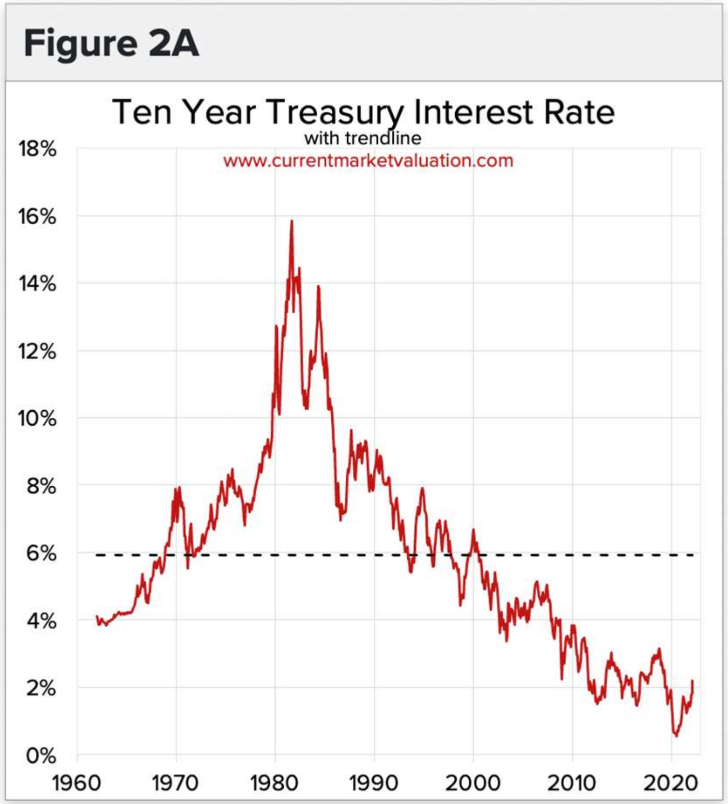
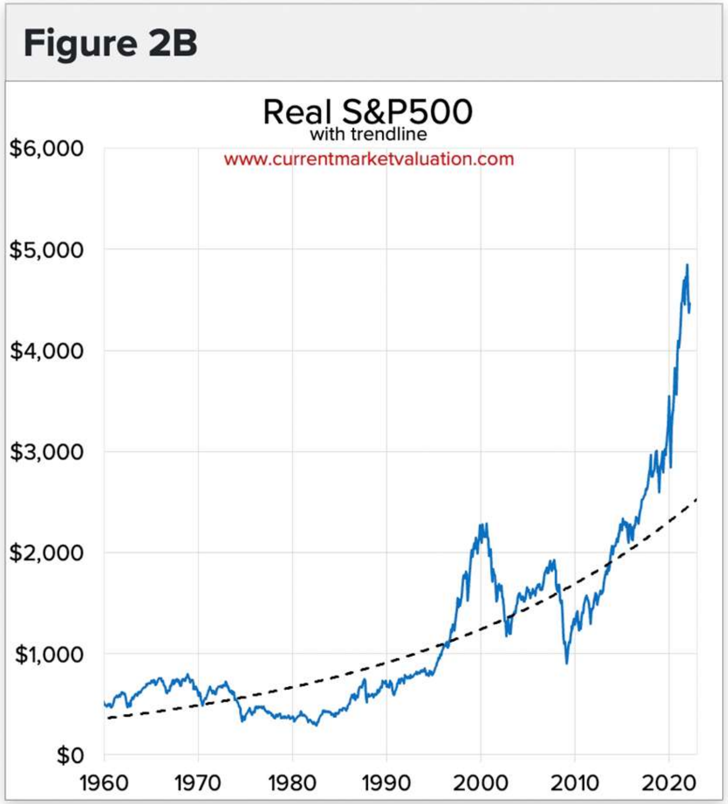
2022 IMAP Melbourne – Real & Private assets for Retail investors

