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HALF YEARLY MARKET UPDATE
JANUARY 2024

Your financial future,
tailored your way

MPW Half Yearly Market Update – January 2024

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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MPW Half Yearly Market Update – January 2024

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.

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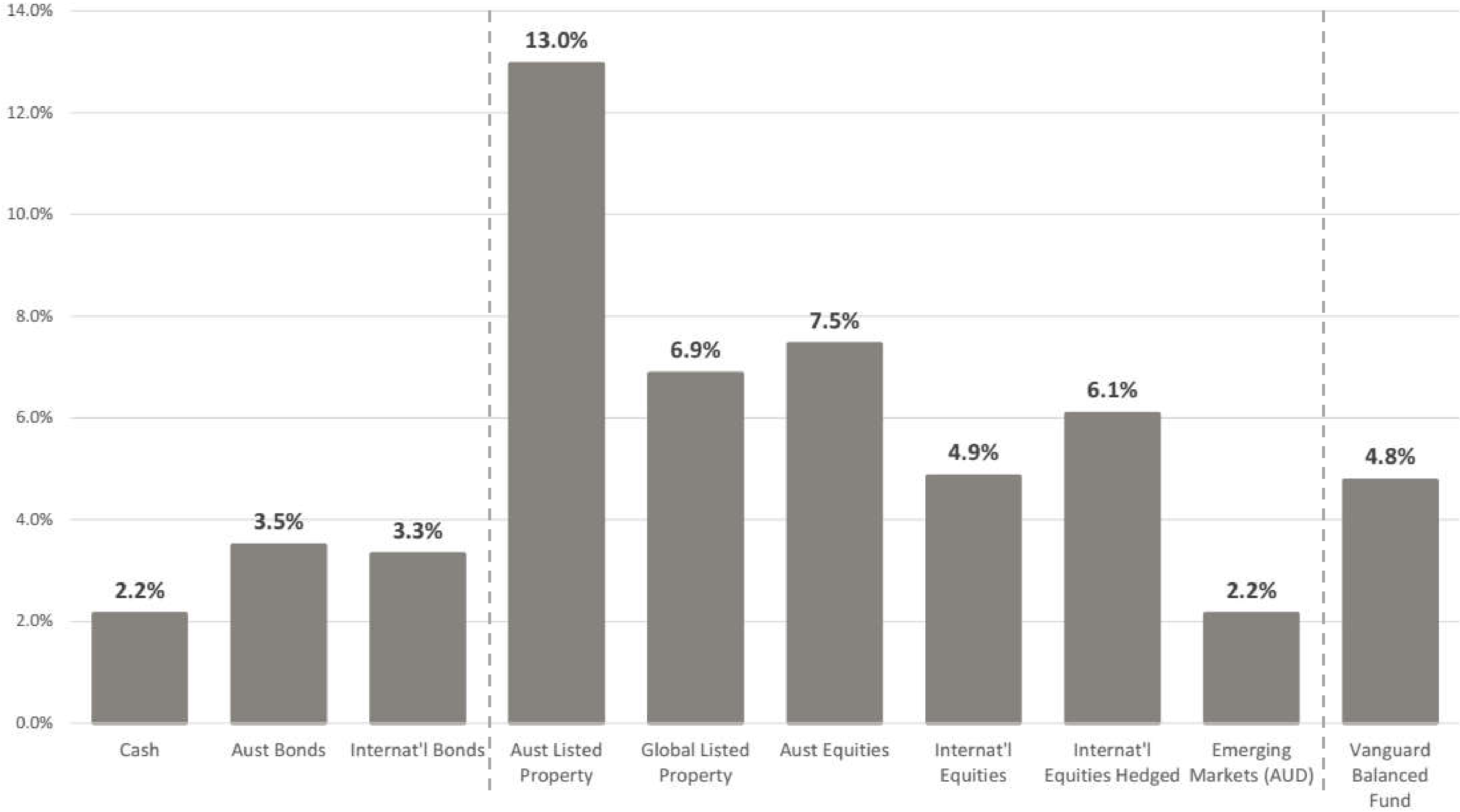
Asset Class Returns 6 Months to 31st December 2023



