

# The Boutique Edge

## Agenda

11:00am–11:15am:

Kyle Macintyre | Pinnacle Investment Management  
The Boutique Edge & Key Trends

11:15am–11:35am:

Dr Don Hamson | Plato Investment Management  
Australian Equity Income

11:35am–11:45am:

Open Q&A

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## Learning outcomes

- Gain insights into the multi-boutique investment manager model and why presenters believe it is the optimal environment for investment excellence.
- Learn about key asset class allocation and investment trends playing out in 2024.
- Gain an insight into where Plato Investment Management is seeing the biggest opportunities and risks in dividend income.
- Learn how tax-effective investing can enhance income generation for retirees.



# Who is Pinnacle?

- Pinnacle is a leading Australian-based **multi-affiliate** investment management group and is listed on the ASX (ASX:PNI)
- >\$100bn in Funds Under Management<sup>1</sup> across 15 affiliated fund managers
- What we do?
  - ✓ Find the most talented investment professionals in Australia and Globally
  - ✓ Partner with them (typically minority stakes)
  - ✓ Provide high-quality infrastructure and distribution so they can focus on what they love doing – investing

## AFFILIATE OWNERSHIP





# The boutique edge

- Fund managers love the model because:
  - ✓ They get to build an amazing investment business
  - ✓ It create the right alignment and incentives – Investors become equity owners
  - ✓ It reduces key man and succession risk vs large organisations
  - ✓ Lower risk / higher growth than going alone – with supported infrastructure and distribution
- Our clients love the model because:
  - ✓ Quality - We focus on bringing you the highest quality investment solutions.
  - ✓ Efficiency and expertise - One point of contact can provide insights, access and solutions across every asset class
  - ✓ Extreme client focus – Building deep relationships focused on your business, outstanding client service, and portfolio construction
  - ✓ Track record – 81% of our affiliated fund managers have outperformed their respective benchmarks over 5-years

# High quality investment managers across different asset classes

AUSTRALIAN EQUITIES	AUSTRALIAN EQUITIES – LARGE CAPS				AUSTRALIAN EQUITIES – SMALL CAPS		
	 <b>Firetrail</b> <i>Invest with Conviction</i> \$7.2bn High Conviction & Absolute Return Strategies 2018	 <b>SOLARIS</b> investment management \$9bn Core & L/S Australian Equities 2008	 <b>HYPERION</b> ASSET MANAGEMENT \$13bn Global & Australian Growth Equities 1998	 <b>Plato</b> INVESTMENT MANAGEMENT \$12.6bn Australian Equity Income 2006	 <b>SPHERIA</b> ASSET MANAGEMENT \$1.7bn Global & Australian Small Caps 2016	 <b>LONGWAVE</b> CAPITAL \$0.7bn Australian Small Caps 2018	 <b>Firetrail</b> <i>Invest with Conviction</i> \$7.3bn High Conviction & Absolute Return Strategies 2018
GLOBAL EQUITIES	LARGE CAPS				SMALL CAPS		EMERGING MARKETS
	 <b>Antipodes</b> \$10 bn Global L/S & Long Only Equities 2015	 <b>Plato</b> INVESTMENT MANAGEMENT \$12.6bn Long Short Active Extension Strategy 2006	 <b>HYPERION</b> ASSET MANAGEMENT \$12.7bn Global & Australian Growth Equities 1998	 <b>Firetrail</b> <i>Invest with Conviction</i> \$7.2bn High Conviction Sustainability Focused 2018	 <b>SPHERIA</b> ASSET MANAGEMENT \$1.7bn Global & Australian Small Caps 2016	 <b>langdon</b> PARTNERS \$0.2bn Global and Canadian Equities 2022	 <b>AIKYA</b> \$4.5bn Global Emerging Market Equities 2019
PROPERTY	 <b>RESOLUTION CAPITAL</b> \$13 bn Listed Property & Infrastructure 2007						
PRIVATE CREDIT/FIXED INCOME	 <b>METRICS</b> \$16.1bn Private Credit 2011		 <b>COOLABAH CAPITAL INVESTMENTS</b> \$9.7bn Alternative Public Credit 2011				
PRIVATE MARKETS	 <b>PALISADE</b> \$3.6bn Private Infrastructure 2007	 <b>RIPARIAN</b> CAPITAL PARTNERS \$0.2bn Water, Agricultural Private Equity 2019	<b>Five V / Capital</b> \$1.6bn Private Equity, Growth Equity & Venture Capital 2013 (5)				

# Key trends for 2024



1. The opportunity in private credit



2. Now is the time for small caps



3. Global REITs look compelling



4. Australian equity income *still* impressive

# 1. THE OPPORTUNITY IN AUSTRALIAN PRIVATE DEBT

Metrics. A new measure.



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## METRICS IS AN INDEPENDENT AUSTRALIAN-BASED ALTERNATIVE ASSET MANAGER SPECIALISING IN PRIVATE MARKETS WITH >\$16BN AUM



**> \$16 billion**

Current AUM across a variety of strategies



**Team of > 125**

Investment professionals in SYD, MELB & NZ



**Owned 65% by Management**

35% by Pinnacle Investment Management Group Ltd.



**Responsible Investing**

Signatory of the UNPRI & member of:

- Australian Sustainable Finance Institute,
- Climate Bonds Partner,
- Investor Group on Climate Change,
- Responsible Investment Association Australasia (RIAA),
- Asia Pacific Loan Market Association's Green & Sustainable Loan Committee, and
- Transition Pathway Initiative

### CORPORATE



### LEVERAGED FINANCE



### COMMERCIAL REAL ESTATE



### PROJECT FINANCE





# WHAT IS PRIVATE DEBT?

## AN EFFECTIVE DEFENSIVE STRATEGY OR EQUITY MARKET REPLACEMENT?



### FINANCIAL CONTRACT

Loans to private companies, where interest charged is predominantly floating rate and loans are typically secured (protective of lenders interests) and short in tenor (1-5 years).



### PRIVATE MARKET

Private debt is typically lowly correlated to public markets and can avoid exposure to public market volatility.



### MARKET SEGMENTS

Corporate, infrastructure, commercial real estate, leveraged finance, structured finance.



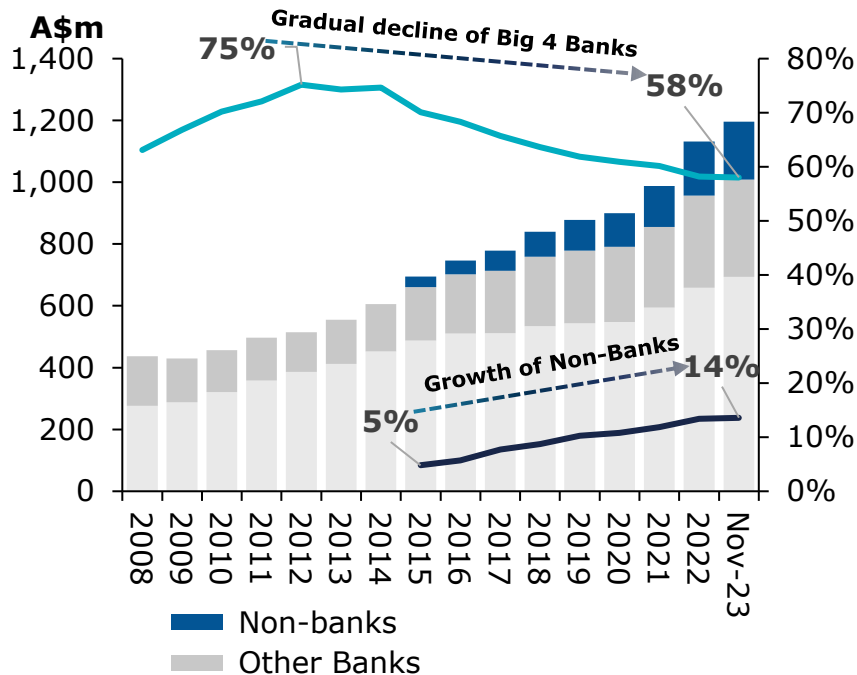
### RISK / RETURN PROFILE

From investment grade to sub-investment grade and equity-like investments – returns reflect risk profile.

# AUSTRALIA'S DOMESTIC BANKS ARE GRADUALLY CEDING MARKET SHARE



## AUSTRALIAN CORPORATE DEBT MARKETS



## OPPORTUNITY FOR NON-BANK LENDERS

- INCREASED BANK FUNDING COSTS
- INCREASED BANK REGULATION
- COMPULSORY SAVINGS
- LIMITED NON-BANK FUNDING ALTERNATIVES

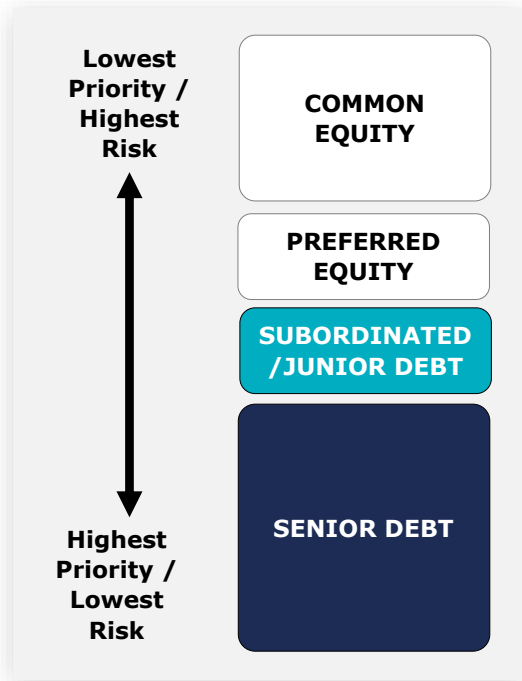
AU banks are gradually ceding market share. This creates a **growing opportunity for non-bank lenders** to fill the void.

Source: EY Debt and Capital Advisory, Australia CapitalIQ, LoanConnector and Bloomberg APRA ADI Reporting as at 30 November 2023.