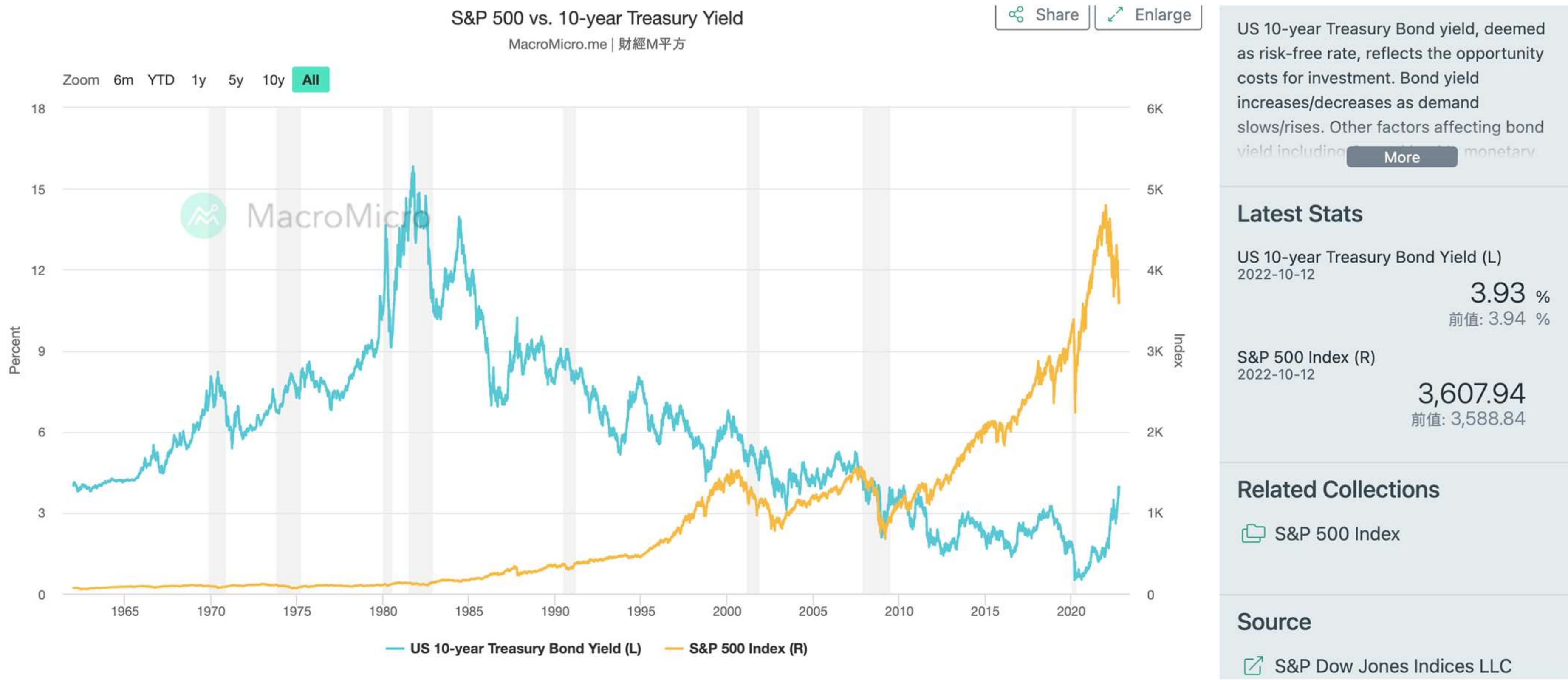
Portfolio Management to deliver consistent and reliable planning outcomes

Asset Prices fuelled by easy money – party is over!