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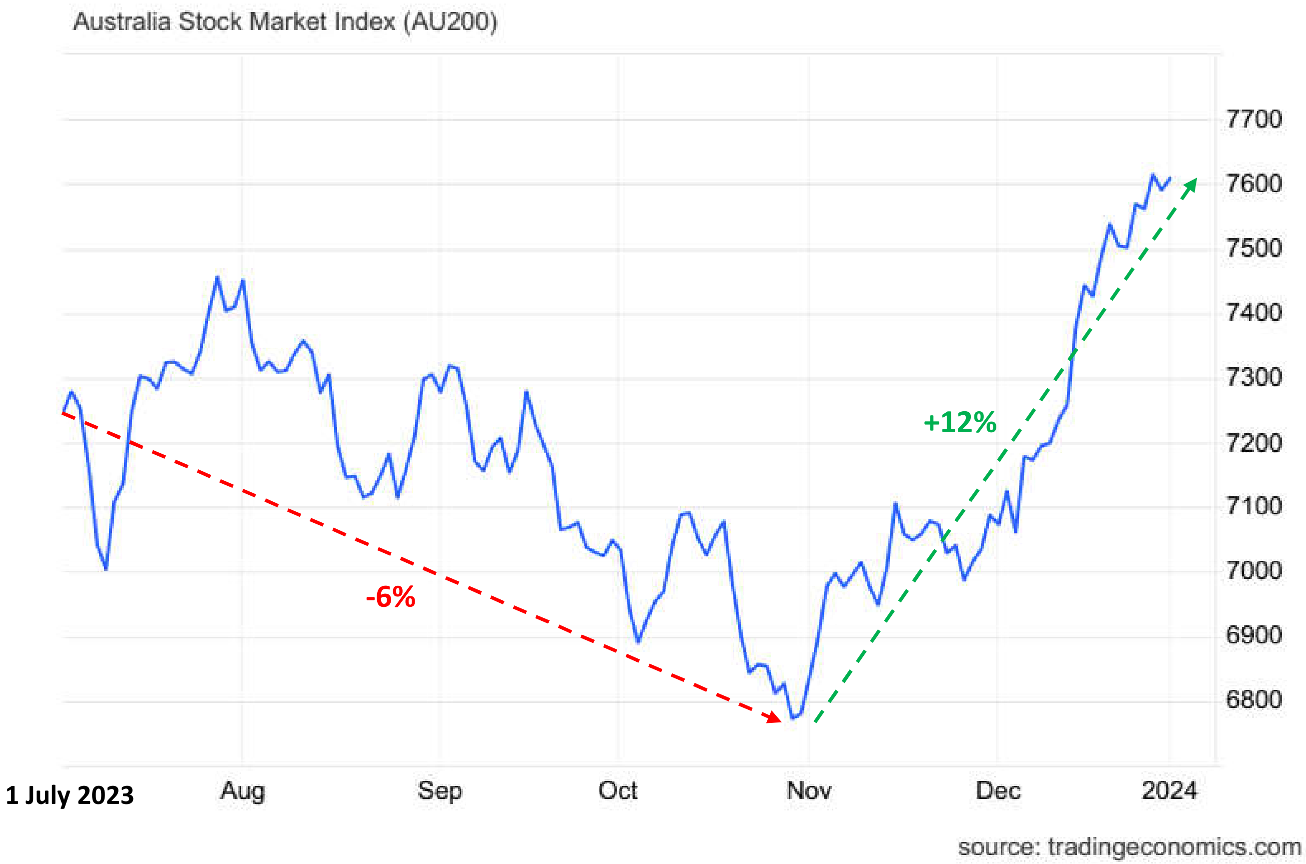
Why The Market Proved Resilient In 2023

Despite many uncertainties and headwinds throughout 2023, the global economy and markets proved very resilient. Why?

- Unemployment remained very low;
- Inflation fell from 40-year peak levels;
- Corporate earnings were less bad;
- Consumers spent their excess savings; and
- Investor sentiment improved into year-end as US interest rate cuts were priced-in.

The chart opposite shows the Australian share market down 6% into November before rallying 12% into year-end as sentiment improved.

What will 2024 bring for markets?

