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PRIVATE WEALTH



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tailored your way





MPW Half Year Market Update - August 2022



General Advice Disclaimer

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.

You should not act on any advice that has not been tailored to you or considered in light of your full individual personal circumstances, as there is a risk that such actions may not be appropriate for you or be in your best interests.

Where we provide personal advice and investment recommendations, these will be presented in a Statement of Advice (SoA) which will explain the basis of your personal advice recommendations, and any considerations or risks so that you can make an informed decision.

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General Advice Disclaimer – Blended Model Portfolio and Transcend High Conviction SMA

The performance information and commentary in this presentation is based on an illustrative Balanced Model Portfolio when referencing the ‘blended’ portfolio or the Transcend High Conviction SMA portfolio.

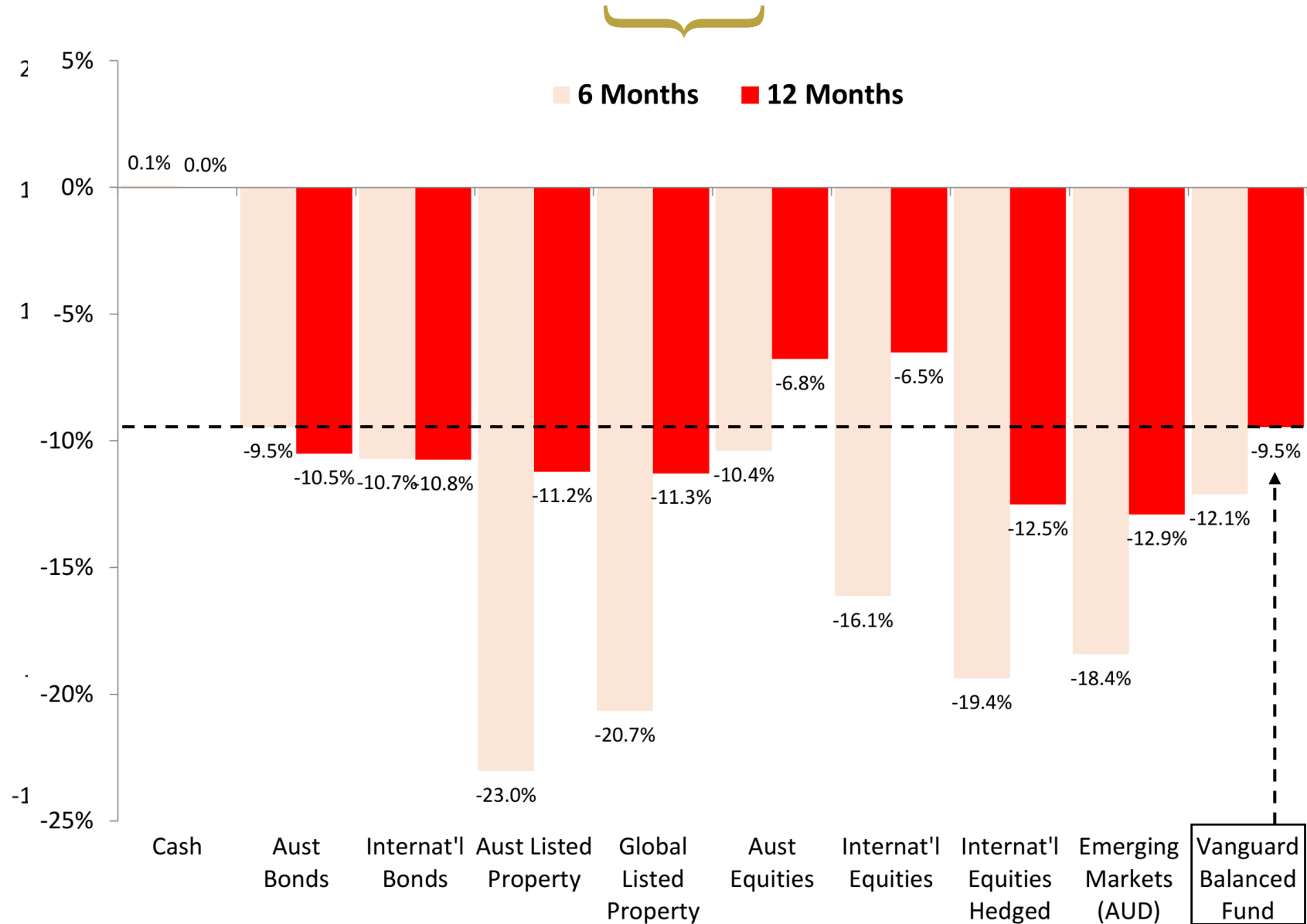
The information does not take into account differences between the blended Model Portfolio, the SMA and the actual portfolio implemented by the operator of your managed account or any fees, expenses or other costs.

The performance of your managed account will differ to that of the blended Model Portfolio and SMA (and may differ significantly) due to factors including your risk profile, how long the portfolio was held, the implementation timing of trades, your individual circumstances as well as the fees, expenses and other costs charged by the operator of your managed account.

All references to selling, investing, participating, positioning or similar are references to the illustrative blended Model Portfolio and SMA only and may not reflect the holdings in your actual portfolio over the full period.

Please contact the adviser of your managed account for further information.