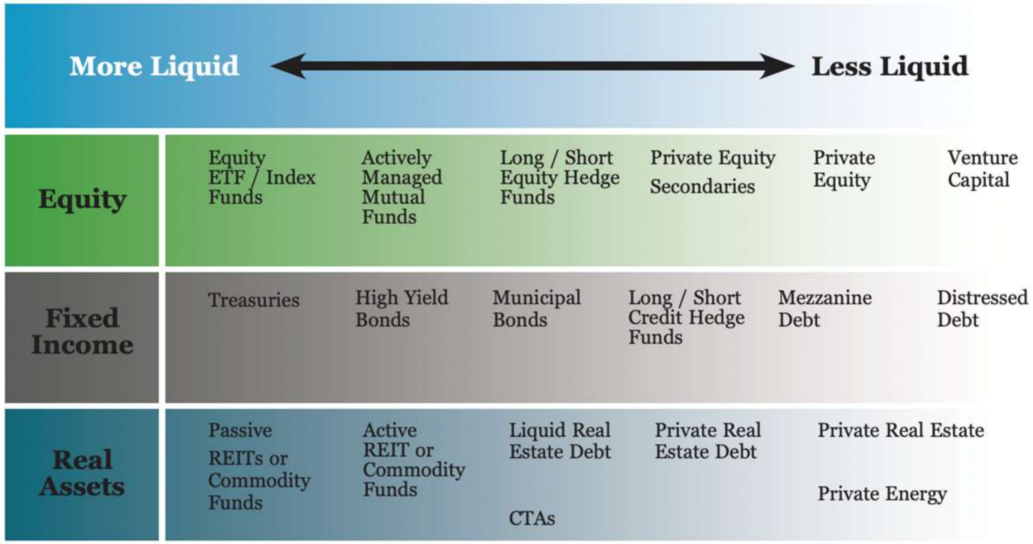
Party is over for 60/40 strategy – alternative sources of risk and return has never been more critical across public and private markets



Same asset classes – just different degrees of liquidity!
– the good news is evolving products provide access to real assets, private assets

- Liquid alternatives via listed market
- Semi-liquid alternatives via unlisted market
- Traditional private market unlisted and illiquid strategies

Display 10
Simplifying Private Market Investing: Allocating across the Liquidity Spectrum



For Illustrative Purposes Only

SPIRE CAPITAL

The Future Fund as a Case Study –

Reduced Real Return Target to 4% in last 12 months and more broadly diversified to reliably achieve target.

We are all in the business of future funding – our clients' aspirations and plans – which requires a liability matching approach to client planning by trading off the tensions between risk, return, spending, saving and liquidity

Future Fund

Performance

Table 1: Future Fund returns, target benchmarks and volatility

	Return (% pa)	Target return[1] (% pa)	Volatility[2] (%)
From inception (May 2006)	8.3	6.6	4.4
10 years	10.8	6.2	4.3
Seven years	9.3	6.0	4.7
Five years	9.8	6.0	4.8
Three years	11.5	6.1	5.6
One year	19.1	7.5	6.0

Note: The Future Fund returned 2.2% over the quarter to 31 December 2021 and 3.4% for the financial year to date.

1. From 1 July 2017 the Fund's Investment Mandate target return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% pa over the long term, with an acceptable but not excessive level of risk.
2. Industry measure showing the level of realised volatility in the portfolio.

Asset allocation

Table 2: Future Fund asset allocation

Asset class	$m	% of Fund
Australian equities	15,449	7.6%
Global equities		
Developed markets	31,871	15.7
Emerging markets	15,656	7.7
Private equity	34,255	16.8
Property	13,149	6.5
Infrastructure & Timberland	16,309	8.0
Debt securities	14,250	7.0
Alternatives	28,405	14.0
Cash	34,239	16.8
TOTAL	**203,583**	**100.0**

Diversification Across Private Markets and Public Markets Essential for Future Real Returns – Inflation + 2%, 4%, 6%

