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# FUTURE PROOFING YOUR PORTFOLIO



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# FUTURE PROOFING YOUR PORTFOLIO



**ROGER MONTGOMERY**

Chief Executive Officer  
Montgomery Investment Management



**EMILIE O'NEILL**

Equities Analyst  
invest



**DAMIAN COTTIER**

Deputy Portfolio Manager  
invest



**GEMMA DALE**

Director, SMSF and Investor Behaviour  
nabtrade

## What we'll discuss

- Creating a resilient, future focussed portfolio
- What 2020 has in store for equity investors
- The risks, and opportunities arising from, coronavirus and other black swan events
- How investors differ from traders when responding to market ructions and what's the best framework for navigating this and future dislocations
- The Paris Agreement: what will Australia look like if it is to stop global warming by 2 degrees and what will happen if the target is not achieved; and
- What we, as investors, want to see from companies in the transition to a new economy



45 minutes

## Q&A Session



15 minutes

Don't forget, you can submit questions at any time.

You can also download the presentation

# 2020 & BEYOND: OPPORTUNITIES & RISKS IN A NEW DECADE

ROGER MONTGOMERY, FOUNDER & CIO  
MARCH 2019

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# FORGETTING RISK

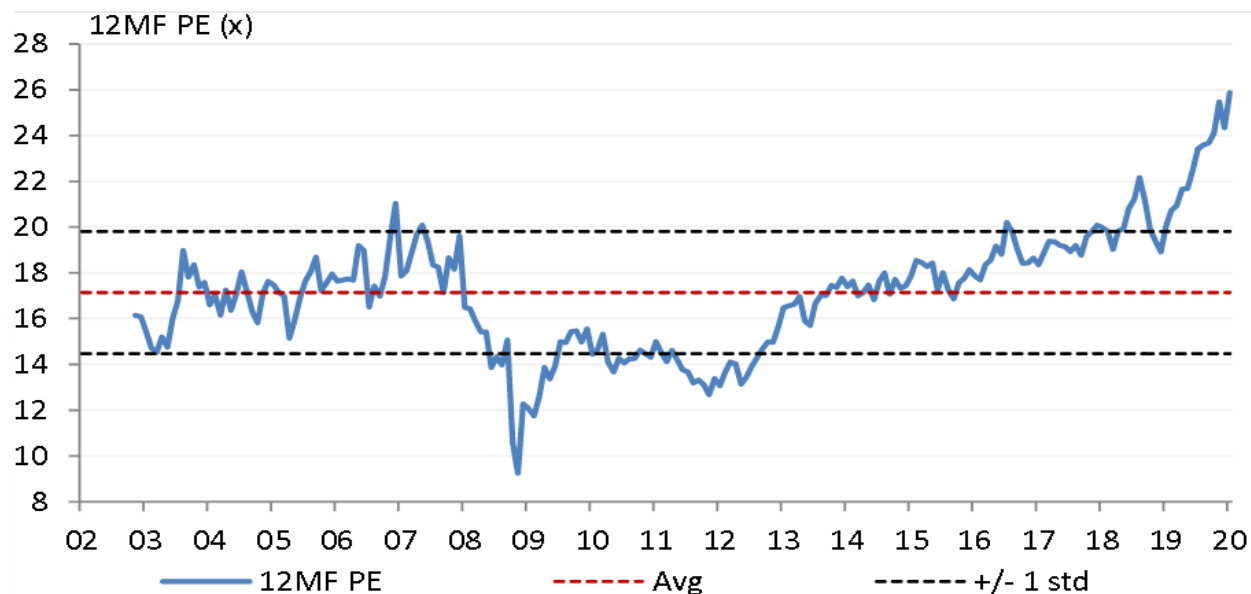
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*“ONE PERCENT IS BETTER THAN MINUS TWENTY”* ROGER MONTGOMERY 2019

