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MORROWS PRIVATE WEALTH ANNUAL MARKET UPDATE AUGUST 2023

Your financial future, tailored your way

MPW Annual Market Update - August 2023

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 <u>will differ</u> 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.

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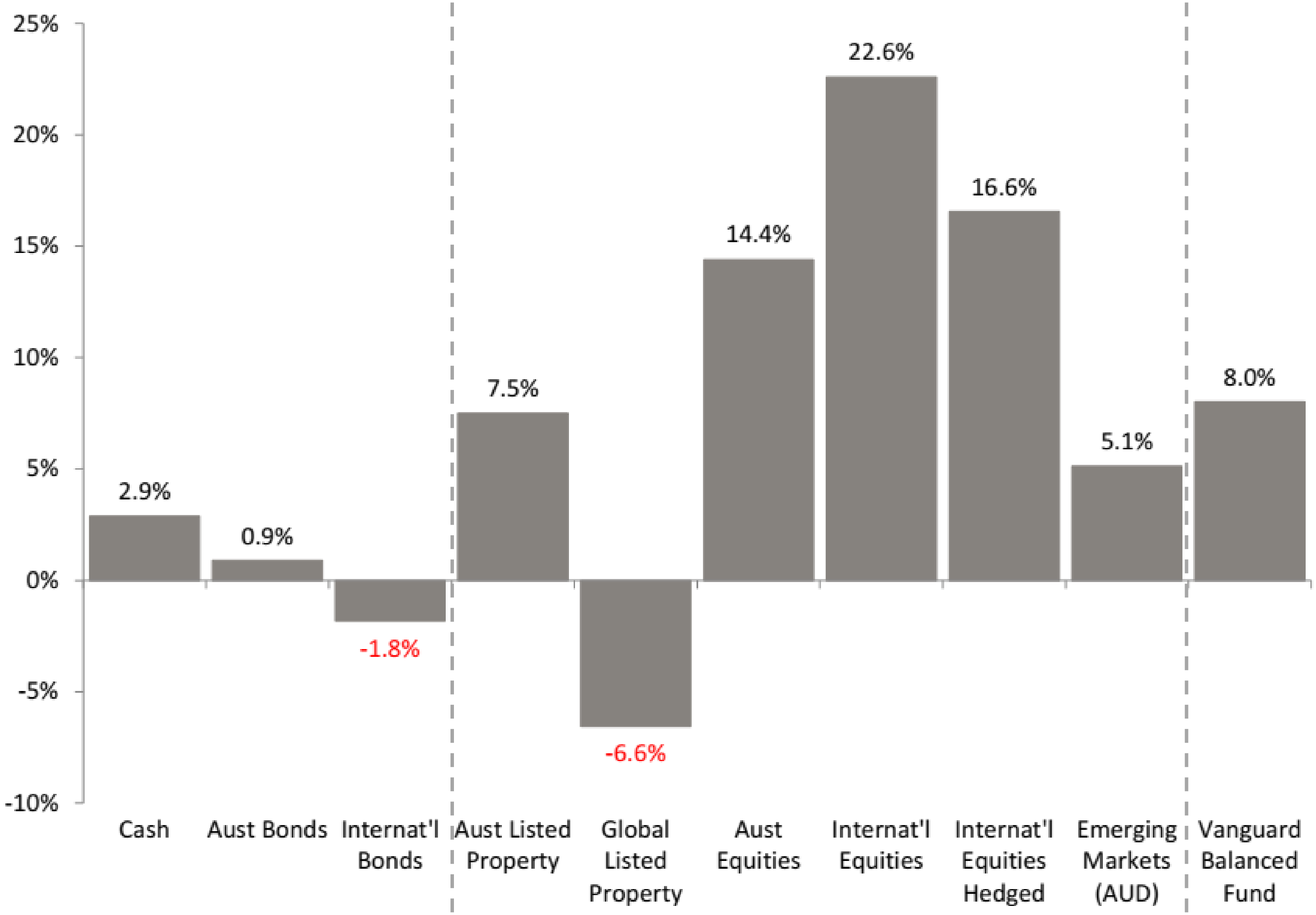
Asset Class Returns 12 Months to 30th June 2023