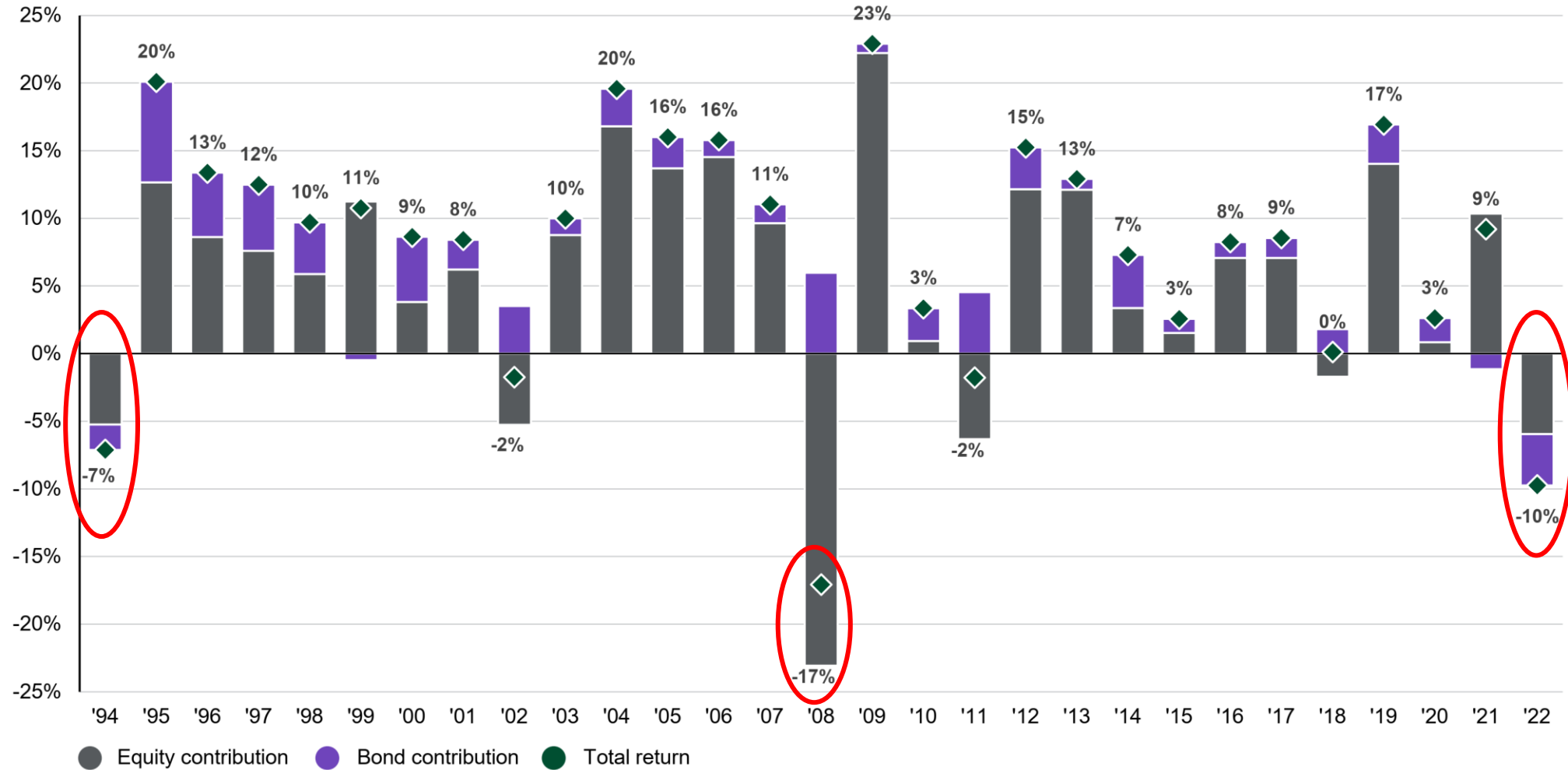
Asset Class Returns To 30th June 2022



Shares and Bonds: Nowhere to Hide in the 2022 FY!

