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tailored your way

MPW Half Year Market Update - February 2022

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The purpose of this presentation is to provide you general advice and insight into MPW's current market outlook and investment philosophy.

Where our presentation provides general advice, we must explain that this advice has been prepared at this time without taking into account your individual personal needs, objectives, or financial situation, and the personal information we hold about you has not specifically been considered in forming our views.

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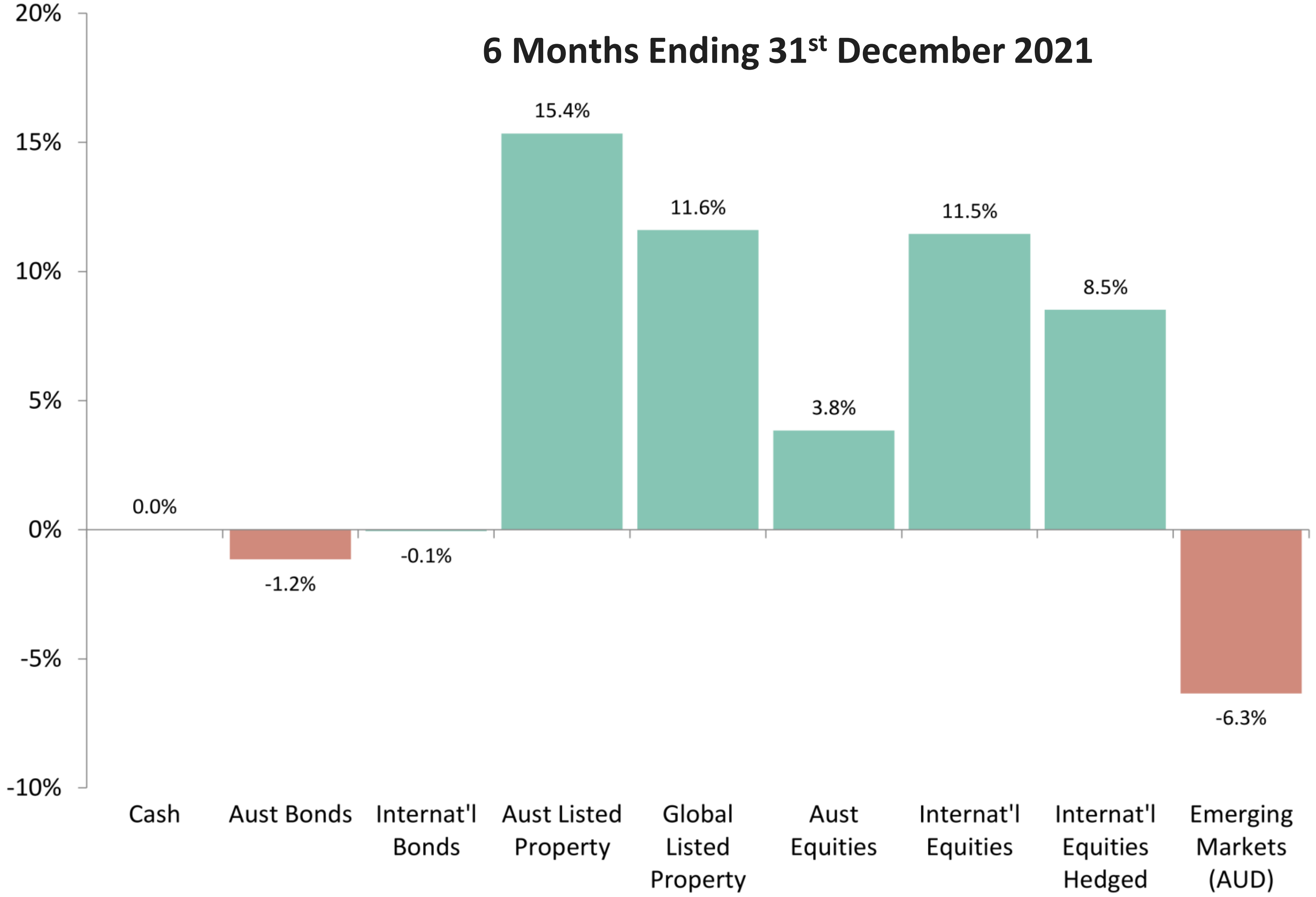
Asset Class Returns 6 Months to 31st Dec 2021



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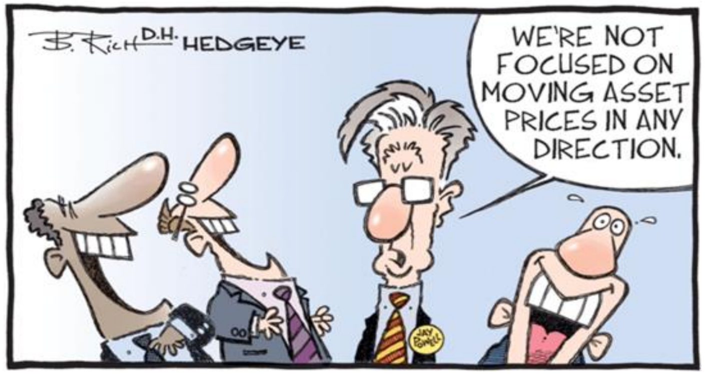
2022: Have We Now Come Full Circle?

1

We'll do whatever it takes!



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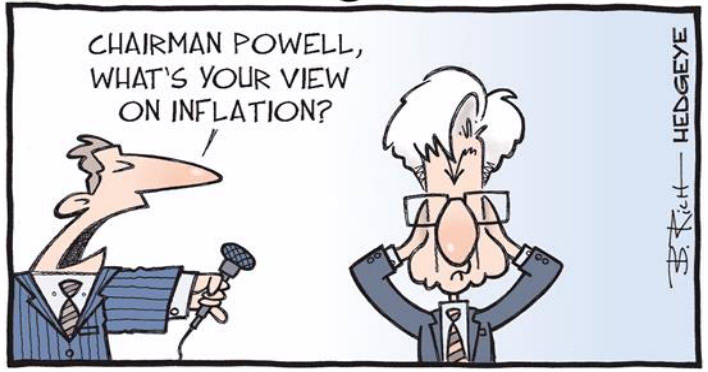
There's no bubble and inflation is transitory!

3



What's next…

Correction or Bear Market?

We're now behind the curve!

4

Time to play catch up!

5

Let's hope we don't burst the bubble!

6

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Market Tailwinds For 2022

<u>Tailwinds</u> <u>that can continue to propel markets higher throughout 2022 include</u>:

1. **Covid-19 Endemic –** More lockdowns are unlikely as we learn to live with the virus

2. **Economic Cycle** – In the "Late Upswing/Economy Slows phase" but no recession in sight

2. **Low Interest Rates** – Real interest rates are low despite Central bank tightening ahead

3. **Risk-On Mentality** – Liquidity is abundant, credit spreads are low and the yield curve is positive

4. **Corporate Profits** – Earnings remain strong and should support higher equity prices

5. **Record Cash & Dry Powder** – TINA and FOMO means investors are ready to 'buy the dips'

TINA – "There Is No Alternative" so I have to keep buying expensive assets
FOMO – "Fear of Missing Out" will keep me invested in markets regardless