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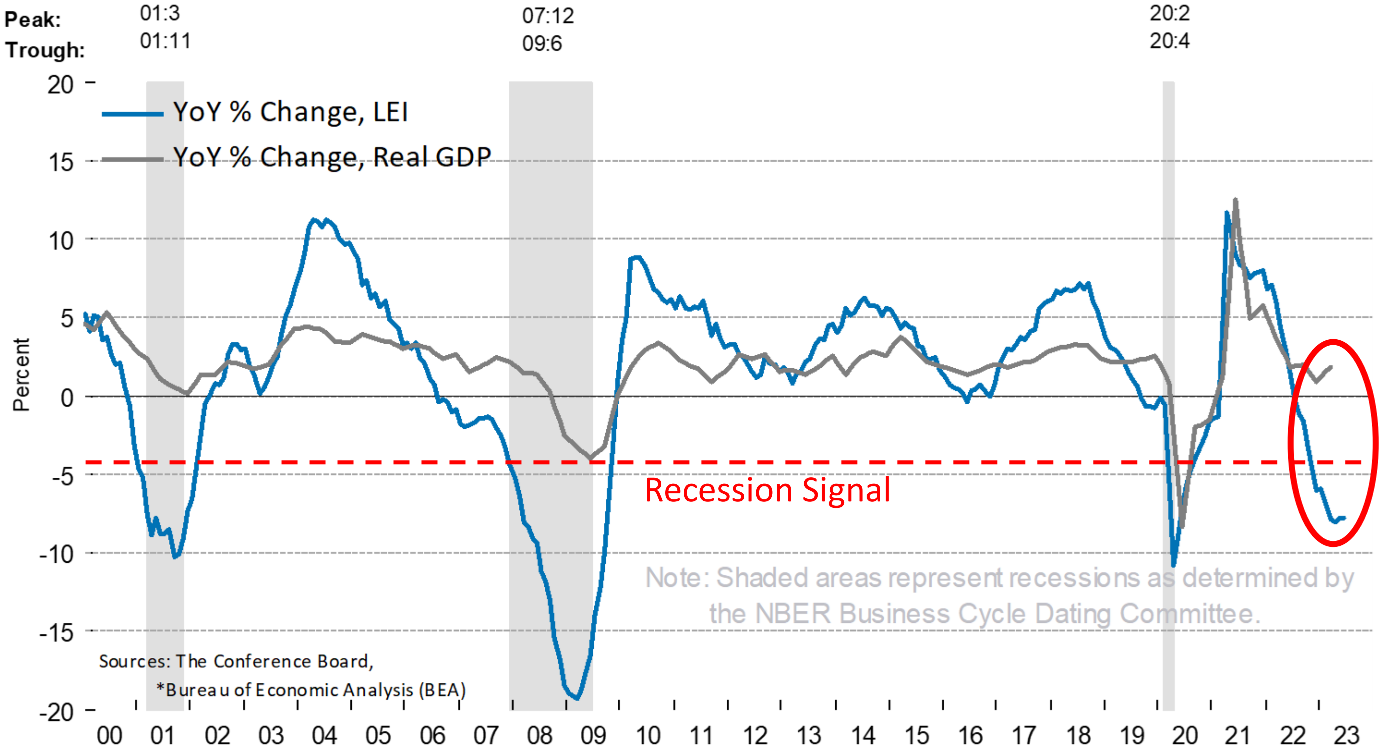
MPW Outlook & Likely Recession Ahead

1. Hard Landing: Global Recession MPW Probability = High	2. Soft Landing: Mid-Cycle Slowdown MPW Probability = Medium	3. Strong Growth: New Bull Market MPW Probability = Low
• Inflation remains stubbornly high	• Inflation moderates towards targets	• Inflation moderates more quickly
• Central banks tighten too much	• Central banks pivot and cut rates	• Central banks cut rates more quickly
• Unemployment rises 1-2%	• Unemployment rises marginally	• Employment growth remains strong
• Savings rates evaporate	• Savings rates are neutral	• Savings rates remain elevated
• Economic data deteriorates	• Economic data stabilises	• Economic data pivots to growth
• Corporate earnings fall further	• Higher revenues offset higher costs	• Companies improve productivity
• Geopolitical risks intensify (wars)	• No further sanctions or conflict	• Russia and China pivot their stance
• Oil price spike magnifies the above	• Supply issues don't spike oil prices	• Oil prices stabilise at lower levels
Markets are <u>not</u> priced for this, expect further decline from here (~-20% plus)	**Markets <u>are</u> priced for this, value can be selectively found at current levels**	**Markets are <u>not</u> priced for this, risky assets will perform very strongly**

Traditional Indicators Point To Recession Ahead

A negative yield curve has been an excellent predictor of prior recessions, and it remains the most inverted we have seen since the 1980's.

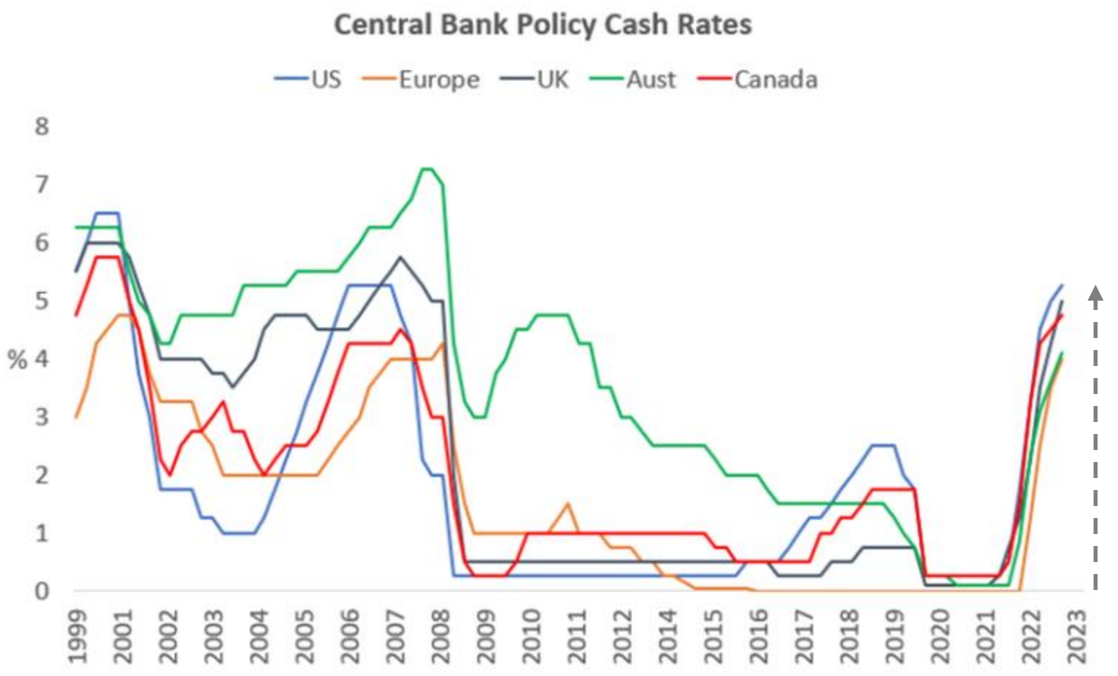
US Leading Economic Indicators (LEI's) are priced well below previous recession levels and suggest that GDP growth will turn negative in the next year.



Higher Global Interest Rates & Stubborn Inflation

Global interest rates have risen at a historically fast pace in the last 18 months and are likely nearing their cycle peak. Potentially 1-2 more hikes still to come.

