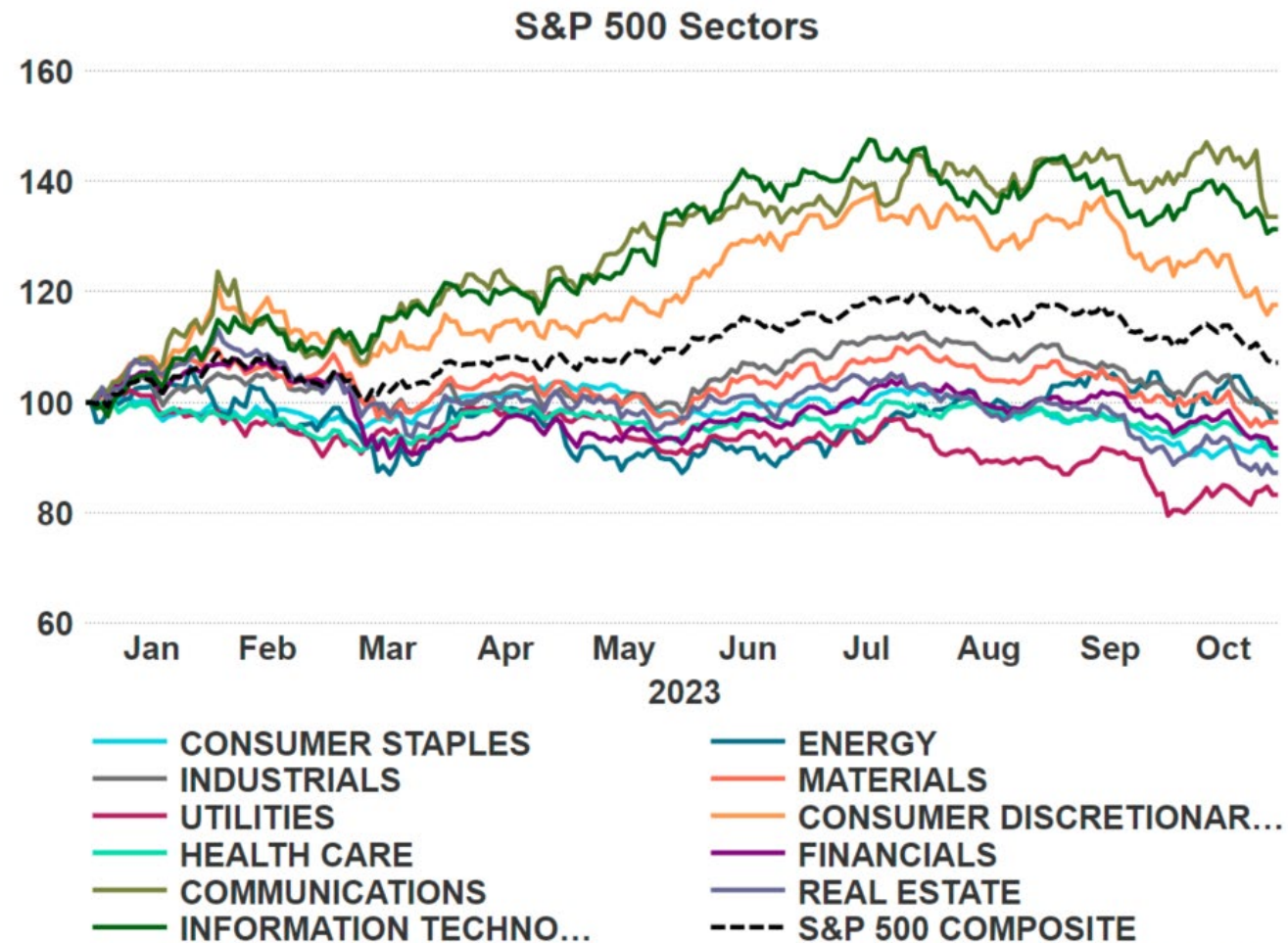
TECHNOLOGY SECTOR LEAD AUSTRALIAN EQUITIES BY A WIDE MARGIN, HITCHING A RIDE ON THE AI BOOM GLOBALLY

2023 Australian Sector Returns



Source: LSEG Datastream

IN INTERNATIONAL EQUITIES TECH, COMMUNICATIONS, AND CONSUMER DISCRETIONARY HAVE CARRIED THE S&P500.