# RECORD PRICE TO EARNINGS



## ASX 200 Industrials ex Financials

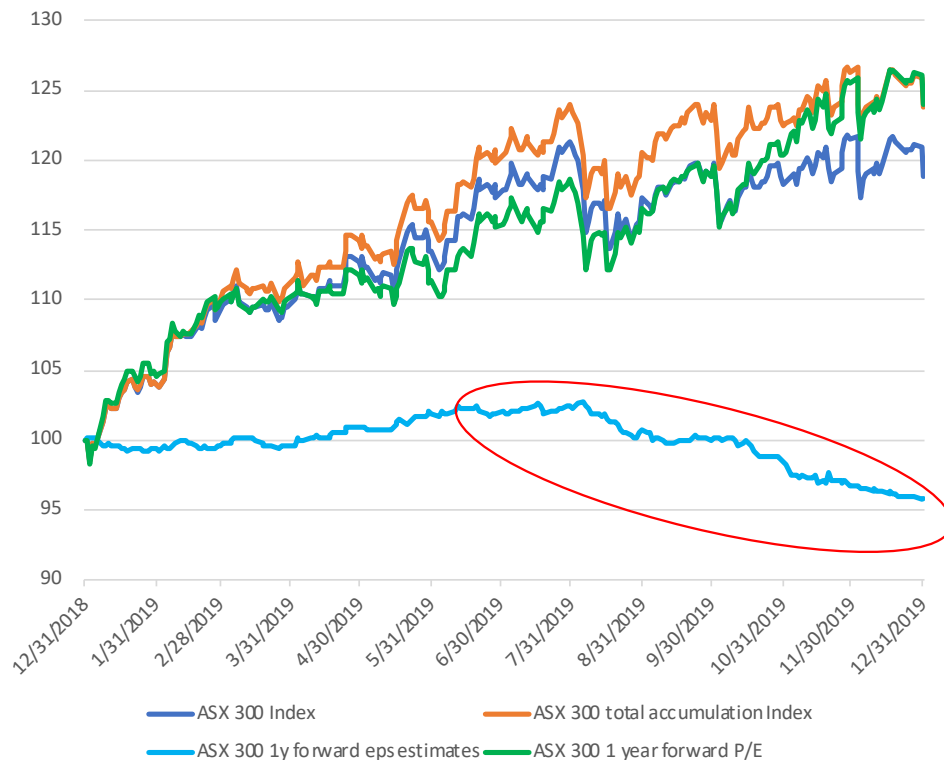


“Note the current PE is far higher than even during the pre-GFC boom. While the increase in the market price earnings ratio primarily reflects lower interest rates and the consequential reduction in returns demanded, it also **sets a high bar for companies in terms of earnings performance**”

# ...BUT EARNINGS GROWTH DECELERATING



Drivers of ASX 300 performance during 2019



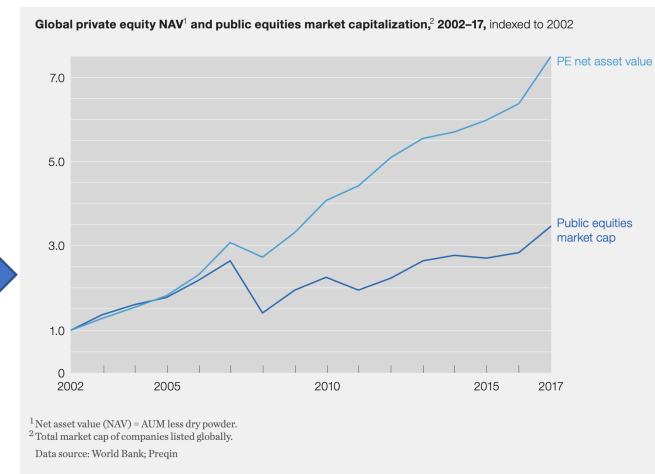
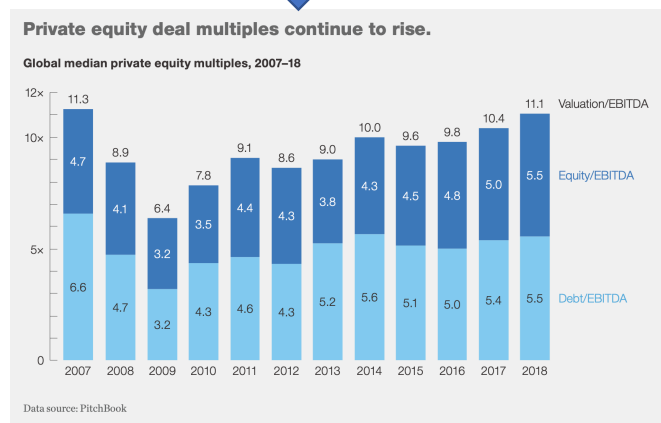
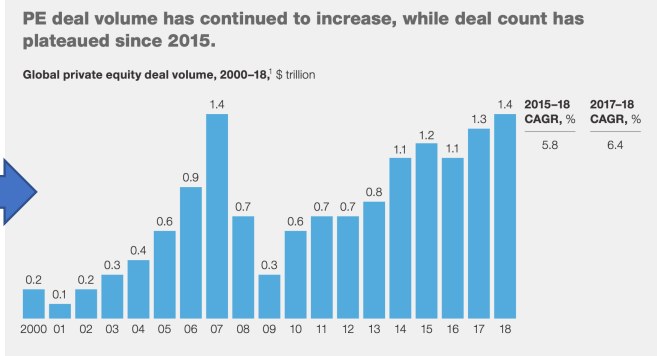
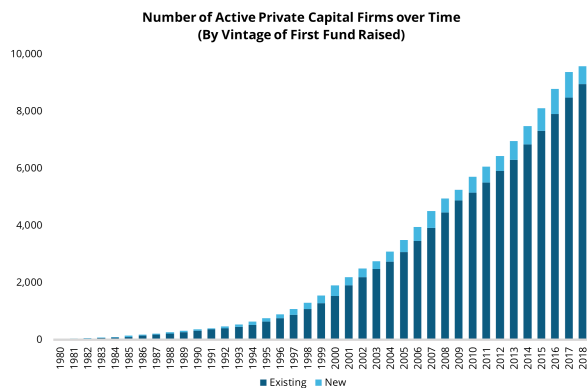
Source: Bloomberg, MIM