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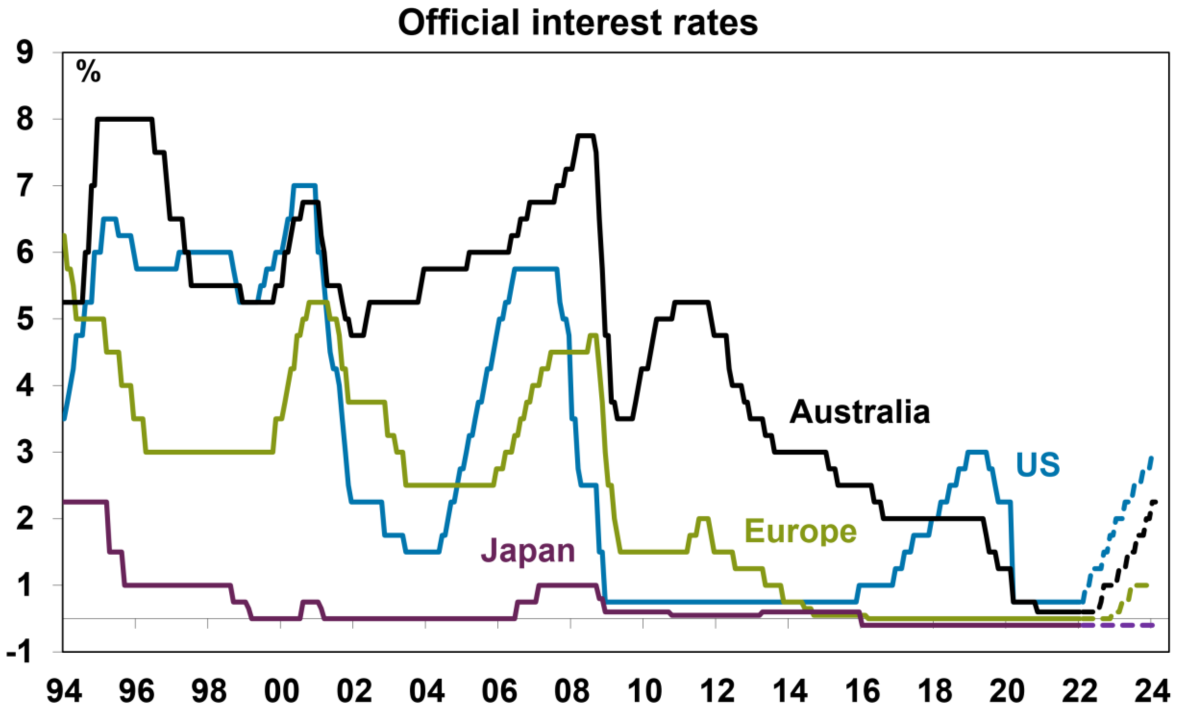
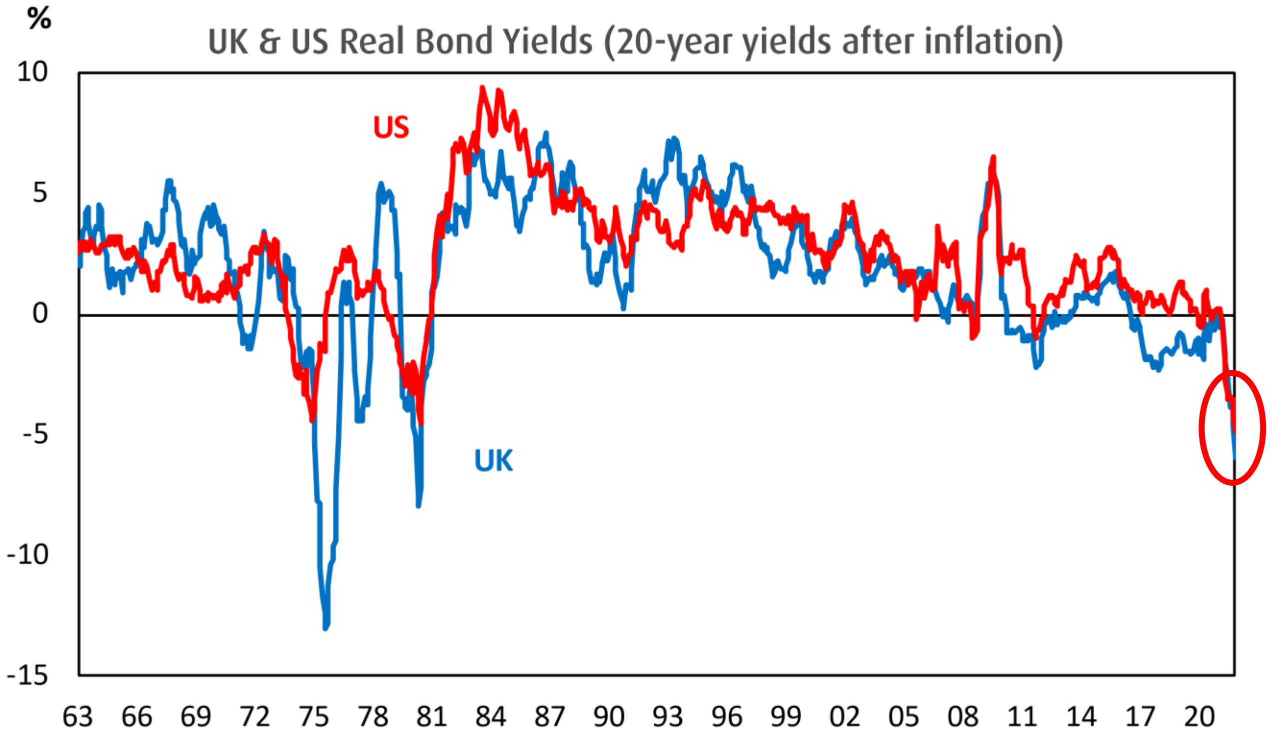
Interest Rates To Rise Off A Record Low Base

Interest rates will rise but will remain historically low.



Source: Bloomberg, AMP

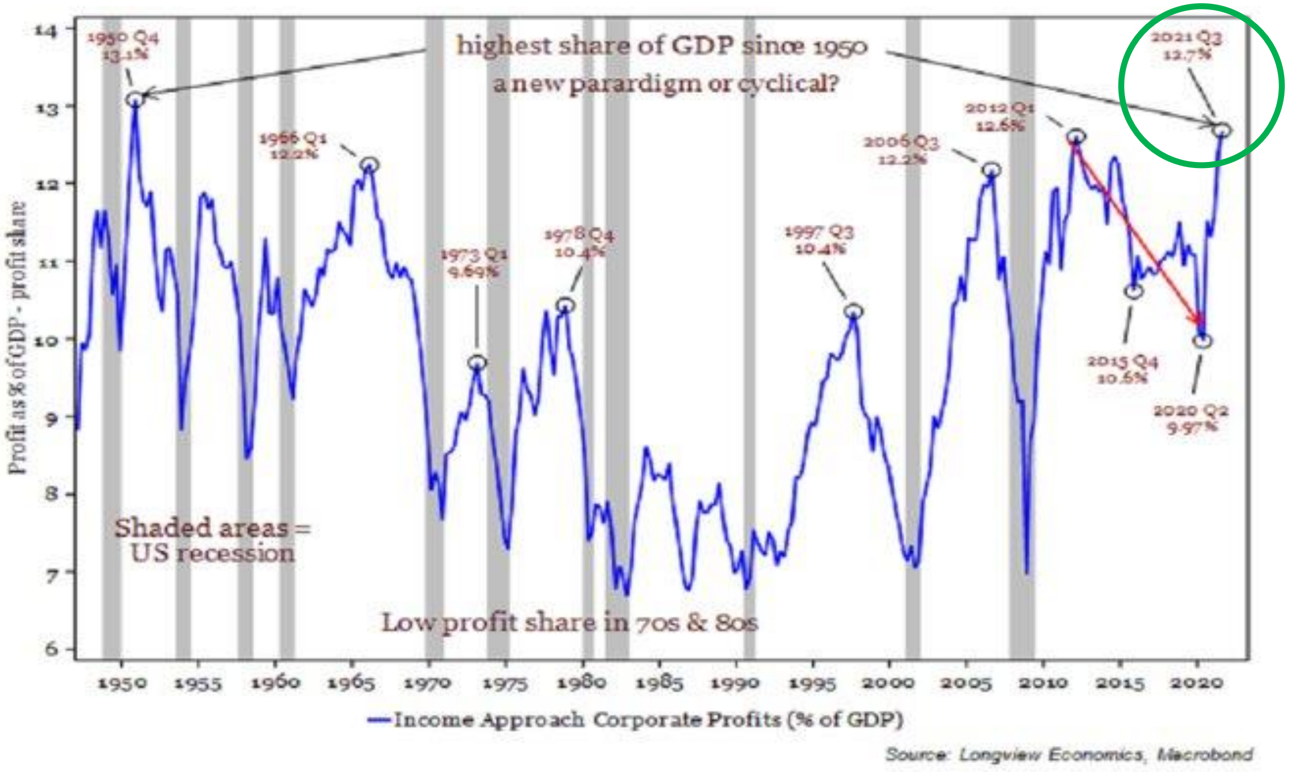
Real-yields (inflation adjusted) are the lowest in 40 years, so any tightening begins off of a tremendously low base.