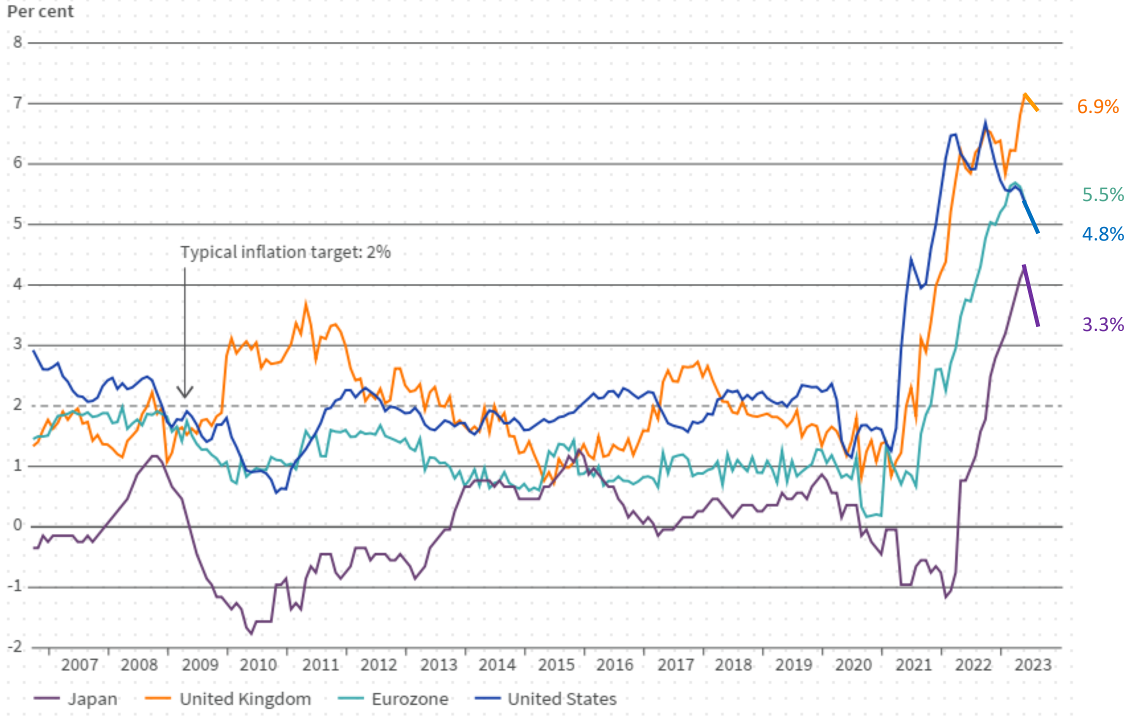
Global inflation peaked mid-2022, but it is a long way from central banks' target 2-3% range. Services inflation remains 'sticky' and Core inflation is falling at a slow pace.



Source: Bloomberg

Figure 6. **Core inflation in the major advanced economies**

Proving far more difficult to shift



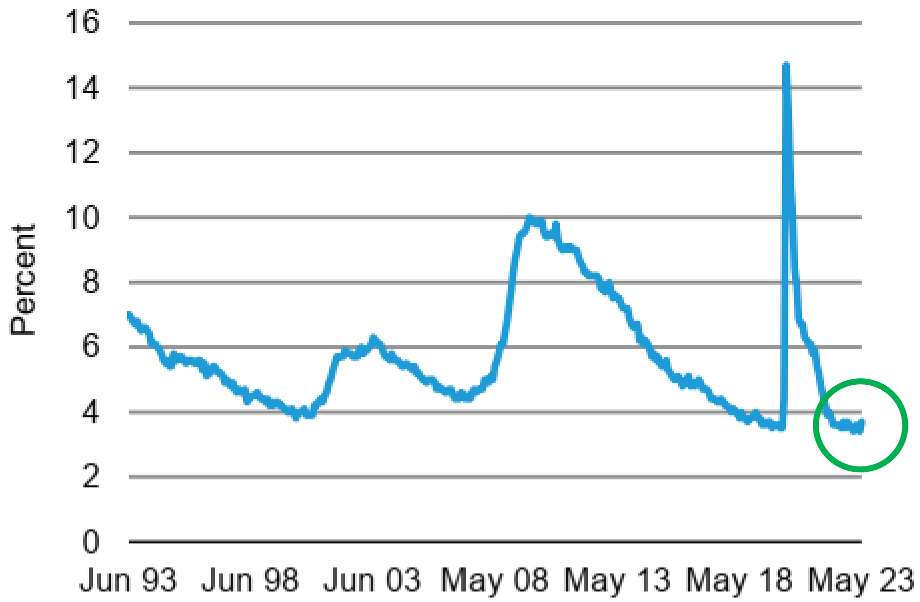
Source: Aviva Investors, Macrobond as at 30 June 2023.

US Economic Data Has Been Resilient in 2023

US unemployment remains at a 50-year low. A very tight labour market means employed people will continue to spend and this is inflationary.

