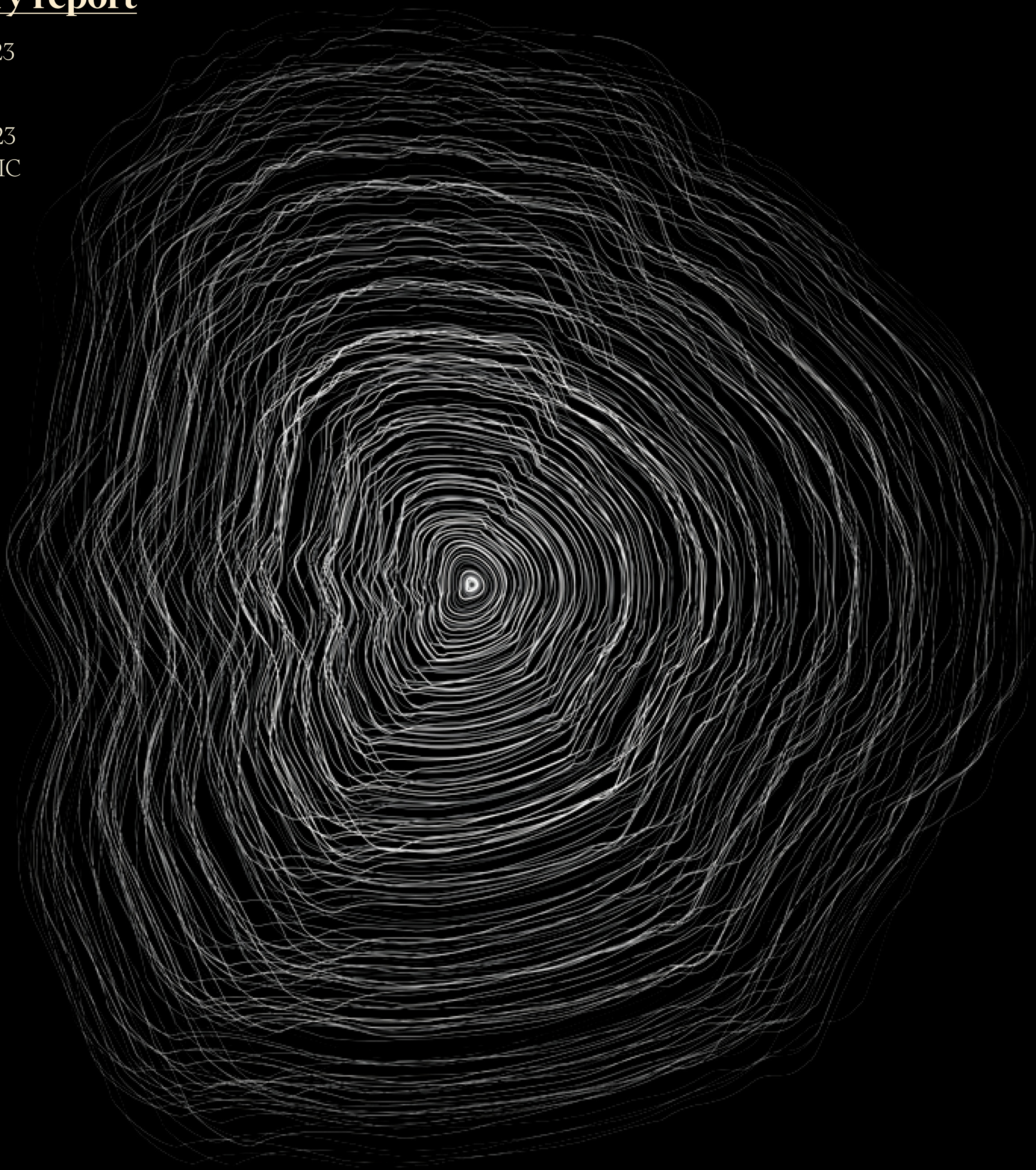
The Inside Network

Growth Symposium

Summary report

22 March 2023
Sydney NSW

29 March 2023
Melbourne VIC



Changing of the guard

Growth Symposium 2023

SYNOPSIS

An inflation outbreak has changed the paradigm for investors from all around the world, with the four-decade tailwind of bond yields immediately turning into a headwind. The resulting valuation 'reset' has been among the fastest in history, yet the outlook remains as uncertain and varied as ever. After decades of growing in unison, the global economy is entering a period of divergence, in which the economic and investment performance of countries and companies will see growing dispersion. Perspective is required when investing into growth assets at a juncture when there are more potential outcomes than at any point in recent history; what is certain, though, is that opportunities abound. With many experts predicting lower benchmark returns than those of the last decade, seeking outperformance – whether through style, factors, geography or approach – will be a key determinant of investment success.