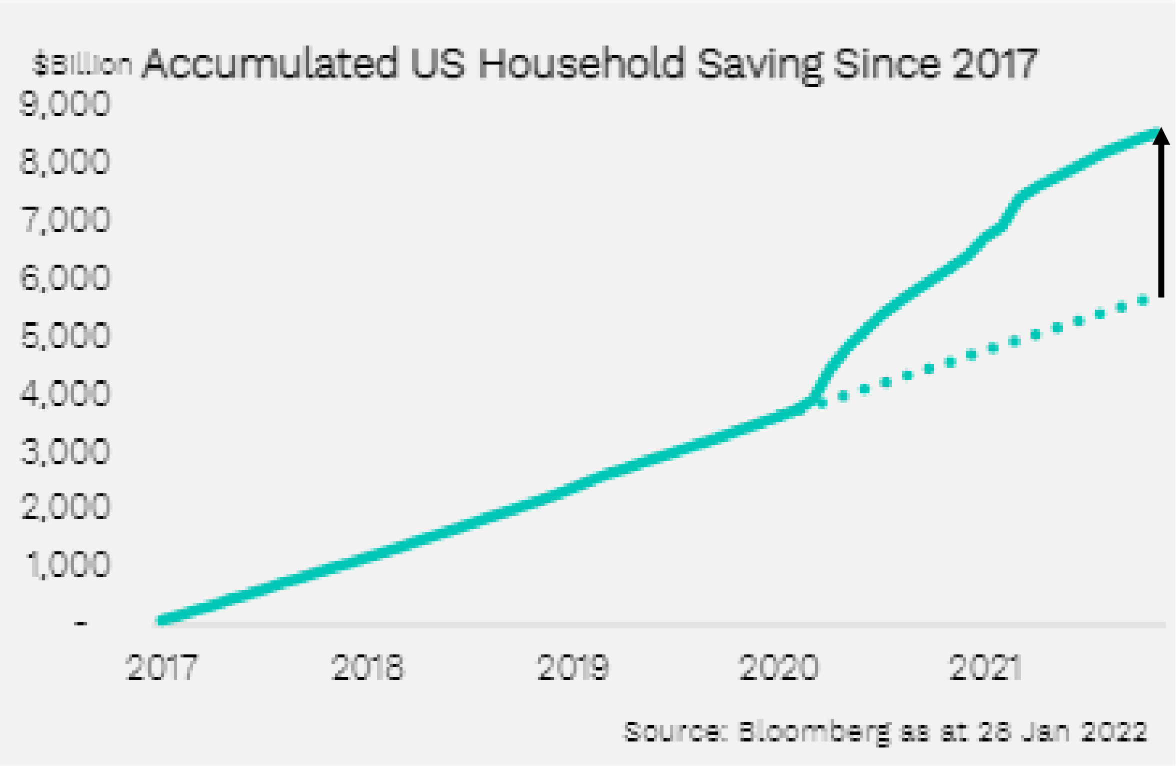
Source: Refinitiv Datastream

Strong Corporate Profits & Household Savings

US profit share is at a 70-year high



The covid-19 pandemic has spurred cash savings



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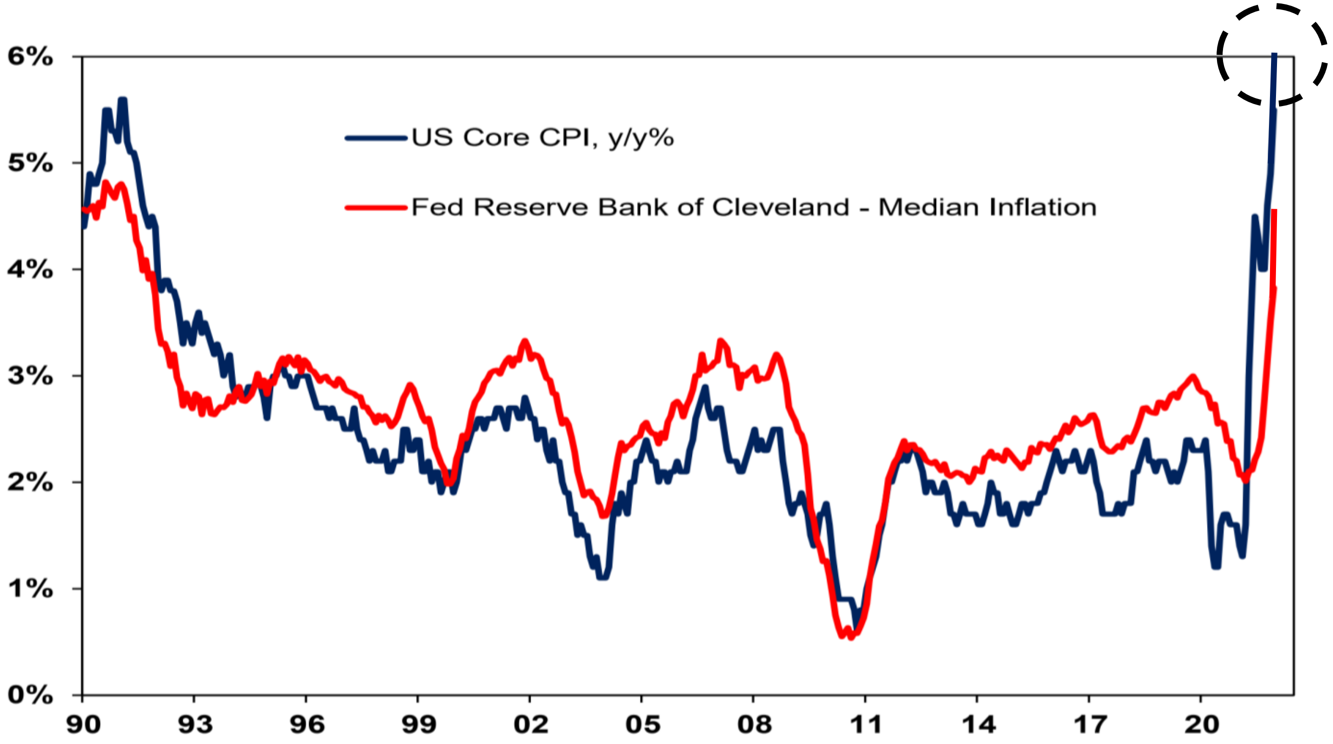
Market Headwinds For 2022

Headwinds that can put a stop to the bull market in 2022 include:

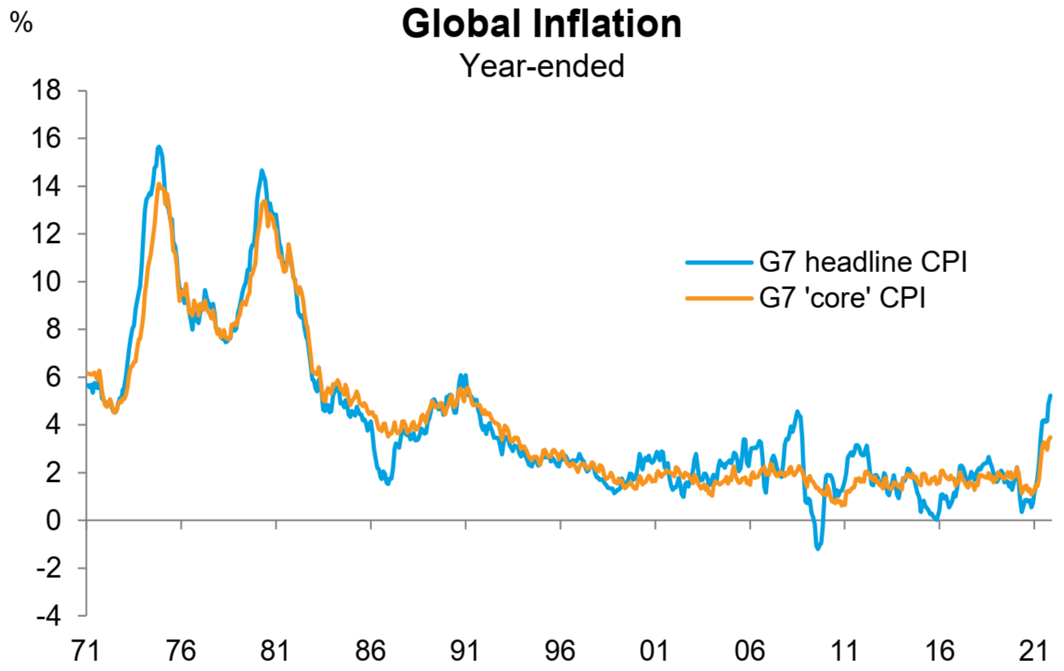
1. **Covid-19 Mutations** – We are now living with the virus, but uncertainty and risks remain
2. **Geopolitical Risks –** An oil price shock or supply chain 'shock' could see a recession unfold
3. **Economic Outlook** – Economic data looks to be peaking in this cycle
4. **Inflation & Rising Bond Yields** – High inflation could see the central banks playing catch-up
5. **Consequences of Cheap Money** – Investor euphoria, speculation, and leverage are high
6. **Extreme Market Valuations** – Most assets are expensive and arguably in 'bubble' territory

US & Global Inflation At 40-Year Highs

US headline inflation rose to 7.5% in January, a near 40 year high.
Even inflation excluding food and energy in the US has risen to 6%, a 40 year high.