Display 2

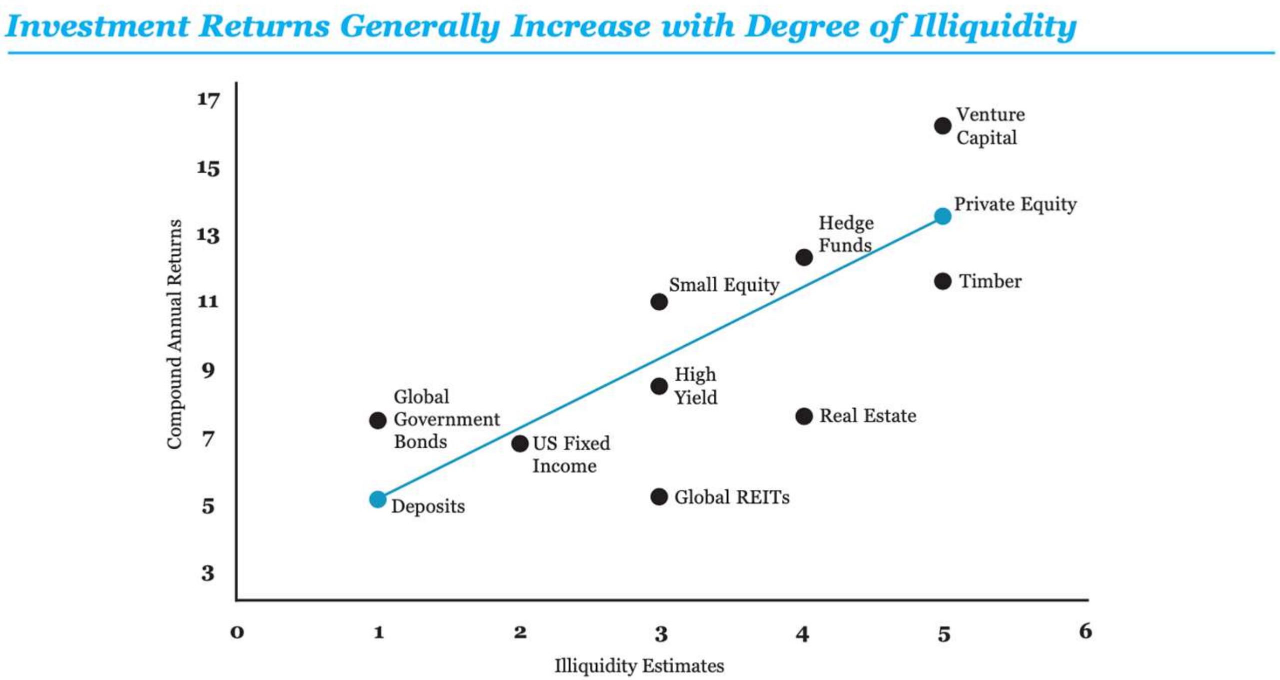
A Natural Complement: Private and Public Market Investments

Public Markets	Private Markets
▶ Frequent transactions	▶ Infrequent transactions
▶ Information widely and quickly shared	▶ Asymmetric information
▶ Performance generally in line with markets	▶ Performance premium to liquid markets

Note: For illustrative purposes only. There can be no assurance that an allocation to alternatives would provide higher real returns. Please consult your own third-party advisor before making any investment decisions based on this information.

[4] Michael C. Jensen, "Eclipse of the Public Corporation," Harvard Business Review (September-October 1989).
[5] "More than any other factor, these organizations' resolution of the owner-manager conflict explains how they can motivate the same people, managing the same resources, to perform so much more effectively under private ownership than in the publicly held corporate form."Jensen Ibid.

Trade Offs – Risk, Return, Liquidity



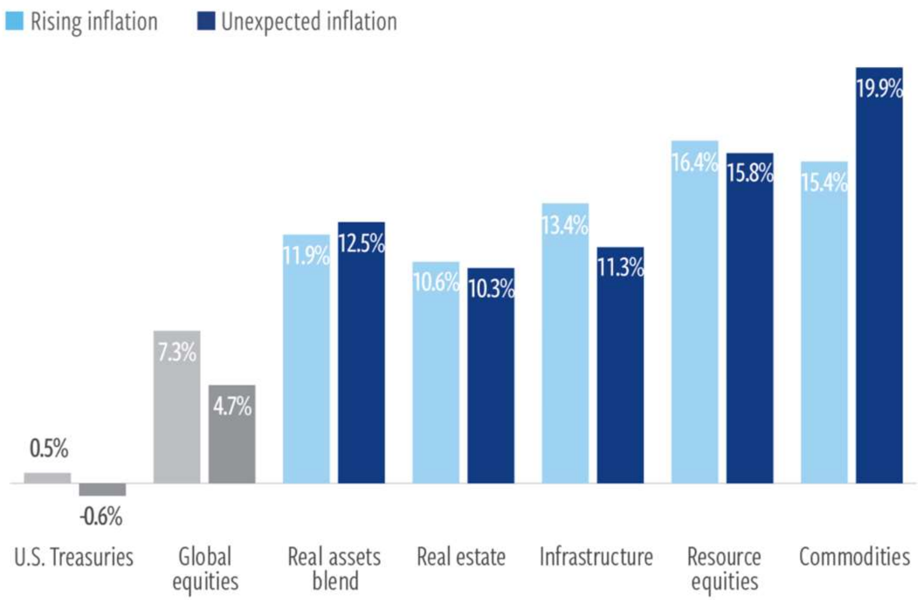
From: "Expected Returns," by Antti Illmanen, 2011. Scatterplotting average asset returns 1990-2009 on (subjective) illiquidity estimates. Sources: Bloomberg, MSCI Barra, Ken French's website, Citigroup, Barclays Capital, JP Morgan, Bank of America Merrill Lynch, S&P GSCI, MIT-CRE, FTSE, Global Property Research, UBS, NCREIF, Hedge Fund Research, Cambridge Associates.