Annual returns on a 60/40 stock-bond portfolio

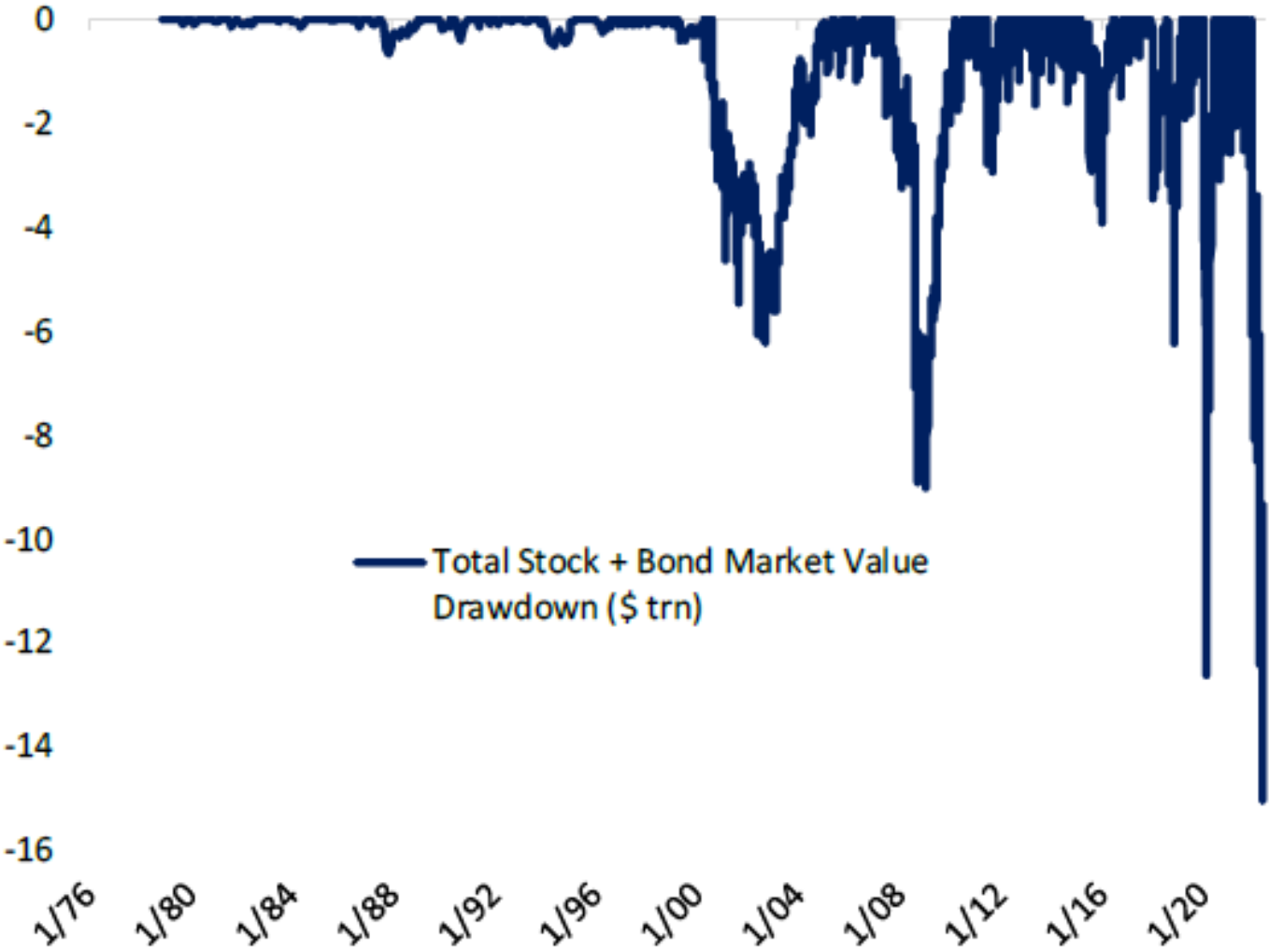
ASX 200 and AusBond Composite, total returns



Source: Bloomberg Finance L.P., Standard & Poor's, J.P. Morgan Asset Management.

The Largest Wealth Destruction In History

Largest Destruction of Wealth In Modern Market History



Can Central Banks Engineer A Soft Landing?



2021



Central bank credibility is being questioned:

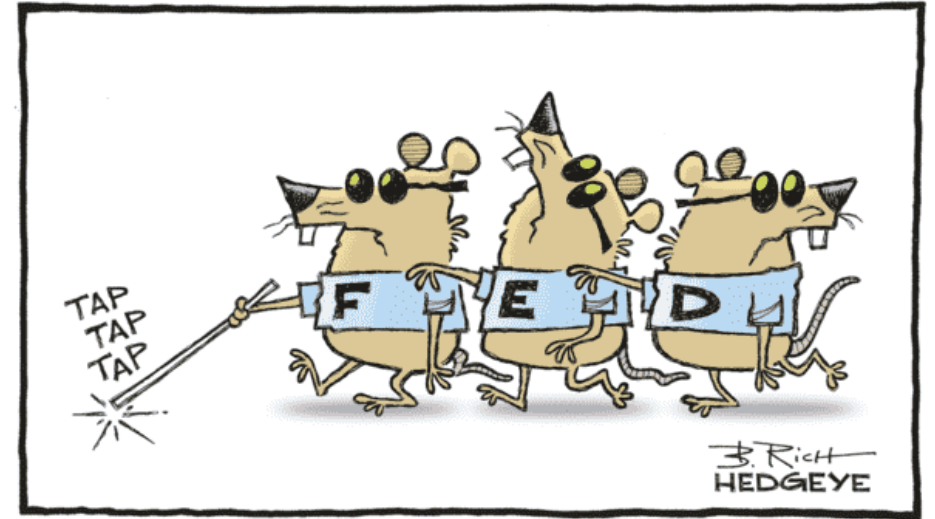
- In late 2021 the Fed was wrong on their inflation outlook, calling it transitory.
- In mid 2022 the Fed is saying they can manage a soft landing without a severe recession.
- In early 2022 the RBA said that interest rates in Australia would not rise until 2024!
- Is there any credibility left for us to believe central banks can manage a soft landing?

2022



The answer to this question will determine the market's direction heading into 2023.

In our view – It is not a high probability outcome.