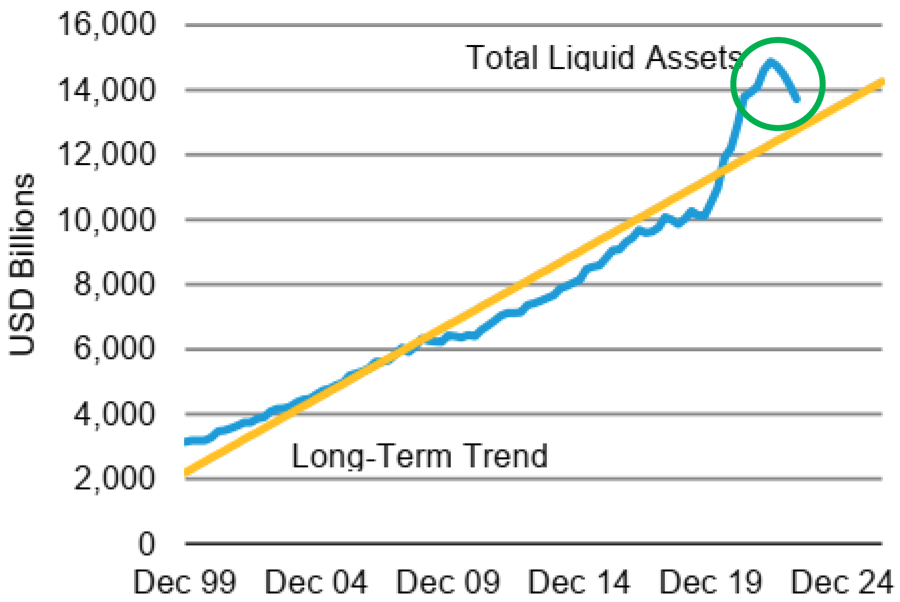
There is still excess savings held by US households, and whilst it is expected to be depleted by Q4 2023, it has already delayed the recession timeline.

Unemployment Rate



As of June 30, 2023
Source: Refinitiv Datastream

Household Excess Savings



As of June 30, 2023
Source: Refinitiv Datastream

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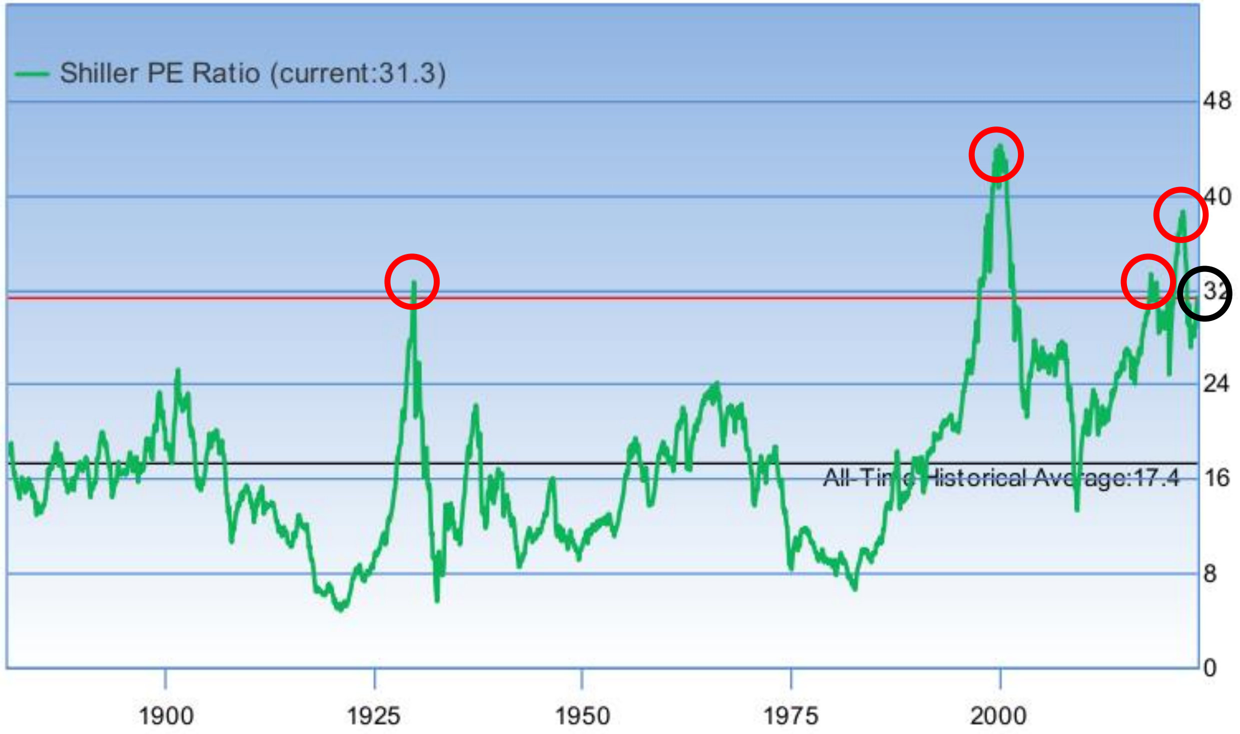
US Markets Are Not Priced For A Recession

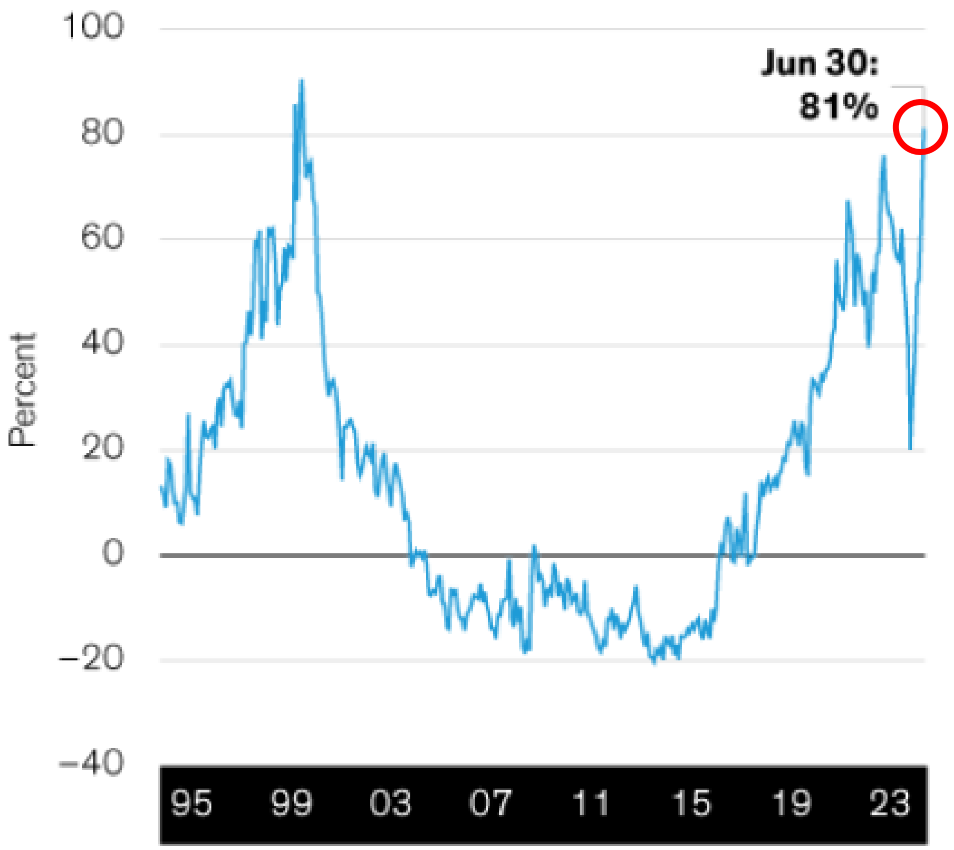
The US Shiller PE ratio at 31.3 is very expensive on a historical basis, having been above this level only 4 times in history.