[8] "Waiting to Exhale" 2014 Global Hedge Fund Investor Trends and Allocation Outlook. January 2014, Page 15.

The importance of real assets in inflationary environments

Real assets have historically outperformed in inflationary environments

Average annual real returns in periods of rising and unexpected inflation June 1991–March 2022



Real assets industries

Real estate
Apartments, industrial warehouses, health care, retail, self storage, hotels, offices, data centers

Infrastructure
Electric/water utilities, cell towers, passenger and freight railways, airports, toll roads, marine ports

Resource equities
Oil & gas, metals & mining, renewables, packaged food, fertilizers, agricultural chemicals

Commodities
Crude oil, natural gas, corn, livestock, soybeans, copper, aluminum, silver, zinc, sugar, coffee

At March 31, 2022. Source: Barclays, Bloomberg, Dow Jones, FTSE, S&P, Refinitiv Datastream, Cohen & Steers.

Real Assets – Infrastructure, Real Estate, Agriculture, Commodities, Resources

- Physical asset can fluctuate in value but has inherent value
- Are inflation and interest rates the enemy of real assets – not necessarily!
- Critical issue is the cashflows emanating from the asset
    - Inflation adjusted cashflows
    - Indexation clauses
    - Improved Operational performance to drive Net Operating Income
    - Discount rates -

How real assets are tied to inflation

Real estate

- Property values tend to rise with the overall price environment due to rising costs of labor, land and materials.
- Real estate companies typically have high operating margins and low labor costs.
- Some commercial leases have explicit rent escalators tied to inflation.
- Sectors with shorter lease durations can take advantage of reflationary rents relatively quickly.

Infrastructure

- Cash flows and asset values may have direct or indirect links to inflation.
- For example, with regulated utilities, inflation is typically factored in when determining consumer rates and included in utility project costs that can affect a utility’s rate base.
- With marine ports, contracted rates typically include escalators if inflation exceeds a specified level.

Commodities

- Commodities, such as grains, livestock and precious metals, frequently serve as direct inputs to inflation measures.
- Commodity prices tend to respond to economic forces, such as supply constraints and changes in global demand, that often drive the prices of other goods.

Resource equities

- Demand for essential resources such as food, energy and metals tends to be relatively inelastic (i.e., independent of rising or falling prices), which typically enables resource producers to pass through higher costs of labor, commodities and other inputs onto customers.
- As a result, prices for raw materials tend to rise with broader inflationary pressures, which may help increase cash flows and widen profit margins for producing companies.