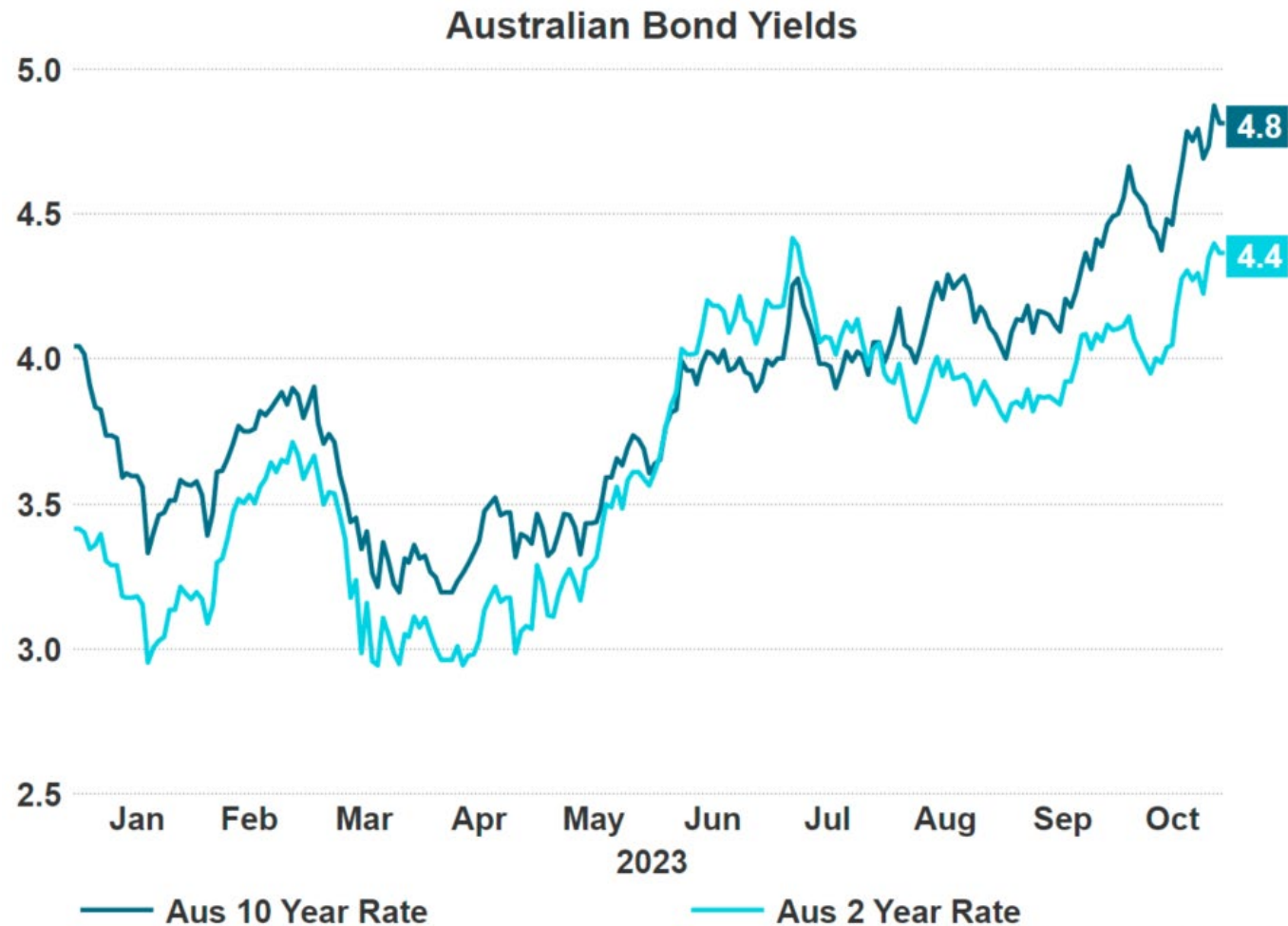
Source: LSEG Datastream

IN THE S&P500 RETURNS HAVE BEEN CONCENTRATED IN THE MEGA-CAP TECHNOLOGY COMPANIES.