MPW Outlook & Scenario Analysis For 2023 FY



1. Hard Landing: Global Recession MPW Probability = 70%

- Inflation remains stubbornly high
- Central banks tighten too much
- Unemployment rises 1-2%
- Savings rates evaporate
- Economic data deteriorates
- Corporate earnings fall
- Geopolitical risks intensify (wars)
- Covid-19 resurgence hits mobility

Markets are not priced for this, expect another decline from here (~10-30%)

2. Soft Landing: Mid-Cycle Slowdown MPW Probability = 25%

- Inflation moderates towards targets
- Central banks pause rate hikes
- Unemployment rises marginally
- Savings rates are preserved
- Economic data stabilises
- Higher revenues offset higher costs
- No further sanctions are imposed
- The “endemic” runs its course

Markets are priced for this, value can be selectively found at current levels

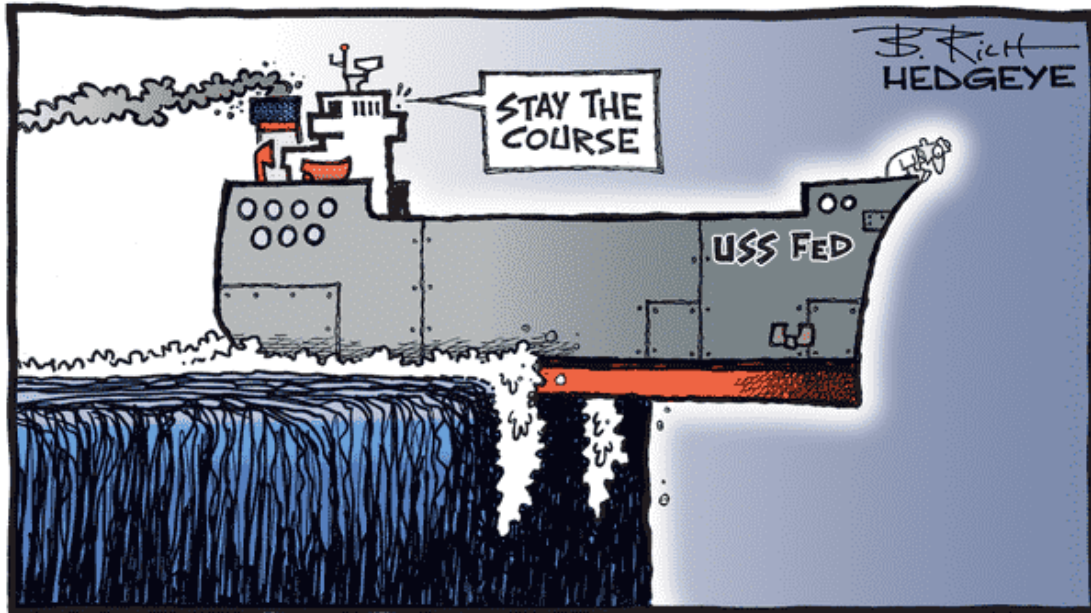
3. Strong Growth: New Bull Market MPW Probability = 5%

- Inflation moderates quickly
- Central banks consider rate cuts
- Employment growth remains strong
- Savings rates remain elevated
- Economic data pivots to growth
- Companies pass on higher costs
- Russia and China pivot their stance
- Supply chain & labour issues abate

Markets are not priced for this, risky assets will perform very strongly

So What Does This Mean For Markets?

If central banks stay the course and fight inflation at all costs by aggressively raising interest rates, then it is hard to see the US economy avoid a deeper recession.



... BUT

If inflation declines on a sustainable basis, then the Fed will be able to 'pivot' and keep rates steady or even flag rate cuts. It is then a 'risk-on' environment.

VS



Vanguard & AMP 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.

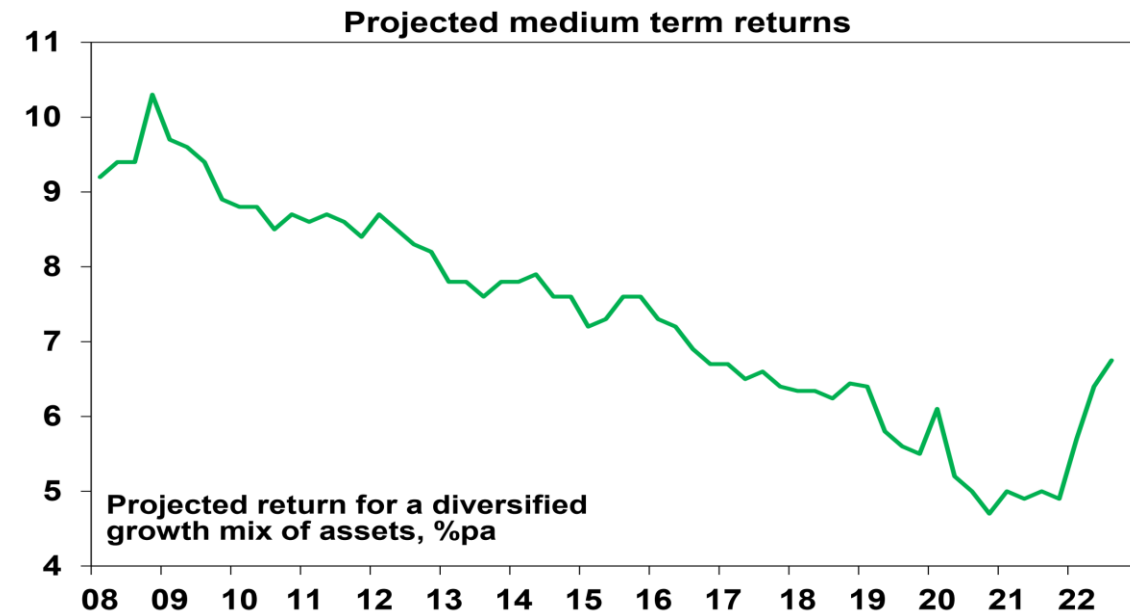
Note: The recent market sell-off has improved these numbers by more than 1% pa which is material over 10 years.