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Koda Capital

Angela Ashton
Evergreen Consultants

Mathew Jeremy
Caravel Consulting Services

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Atchison Consultants

Christian Ryan
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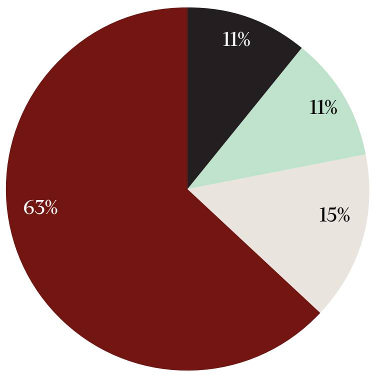
A snapshot

SESSION #1

Entering orbit

WHAT AMOUNT OF YOUR LISTED EQUITY PORTFOLIO IS HELD OUTSIDE DEVELOPED WORLD LARGE-CAP COMPANIES?



- More than 30 per cent
- 20 per cent
- 0 per cent
- 10 per cent

ANDREW SWAN, MAN GROUP

- Now is a good time for Asian equities. However, Asia is more than China – the rest of Southeast Asia is doing really well.
- A lot of the problems for developed-world markets don't exist in Asia.
- Growth will improve in China in 2023, but China won't save portfolios – it can no longer unleash its savings to rescue the world.

RICHARD IVERS, PRIME VALUE ASSET MANAGEMENT

- Aussie small caps prone to misconceptions: they're very cyclical, very speculative, often low-quality.
- The reality is that there are many high-quality small-cap companies.
- Small caps are more volatile than large caps: they fall more, but usually rebound more in an upturn. Equities lead economic recovery – you can't afford to wait.

SIMON ADLER, SCHRODERS

- Despite the selloff in 2022, growth shares remain 'very expensive' on an historical basis, while the cheapest 20 per cent of the market remains significantly undervalued.
- 2022 has highlighted the importance of understanding whether a strategy is 'true-to-label', with many 'value' strategies not truly invested in this sector of the market.
- The only method through which to avoid value traps is via fundamental analysis and keeping track of prior research efforts.

KEY POINTS

1. The driver of Asian equity investment is not high economic growth rates - it is company profitability.
2. The small-industrials sector is historically cheap versus large-cap industrials and the market more broadly.
3. With a period of below-trend growth expected, identifying the most attractively priced sub-sectors of the market will be key to delivering returns.

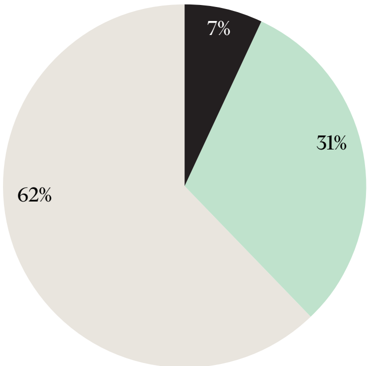
Andrew Swan (SYD/MEL)
Man Group

Richard Ivers (SYD)
Prime Value Asset Management

Simon Adler (MEL)
Schroders

SESSION #2

WHAT LEVEL OF ANNUAL RETURNS DO YOU EXPECT FROM GLOBAL EQUITIES OVER THE NEXT THREE YEARS?