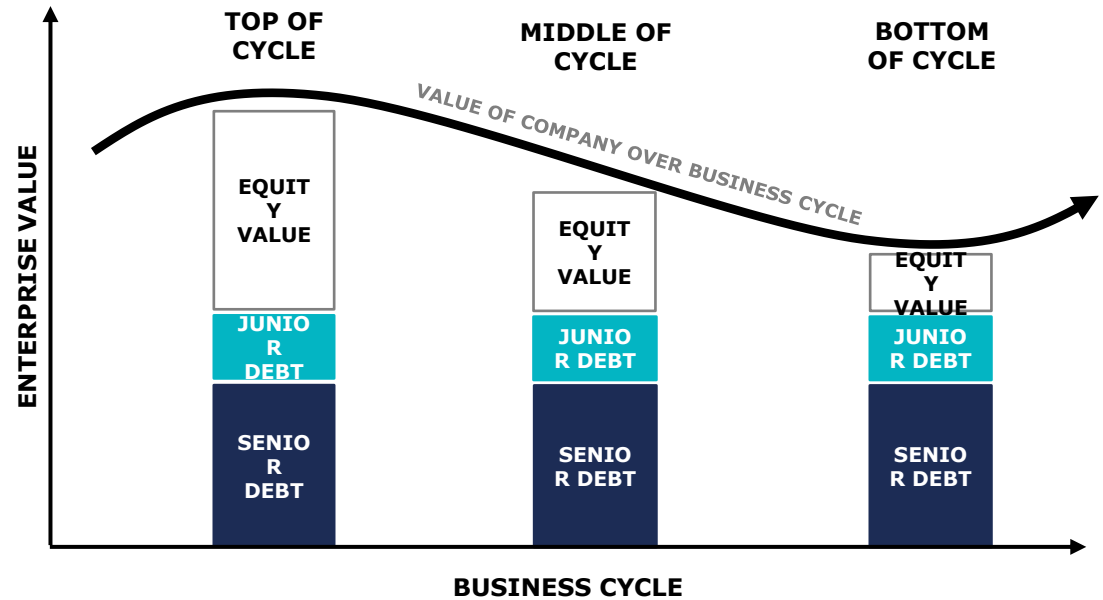
# POSITION IN THE CAPITAL STRUCTURE CAN PROVIDE DOWNSIDE PROTECTION



## CAPITAL RANKING (FOR INTERESTS/DISTRIBUTIONS & CAPITAL RETURNS)



## EQUITY AT RISK IN A CORPORATE LOAN



Source: Metrics Credit Partners

# PRIVATE DEBT FOR REDUCED CAPITAL VOLATILITY

## IN AUSTRALIA, PRIVATE LENDERS BENEFIT FROM A RANGE OF PROTECTIONS



### Structural Protections in Australia

Australian corporate insolvency regime assists lenders to protect capital



### Relationships with Borrowers

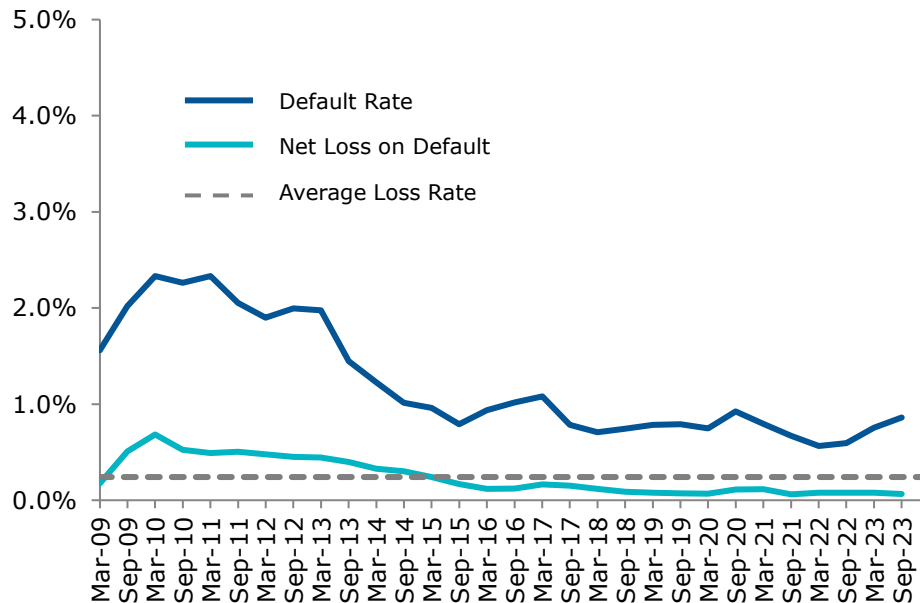
Regular communication with borrowers ensures the private debt manager can more effectively manage risk



### Financial Contracts

Covenants are negotiated & documented in loan agreements to assist in controlling risk. These include Controls, Security, Pricing & Reporting obligations

## AUSTRALIAN CORPORATE LENDING – DEFAULT RATE VS NET LOSSES



Source: APRA APS 330, Metrics. As at September 2023.  
Past performance is not a reliable indicator of future performance.

# HOW TO ACCESS PRIVATE DEBT WITH METRICS



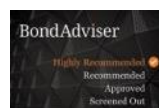
	METRICS DIRECT INCOME FUND (UNLISTED FUND OPTION)	METRICS MASTER INCOME TRUST (ASX:MXT)	METRICS INCOME OPPORTUNITIES TRUST (ASX:MOT)	METRICS REAL ESTATE INCOME FUND
<b>STRUCTURE</b>	Unlisted, Open-ended Unit Trust	ASX Listed Investment Trust	ASX Listed Investment Trust	Unlisted, Open-Ended Unit Trust
<b>INCEPTION DATE</b>	July 2020	October 2017	April 2019	Coming Soon
<b>TARGET NET RETURN<sup>^</sup></b>	RBA Cash Rate plus 3.25% p.a.	RBA Cash Rate plus 3.25% p.a.	Cash Return: 7% p.a. with upside gains Total Return: 8–10% p.a. over 3–5yrs	RBA Cash Rate plus 4.00% p.a.
<b>NET RETURNS SINCE INCEPTION P.A. (1)</b>	7.39% <sup>(4)</sup>	5.93% <sup>(2)</sup>	8.97% <sup>(3)</sup>	—
<b>CURRENT RUNNING YIELD P.A. (5)</b>	<b>10.18%</b>	<b>9.72%</b>	<b>10.71%</b>	—
<b>DISTRIBUTIONS</b>	Monthly	Monthly	Monthly	Monthly
<b>APPLICATIONS/ REDEMPTION</b>	Monthly	Daily*	Daily*	Monthly



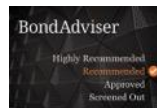
Metrics Direct Income Fund,  
Metrics Master Income Trust



Metrics Income  
Opportunities Trust



Metrics Direct Income Fund,  
Metrics Master Income Trust



Metrics Income  
Opportunities Trust



Metrics Direct Income Fund,  
Metrics Master Income Trust



Metrics Income  
Opportunities Trust



Metrics Master Income Trust,  
Metrics Direct Income Fund



Metrics Income  
Opportunities Trust

Notes: As at 31 January 2024 (1) Annualised (2) IPO October 2017 (3) IPO April 2019 (4) since inception 1 July 2020 (5) Current running yields for Metrics funds are calculated as the last 12 months spread plus the current RBA Cash Rate.  
<sup>^</sup>This is a target return and may not be achieved. Past performance is not a reliable indicator of future performance. Assumes participation in Distribution Reinvestment Plan (DRP). \*Subject to market liquidity.  
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# **Firetrail**

*Invest with Conviction*

**2. Now is the time  
for small caps**



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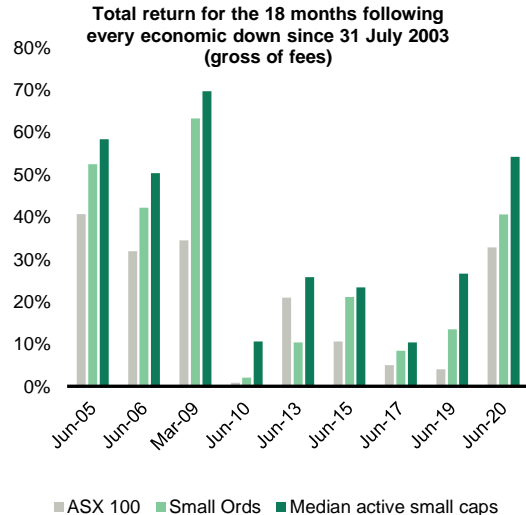
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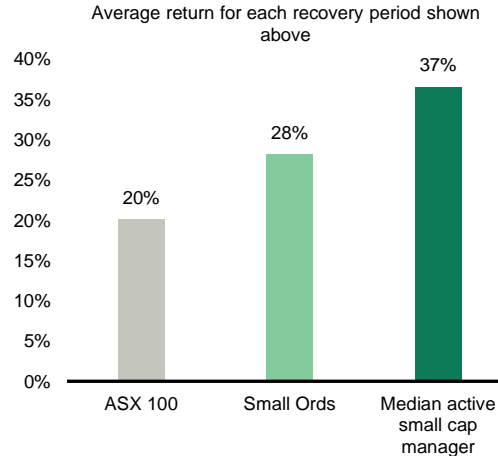
# Now is the time for small caps

## 1) Small companies are the place to be in the recovery

### Active small caps outperform in every recovery



### ...almost doubling the average ASX 100 return



- Small caps underperformed large caps by ~20% in 2022.
  - Typical in periods where outlook is deteriorating
- Median active small cap manager has outperformed significantly in EVERY economic recovery in the last 20 years (9 instances)
  - Average return of 37% v.s. ASX 100 return of 20%
- Consensus estimates suggest current slowdown bottoms in Q2 2024
  - Small caps poised for significant outperformance

**Small caps outperform when economic slowdowns bottom**



# Now is the time for small caps

## 2) Valuations do not reflect the earnings opportunity

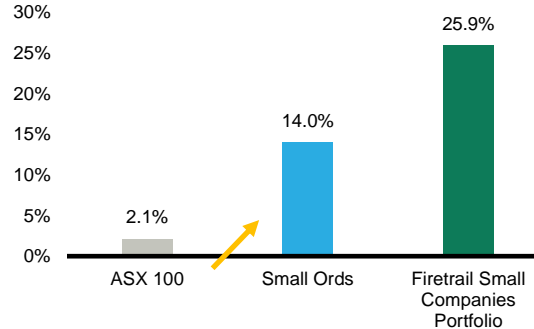
Valuations are now attractive relative to large caps

1yr Forward P/E difference - Small Ords vs ASX 100



...despite a much stronger earnings growth outlook

3 year forward EPS CAGR (consensus)