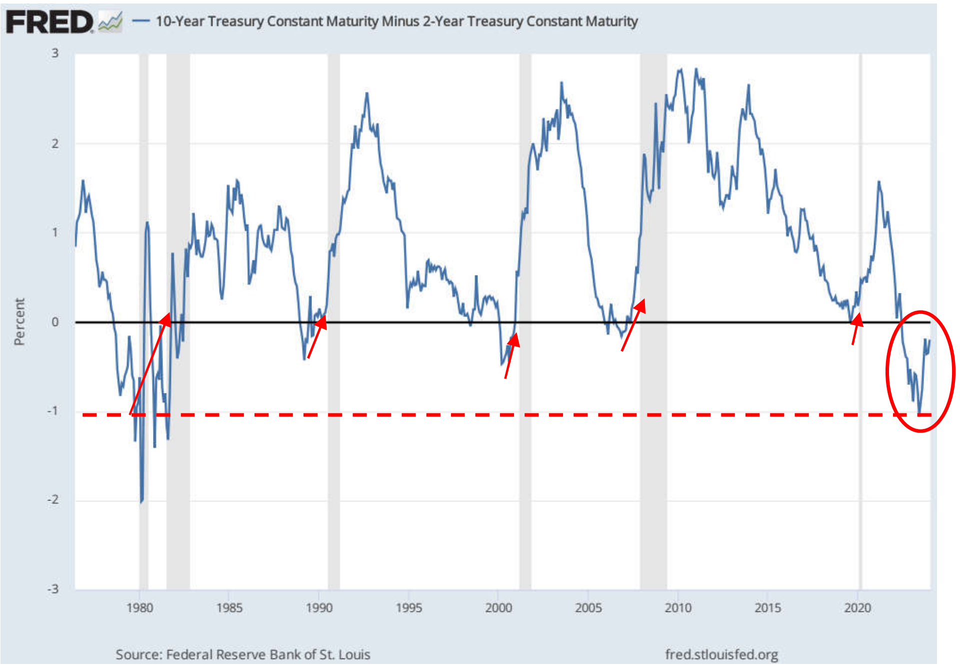


MPW Outlook: 2024 Recession Risks Increase

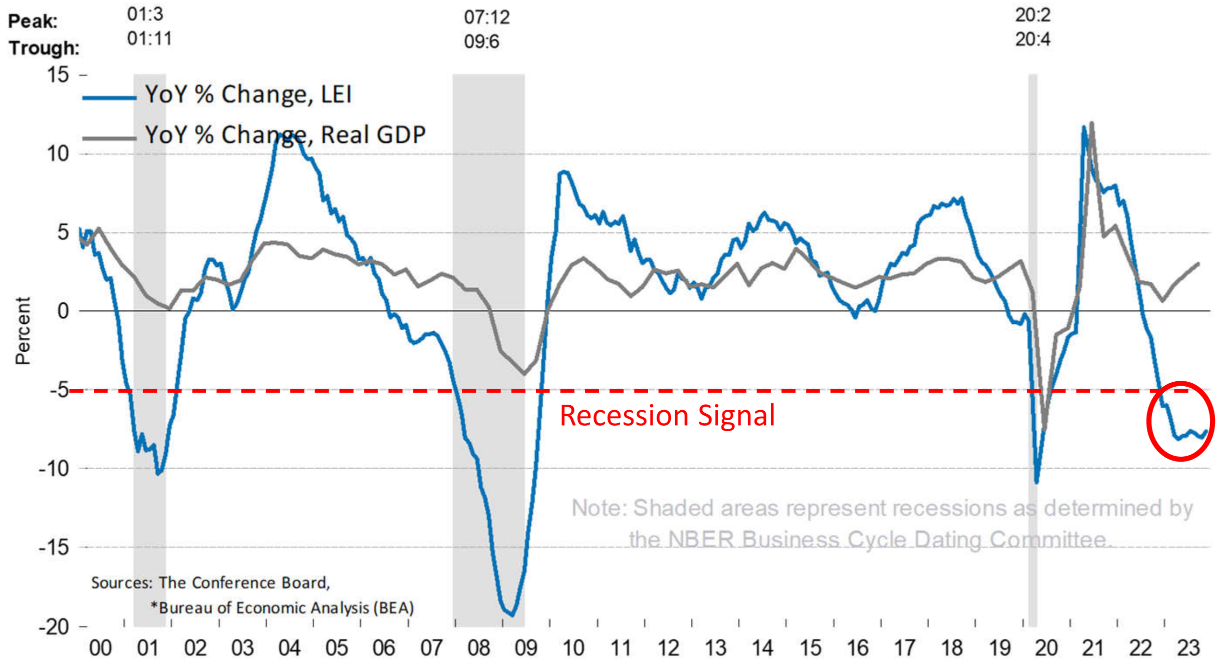
1. Hard Landing: Global Recession MPW Probability = High	2. Soft Landing: Mid-Cycle Slowdown MPW Probability = Medium	3. Strong Growth: New Bull Market MPW Probability = Low
• Inflation remains stubbornly high • Central banks tighten too much • Unemployment rises 1-2% • Savings rates evaporate • Economic data deteriorates • Corporate earnings fall further • Geopolitical risks intensify (wars) • Oil price spike magnifies the above	• Inflation moderates towards targets • Central banks pivot and cut rates • Unemployment rises marginally • Savings rates are neutral • Economic data stabilises • Higher revenues offset higher costs • No further sanctions or conflict • Supply issues don’t spike oil prices	• Inflation moderates more quickly • Central banks cut rates more quickly • Employment growth remains strong • Savings rates remain elevated • Economic data pivots to growth • Companies improve productivity • Geopolitical risks and conflict abates • 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 Still Point To Recession Ahead

A negative yield curve has been an excellent predictor of prior recessions (shaded grey) and is now steepening after being the most inverted since the 1980's, suggesting recession in 2024.