Return Percentile						Volatility
	5th	25th	Median	75th	95th	Median
Conservative	2.5%	3.8%	4.7%	5.6%	7.1%	5.6%
Balanced	2.0%	3.9%	5.2%	6.6%	8.8%	8.9%
Growth	1.1%	3.7%	5.6%	7.5%	10.4%	12.4%
High Growth	0.0%	3.4%	5.8%	8.3%	12.0%	16.2%

Source: Vanguard, June 2022 using 30 May 2022 VCMM simulation.

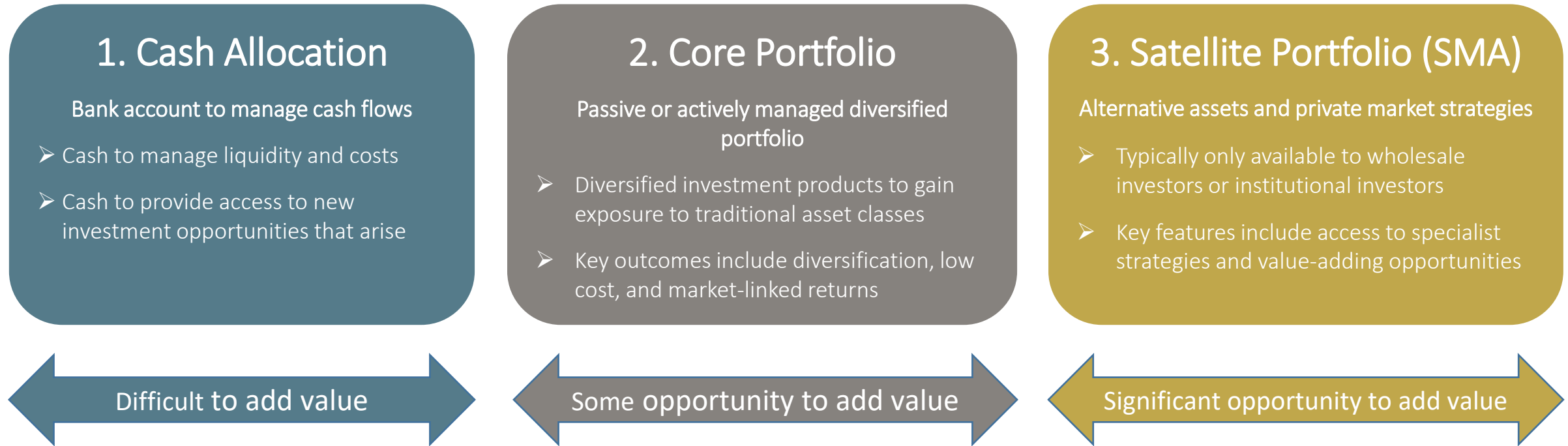
The chart below shows AMP Capital's return forecasts over the next 5-10 years for their Diversified Growth Portfolio (~30% defensive and ~70% growth assets).

Conclusion: The recent fall in all asset prices means that future return expectations have increased to 6-7% pa.



Source: AMP

MPW Recommended Portfolio Strategy



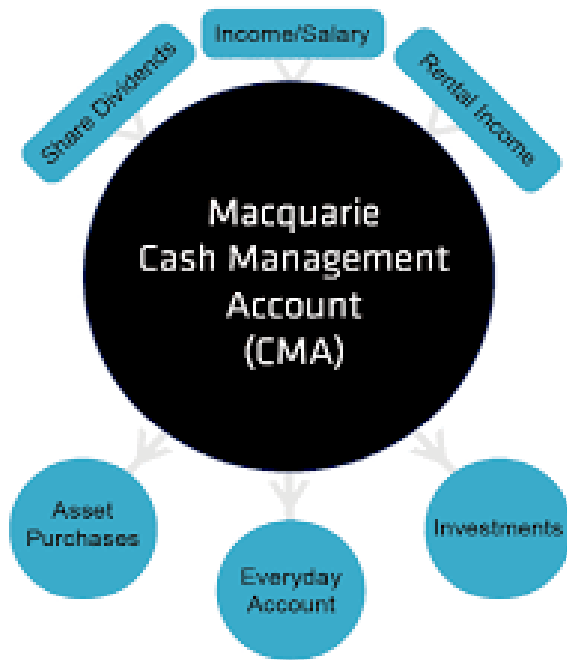
Investors should not 'pay-up' for strategies that cannot add value. These can be accessed for low-cost.

MPW's SMA investment solution complements the first two strategies and is focused on adding value.

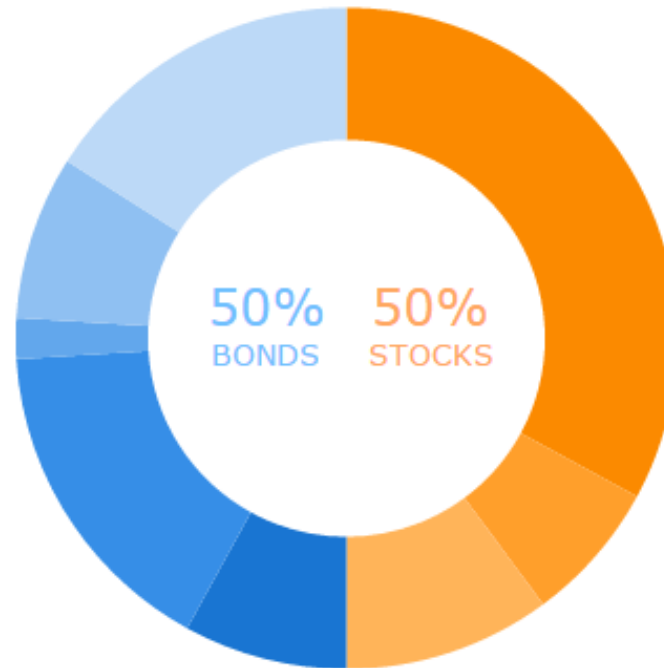
Blending The Core Portfolio and SMA

Blending the cash and core portfolio strategy with the SMA strategy aims to improve both absolute returns and risk-adjusted returns by adding assets that traditional core portfolios do not have exposure to.