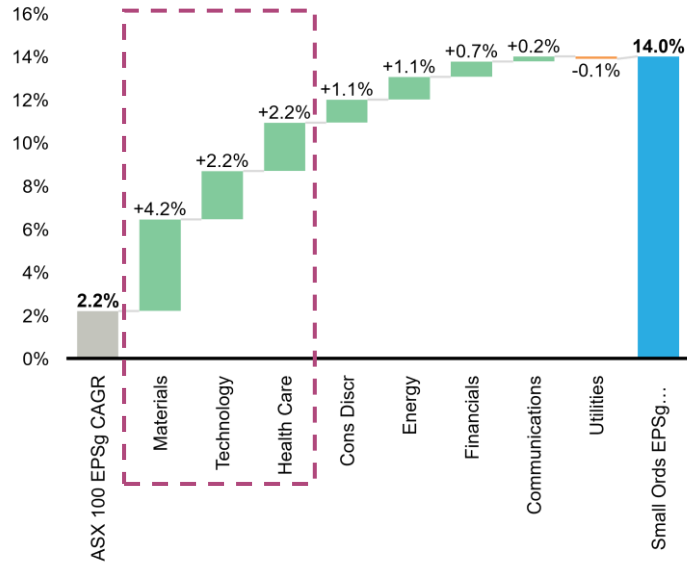
- Small caps trading in line with historical valuation vs large caps
- ...despite a much stronger earnings growth outlook
- Bottom-up opportunities elevated across the market where valuations have disconnected from 3-yr outlook
  - Firetrail portfolio trading on lower P/E than Small Ords despite ~double the expected growth

Valuations attractive relative to the medium-term growth outlook

# Now is the time for small caps

3) What is driving the difference in earnings outlook between Small and Large?

Sector contributions to the difference in EPS outlook –  
ASX 100 vs Small Ords

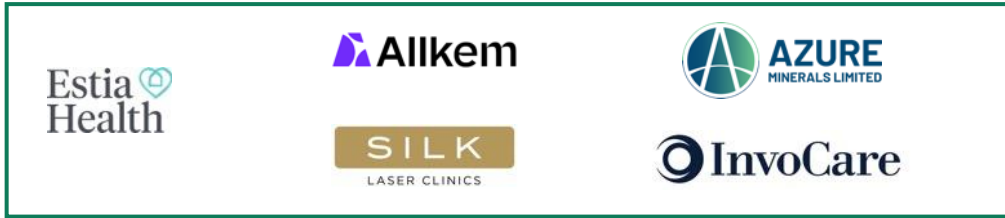


- Materials, IT and Health Care driving majority (~75%) of the difference in Smalls vs Large growth outlook
- Compelling bottom-up opportunities exist in these sectors and right across the small market
- Firetrail has unique expertise in the sectors driving the large earnings growth differential

**Firetrail has unique expertise in the sectors driving small cap growth outlook**

# Now is the time for small caps

4) Three big tailwinds are emerging in 2024



**Skill, not luck: Future Fund backs active small caps**

1. Private equity and Corporates are capitalising

2. IPO and capital raising pipeline building into 2024

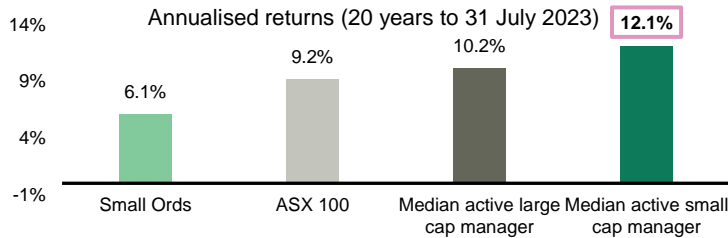
3. Institutional investors are deploying

*Tailwinds emerging which historically support small caps outperformance*

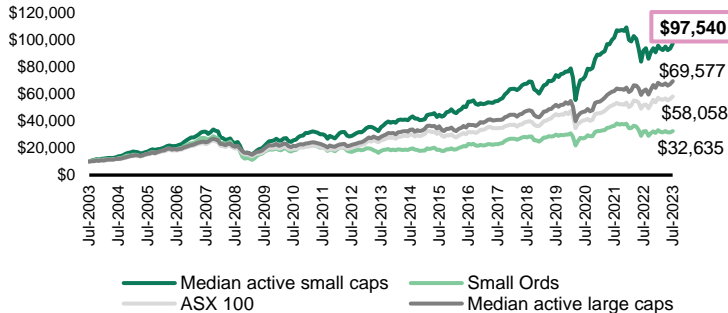
# Now is the time for small caps

## 5) Active small companies outperform over the long run

### Median small cap manager has materially outperformed



### ...almost 10x-ing investors' money over 20 years

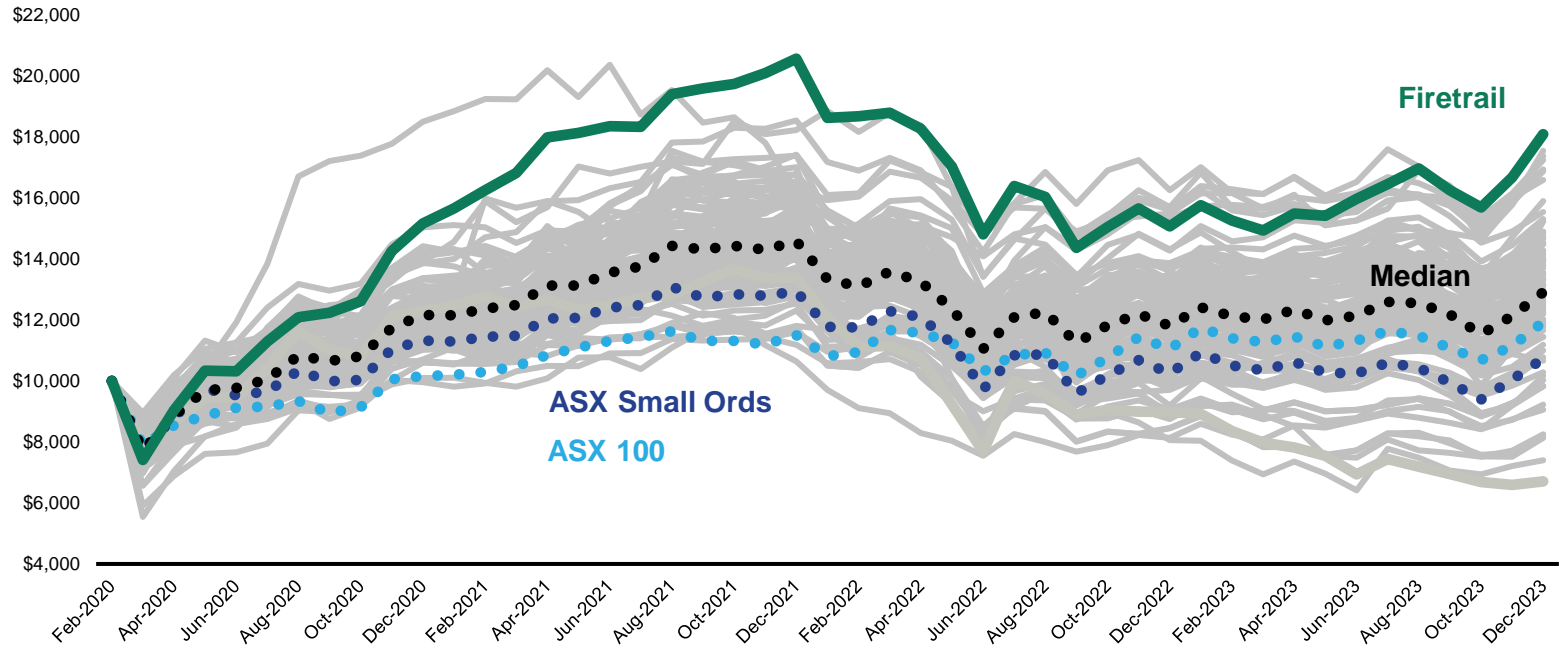


- Small cap universe is an inefficient market which the median active manager has successfully exploited.
- While the Small Ords has underperformed the ASX 100, the median small caps manager has significantly outperformed both
- There are cycles, but **the long-term holder of active small caps has been well-rewarded**

**Active small companies outperform over the long run**

# Performance

Growth of \$10k since inception (after fees) - Australian Small Caps peer group (94 Funds)



**Fund has materially outperformed the benchmark and peers**

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RETURNS

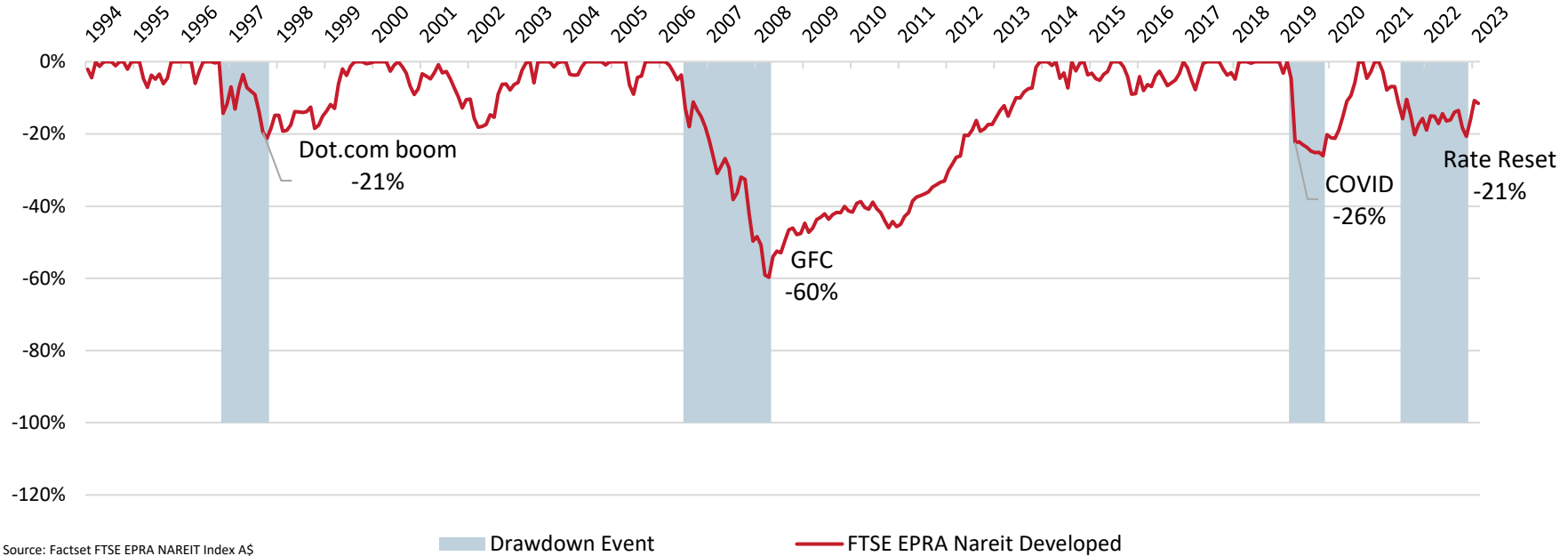
Source: Morningstar, Firetrail. As of 31 December 2023. Fund inception on 20 February 2020. Peer group is the Morningstar Australian small companies peer group. Excludes long/short, mid cap, and microcap funds.