Source: Bloomberg, AMP



Source: Factset, MWM Research, January 2022

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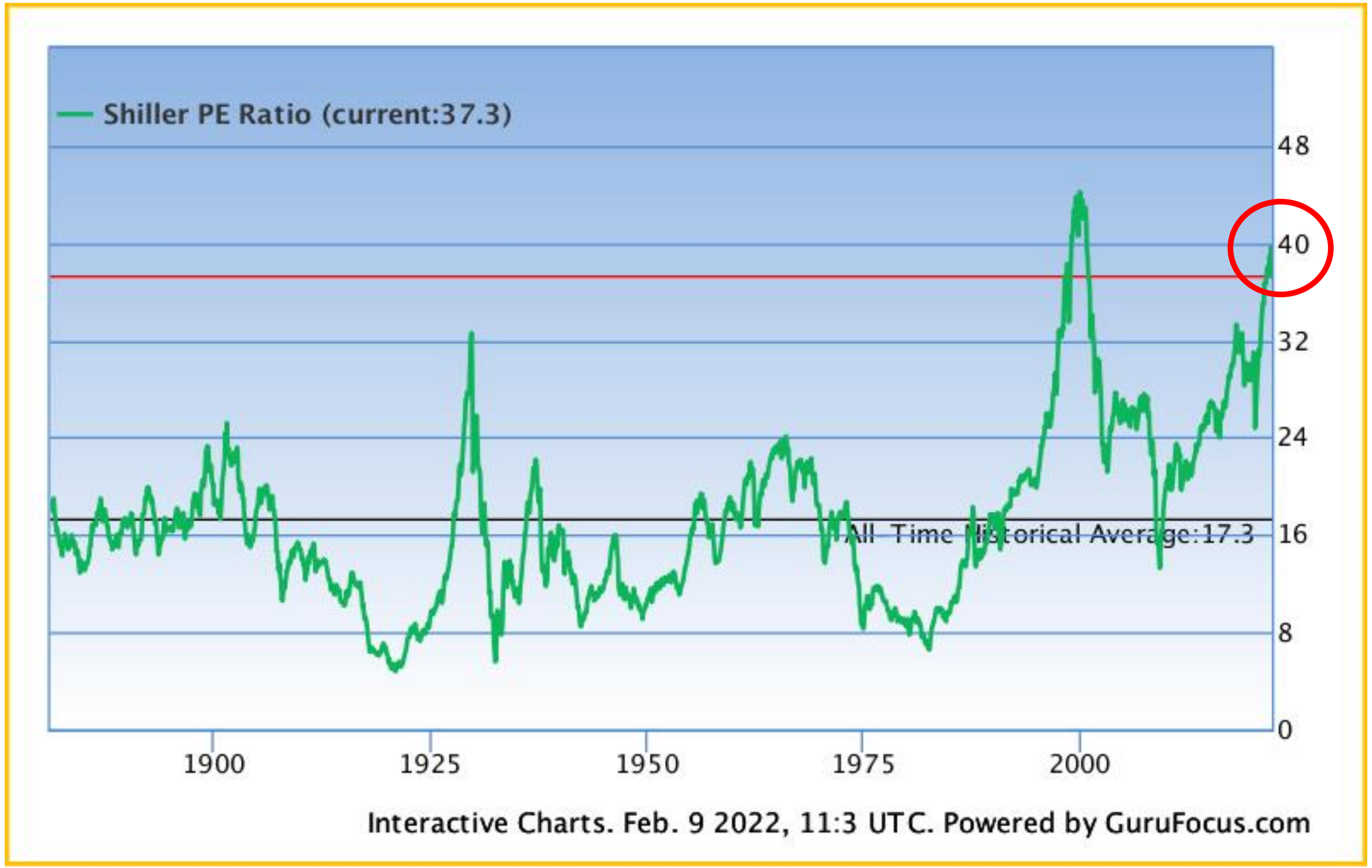
US Equity Markets Are Very Expensive

The Shiller PE chart shows the US equity market is the second most expensive in history behind the US Tech boom in 2000



Shiller PE: 37.3 (+ 0.84%)

Shiller PE is 44.4% higher than the recent 20-year average of **25.8**

Implied future annual return: **-4.5%**

Recent 20-year low: **13.3**

Recent 20-year high: **39.6**

S&P 500: **4521.54**

Regular PE: **25.8** (Recent 20-year average: **25.4**)

Scenario	Shiller PE after 8 Years	Annual Return from Today (%)
Really Lucky	Mean x 150%	0.5%
Lucky	Mean x 125%	-1.8%
Reverse to the Mean	Mean x 100%	-4.5%
Unlucky	Mean x 75%	-7.9%
Really Unlucky	Mean x 50%	-12.4%

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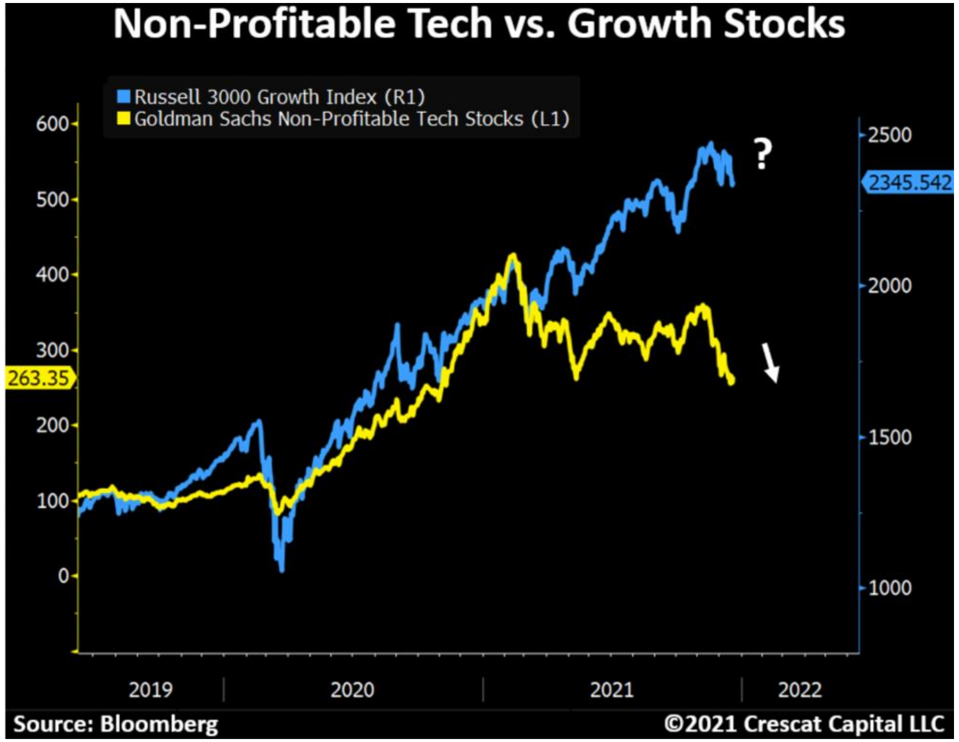
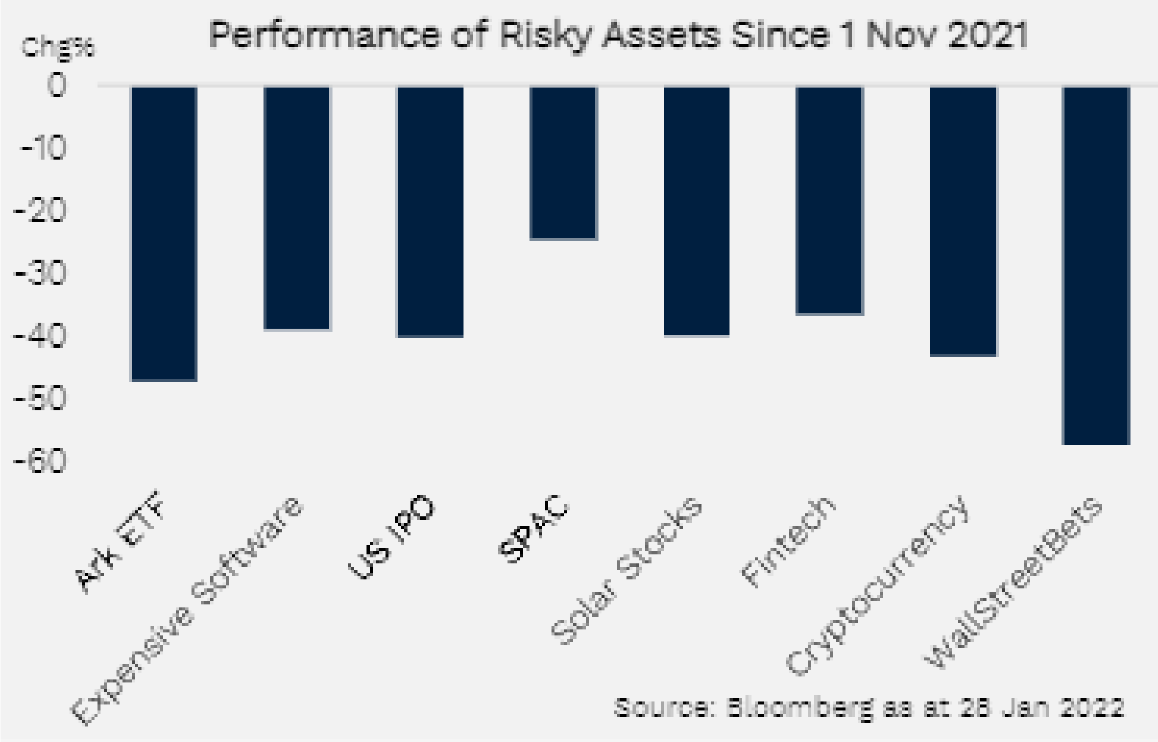
MPW Outlook For 2022

The remainder of 2022 will be volatile as markets navigate a central bank tightening cycle via higher interest rates and reduction of their balance sheets. Investors need to be very selective in the assets they own, with a focus on active management, quality earnings growth, credit seniority, inflation hedges, and having downside protection in place.

Speculative assets are now much higher risk!