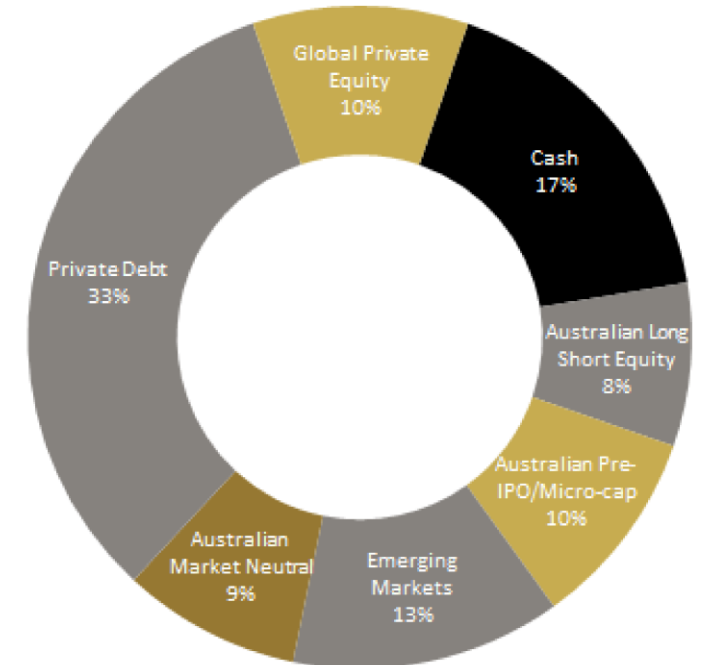
Cash Account



Core Balanced Fund



Transcend High Conviction SMA



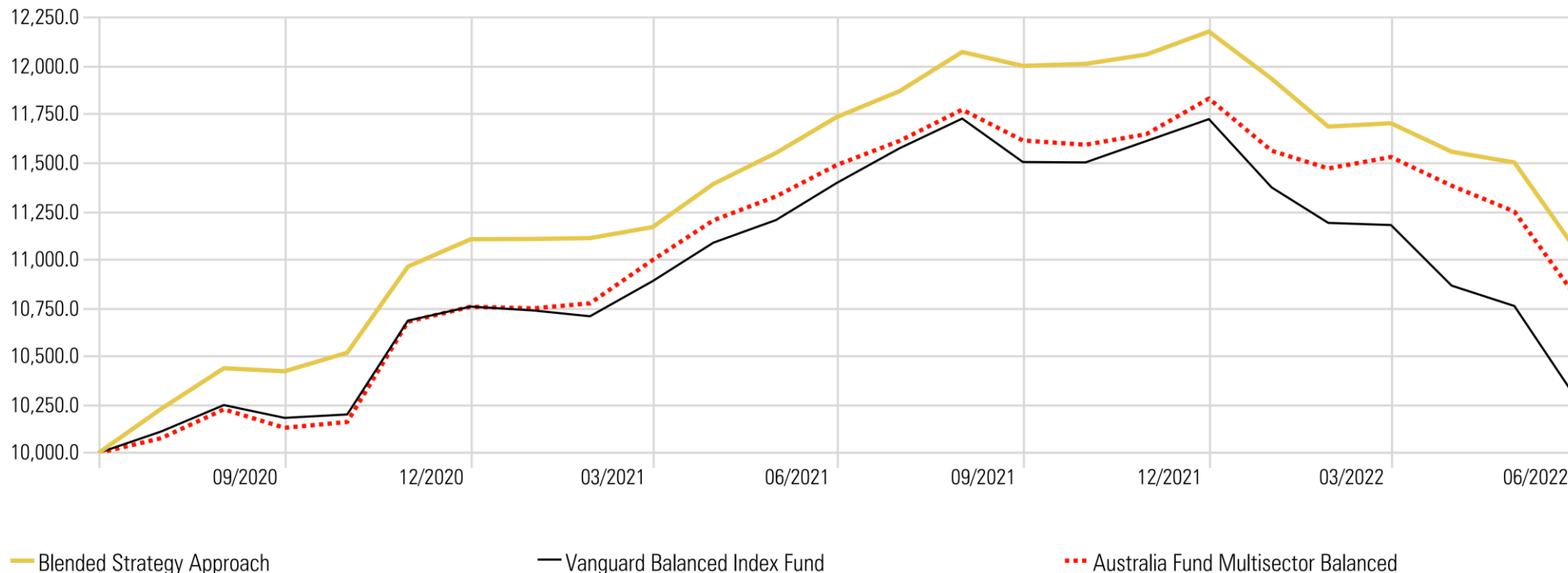
The 'Blended' Portfolio Outcome: Returns



This chart shows the return benefit of the blended portfolio strategy, with the gold line showing the inception outperformance compared to the core-only portfolio and the peer balanced fund universe.