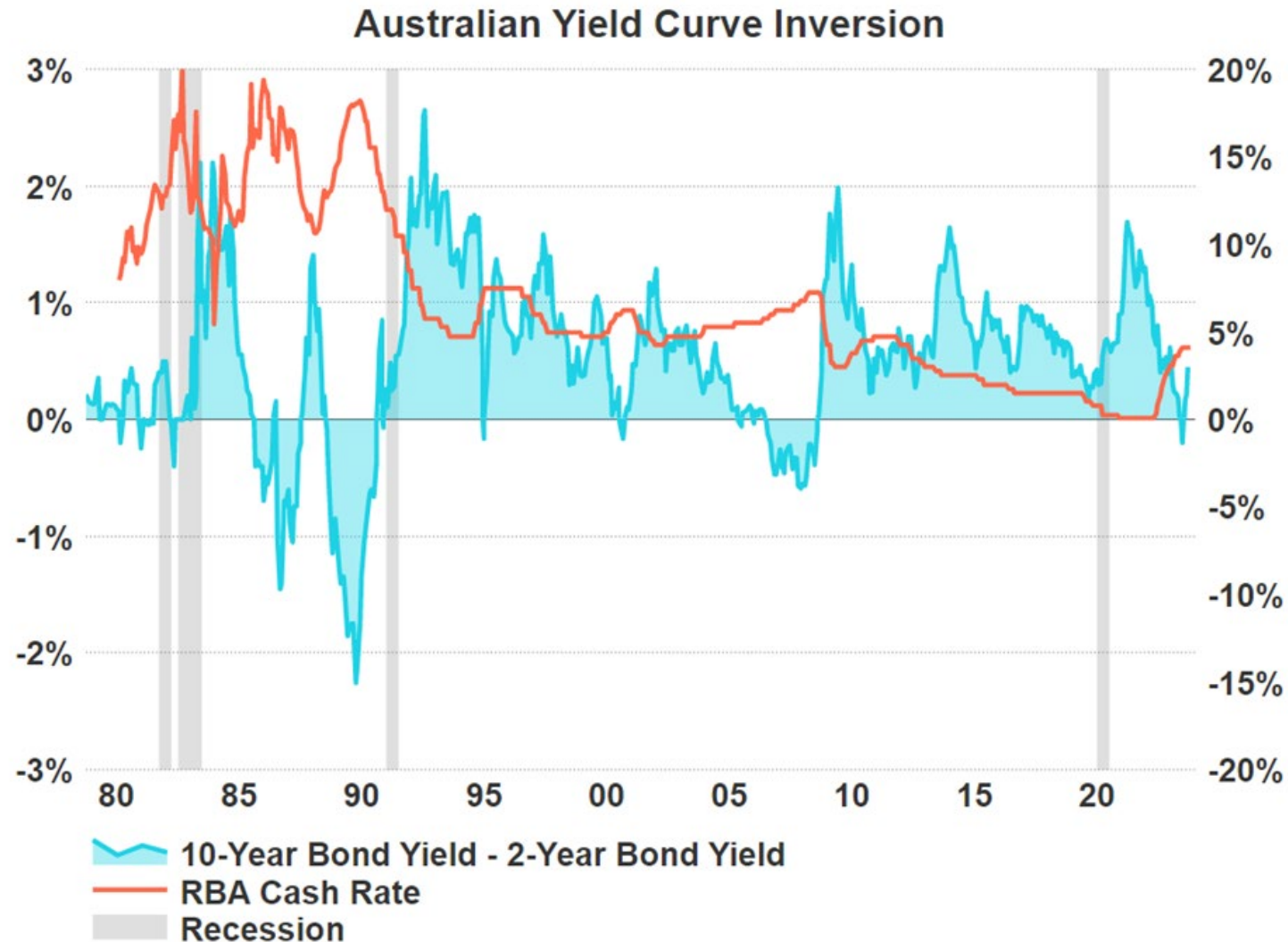
Source: LSEG Datastream

AUSTRALIAN BOND YIELDS HAVE RISEN STEADILY OVER THE YEAR, WITH TWO-YEAR RATES SURPASSING 10-YEAR RATES IN JUNE AND JULY.