The valuation premium for the 10 biggest US stocks is also approaching the dotcom bubble levels.



Valuation Premium of 10 Largest Stocks vs. Rest of the Index*

Price/Forward Earnings (Next 12 Months)



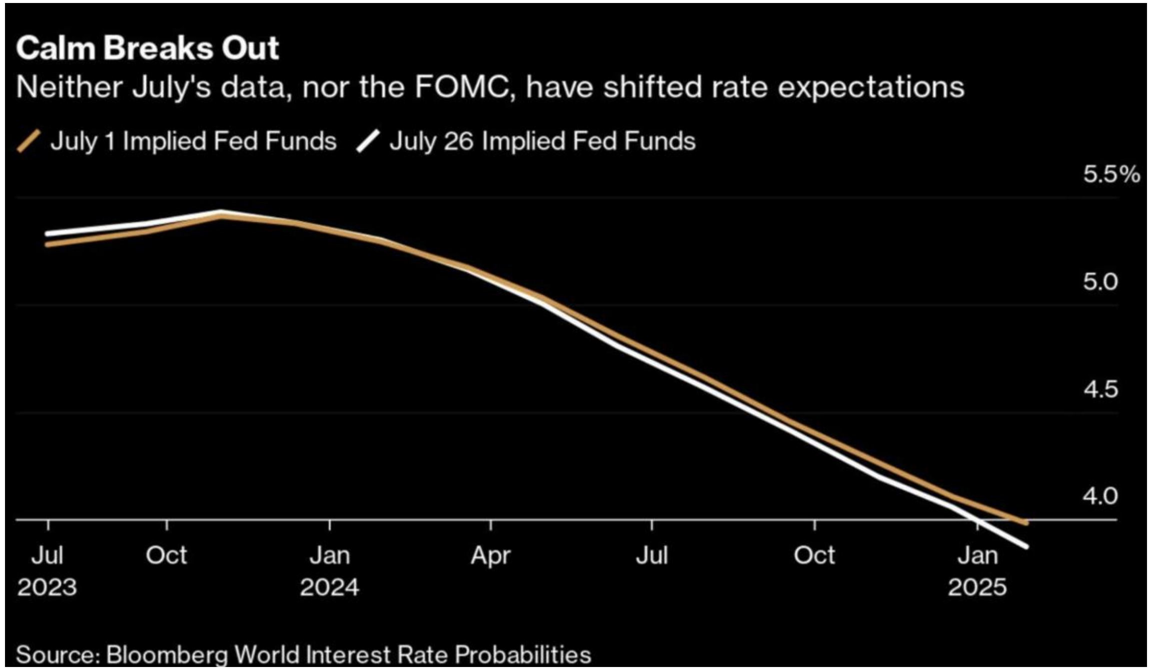
As of June 30, 2023

Source: Compustat, FactSet, I/B/E/S, S&P and AB

Markets Are Pricing Fed Rate Cuts In 2023-24

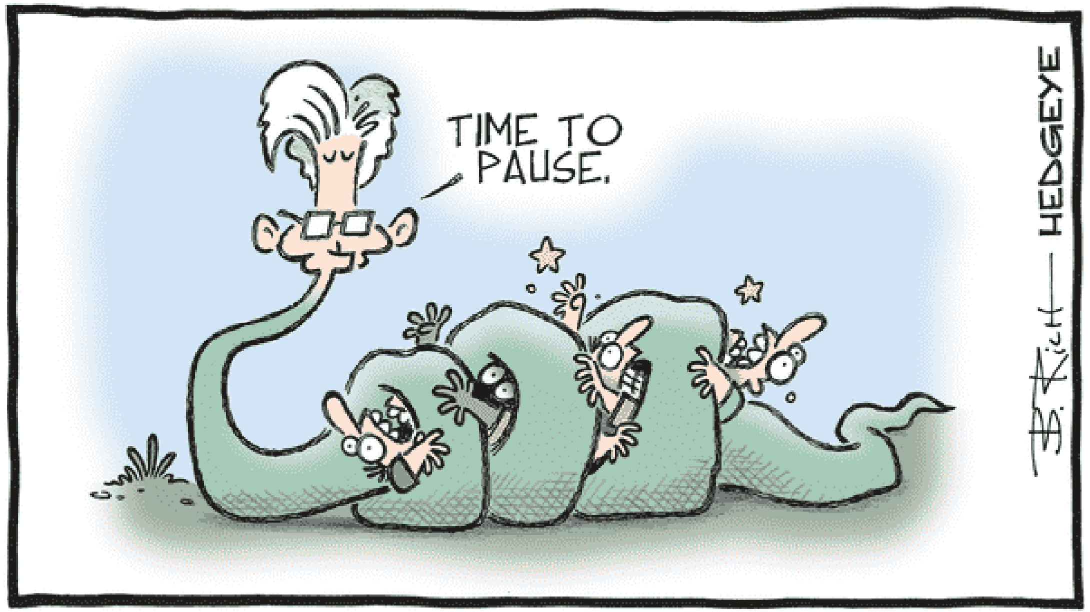
US Markets are pricing interest rates to start falling later this year and into 2024. That is a big ask when the US has full employment and Core inflation at 4.8%.