The jury is out on correlations – private v public is the focus

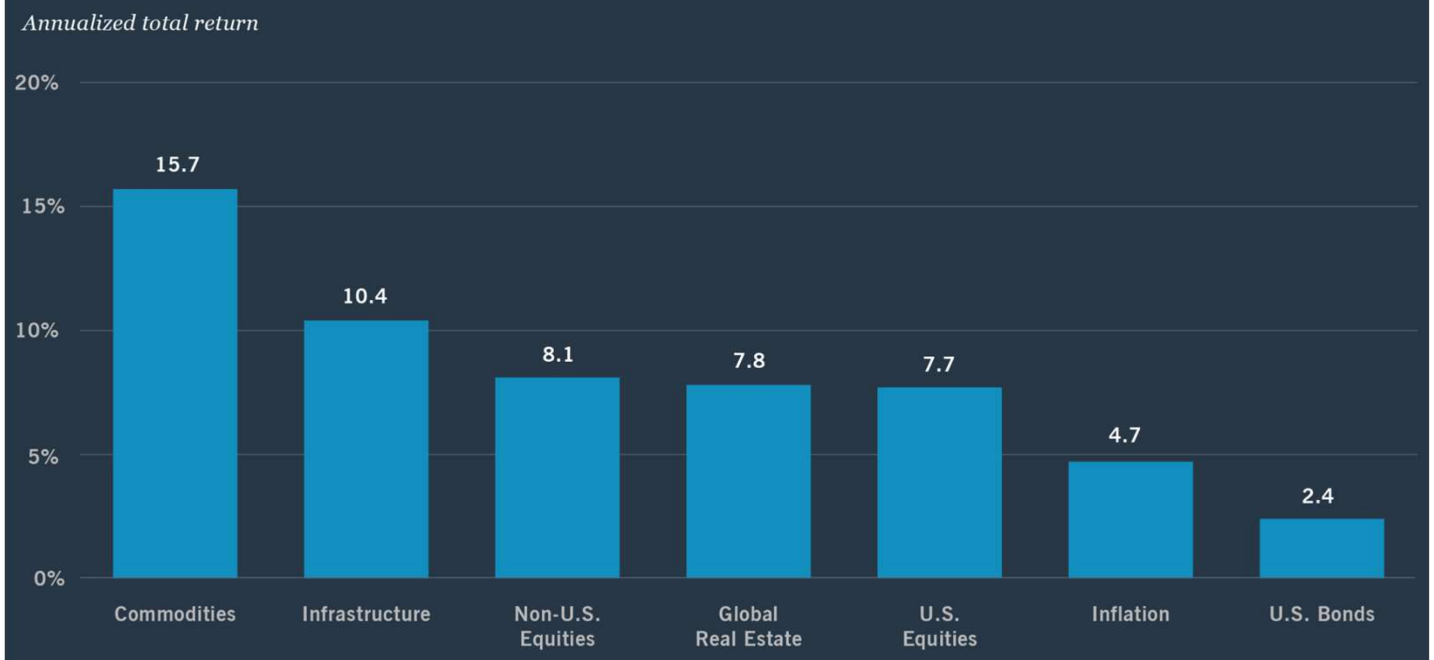
Figure 1: Real assets have a low correlation with other assets

	Infrastructure	EM equities	Global RE	EM bonds	HY bonds	U.S. equities	Non-U.S. equities	Global bonds	Municipals	U.S. bonds	Commodities
Infrastructure	**1.00**										
EM equities	**0.80**	**1.00**									
Global RE	**0.85**	0.75	**1.00**								
EM bonds	**0.69**	0.68	**0.68**	**1.00**							
HY bonds	**0.74**	0.72	**0.76**	0.79	**1.00**						
U.S. equities	**0.79**	0.76	**0.79**	0.58	0.70	**1.00**					
Non-U.S. equities	**0.89**	0.93	**0.83**	0.69	0.76	0.88	**1.00**				
Global bonds	**0.51**	0.42	**0.47**	0.61	0.40	0.26	0.42	**1.00**			
Municipals	**0.24**	0.13	**0.28**	0.48	0.36	0.07	0.13	0.52	**1.00**		
U.S. bonds	**0.23**	0.13	**0.27**	0.55	0.27	0.04	0.10	0.76	0.70	**1.00**	
Commodities	**0.51**	0.47	**0.37**	0.32	0.42	0.37	0.50	0.18	-0.02	-0.10	**1.00**