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MPW Recommended Portfolio Strategy

Asset Class	Tactical Position	Comment
Currency (AUD vs USD)	Neutral	Neutral hedge at current levels, noting potential for full AUD hedge in coming months
Cash & Short Duration	Neutral	Returns are close to 0%, but increase cash opportunistically by locking-in recent gains
Government Bonds	Underweight	Yields are low and capital protection is questionable right now, but this may change
Corporate Credit	Neutral	Spreads have narrowed too much in listed markets, but selectively own private credit
Listed Property & Infrastructure	Underweight	Listed markets are high risk, we will selectively allocate to private market assets
Australian Shares	Under to Neutral	Long short exposure with a value bias, preference for defensive sectors and commodities
International Shares	Under to Neutral	Underweight expensive markets (the US) and overweight value and Emerging Markets
Liquid Alternative Assets	Overweight	Equity market neutral, private debt and equity, commodities, and niche opportunities
Illiquid Alternative Assets	Overweight	Private debt and equity, niche illiquid strategies can provide a long-term return premium

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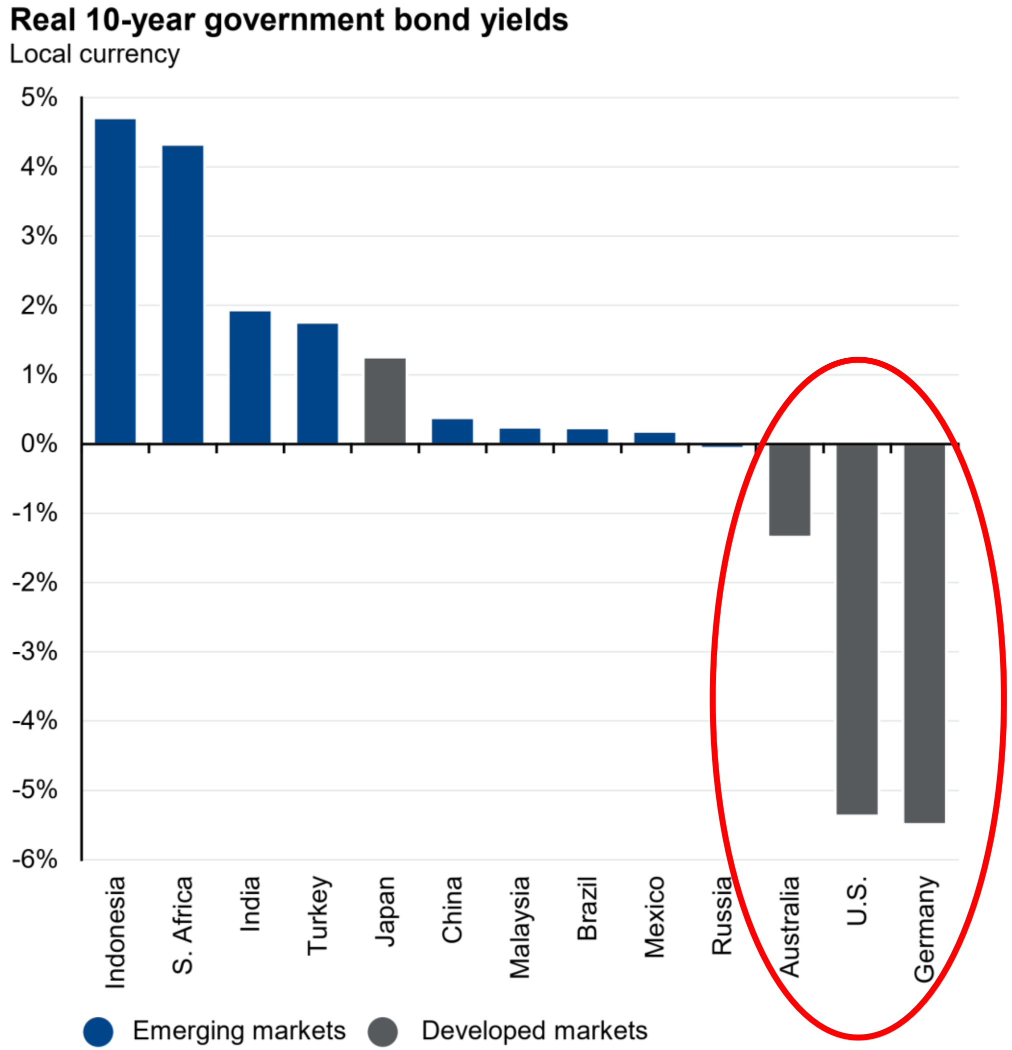
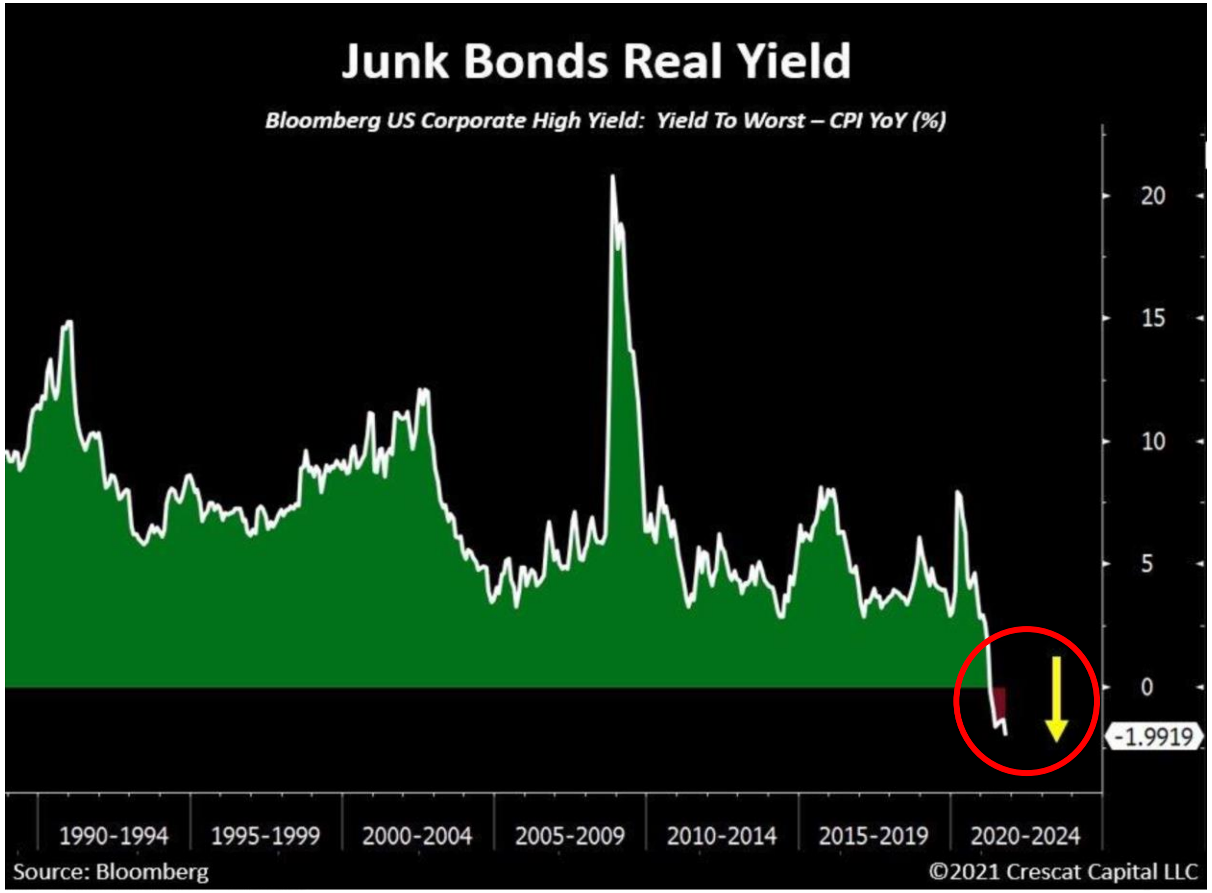
Real Bond Yields Are Negative



Source: J.P. Morgan Asset Management

Net of inflation, government and high-yield junk bonds have the lowest real rates in the last 30 years.