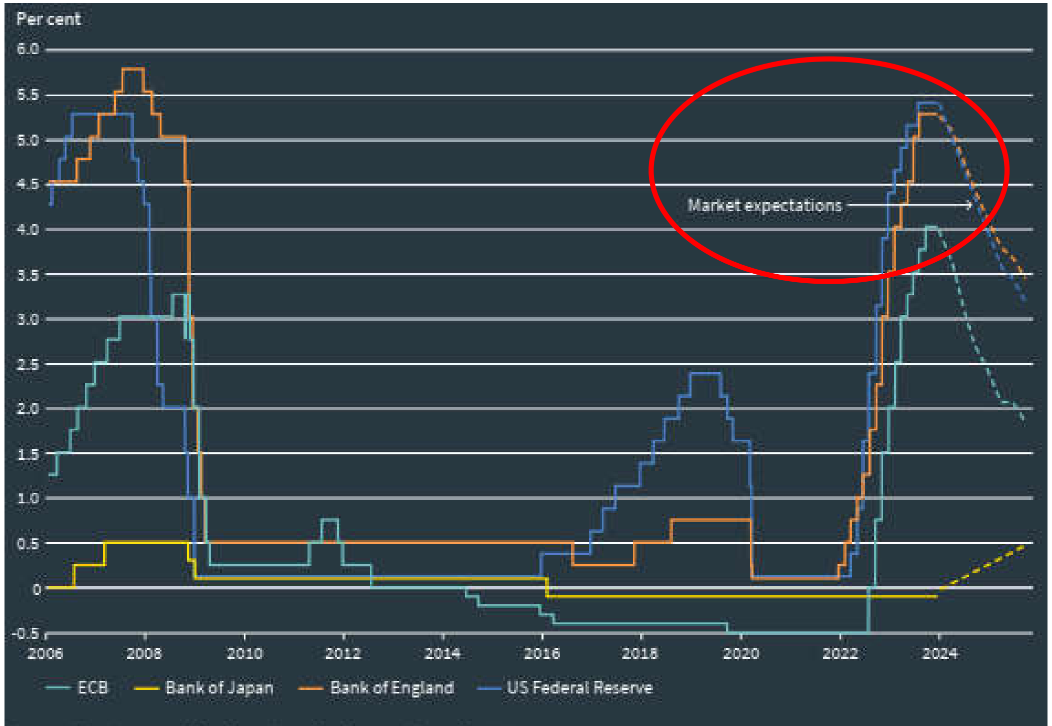


US Leading Economic Indicators (LEI's) are priced well below previous recession levels and suggest that GDP growth will turn negative in 2024.



This is the Fastest Tightening Cycle Since the 1980's

Interest rates may have peaked in this cycle, the question now is when will central banks start cutting rates? Markets seem to be overly optimistic about a March cut.



Source: Aviva Investors, Bloomberg, Macrobond as at 31 December 2023.

Rising interest rates have historically resulted in market dislocations. After the fastest tightening cycle since the 1980's, why would this time be any different?

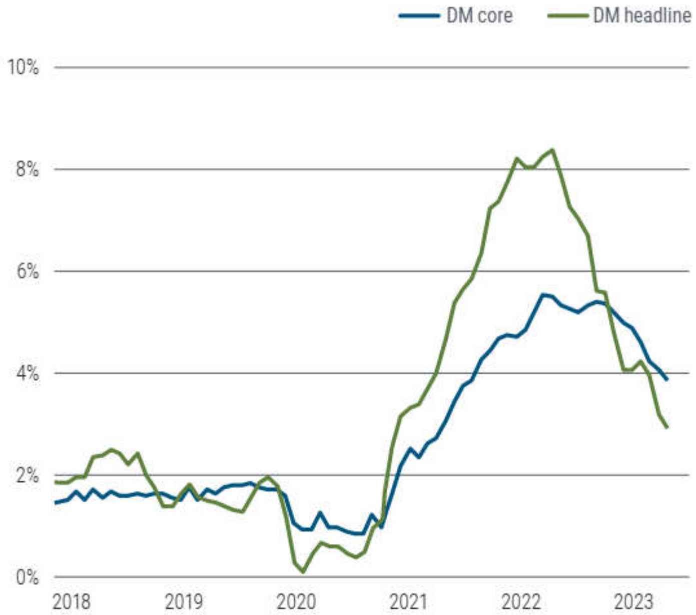
A Rise In Bond Yields Typically Ends With A Financial Accident

Risk of Higher Inflation vs Risk of Recession

Inflation is falling and will continue to fall, but it remains well above most Central Bank targets. What is the lesser evil, higher embedded inflation or a recession?

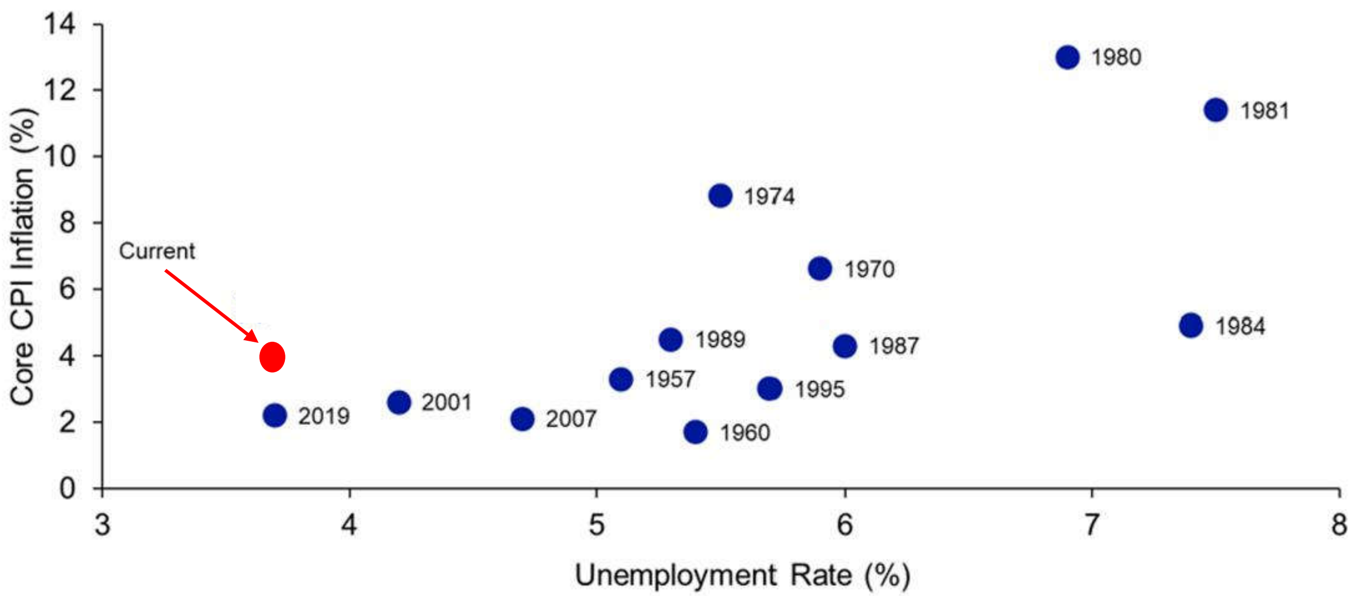
Do Central Banks risk higher inflation by cutting rates early or do they hold rates until unemployment rises and GDP growth is slowing, thereby risking a recession?