## COMMENTS

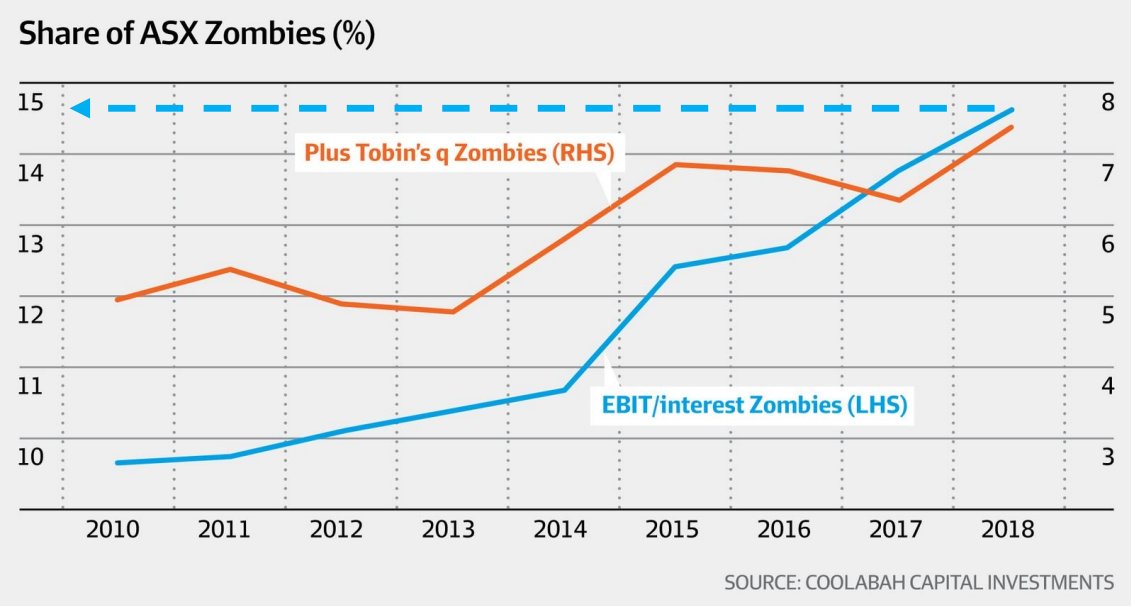
- ASX 300 **Accumulation** Index rose by 23.8% in 2019.
- ASX 300 **Price** Index rose by 18.8% in 2019.
- Dividends hence accounted for 5.0% of total return in 2019.
- 1-year forward eps estimates declined by 4.2% between 1/1/19 and 1/1/20, especially in the second half of 2019.
- Resulting in 1-year forward P/E expanding by ~23.0% to 17.5x from ~14.1x at the beginning of 2019.