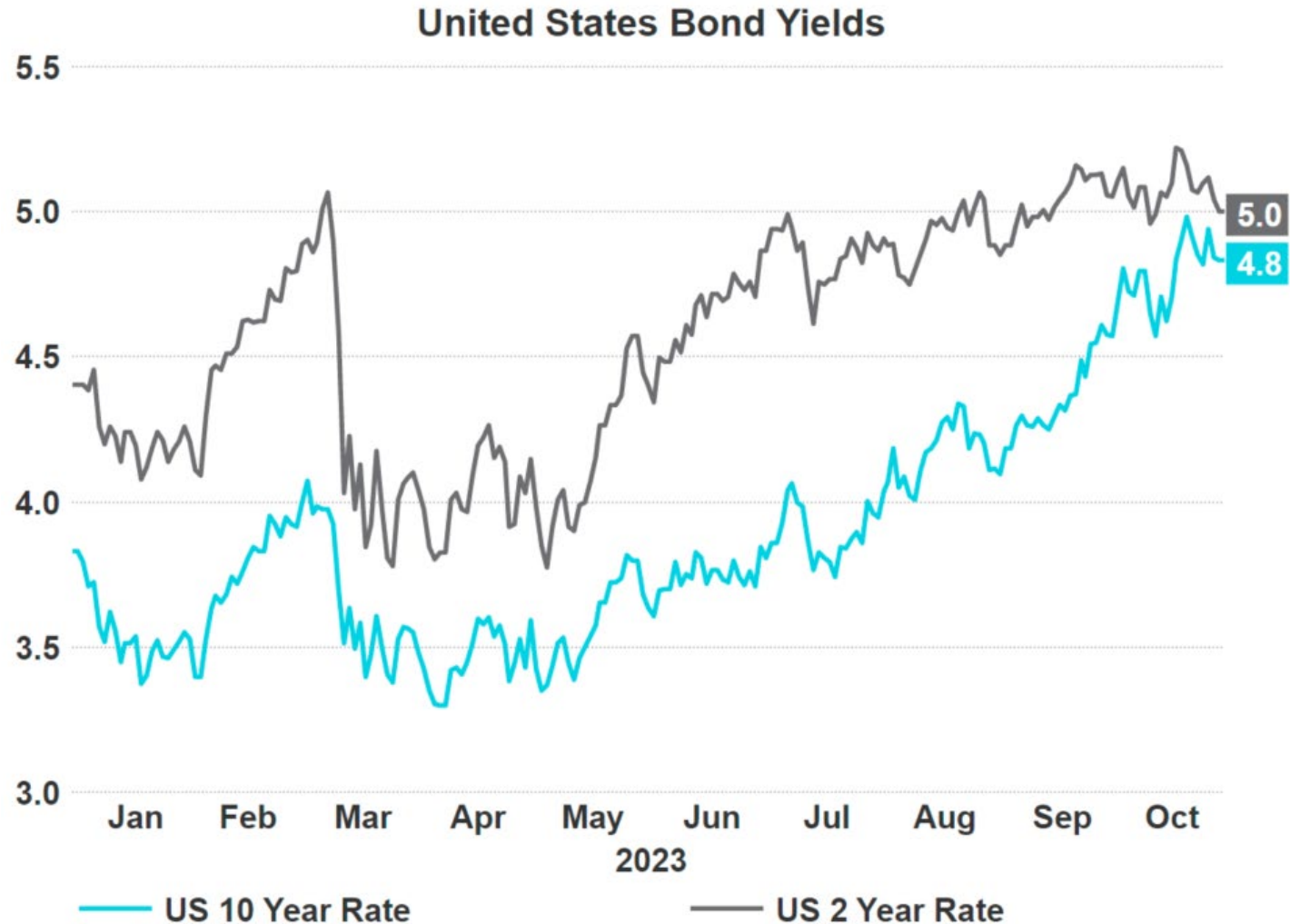


Source: LSEG Datastream

WITH A REVERSAL OF THE YIELD CURVE INVERSION, IS A RECESSION TO FOLLOW?