Developed market inflation y/y



Source: Haver Analytics and PIMCO calculations as of 30 November 2023.

Core US inflation vs. unemployment at first cut in each Fed easing cycle since 1957

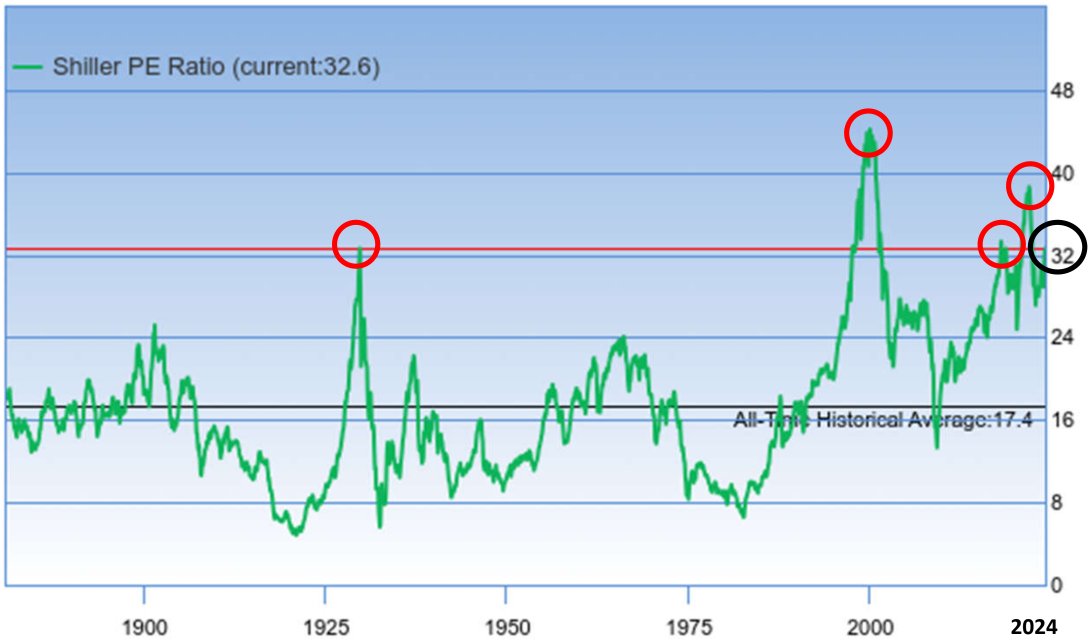


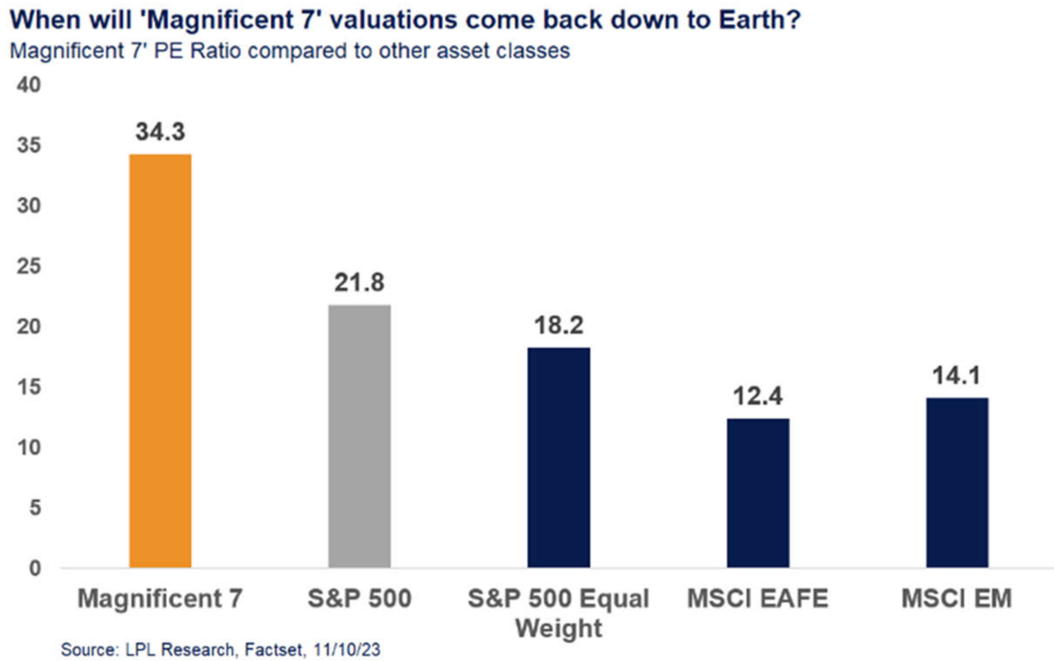
Note: For 1957 we have used headline CPI as no Core.
Source: BLS, Bloomberg Finance LP, Deutsche Bank

US Markets Are Not Priced For A Recession

The US Shiller PE ratio at 32.6 is very expensive on a historical basis, having been above this level only 4 times in history.