We think the Fed is more likely to pause with high rates and see what damage is being done to the economy.

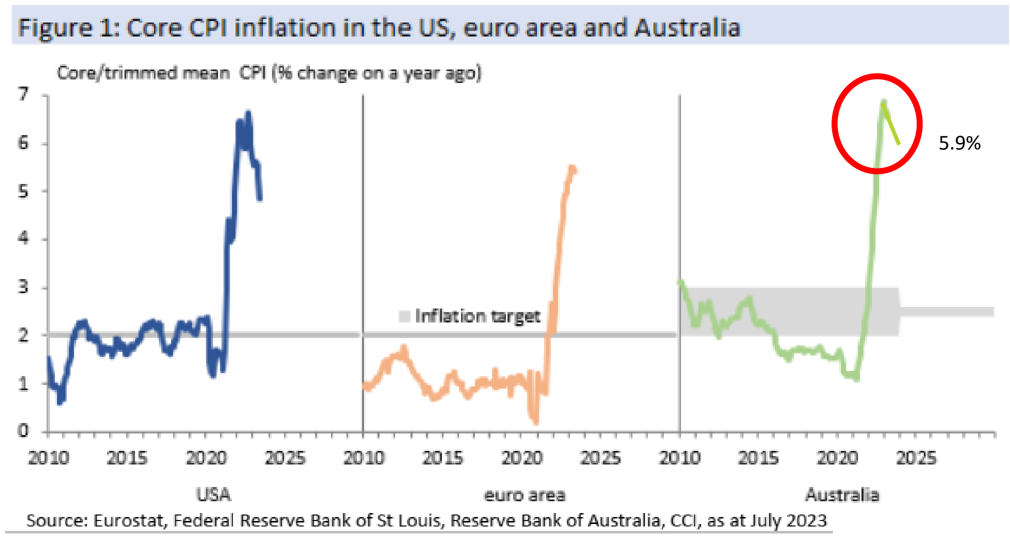


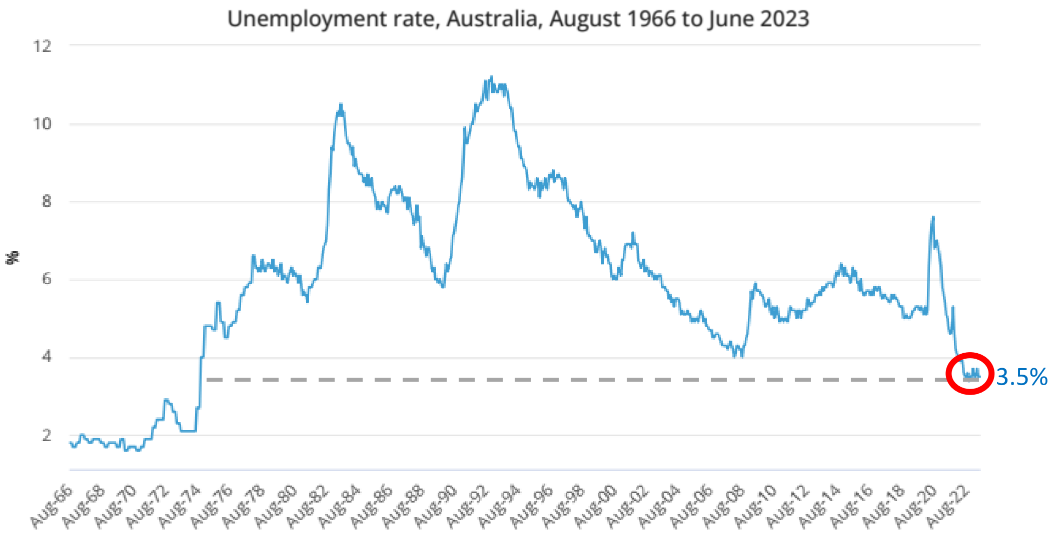
In our view, **for the Fed to cut interest rates** they would need to see one of three things happen:

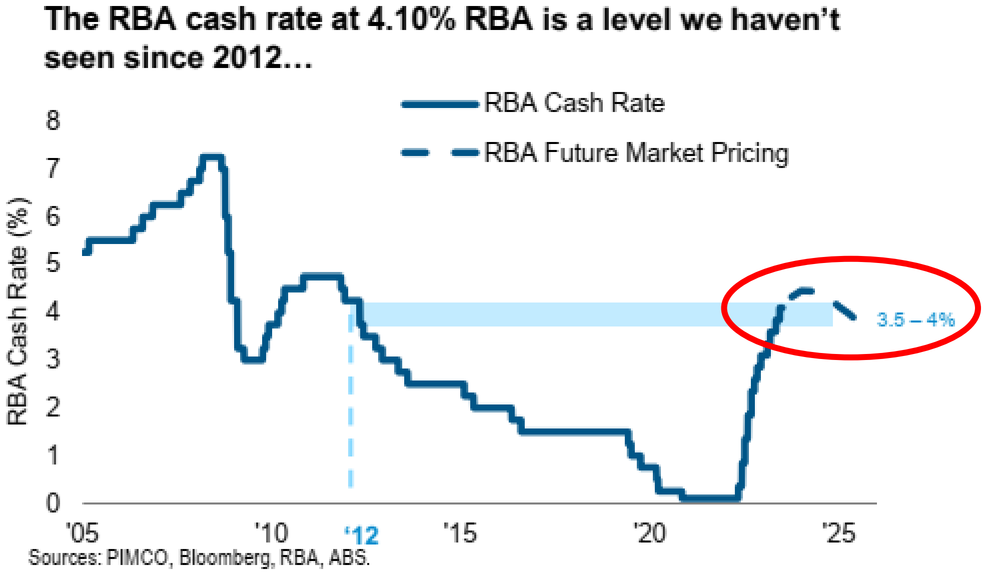
1. **Core Inflation falling faster**
2. **A credit crisis**
3. **A deep recession**