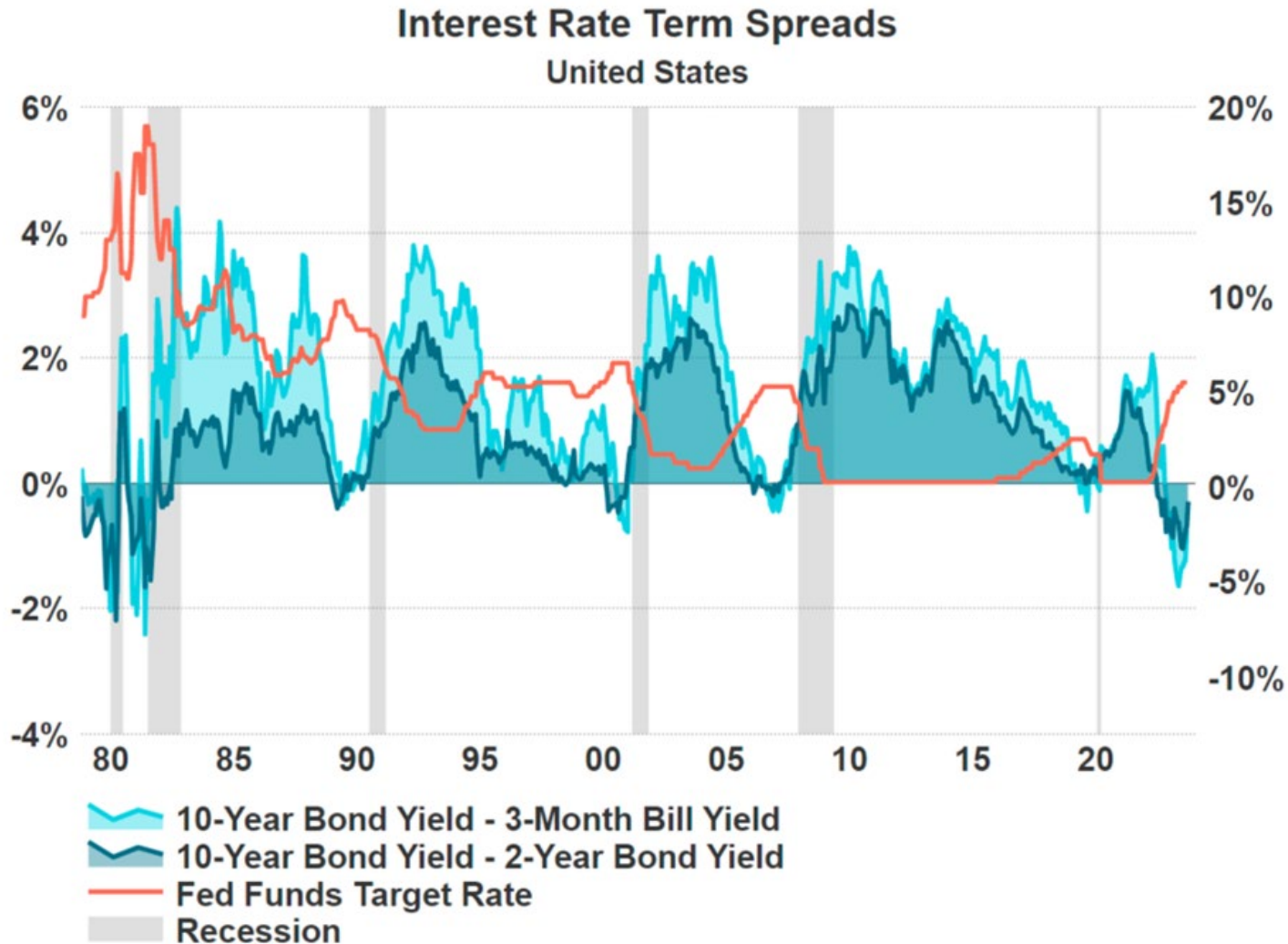


US BOND YIELDS HAVE ALSO RISEN STEADILY SINCE MARCH, WITH THE TWO-YEAR RATE ABOVE THE 10-YEAR RATE SINCE JULY 2022.



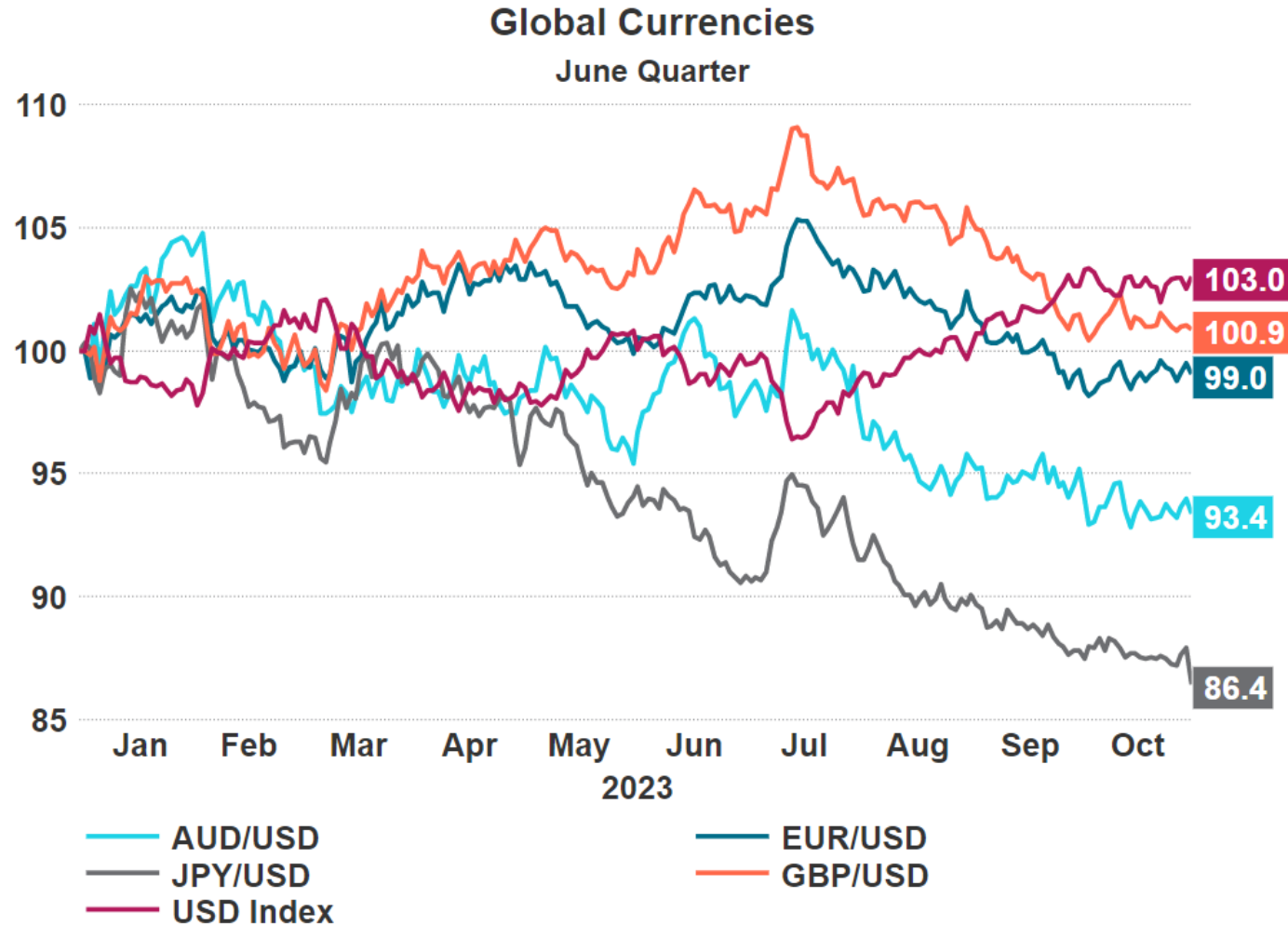
Source: LSEG Datastream

THE US YIELD CURVE INVERSION IS IN THE PROCESS OF REVERSING AS WELL, DOES THIS MEAN A US RECESSION IS SOON TO COME?