The valuation premium for the US "Magnificent 7" stocks is almost double that of the equally weighted US market and is largely responsible for driving returns in 2023.

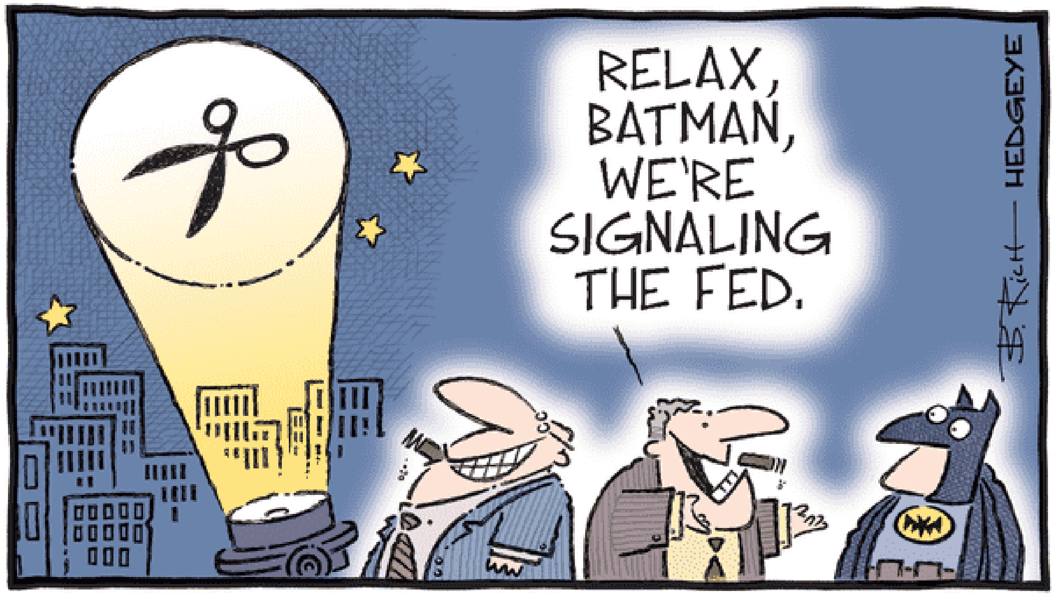


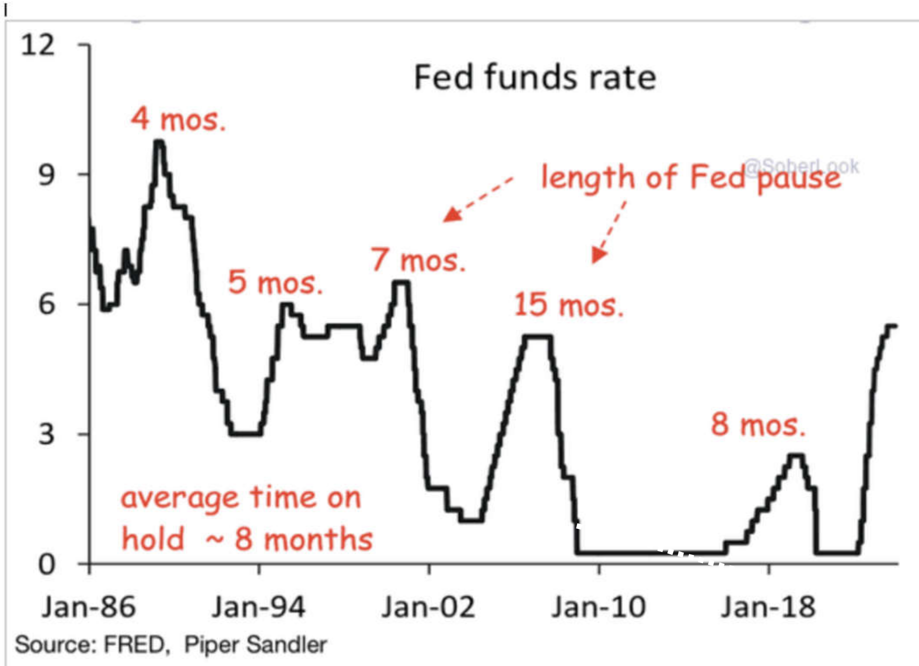


Markets Are Very Optimistic About Fed Rate Cuts

Markets are pricing US interest rates to start falling as soon as March. That is a big ask when the US has full employment and Core inflation at 3.9%.

We think the **Fed is more likely to pause** with high rates and see what happens to the economy by mid-year.