## 3. The opportunity in GREITs

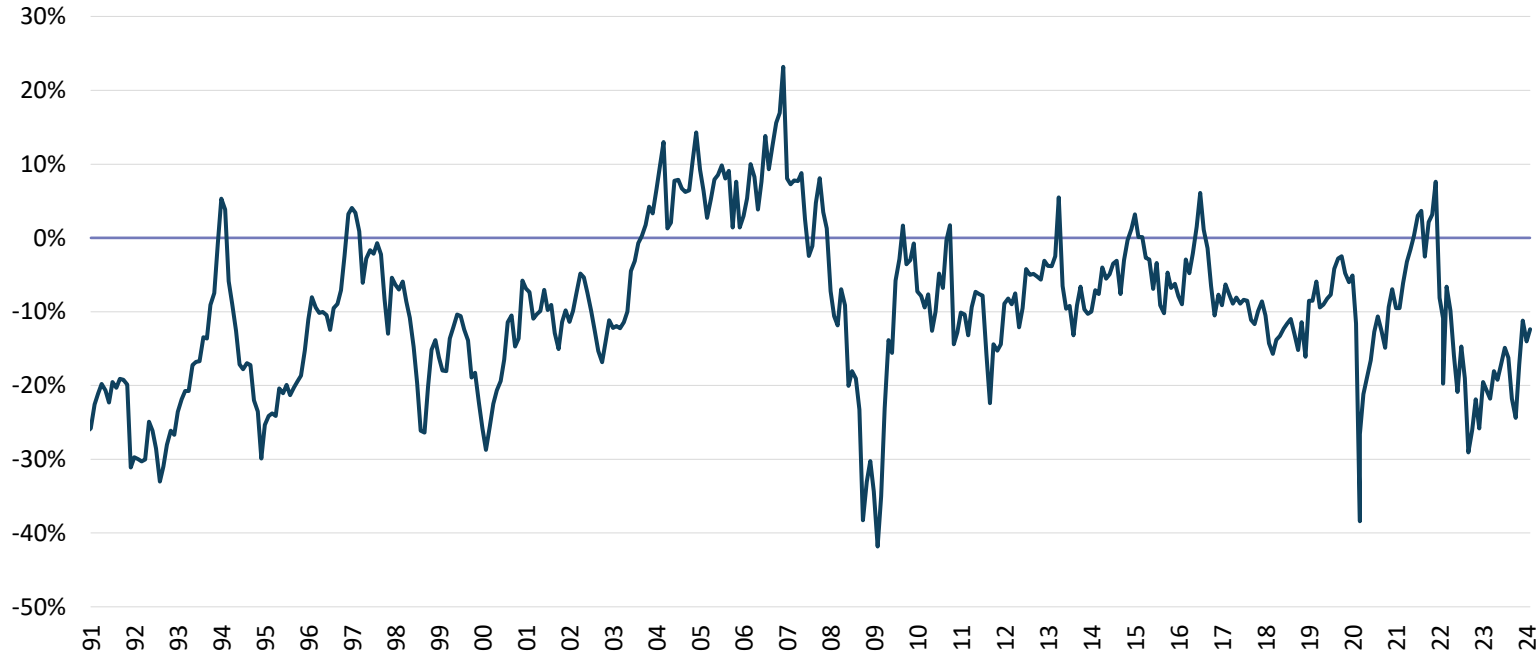
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## Global REITs Drawdown



- **Market has corrected** (25% off highs)... Back to the “old normal”

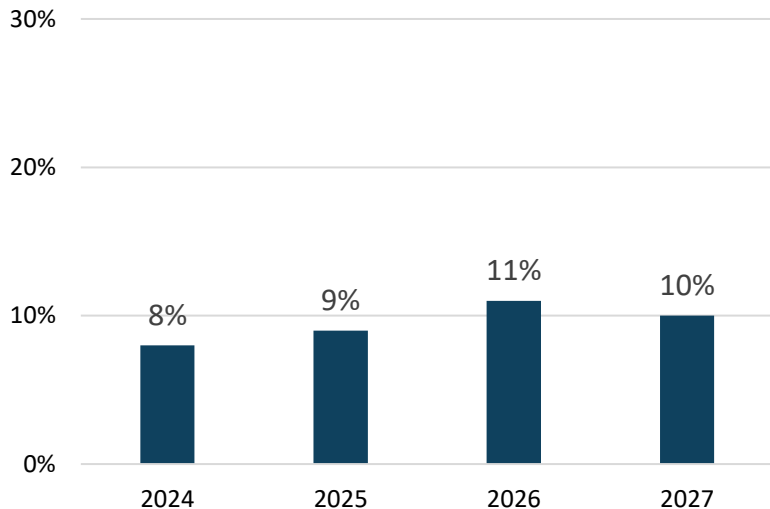
## Global REITs - Price to Net Asset Value



Source: Resolution Capital, UBS Research 16/2/24  
Illustrative only and not a recommendation to buy or sell any asset type.

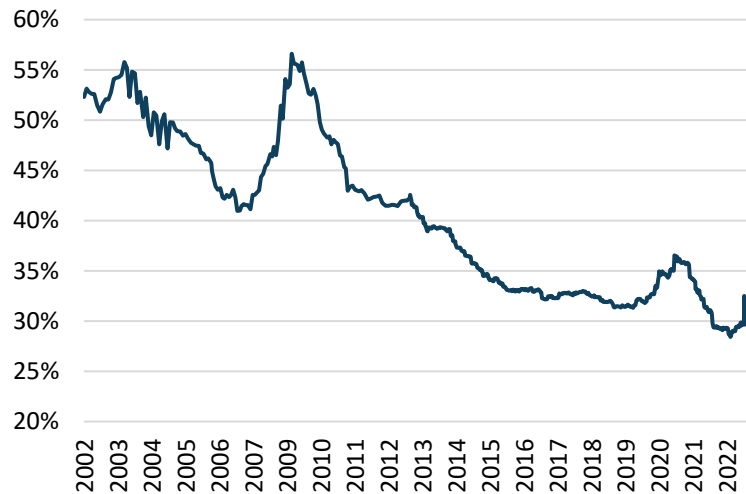


## REITS laddered debt Maturing Debt/Total Debt



Source: J.P. Morgan, Bloomberg Finance LP, SNL Financial 31/12/2023

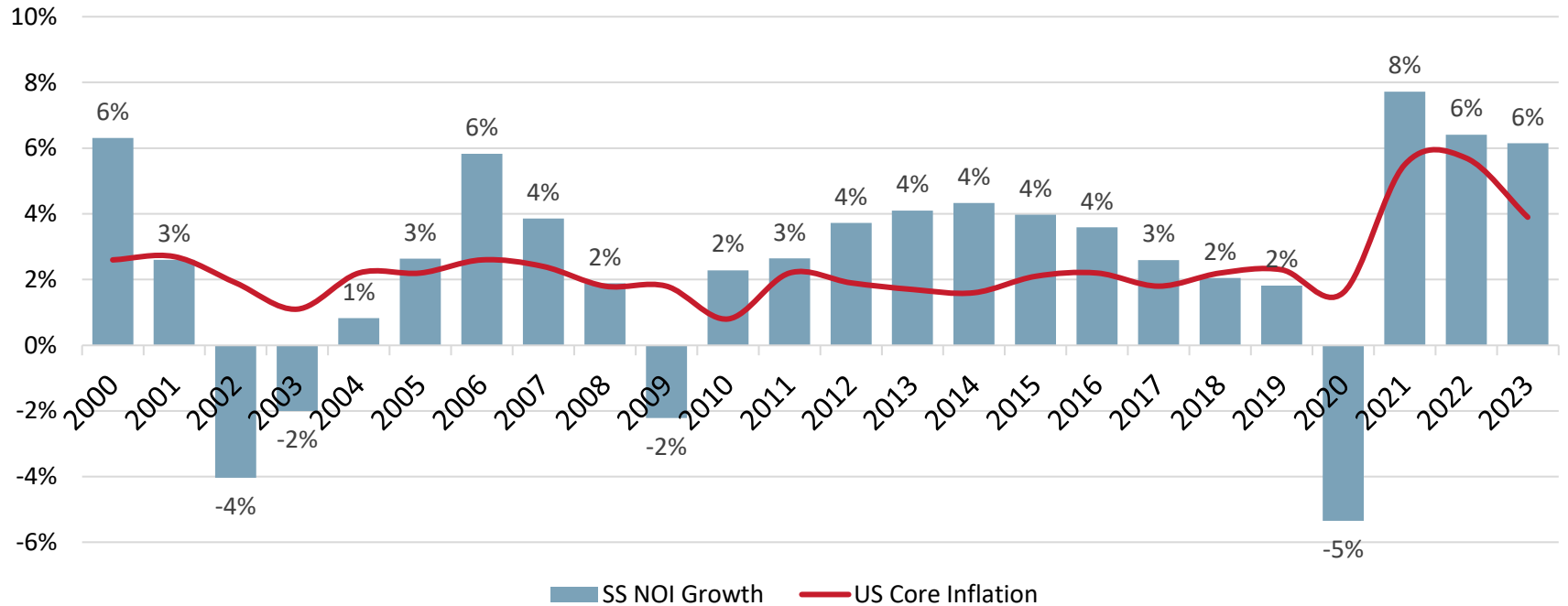
## U.S. REITs Loan To Value – Historically Low



Source: Citi

— Debt/Assets (LHS)

## U.S. Real Estate Income Growth v Inflation



Source: Green Street Advisors, Resolution Capital. Simple average of U.S. core property sectors. 09/2023