Australia Is In A Similar Position, Just On A Lag







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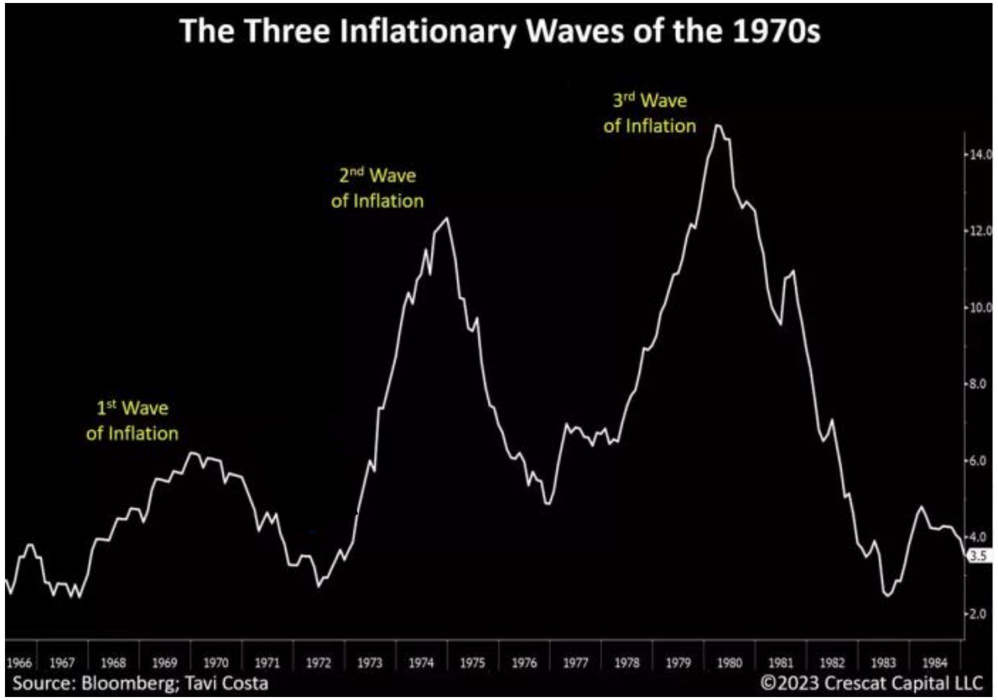
So What Does This Mean For Markets?

Will central banks pivot from rate hikes to interest rate cuts in late 2023 and throughout 2024?

OR

Will central banks learn from the mistakes of the 1970-80s and keep rates higher for longer, no cuts?

A Fed Pivot = A Soft Landing
Action: Selectively buy assets



A Fed Hike & Pause = A Hard Recession
Action: Stay defensively positioned

MPW Recommended Portfolio Strategy

1. Cash Allocation

Bank account to manage cash flows

- Cash to manage liquidity and costs
- Cash to provide access to new investment opportunities that arise

2. Core Portfolio

Passive or actively managed diversified portfolio

- Diversified investment products to gain exposure to traditional asset classes
- Key outcomes include diversification, low cost, and market-linked returns

3. Satellite Portfolio (SMA)

Alternative assets and private market strategies

- Typically only available to wholesale investors or institutional investors
- Key features include access to specialist strategies and value-adding opportunities

Difficult to add value

Some opportunity to add value

Significant opportunity to add value

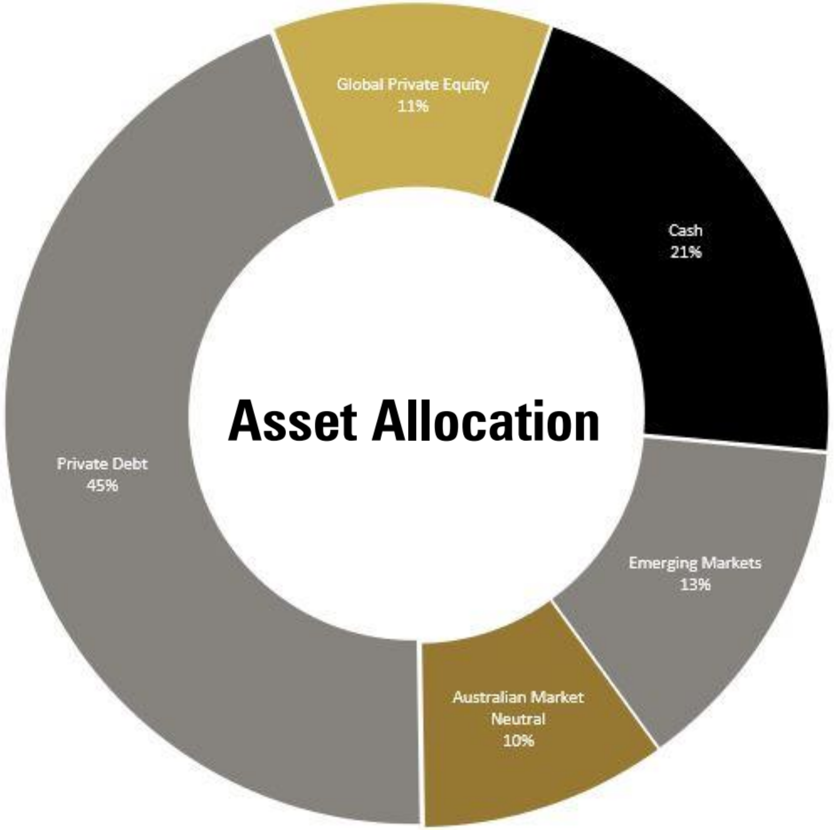
Investors should not ‘pay-up’ for strategies that cannot add value. These can be accessed for low-cost.