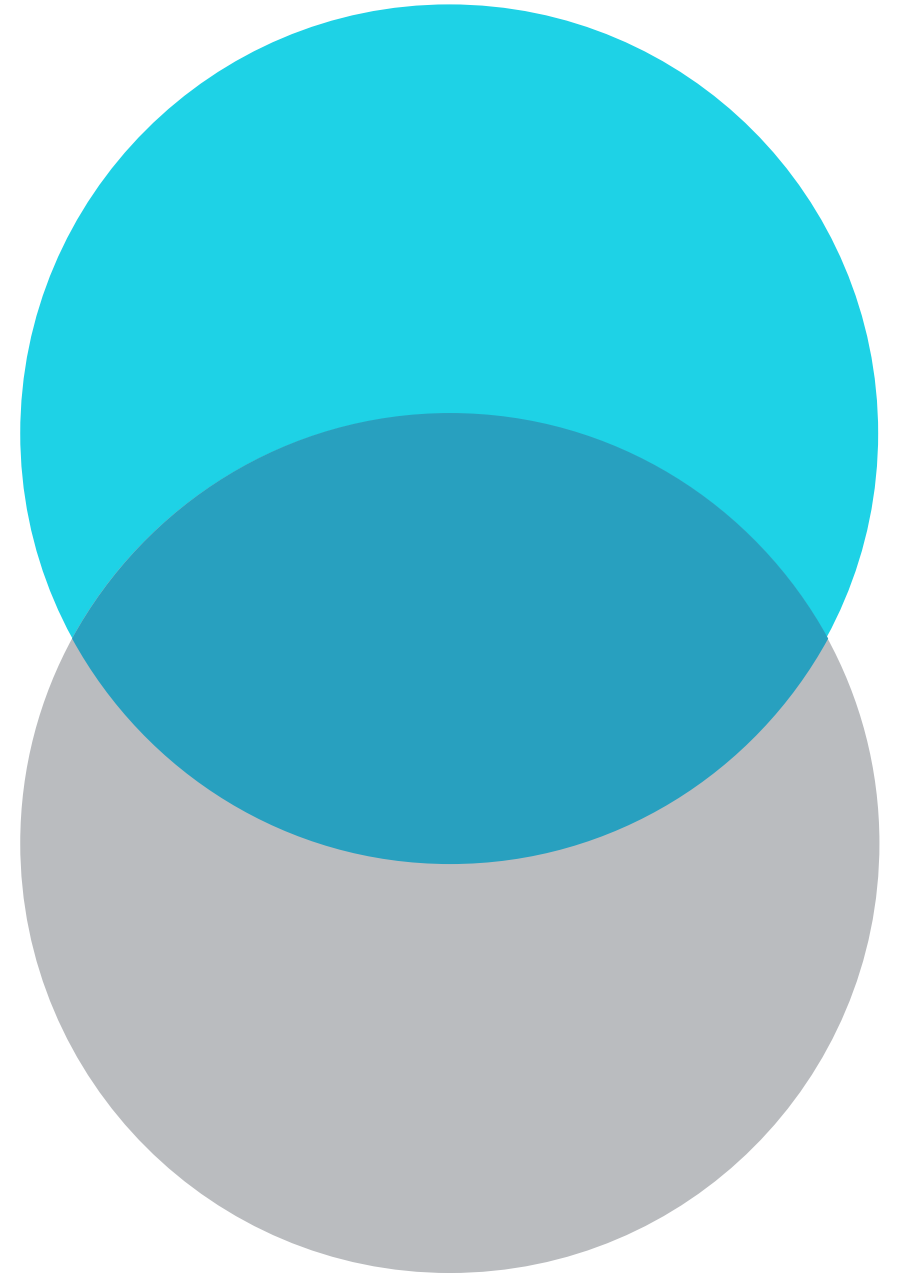
Source: LSEG Datastream

THE UNITED STATES DOLLAR IS STILL SEEN AS A SAFE HAVEN



Source: LSEG Datastream

THE GLOBAL PULSE – RESEARCH STUDY TOUR INSIGHTS



EUROPE & ASIA STUDY TOUR

BlackRock

 **abrdn**



T.RowePrice 



J O Hambro 
Capital Management Group



**Federated
Hermes** 



Schroders

 **Investment
Managers**

Muzinich & Co

CONSENSUS VIEWS

1. Growth Concerns

- Managers noted challenges in global growth, with the U.S. economy being a focal point of concern.

2. Inflation and Interest Rates

- There is a shared view that inflation is peaking, with concerns about how central banks' interest rate policies will affect economies. One manager in particular highlights the impact of U.S. rates on recessions and EM economics.

3. China's Pivotal Role

- Several managers discuss China's significant impact on the global economy, with a particular focus on its policy shifts, debt issues, and potential for recovery.

4. Technological and Consumer Shifts

- Some managers agree on the importance of tech, such as A.I., 5G, and autonomous driving, with shifts in consumer patterns influencing economic outlooks.