# GREITs provide economy relevant real estate

## RESIDENTIAL



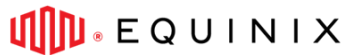
Housing undersupply



## DATA CENTRES / TOWERS



Digitisation Cloud AI



## HEALTHCARE



Ageing Population



## LOGISTICS



Supply chain  
realignment



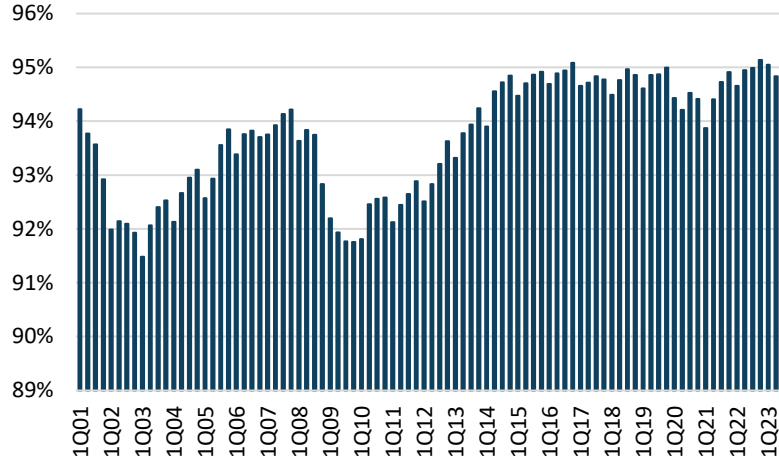
## CONVENIENCE RETAIL



Return to the store



## U.S. REIT Portfolio Occupancy – Record Highs

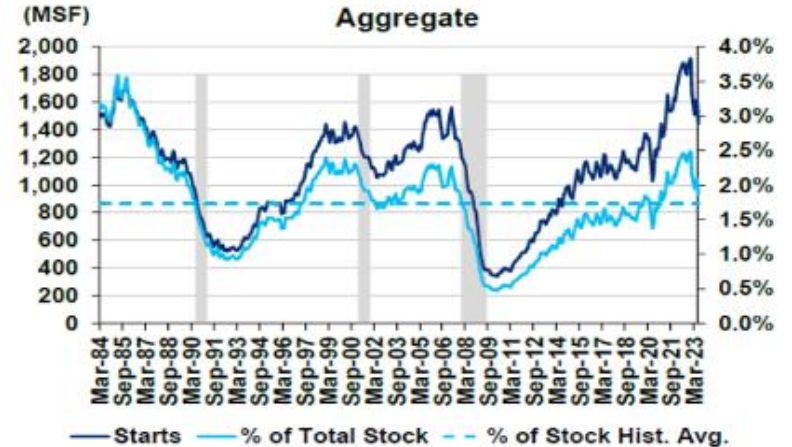


Source: Citi Research. 02/2024

- REITs superior assets and best in class operators

## Moderate Supply

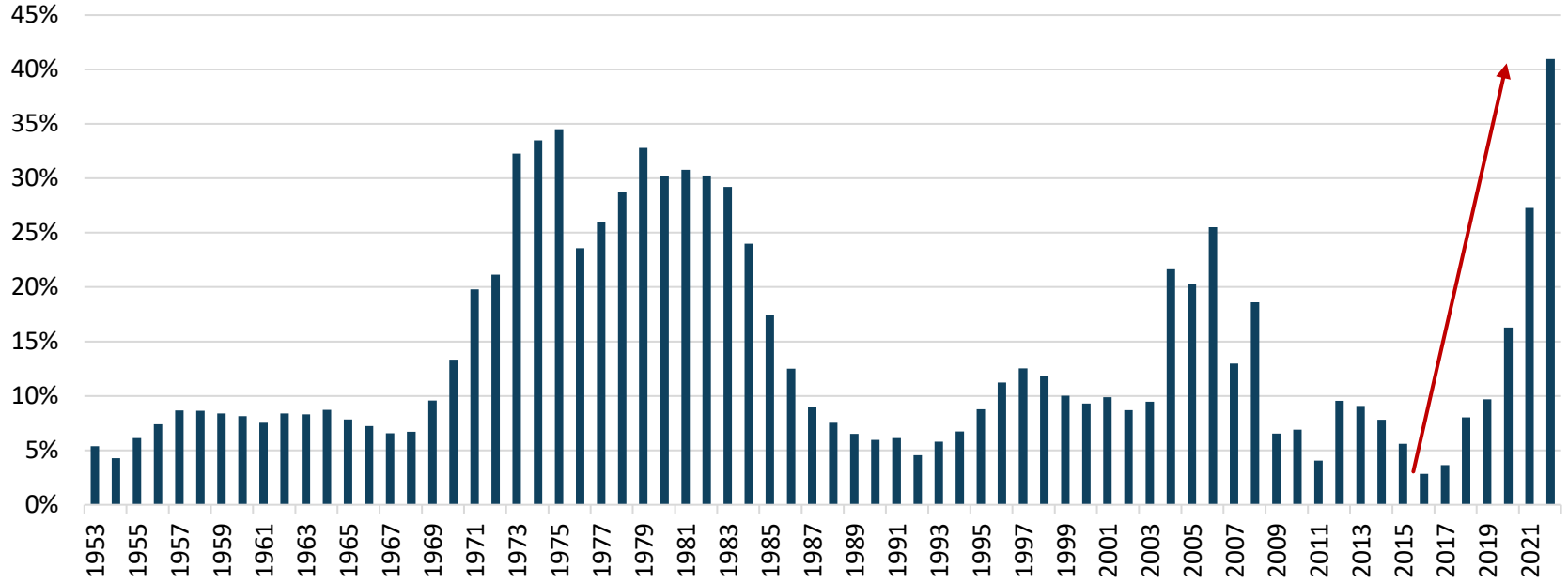
## U.S. Aggregate Construction Starts as % of Inventory



Source: Citi Research. 01/2024

- Elevated supply logistics and sun-belt apartments (abating)

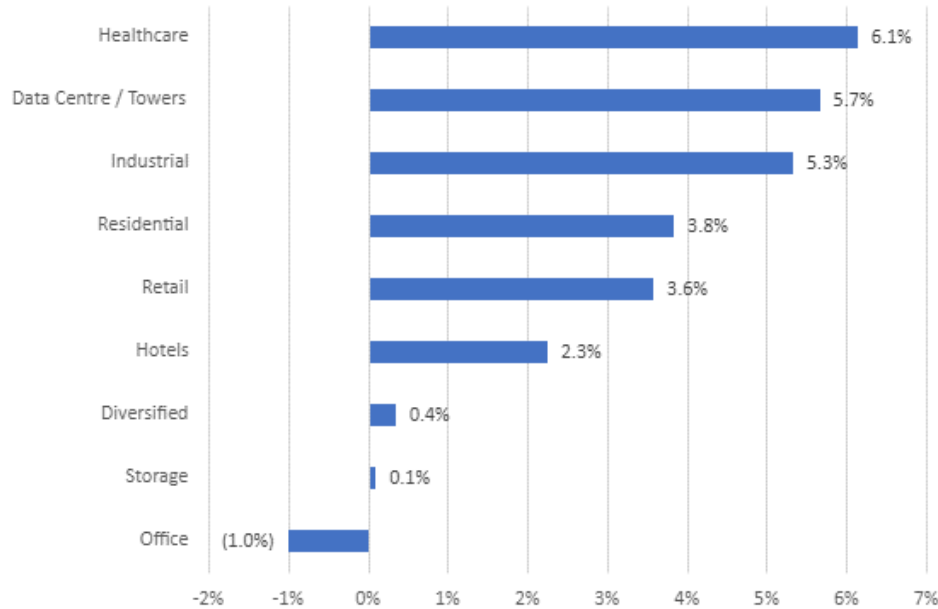
## Rolling 3 Year Real Property Replacement Cost Trend



REIT prices imply trading  $\leq$  Building Replacement Costs

Source: Resolution Capital, Zurich Real Property Replacement Cost Trend, January 2023

## FY24 Forecast Net Rent Growth

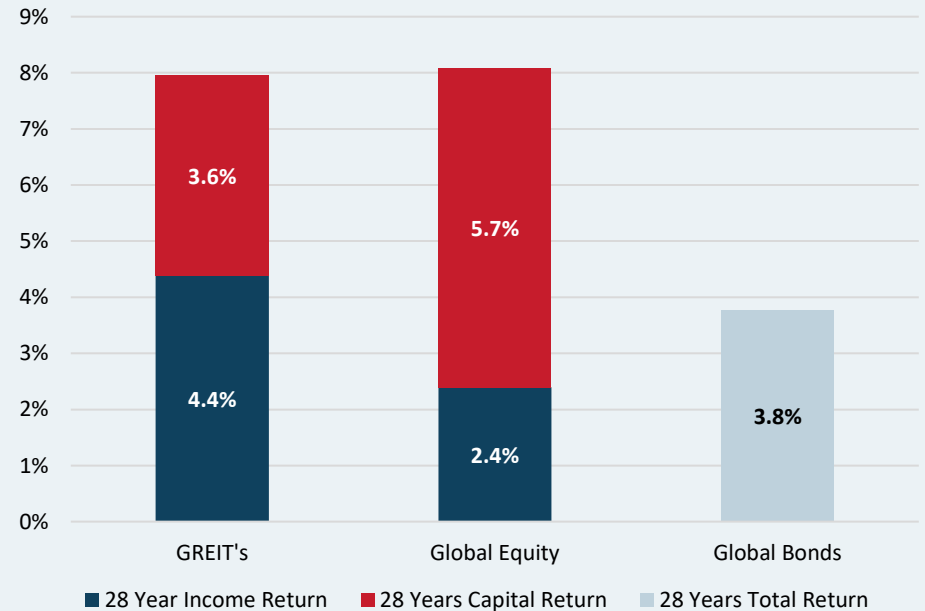


Source: Resolution Capital estimates.

- ✓ Low vacancy
  - ✓ Modest supply, increasing costs
  - ✓ Economic growth (tenant demand)
- = Rent growth > stabilized inflation

- Discounted, Best-in-Class real estate platforms
- **Operations**
  - Strong operating dynamics
    - Low vacancy
    - Limited supply/Rising replacement costs
- **Capital Management**
  - Strong balance sheets
  - Superior access to capital
- **GREITs – not drowning, waving!**

## Building Wealth in your portfolio 28 Year Total Return of REITs v Equities v Bonds



As at 31 December 2023, AUD returns

GREITs – FTSE EPRA Nareit Developed Index, Global Equity – MSCI World Index, Global Bonds – Bloomberg Global Aggregate Bond Index  
Illustrative only and not a recommendation to buy or sell any asset type.