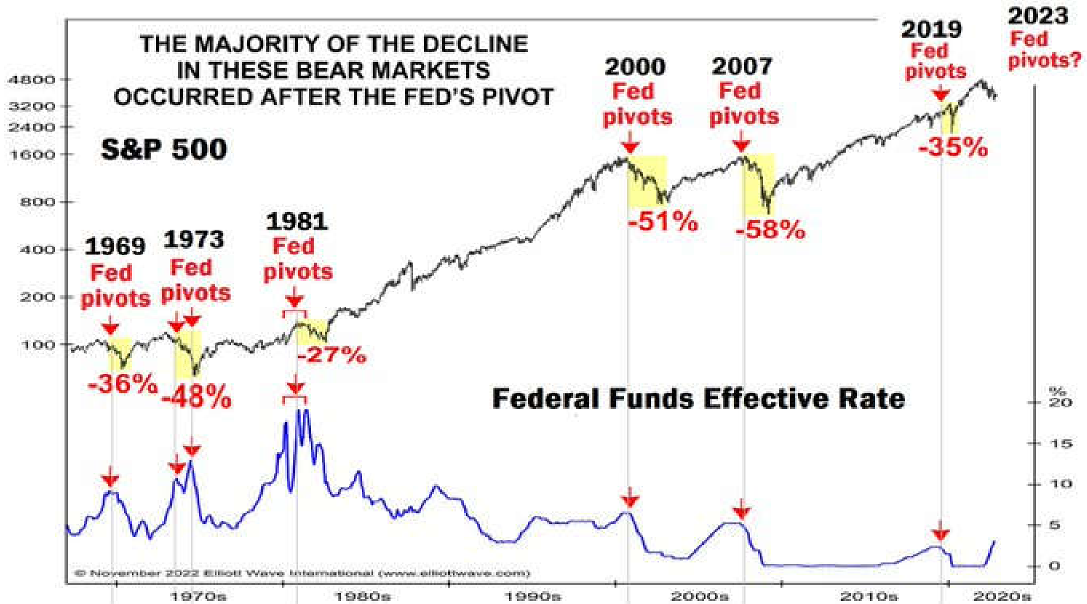
For the Fed to start cutting interest rates in this cycle:

1. Core Inflation needs to fall much faster; and/or
2. A credit crisis or recession starts to unfold.

So What Does This Mean For Markets?

In our view it will be very difficult for central banks to manage a soft-landing and avoid a recession as interest rates will be on pause for longer than markets expect.

Despite markets rallying in the hope of near-term interest rate cuts, history shows that markets bottom long after the first rate cut. Why? Because the economy is in recession!



Early Fed Pivot = No recession, but a bumpy ride
Action: Selectively buy assets

Fed On Pause = A harder landing and 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.

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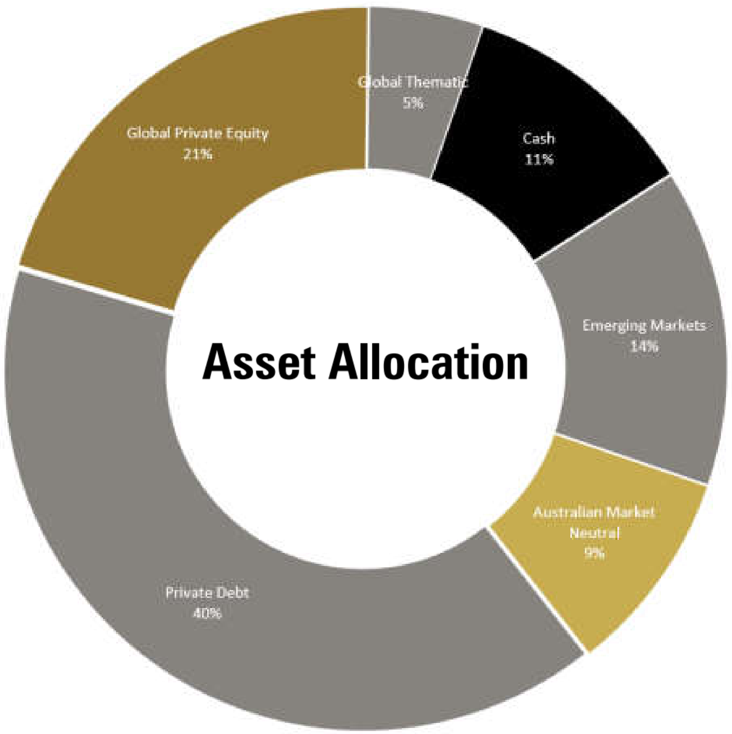
Transcend High Conviction SMA

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*
- *Australian Equity Market Neutral* – this strategy aims to deliver strong returns from being long and short equities, with no market direction bias
- *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
- *Global Thematic* – this strategy aims to invest in high conviction long-term investment themes that have an asymmetric positive return pay-off
- *Cash* – Used to capitalise on future investment opportunities, noting that some of this cash has now been invested in January 2024