# FREE MONEY INVESTING BINGE (PE)



# ZOMBIES – A GLOBAL PHENOMENON

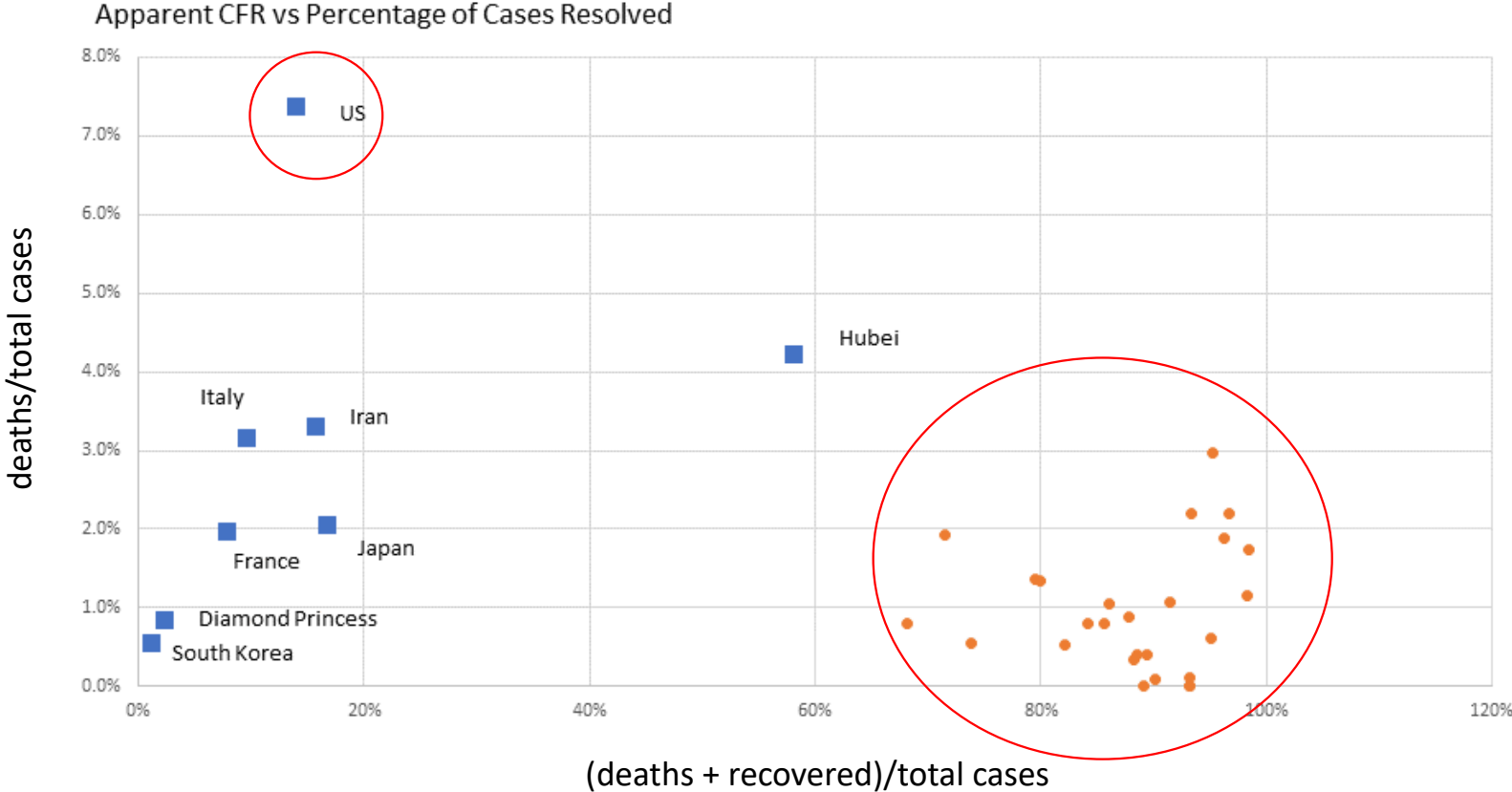


- BIS Zombie Criteria**
- listed on the ASX for more than 10 years,
- and
- an interest coverage ratio (ICR) <1 for three consecutive years
- \*ICR = (EBIT)/interest.