DR DON HAMSON

## 4. AUSTRALIAN EQUITY INCOME *STILL* IMPRESSIVE

Plato

INVESTMENT MANAGEMENT

AUF4





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Note: Past performance is not a reliable indicator of future performance.

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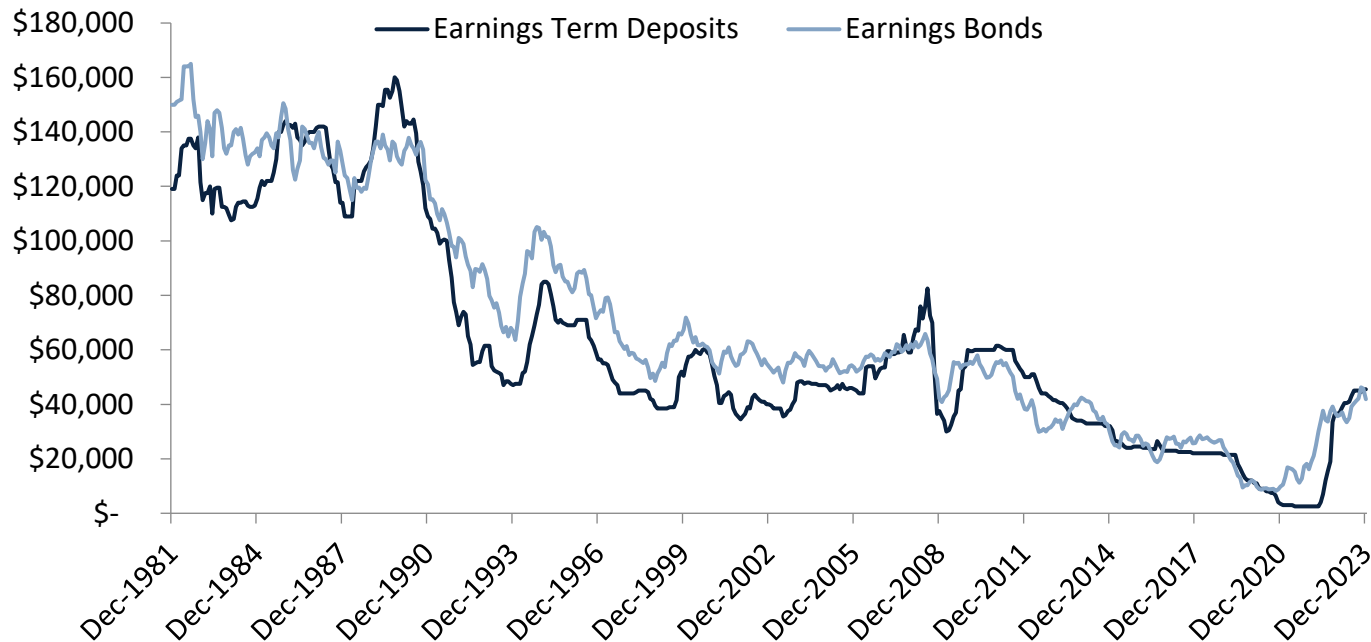


## BIG PICTURE: ASSET CLASS INCOME OUTLOOK



# Interest rates near their peak

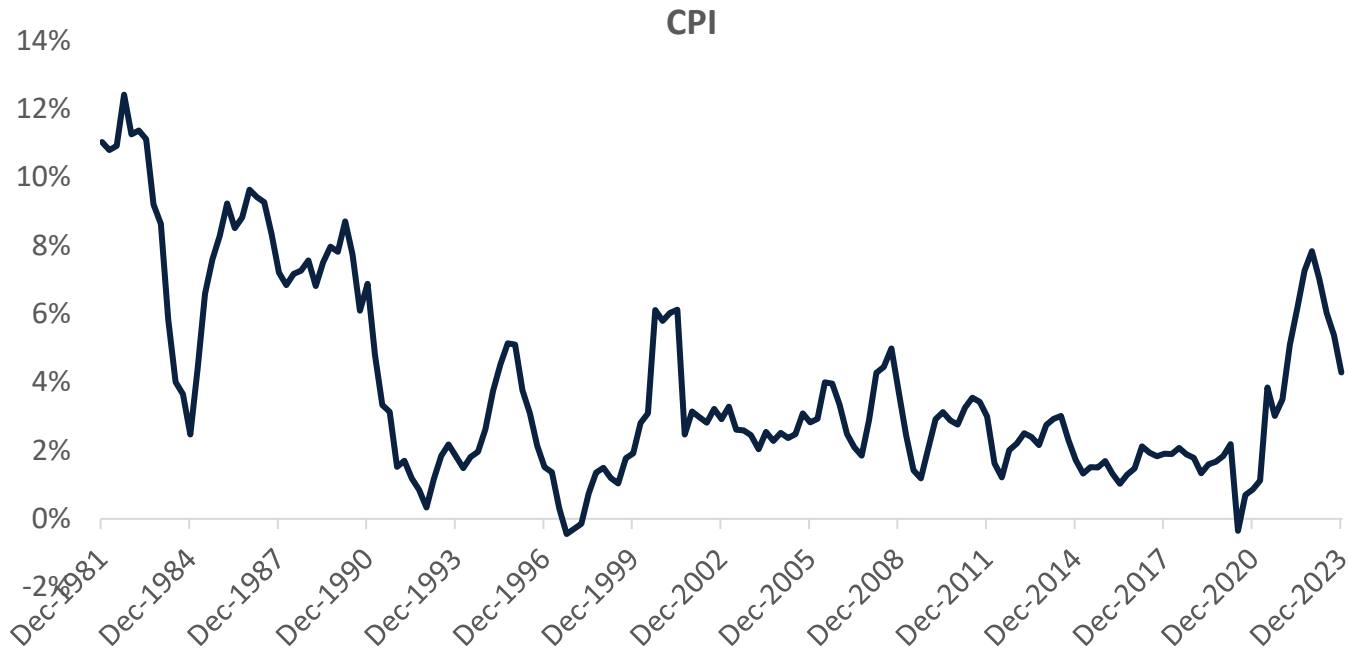
## NOMINAL EARNINGS ON \$1M



“...but what about inflation?”