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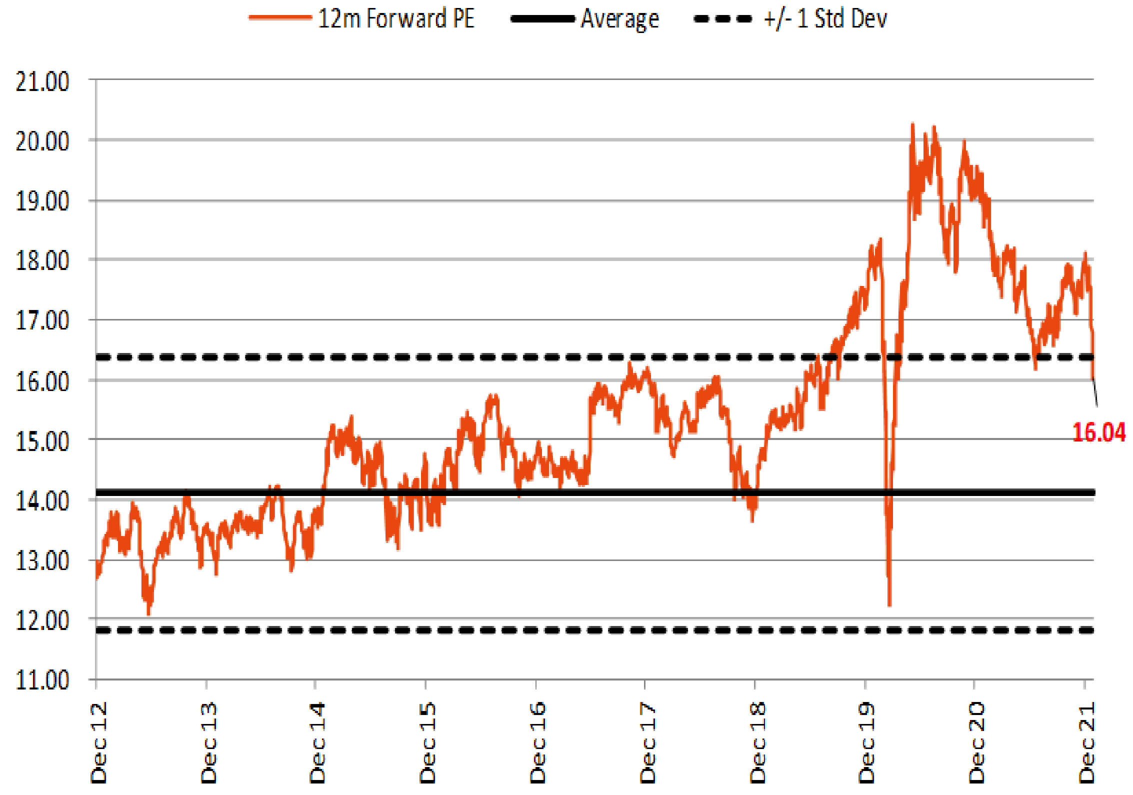
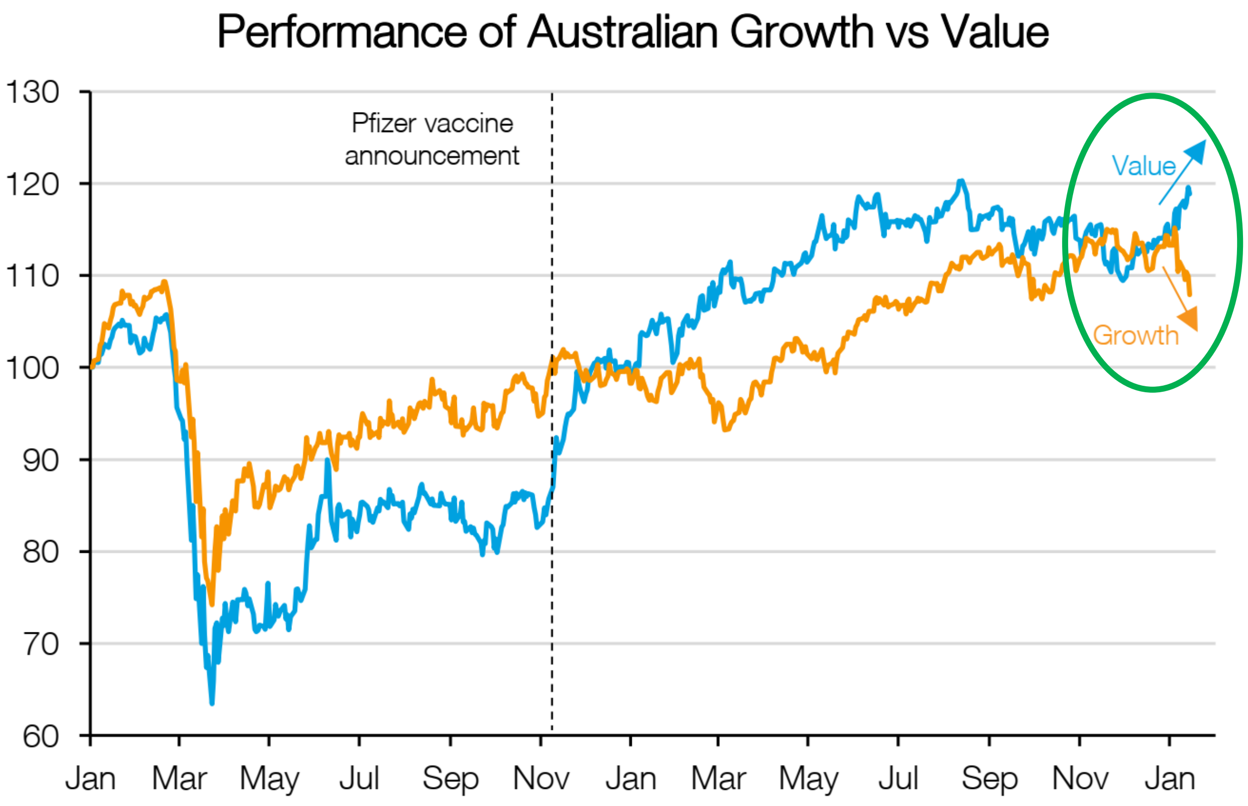
Australian Equities Are Mildly Expensive

Australian equity valuations are now cheaper



Source: Shaw & Partners – 3.02.22

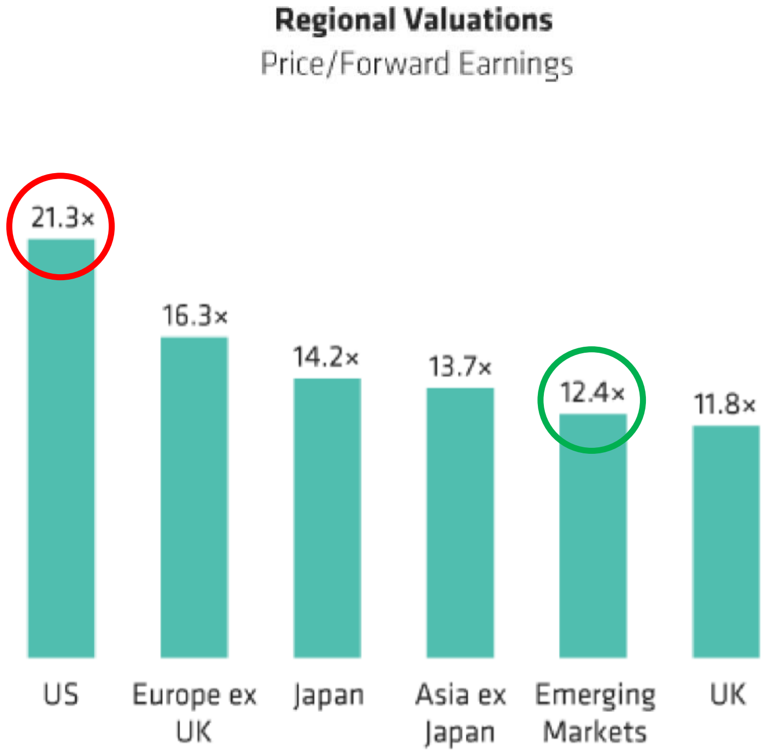
We expect Value stocks to outperform Growth stocks



Source: Factset, MWM Research, January 2022

Global Equities Require A Selective Approach

US equities are historically very expensive, global equities are fair value

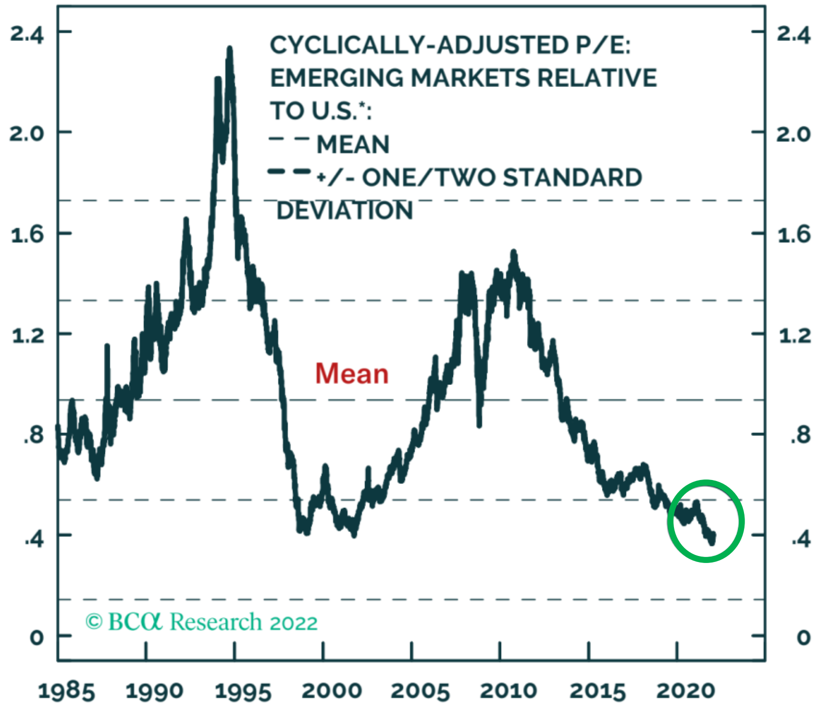


Based on forecast earnings for the next 12 months. US represented by S&P 500, Europe ex UK by MSCI Europe ex UK, Japan by MSCI Japan, Asia ex Japan by MSCI Asia ex Japan, emerging markets by MSCI Emerging Markets and UK by MSCI UK