- 15 per cent or less
- 7 to 10 per cent
- 5 to 7 per cent (trend)

A repeatable advantage

LEE ROSENBAUM AND EILEEN RILEY, LOOMIS SAYLES

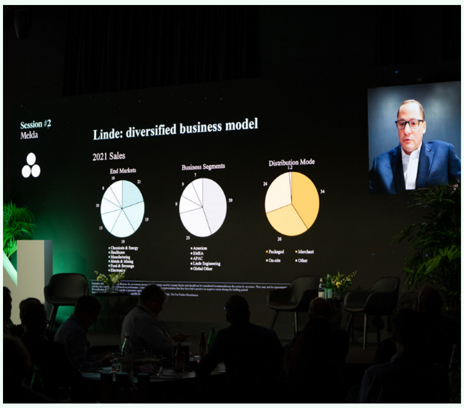
- Quality definitely contributes to alpha, but the definition of 'quality' differs among investors.
- Quality is only one option in the pursuit of alpha; Loomis Sayles focuses on intrinsic value (free cash flow growth) and prevailing valuation.
- While much of the attention is paid to ratios and financial data, less appreciated is the qualitative aspect of quality, which is best identified as those companies with a sustainable and defensible competitive advantage.

DAVID KEIR, DUNDAS GLOBAL INVESTORS

- Consistent dividend returns are conducive to share price growth, but the true opportunity is in those companies with low payout ratios.
- Sustainable dividends require a company to reinvest in their business, which ultimately funds tomorrow's dividend growth.
- When payout ratios are low, dividends will grow – and share prices will follow.

KEY TAKEAWAYS

1. Quality is not an absolute or permanent attribute; it is situational and varies over time.
2. Greater emphasis must be placed on future income streams: reinvesting profits is the 'secret sauce' to sustainable dividend growth.
3. Markets continue to move through significant cycles, requiring an understanding of and appropriate position in those companies best suited to the current conditions.



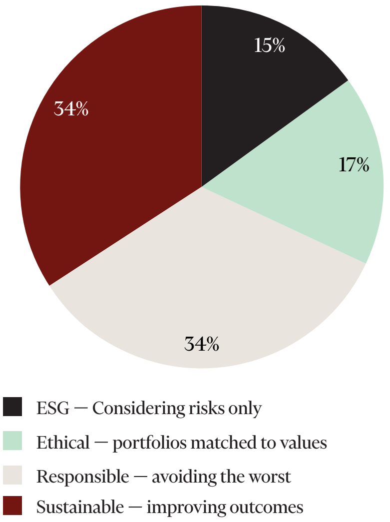
Lee Rosenbaum (SYD)
Loomis Sayles

Eileen Riley (MEL)
Loomis Sayles

David Keir (SYD/MEL)
Dundas Global Investors

SESSION #3

HOW WOULD YOU BEST DESCRIBE YOUR APPROACH TO RESPONSIBLE INVESTING?



Portfolio construction perspectives

AUSTRALIAN ETHICAL INVESTMENT

- The transition to clean energy will bring many investment opportunities.
- “Green” hydrogen will be an important part of the transition.
- Metals like lithium will also be important; but these must be mined responsibly, with respectful relationships with all stakeholders to the process.

KEY TAKEAWAYS

1. Ethical investing doesn’t focus solely on exclusions and negative screens; it’s also about engaging and supporting those businesses required to support the transition.
2. An ethical approach requires deep consideration of underlying style and sector exposures, which must be managed appropriately at the portfolio construction level.
3. Alternative assets have an important role to play within diversified portfolios in the pursuit of CPI-plus objective returns.

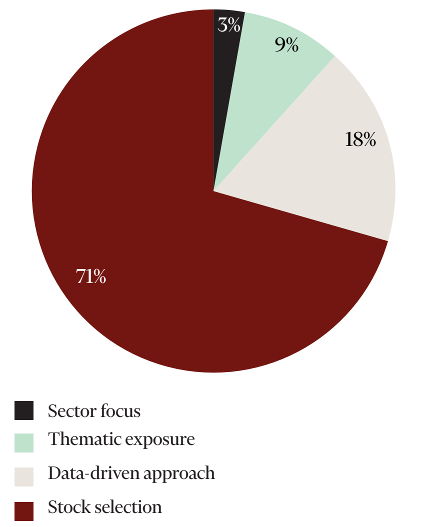
Leah Willis
Australian Ethical Investment

John Woods
Australian Ethical Investment

Persephone Fraser
Australian Ethical Investment

SESSION #4

WHICH TRAITS ARE MOST IMPORTANT TO YOU WHEN ALLOCATING TO SMALLER COMPANIES?