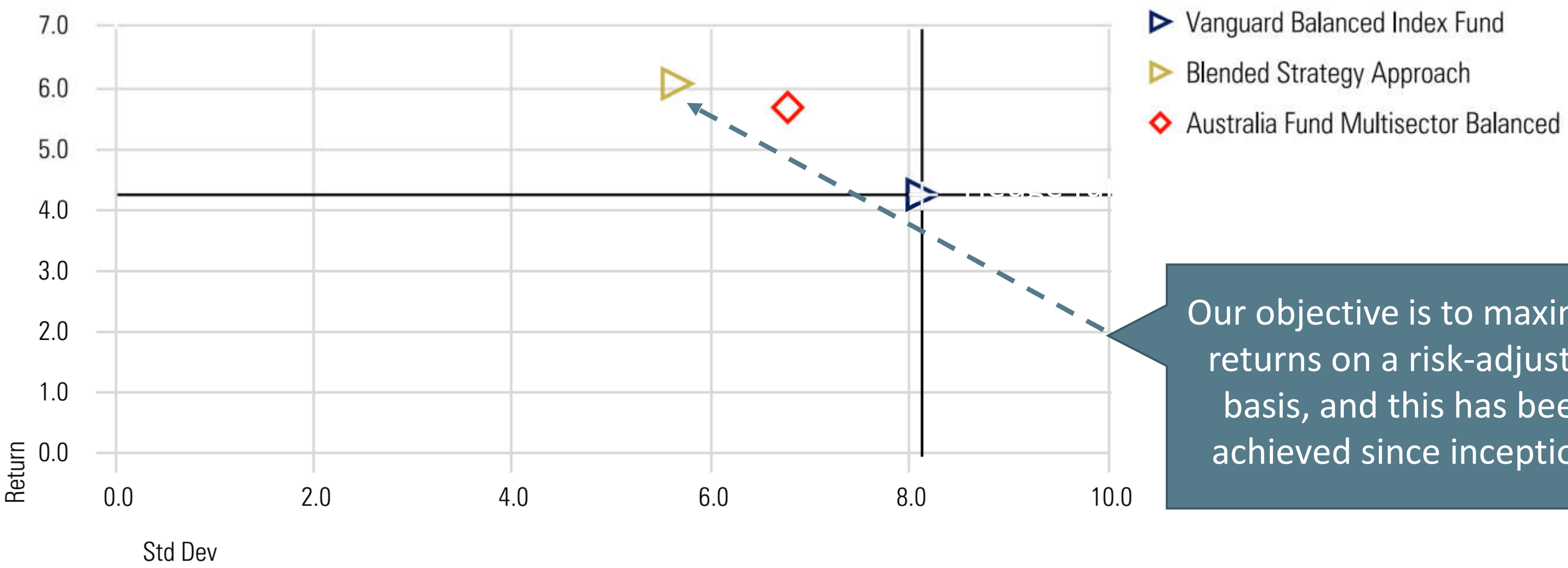
The MPW ‘Balanced’ Portfolio: Risk & Return

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 31/12/2023

Calculation Benchmark: Australia Fund Multisector Balanced



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

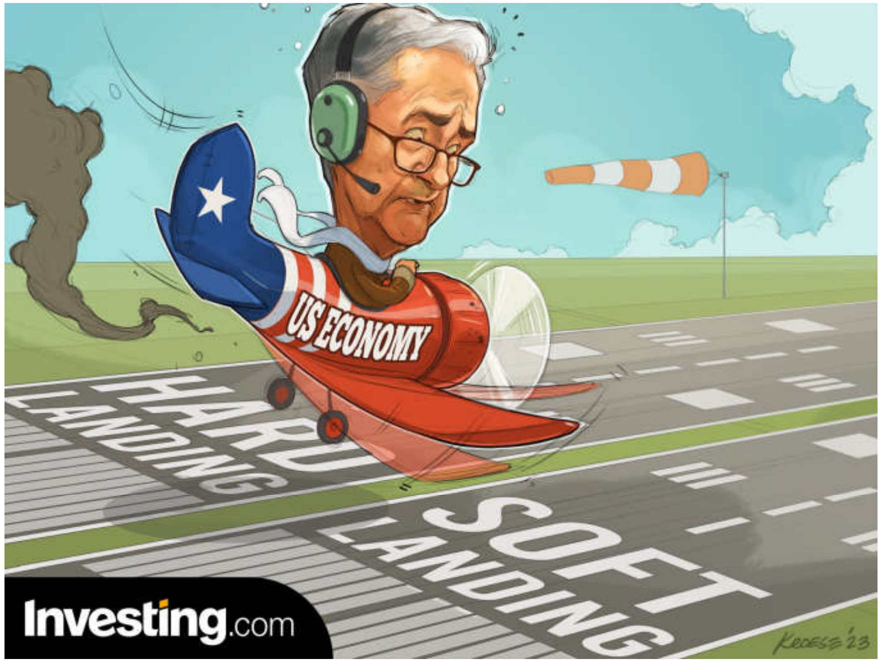
MPW Outlook: Recession risk is high and markets are not cheap, so the downside risk outweighs the upside.

***Soft Landing Scenario**: This is the consensus view and markets are pricing this outcome, believing US interest rate cuts are close.*

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

***Recession Scenario**: Inflation is still the Fed's priority and markets are not pricing interest rates to remain on hold for a longer period.*

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



Portfolio Implications:

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

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