Investment Growth

Time Period: Since Common Inception (1/07/2020) to 30/06/2022



This report is designed to illustrate the risk and return outcomes of a blended investment portfolio that holds a 50% weighting of the Vanguard Balanced Index Fund, 45% to the Transcend High Conviction SMA and 5% held in cash.

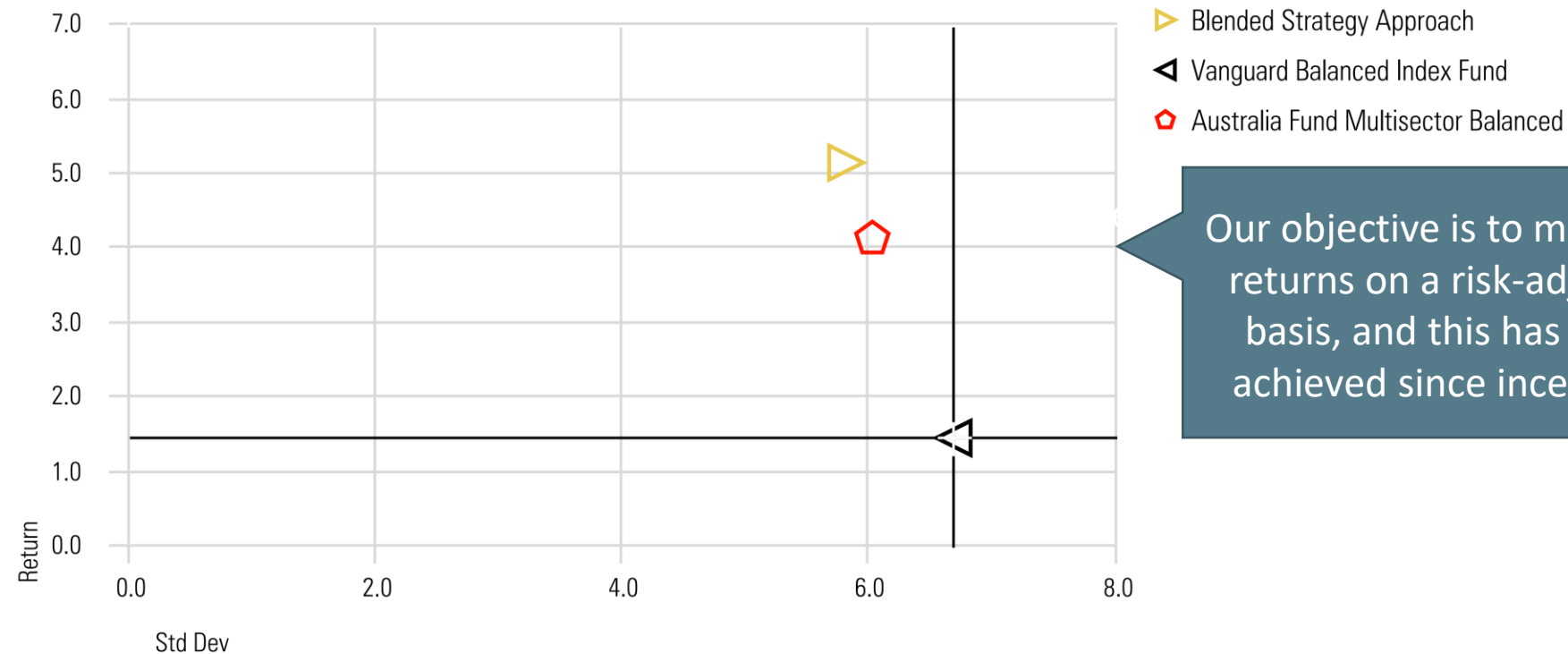
The 'Blended' Portfolio: Risk & Return

The gold triangle shows the lower volatility (Std Dev) and higher returns since inception.

Risk-Reward

Time Period: Since Common Inception (1/07/2020) to 30/06/2022

Calculation Benchmark: CPI + 6%



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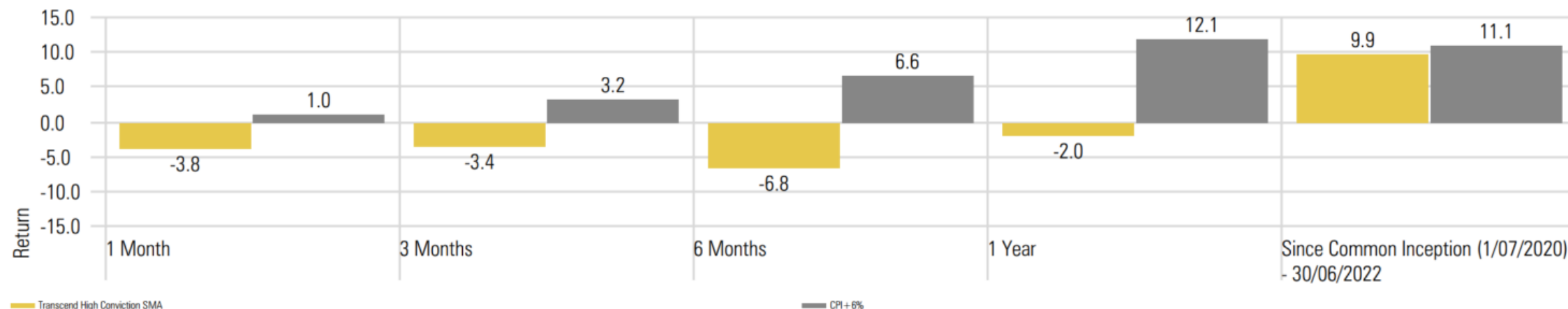
Transcend High Conviction SMA



Since inception on 1st July 2020, the Transcend High Conviction SMA has returned 9.9% pa.