Seeing the light

NICK CREGAN, FAIRLIGHT ASSET MANAGEMENT

- Quality as a factor has beaten both value and growth since 1980; this is even more prevalent in smaller and medium-sized companies.
- In downturns, this tendency of quality to outperform becomes even more pronounced. Also, quality leads a rally out of a downturn.
- The most reliable measurement of quality is return on invested capital (ROIC).

ANDRÉ ROBERTS, INVESCO

- Systematic investing can make the diversification sought in the small-cap market much more efficient by removing the style biases.
- Systematic investing can give you an unbiased (and unemotional) view on every stock in your universe, every day.
- The 'hit rate' of systematic investing is higher, and it is more repeatable with factors more prevalent in the more biased smaller-company sector.

KEY TAKEAWAYS

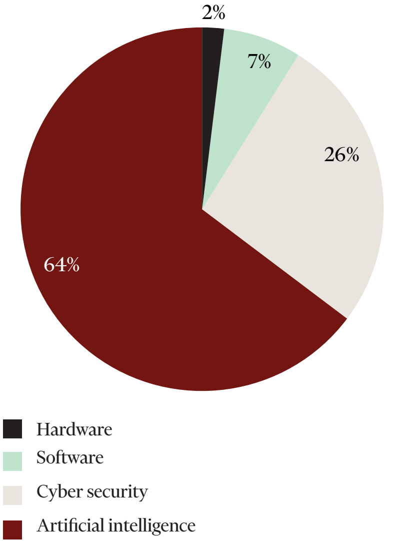
1. Global small-to-mid-cap (SMID) stocks are cheaper now than they were during COVID-19.
2. While a significant amount of the sector is 'junk', there are opportunities galore, many of which are of similar size and scale as Australian 'large' caps.
3. 'Factor' diversification can give a better risk-return trade-off than sector/industry diversification on its own.

Nick Cregan
Fairlight Asset Management

André Roberts
Invesco

SESSION #5

WHERE DO YOU SEE THE GREATEST OPPORTUNITY IN THE TECHNOLOGY SECTOR IN THE NEXT FIVE YEARS?



Artificial intelligence – changing the game

NICK GRIFFIN, MUNRO PARTNERS

- The practical applications of tools like ChatGPT and machine learning capabilities span most sectors of the economy, offering room for significant efficiencies in healthcare, financial services and marketing businesses, among others.
- Artificial intelligence is simply the continuation of a long continuum in technology driven by Moore's law, which explains the exponential growth opportunity in processing power.
- Chief among the most important traits of a growth investor is the understanding that in technology the winner will continue to take most of the market share of revenue and profit.

KEY TAKEAWAYS

1. Artificial intelligence and machine learning together amount to one of the most powerful investment thematics in a generation. However, as always, not everyone company will be a winner from the trend.
2. As was the case with prior thematics, identifying the 'picks and shovels' of the AI arms race will be an attractive way to invest in the thematic; this begins with the semiconductor supply chain and materials.
3. The recalibration of valuations on the back of rising interest rates has opened greater opportunities to invest in businesses that are in many cases stronger than during the pandemic.

Nick Griffin
Munro Partners

SESSION #6

Keynote with Michael Kollo

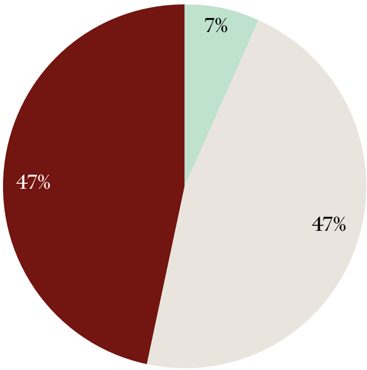
KEY TAKEAWAYS

- Large-language-model tools (such as ChatGPT) are a permanent part of our careers from here onward.
- Companies such as Google and Microsoft will make sure it is built into our tools.
- It is not dystopian – these are tools that will augment and improve efficiency in our lives, not computers replacing people.

Michael Kollo
Evolved Reasoning

SESSION #7

WHICH FACTOR IS YOUR HIGHEST PRIORITY WHEN CONSIDERING CHANGES TO YOUR GROWTH ALLOCATION?