NON-CONSENSUS VIEWS

Regional Investment Opportunities

- India as increasingly attractive due to demographics and digital advancements.
- The Middle East as expensive but is interested in its consumer sector through fast food and technology.
- Expressed interest in UK, EU, Japanese exporters, and EM domestic consumption stocks

Sector and Asset Allocation Strategies

- Emphasis on nimbleness in asset allocation, focusing on mega trends like the low carbon transition and digital disruption.
- The need to balance growth with value, and the potential for zone 4 investing.
- A mixed approach with specific long and short positions across various asset classes, including commodities and currencies.

China's Market Position

- Nuanced view on China, considering internal funding mechanisms and indirect opportunities in China's reopening.
- China is seen as part of a broader geopolitical fragmentation affecting markets.

Risk Management

- Increased emphasis on crisis risk management and parallels between the U.S. and Chinese economic policies.
- Greater focus on volatility, especially at the long end of the yield curve.

UNITED STATES STUDY TOUR



Morgan Stanley

LAZARD



Brookfield

P I M C O



CONSENSUS VIEWS

1. Growth Concerns

- There is a general concern about slowing global growth, with the U.S. appearing more attractive over China and the EU.

2. Inflation Worries and Interest Rates

- Sticky inflation is a common concern. Higher for longer interest rates are expected to continue impacting consumer savings and spending.

3. Credit Markets

- There is a positive sentiment towards higher-quality credit, with caution advised for emerging markets and high yield credit.

4. Sector-Specific Strategies

- Several managers agree on the potential in sectors such as infrastructure, industrial automation, cyber security, electric vehicles, and synthetic biology.

5. Asset Valuation and Risk

- Managers were cautious towards overvalued mega-cap companies, with some shift towards mid-cap companies. There is also a recognition of the need for non-benchmark approaches.

6. Geopolitical Concerns

- There is a consensus that geopolitical issues, particularly involving China and the EU, are creating an uncertain investment climate.



NON-CONSENSUS VIEWS

Market Opportunities

- India as a significant market
- There is value in transitional assets over purely green ones.
- Optimistic about private equity outperforming public markets.

Regional Preferences

- Australia and Canada due to their fiscal positions and commodity supercycle but is bearish on Europe due to lack of growth and energy dependence.
- One manager believed that the EU is almost uninvestable and sees it as a “giant museum”.