As of December 31, 2021

Source: FactSet, FTSE Russell, MSCI, S&P and AB

Emerging Markets are very cheap



*CALCULATED USING EM AND U.S. STOCK PRICES AND THE 6-MONTH MOVING AVERAGE OF EPS IN U.S. DOLLAR TERMS, AND THEN DEFLATING BY U.S. CONSUMER PRICE INFLATION;

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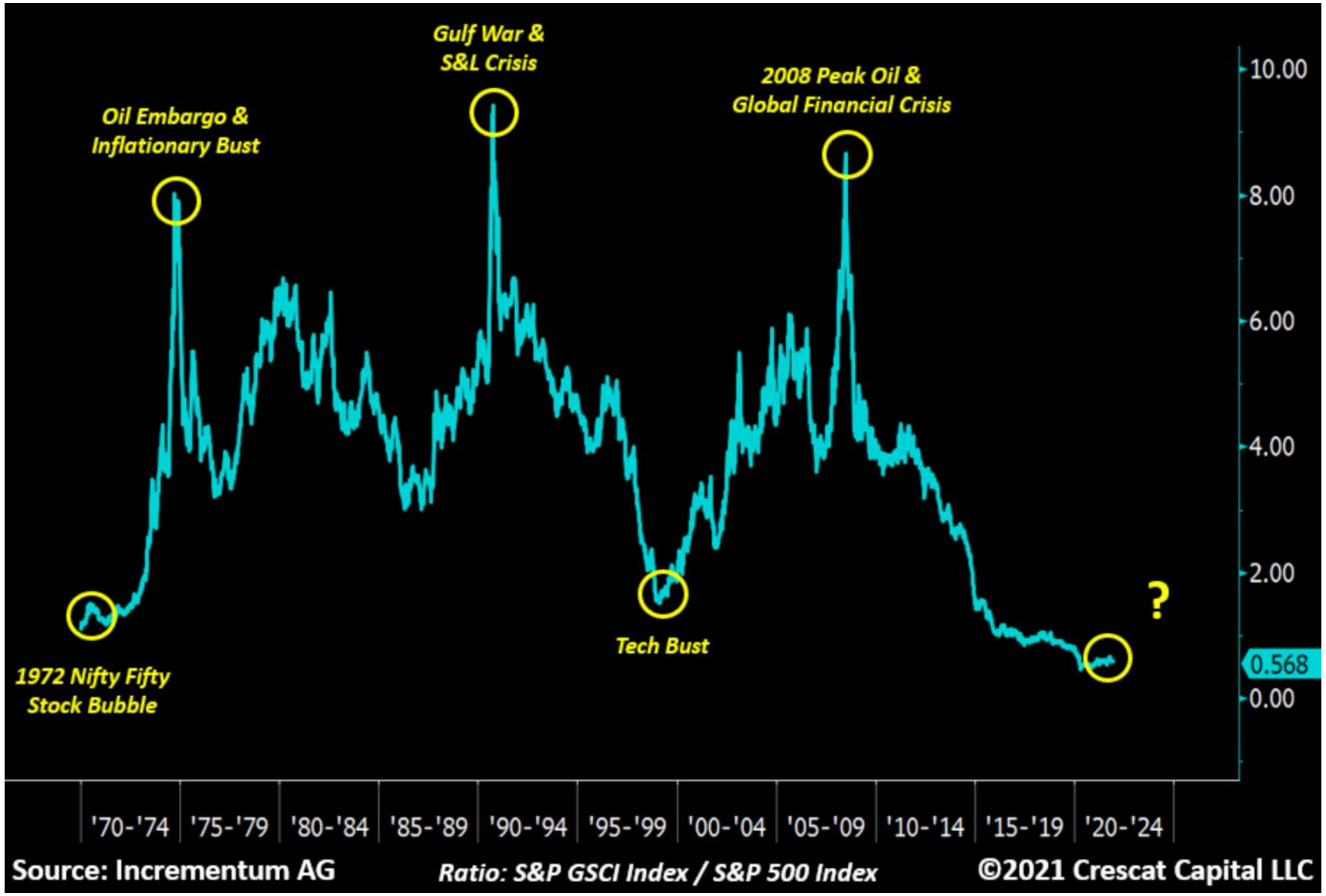
The 'Commodities To Equities' Ratio Is Compelling

The 'commodities-to-equities' ratio has never been cheaper.

Potential Strategy:
1. Long commodities
2. Short expensive equities

Commodities can also provide a hedge against the risk of persistently higher inflation.



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The Role of Alternative Assets In Portfolios

Framework-driven portfolio construction: What role do different categories play in the portfolio?

	Fixed income-like	Hybrids	Equity-like	
RETURN ENHANCERS Global diversification and tactical/ opportunistic returns	Distressed credit	Special situations	Private Equity, Venture Capital	LOWER Income/ HIGHER Volatility
CORE COMPLEMENTS Added diversification and/or enhanced returns	Corporate mezzanine loans	Hedge funds	Noncore real assets	
CORE FOUNDATION Stable Income with lower volatility, diversification ad inflation sensitivity	Core Private credit	Core real estate, infrastructure and transport	Low volatility core equity	HIGHER Income/ LOWER Volatility

= Overweight for the next 12 to 18 months

Source: JP Morgan Asset Management Alternative Solutions Group & MPW

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Vanguard Long-Term Return Expectations

The table below shows the Vanguard Capital Markets Model **return and volatility forecasts over the next 10 years** across four Global Diversified Portfolios.

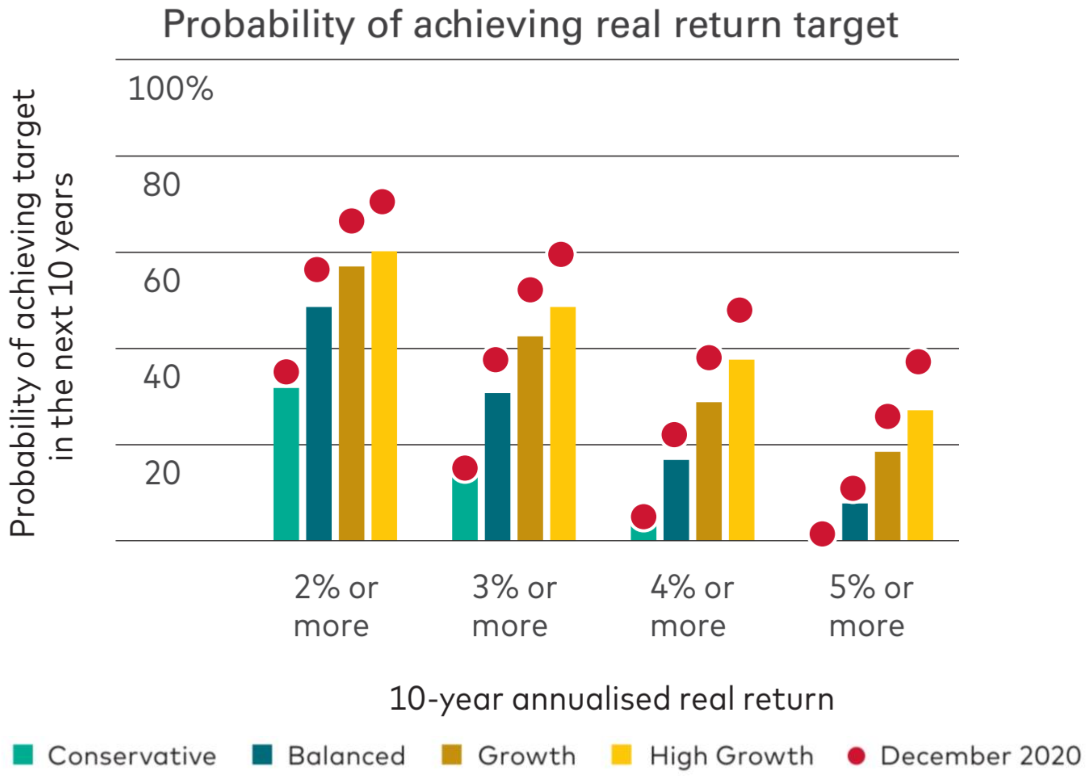
Conclusion: Generating returns using just listed stocks and bonds will be much more challenging in the future and investors will need to take more risk for less return.