# Inflation coming down quickly

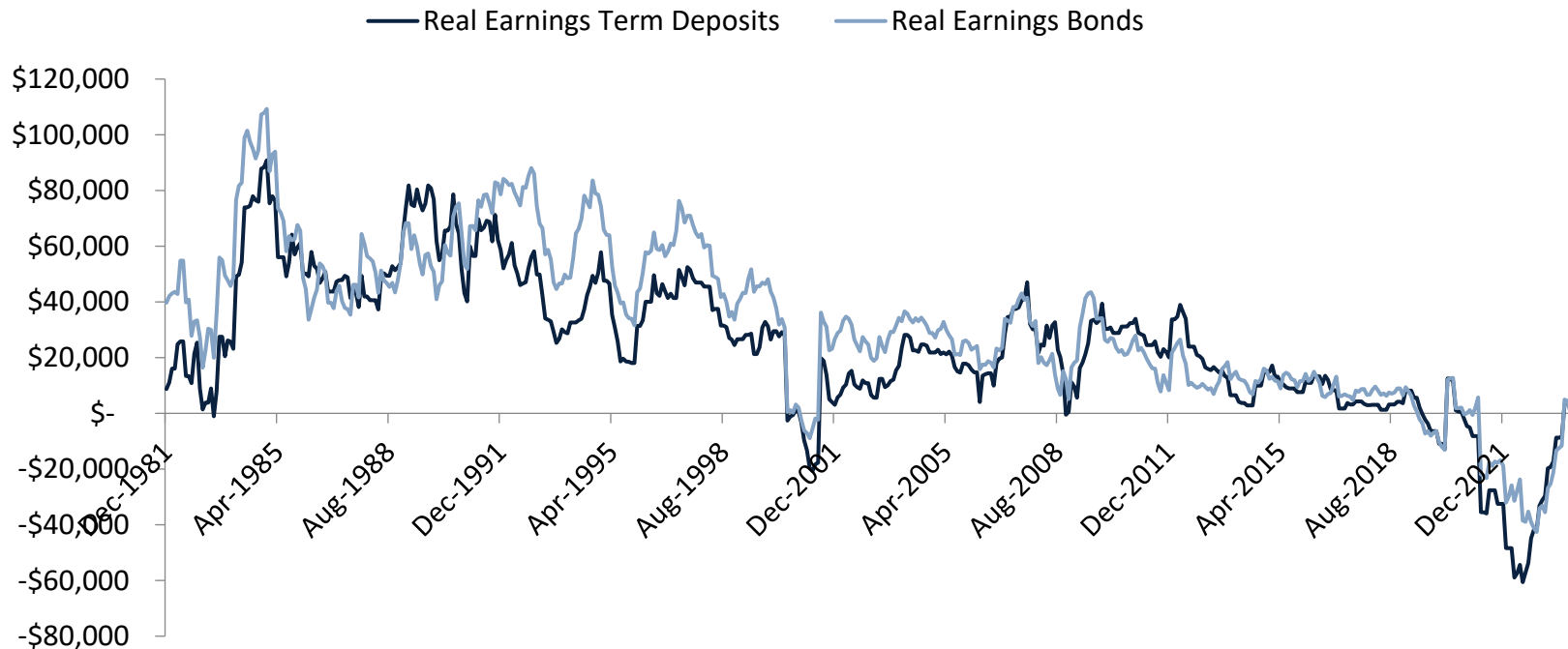
## HEADLINE CPI



4.1% (monthly 3.4%) versus peak of 7.8%

# Safe assets finally keeping up with inflation (just)

REAL AFTER INFLATION EARNINGS ON \$1M





## AFTER TAX INVESTING FOR RETIREES

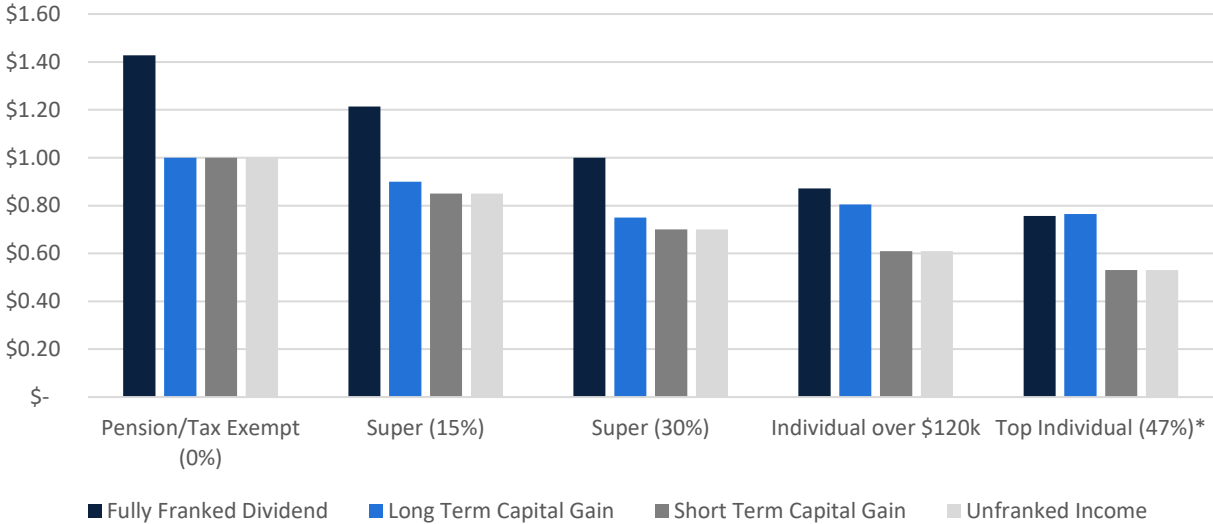


# Retirees are different

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- **Retirees are different to accumulators**
- **They need to live off the income from their investments:**
  - Investment income replaces regular salary
- **They are taxed differently:**
  - The first \$1.9m in pension phase superannuation is tax free whereas accumulation superannuation is taxed at 15%
- **They face longevity risk:**
  - Risk of outliving your investments
  - Significant evidence that retirees prefer to live off income rather than significantly drawdown on capital

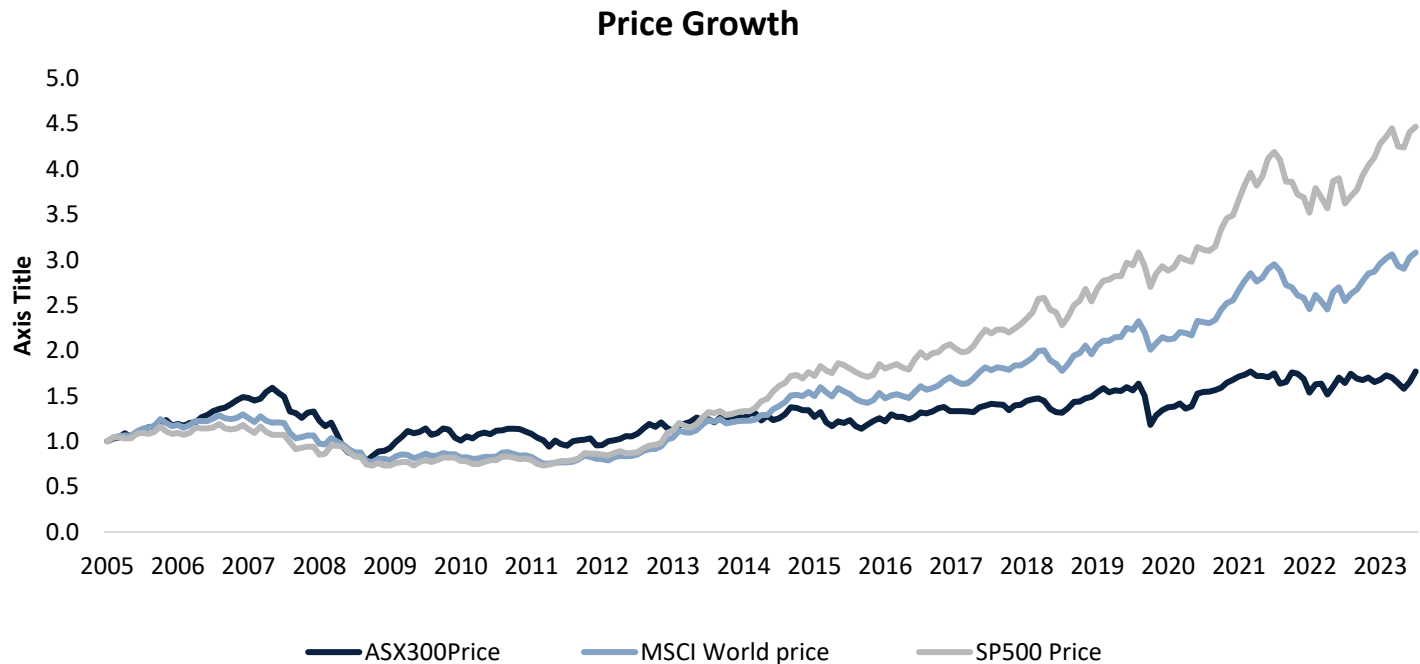
# Pension phase super tax rates are different (what about that super cap?)



Tax effectiveness depends on your tax status!



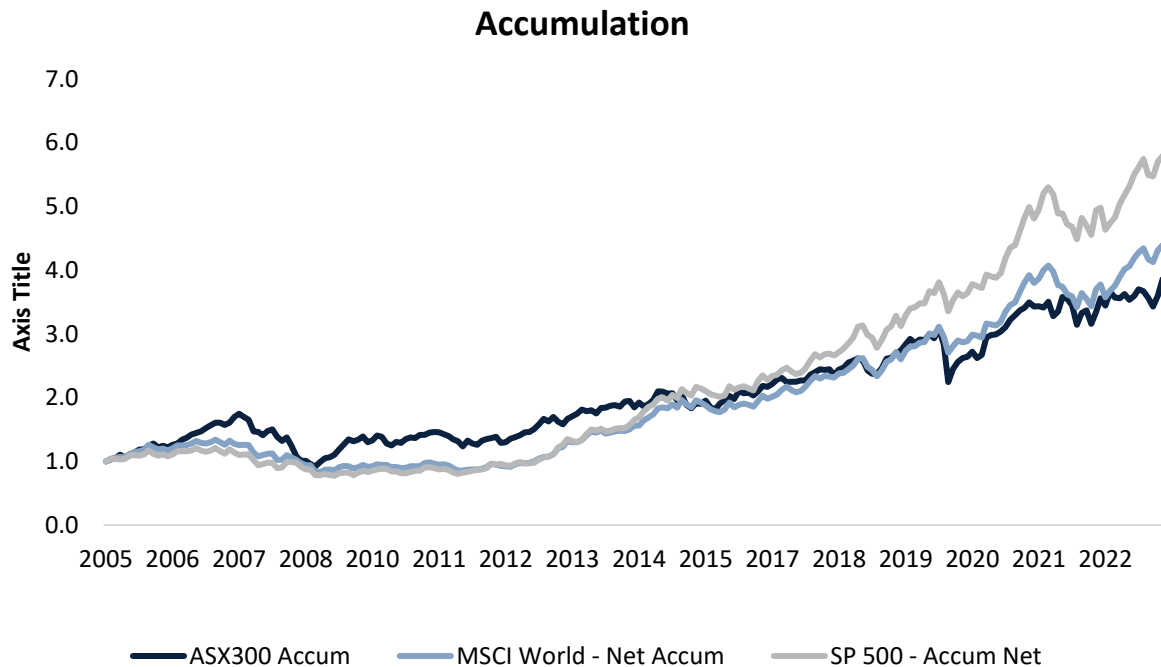
# Australian share price growth has lagged



“ASX300 3.3% p.a. MSCI World 6.6% p.a. S&P500 8.9%p.a.”

# But Australian dividends are higher

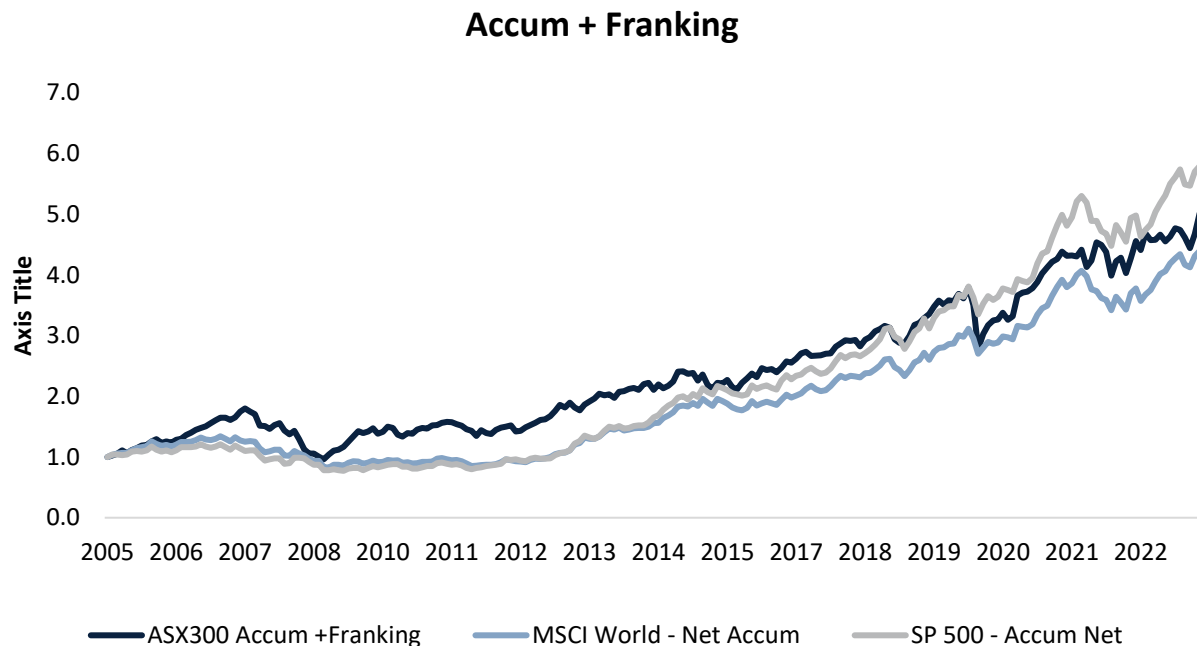
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“ASX300 8.0% p.a. MSCI World 8.8% p.a. S&P500 10.6%p.a.”