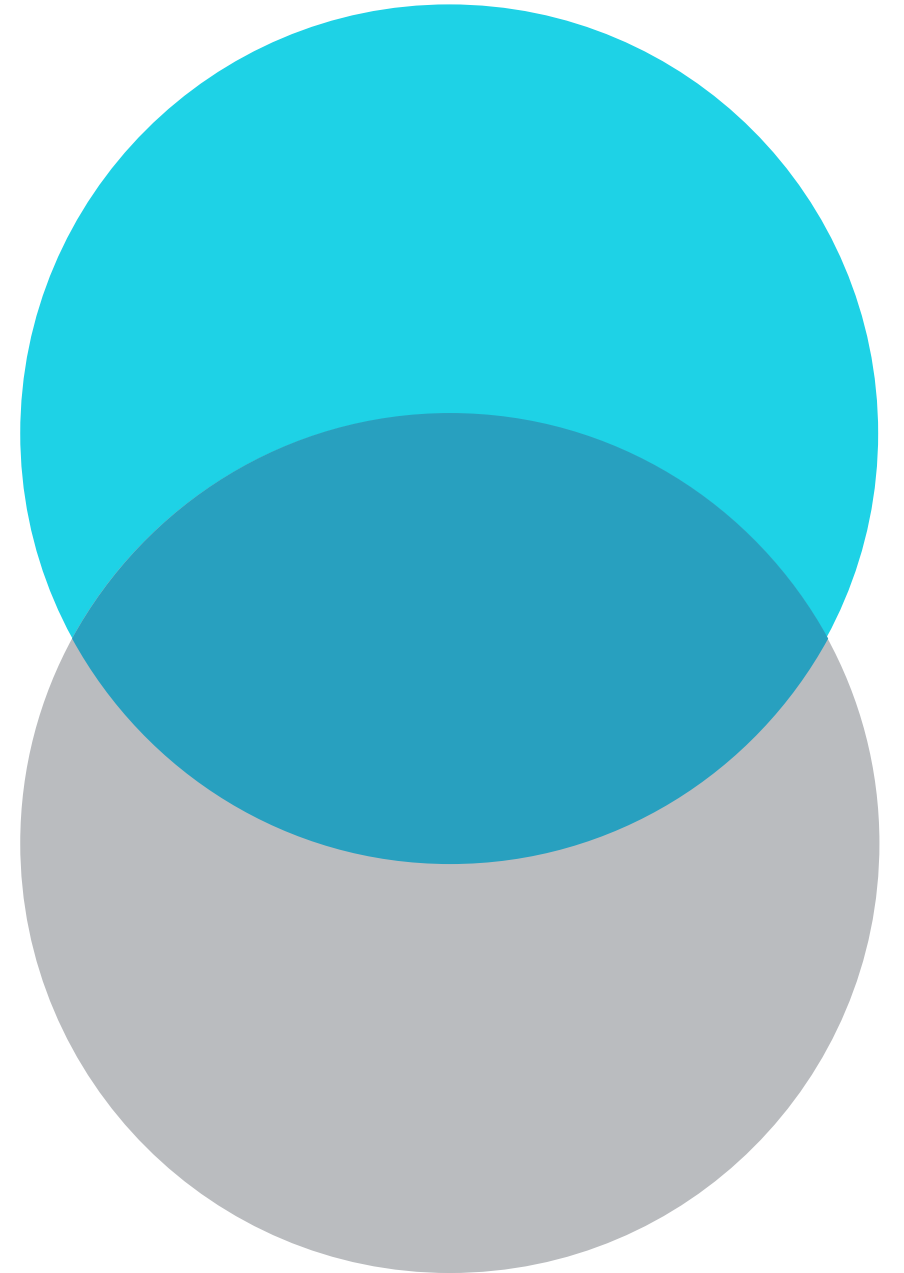
China's Position

- There are varying views on China.
- Some managers are avoiding it due to political risks while some do so due to decoupling trends.

Sector-Specific Outlooks

- Importance of sectors such as healthcare and technology.
- Concerns about the consumer sector.

COLLABORATIVE FORECASTING WORKSHOP - ACTIVE DISCUSSION



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%
Growth Assets	15.00%	30.00%	50.00%	70.00%	85.00%	95.00%

GROWTH ASSETS

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

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**

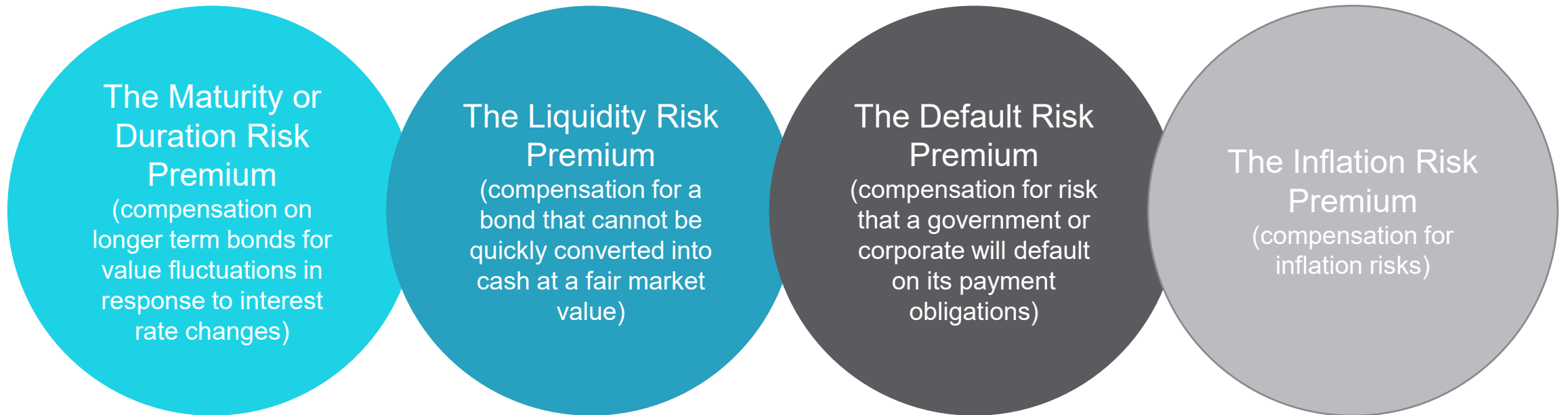
Investment Style

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

BREAKING DOWN DEFENSIVE ASSETS VIA RISK PREMIA

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.

DEFENSIVE ASSETS – 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

An aerial photograph of a rugged, dark rock coastline. In the upper right, a rectangular swimming pool with a wooden deck is built into the rock. The water in the pool is a clear, light green. To the left of the pool, the ocean is turbulent, with white foam from waves crashing against the dark, jagged rocks. The overall scene is dramatic and scenic.

Discussion workshop

OUTCOMES

Scenario	Rank the Scenarios	What Investment styles do well in the portfolio
Central Bank cuts interest rates and begins quantitative easing.		Growth, Small Caps, Deep Value, Long Duration, EM, Credit
Central Bank raises interest rates.		Short Duration, Value, Growth Quality, Infrastructure
War breaks out in the Taiwan		Risk off event - Alternatives
China releases strong economic growth and jobs data.		Deep Value, Growth, EM, Quality, Small Caps, Credit
The Australian Government announces a new plan for investment in renewable energy.		Infrastructure, Growth, Quality, Value, Small Caps
We receive continued global supply chain stress		Value, Quality, Diversified Alternatives, Short Duration,
Recession – hard landing		Risk off event – Alternatives
Recession – soft landing		Diversified portfolio

THANK YOU

Questions