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

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* – we expect medium to long-term returns from private equity to outperform listed markets and enhance risk-adjusted returns
- *Australian Private Debt* – these securities are yielding +9% pa on a senior secured basis providing the portfolio with income *and potential growth upside*
- *Global Emerging Market Equity* – US equity markets are the most expensive on a relative basis, but EM looks very attractive from a long-term perspective
- *Australian Equity Market Neutral* – this strategy aims to deliver strong returns from being long and short equities, with no market direction bias
- *Cash is overweight* – Our recession forecasts are likely to see great opportunities present throughout 2023-24, and we aim to capitalise on these

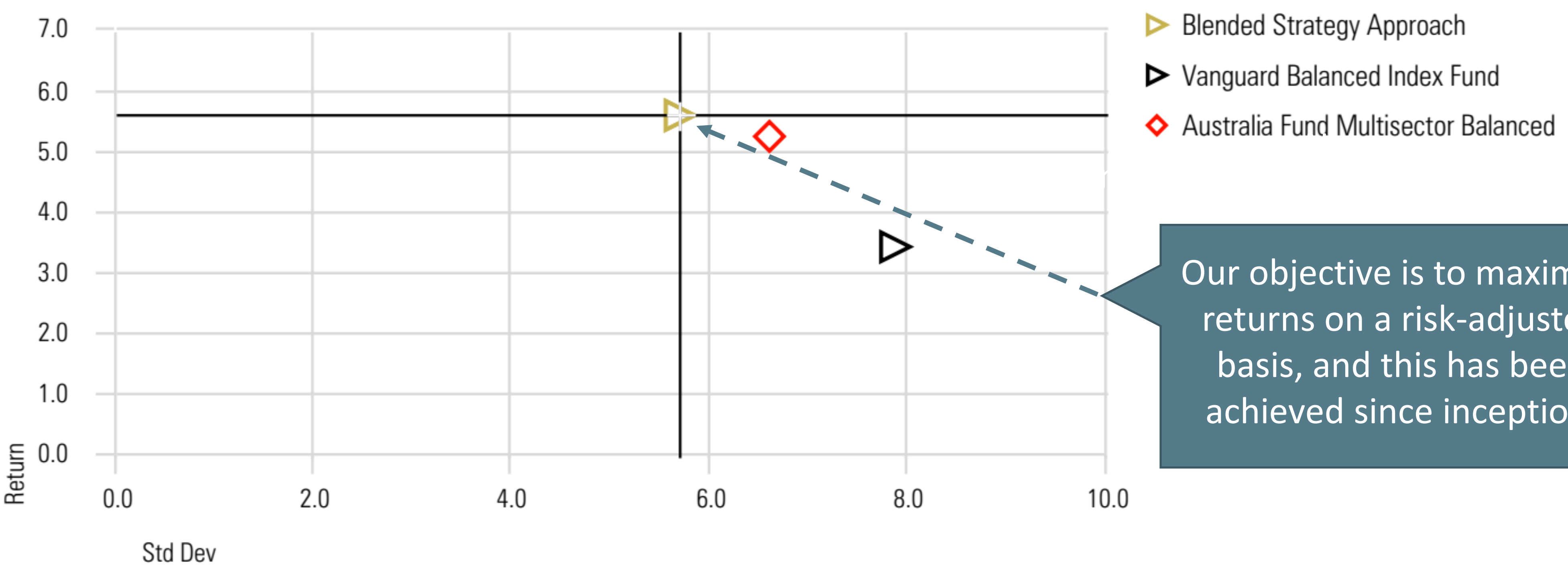
The MPW 'Balanced' Portfolio: Risk & Return

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 30/06/2023

Calculation Benchmark: None



Our objective is to maximise returns on a risk-adjusted basis, and this has been achieved since inception.

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.

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MPW Concluding Summary

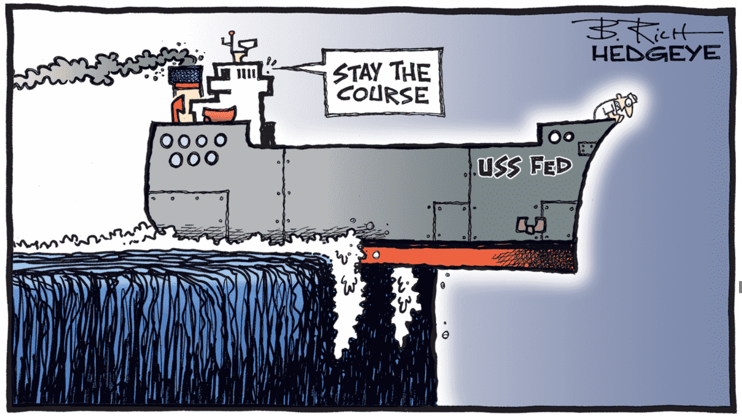
Uncertainty remains: Recession risks are high and markets are not cheap, so downside outweighs upside?

<u>Soft Landing Scenario</u>: *Markets have priced-in this outcome and believe central banks will cut rates in 2023-24.*

- Current market valuations don't leave much room for further upside.
- **This outcome is <u>not our base-case</u>.**

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

- A deeper recessionary environment means risk assets fall much further.
- **This outcome is <u>our base-case</u>.**



Portfolio Implications:

- Be overweight alternative assets and private market strategies
- Be patient, better opportunities should arise in listed markets

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