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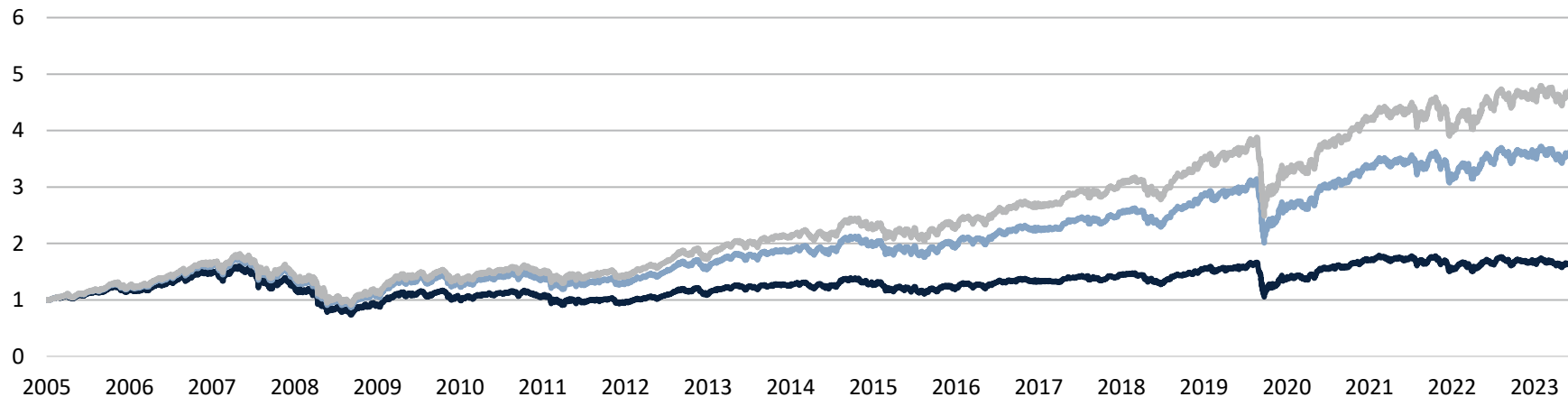
# Don't forget the franking!



“ASX300 9.7% p.a. MSCI World 8.8% p.a. S&P500 10.6%p.a.”

# Income and franking are very important

17.5 YEARS TO DECEMBER 2023



— ASX300 Price Index

— ASX300 Accumulation Index

— ASX300 Accumulation Index (incl. Franking Credits)

Source: Plato S&P

“Growth 3.3%pa, accumulation 8.0%pa, plus franking 9.7%pa.”



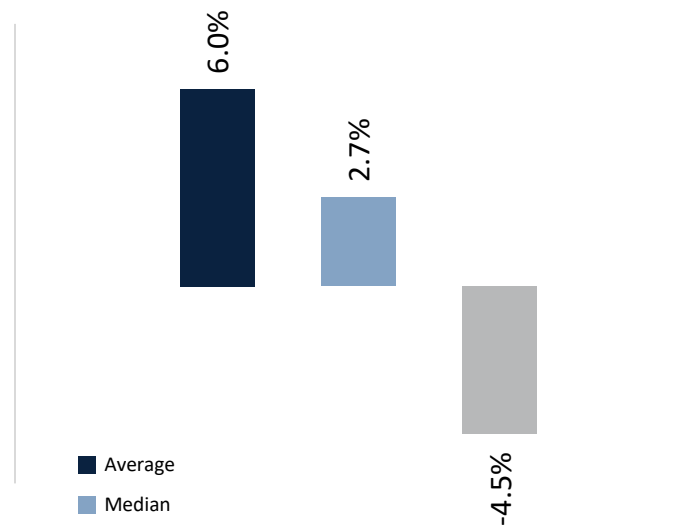
## REPORTING SEASON & OUTLOOK



# Results season February 2024 - Dividends

- Over \$35bn in dividends have been declared.
- Strong dividend increases:
  - AGL Energy (225%) and Origin Energy (67%) in utilities.
  - QBE Insurance (60%), Insurance Australia (67%) and Medibank Private (14%) in financials.
  - Fortescue (44%) and Rio Tinto (20%) in resources.
  - Other: Aurizon (39%), Brambles (24%), Car Group (21%) and Ampol (16%)
- 3 companies in ASX200 (Iress, Pilbara and Sims) omitted their dividend.
- Dividend Cuts in resources: Sims (100%), Pilbara (100%), South32 (92%), Mineral Resources (83%), Iluka (80%) and BHP (19%).
- Dividend Cuts in Energy: Whitehaven Coal (78%) and Woodside (58%)
- Other Dividend Cuts: Magellan Financial (37%), Nine Entertainment (33%), Tabcorp (23%), Seek (21%), JB Hi-fi (20%) and Dominoes (18%).
- 58% of companies increased dividends, 15% had flat dividend and 27% reduced dividends.

FEB 2024 CHANGE IN DIVIDENDS PCP



Source: Plato, Bloomberg, S&P200

# Reporting Season Analysis

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## INSURERS



- 1H FY24 Cash earnings of \$660m, up 14% but 4% below expectations. Profit from general insurance up 52%, life insurance down 13% and banking down 25%.
- Final dividend 34c vs 33c last year. Equates to 5.6% annual gross yield. Payout ratio 80%.
- Gross written premium in Aust. Up “low to mid teens”. Bank NIM disappointed. Won appeal to sell bank to ANZ, freeing up \$4b in excess capital.



- Cash earnings of \$1,362m, up 105% on last year.
- Final dividend 48c up 60% on last year (10% franked). Equates to 3.8% annual gross yield. Payout ratio 57%.
- Gross written premium up 10%. Adjusted cash ROE increased to 16%. 4.7% investment return (PCP 2.0%). Continued to de-risk portfolio.

# Reporting Season Analysis

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## MINERS

# RioTinto

- FY23 underlying earnings down 12% to US\$11.8bn, in line with expectations.
- Final dividend of \$3.93, up 20% on last year, equates to a 7.6% annual gross yield, 60% payout ratio.
- Benefiting from increase in iron ore price in 2nd half. Chinese steel demand shifting from property to manufacturing (Solar cells, lithium batteries and EVs).



- 1H FY24 NPAT US\$3.3bn, up 6% and 3% above expectations.
- Dividend of \$1.08c, 44% above last year (10.7% annual gross yield). Payout ratio of 65%.
- Still investing heavily in green projects such as hydrogen and green iron ore.

Source: Plato



# Reporting Season Analysis

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## AMPOL

- CY23 NPAT of \$740m, 1.1% above pcp and slightly above consensus.
- Final dividend 120c vs 105c last year (14% increase) **plus 60c special dividend**. Equates to 8.0% annual gross yield excluding specials or 10.3% including special. 89% payout ratio.
- Reduced forecast capex levels may allow higher dividend payout ratio to continue going forward.






Source: Plato

# TOP DIVIDEND TRAPS

BE CAREFUL LOOKING AT HISTORICAL YIELD

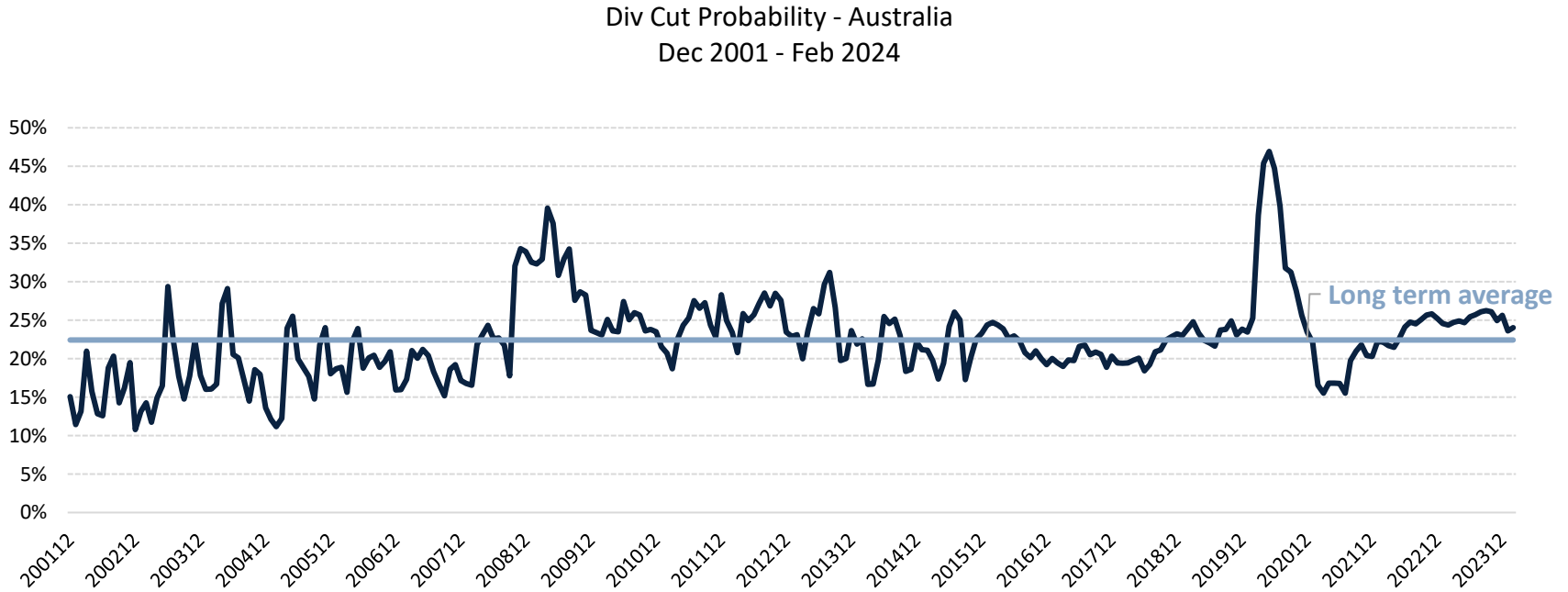
- Dividend Cuts:
  - Pilbara 100%
  - South32 92%
  - Magellan 37%

STOCK	HIST. ANNUAL YIELD % (31 DEC 2023)	DIVIDEND CUT
 Pilbara Minerals <small>Powering a sustainable energy future</small>	9.0%	100%
 SOUTH32	5.3%	92%
 MAGELLAN	17.2%	37%

Source: Plato, Bloomberg

# Dividend outlook within normal range

## AVERAGE % CHANCE OF DIVIDEND CUTS FOR AUSTRALIAN MARKET



Source: Plato, based on MSCI World IMI (Australian portion)