	Return Percentile					Volatility
	5th	25th	Median	75th	95th	Median
Conservative	1.0%	2.2%	3.0%	3.9%	5.3%	5.4%
Balanced	0.5%	2.4%	3.7%	5.0%	7.0%	8.7%
Growth	-20.0%	2.4%	4.2%	6.1%	8.9%	12.2%
High Growth	-1.1%	2.3%	4.7%	7.0%	10.6%	15.8%

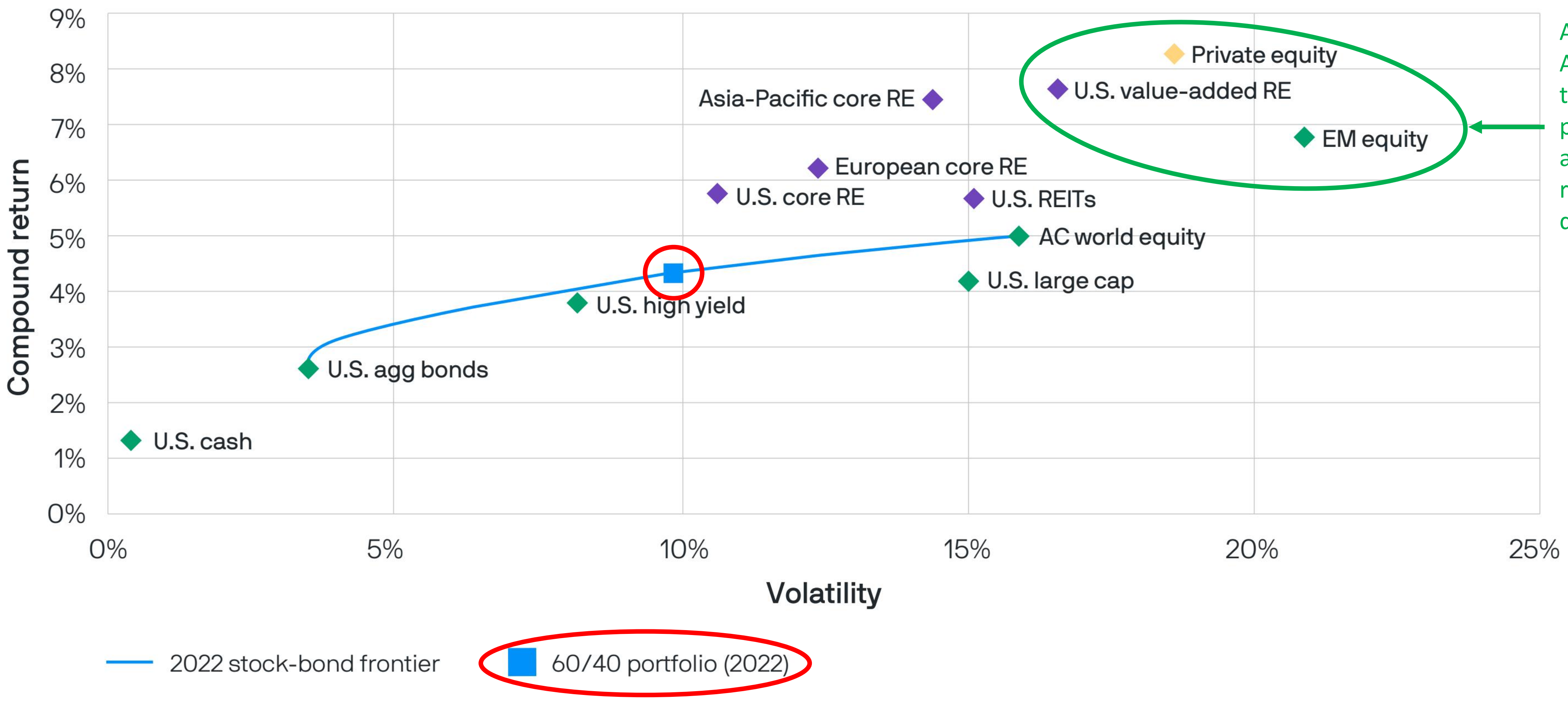
Source: Vanguard, December 2021 using 30 September 2021 and 31 December 2020 VCMM Simulations.

The chart below shows the **probability of achieving a real return target over the next 10 years** for a range of Global Diversified Portfolios.

Conclusion: The probability of a CPI+ 3% return is less than 50% regardless of how much risk you want to take.



JP Morgan Long-Term Return Expectations



Allocating to Alternative Assets has the potential to increase expected portfolio returns whilst also potentially reducing risk via increased diversification benefits.

Source: J.P. Morgan Asset Management; data as of September 2021. All returns (in USD) based on projections for 10–15 years. Volatility measures include de-smoothing for private assets to ensure comparability with listed assets.

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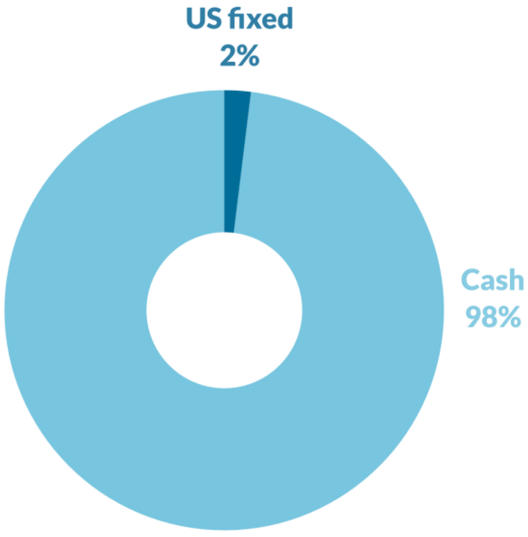
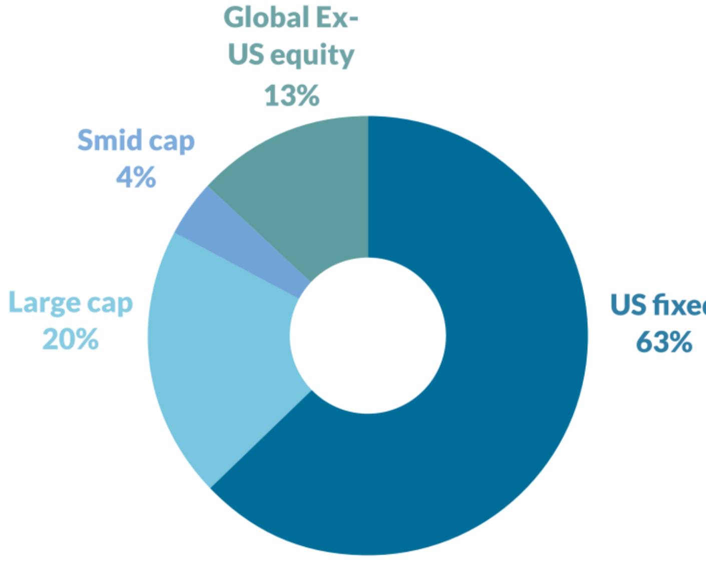
Taking More Risk For The Same Return

7% expected returns over 30+ years

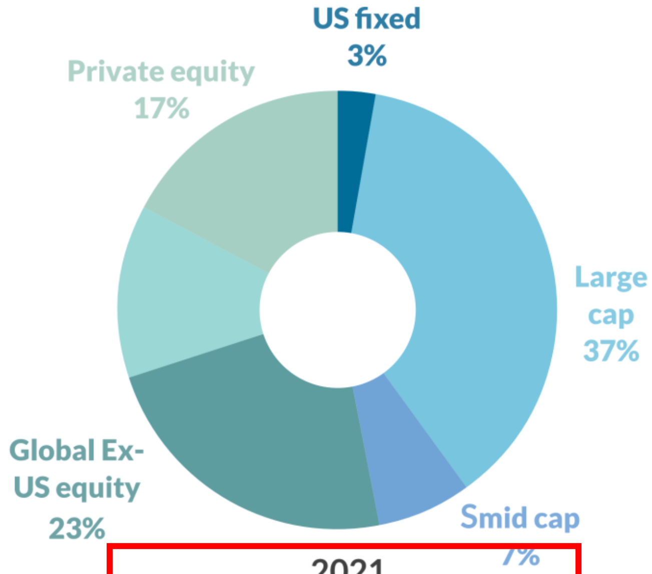
Increasing complexity



1991
RETURN: 7.0% RISK: 1.1%



2006
RETURN: 7.0% RISK: 6.7%



2021
RETURN: 7.0% RISK: 17.3%

Increasing risk

In 1991, our expectations for cash and broad US fixed income were 6.95% and 8.95%, respectively. Return-seeking assets were not required to earn a 7% projected return.

15 years later, an investor would have needed over a third of the portfolio in public equities to achieve a 7% projected return, with 6x the portfolio volatility of 1991.

Today, an investor is required to include 97% in return-seeking assets to earn a 7% projected return at almost 16x the volatility compared to 1991.

Source: Callan, 2021. There is no assurance that similar investments will be made. Past performance is not indicative of future results.

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MPW Concluding Summary

2022 will be volatile as markets navigate a global central bank tightening cycle.

This is a regime change that requires careful consideration of both risk and return.

Investors seem a little complacent with FOMO keeping them invested.

- **MPW is focused on strategies that reward investors for taking risk.**

Central banks had our backs for the last 2 years, but things can change.

- **MPW has downside protection strategies built into portfolios.**

High PE stocks and speculative assets have fallen sharply in recent months.

- **We are at a critical market juncture that requires a cautious approach.**

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