Correlations matter

JOHN JULIAN, AMP CAPITAL

- Decarbonisation is a huge opportunity for infrastructure investors, which the opportunity set continuing to expand.
- Vast amounts of money are being invested in renewable energy, but deep due diligence is required to identify the best risk-reward opportunities.
- Infrastructure remains an attractive inflation hedge, with both user-pays and inflation-linked models performing strongly.

CHAD PADOWITZ, TALARIA

- Returns from harvesting put option premium is 60 per cent of Talaria's return – and it is uncorrelated.
- Investor gets paid to take the risk of having to buy a stock, when in every case it has already decided to do so.
- The option premium income flow is always present in the market, hiding in plain sight – it can be tapped it in a controlled manner.

KEY TAKEAWAYS

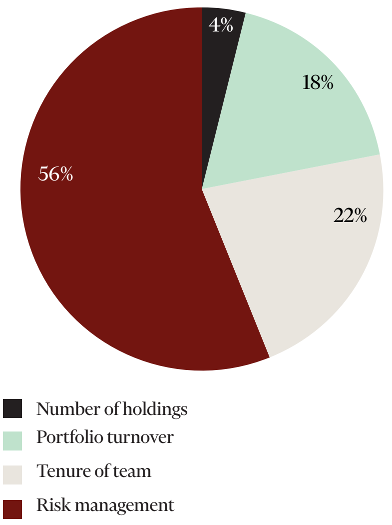
1. Infrastructure to facilitate electrification (e.g. charging infrastructure) a major opportunity, as are airports.
2. Truly uncorrelated returns more valuable now than for some time, but they require a significantly different approach to long-only equities.
3. Inflation remains a headwind to valuations, but active management and distinct processes can assist in generating positive returns.

John Julian
AMP Capital

Chad Padowitz
Talaria

SESSION #8

WHAT DO YOU CONSIDER MOST IMPORTANT WHEN ASSESSING SMALLER-COMPANY STRATEGIES?



Resilience in size

DAWN KANELLEAS, FIRST SENTIER INVESTORS

- Decarbonisation will be a major trend driving the economy and the sharemarket for the next 50 years.
- Resources stocks should only be an investment if they would still be profitable at the production cost of the 'swing producer' in that particular commodity.
- Very few initial public offerings (IPOs) are worth investing in, making the selection process more challenging.

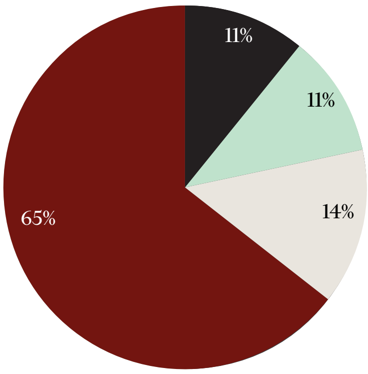
KEY TAKEAWAYS

1. The real reason for investing in small caps is that they're going to be the future large caps.
2. Nothing replaces on-the-ground, management meetings in being able to truly understand the opportunity and growth of a company.

Dawn Kanelleas
First Sentier Investors

SESSION #9

GIVEN WHAT YOU HAVE HEARD OF TODAY ARE YOU MOST LIKELY TO:



- Decrease your equity allocation
- Make no changes
- Increase your equity allocation
- Maintain but consider new holdings

Facing the future

JACQUELINE FERNLEY, MASON STEVENS

- Valuations are not as stretched as before: we want to keep some risk on.
- Investors are becoming more sanguine on the Australian economy compared with global opportunities.

ROB DA SILVA, SQM RESEARCH

- Volatility is a proxy for risk, but it does not equal risk. Investors must look at the risk taken to generate the return of a product.
- Drawdowns, their depth and at what point in the cycle they occur should be the focus of investors.

KEY TAKEAWAYS

1. Opportunities are arising in smaller companies, private and listed credit markets amid a broader global repricing of risk.
2. The economy is heading into a deflation/falling-growth regime, which requires a significant change in portfolio construction.

Jacqueline Fernley
Mason Stevens

Rob da Silva
SQM Research

The Inside Network