Returns

As of Date: 30/06/2022



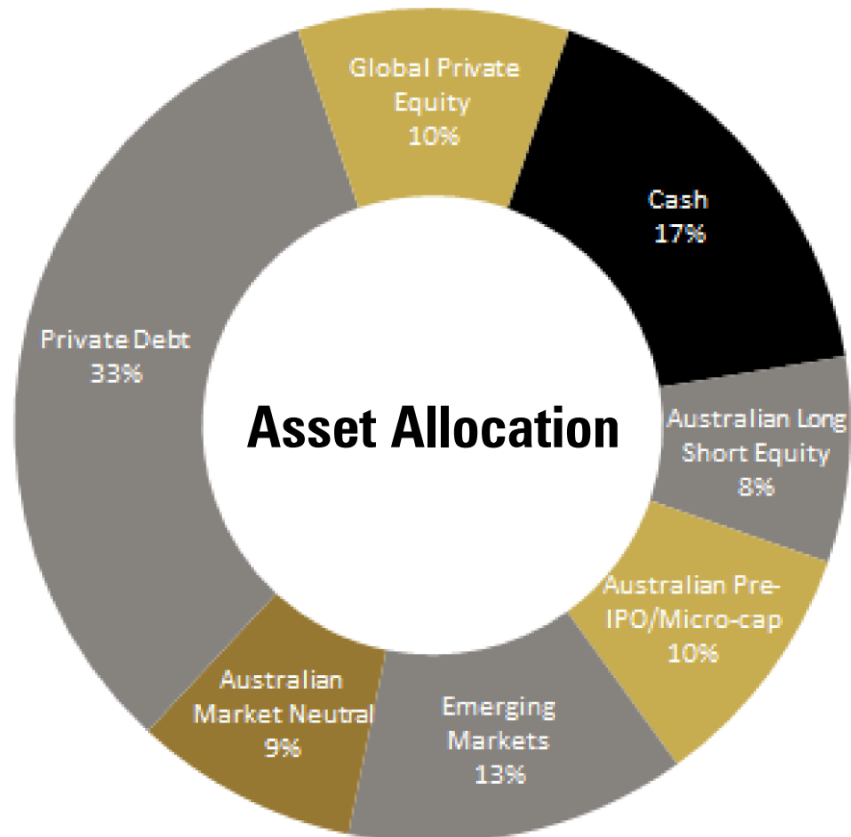
Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	-1.11	-2.82	0.43	0.32	0.01	-3.76							-7.26
2021	0.23	0.40	-0.75	2.41	1.96	1.67	0.78	2.33	0.80	0.21	-0.17	1.11	11.48
2020	—	—	—	—	—	—	3.83	3.07	0.38	1.85	4.12	2.11	—

Transcend High Conviction SMA

Investment Objective

To provide returns of CPI + 6% pa over a rolling 7-year period.



The Fund encapsulates the MPW investment philosophy and targets our highest conviction investment strategies and themes, including:

- *Global Private Equity*
- *Australian Private Debt*
- *Global Emerging Market Equity*
- *Australian Equity Market Neutral*
- *Australian Pre-IPO & Listed Microcaps*
- *Australian Long Short Equity Value*

Top Holdings

RBA Bank accepted Bills 90 Days	17.07
GQG Partners Emerging Markets Equity	13.17
PURE Resources Fund	11.50
PURE Income and Growth Fund	11.38
Partners Group Global Value Fund - MPW	10.49
Aura SME High Yield Fund	9.99
Bombora Special Investments Growth Fund	9.75
Bennelong Market Neutral Fund	8.68
L1 Capital Long Short - Retail	7.96

MPW Concluding Summary

Uncertainty remains: Can central banks manage a 'soft landing' or do they cause a deeper recession?

Soft Landing Scenario: Markets have largely priced-in this outcome and have faith in the central banks.

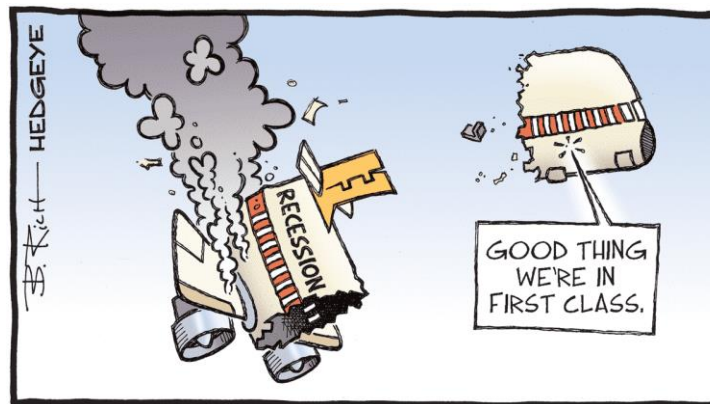
- We are at a critical market juncture that requires a cautious approach.
- **This outcome is not our base-case.**

Recession Scenario: Fighting inflation is the Fed's priority and markets have not priced-in the consequences of this.

- A deep recessionary environment means risk assets fall much further.
- **This outcome is our base-case.**



Opportunities will exist if this scenario plays out... but (see below)



Even better long-term opportunities will exist if this scenario plays out.



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