Data source: Morningstar Direct, 20-year data from 01 Jul 2002 – 30 Jun 2022. **Past performance does not predict or guarantee future results. Representative indexes: infrastructure:** S&P Global Infrastructure Index; **emerging market equities:** MSCI Emerging Markets Index; **global real estate:** FTSE EPRA/NAREIT Developed Index; **emerging markets bonds:** Bloomberg Barclays Emerging Markets Aggregate Index; **high yield corporate bonds:** Bloomberg Barclays U.S. Corporate High Yield Index; **U.S. equities:** S&P 500 Index; **non-U.S. equities:** MSCI ACWI Ex US Index; **global bonds:** Bloomberg Barclays Global Aggregate Unhedged Bond Index; **municipal bonds:** Bloomberg Barclays Municipal Bond Index; **U.S. bonds:** Bloomberg Barclays U.S. Aggregate Bond Index; **commodities:** S&P GSCI Index.

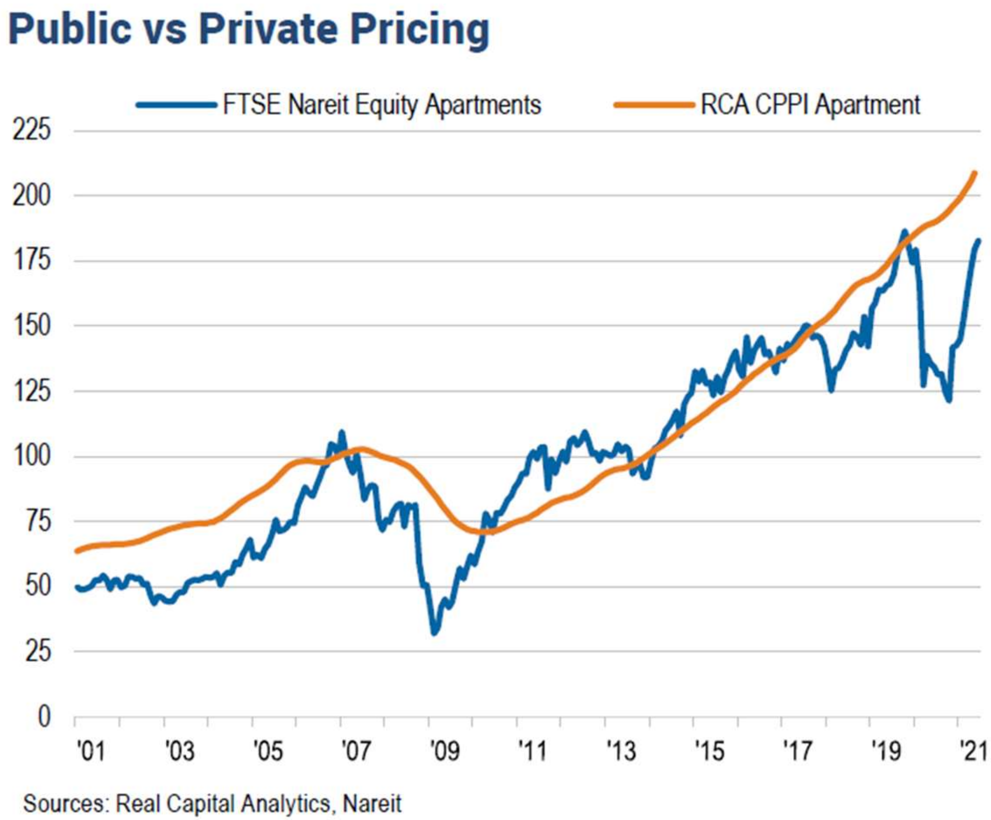
Real Assets offer an inflation hedge generally – not always!

Figure 2: Real assets offered stronger returns when inflation was rising



Data source: Morningstar Direct, 01 Jul 2002 – 30 Jun 2022. **Past performance does not predict or guarantee future results. Representative indexes:** commodities: S&P GSCI Index; **infrastructure:** S&P Global Infrastructure Index; **global real estate:** FTSE EPRA/NAREIT Developed Index; **non-U.S. equities:** MSCI ACWI Ex US Index; **U.S. equities:** S&P 500 Index; **inflation:** US BLS CPI All Urban NSA 1982-1984; **U.S. bonds:** Bloomberg Barclays U.S. Aggregate Bond Index.

And Volatility of Capital – the public v private debate!



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