# CORONAVIRUS & COVID19

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# MAPPING COVID19



Source: Johns Hopkins/Montgomery Investment Management

# C'VID19 - 2300% MORE LIKELY TO DIE THAN FLU\*\*

| Year    | Name             | Infection rate | Min pax       | Max pax       | case fatality |            |            |
|---------|------------------|----------------|---------------|---------------|---------------|------------|------------|
|         |                  |                |               |               | rate          | min deaths | max deaths |
| 1918-20 | Spanish Flu      | 33%            | 500,000,000   | 500,000,000   | 2.50%         | 12,500,000 | 12,500,000 |
| 1957-58 | Asian Flu        | 8-33%          | 250,000,000   | 1,000,000,000 | 0.20%         | 500,000    | 2,000,000  |
| 1968-69 | HK Flu           | 7-28%          | 250,000,000   | 1,000,000,000 | 0.20%         | 500,000    | 2,000,000  |
| 2009    | Swine Flu        | 11-21%         | 748,000,000   | 1,428,000,000 | 0.04%         | 299,200    | 571,200    |
| Annual  | <b>Influenza</b> | 5-15%          | 340,000,000   | 1,100,000,000 | 0.10%         | 340,000    | 1,100,000  |
| 2020    | Covid19          | 13-40%         | 1,014,000,000 | 3,120,000,000 | 2.30%         | 23,322,000 | 71,760,000 |

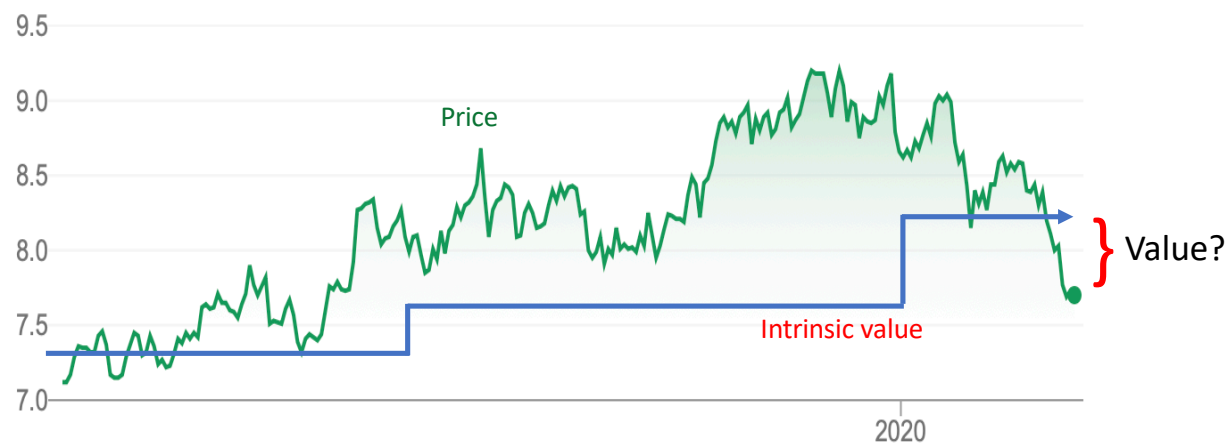
\*Chinese Center for Disease Control and Prevention (based on 1023 deaths amongst 44 415 laboratory-confirmed cases as of 11 February).

\*\*80% of all the COVID-19 cases have relatively minor symptoms which end without severe illness and therefore remain unreported. Therefore mortality rate may be much lower.

\*\*\*Diamond Princess infection rate was 13%

\*According to CDC, 35.5 million people caught the flu in the US in 2018-19. If as many people catch Covid19, at 2.3% CFR 816,500 people will die versus 34,200 deaths for influenza that year.

# FRAMEWORK



- Panic worse than Pandemic
- Negative effect of catalyst accentuated by prior extreme optimism and stretched valuations
- We only need to determine whether the price change has overreacted to the deterioration in the outlook.
- **Therefore:**
  - We need to understand the outlook for the company
  - We need to estimate its long-term value

# SEQUENCING RISK

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# INCREASING RELIANCE ON INCOME



Population change, Age groups - 1999 to 2019



Source: Australian Bureau of Statistics, **Australian Demographic Statistics, Jun 2019**



# SUPERIOR OUTCOME IF REPEATED



27 Years in Retirement



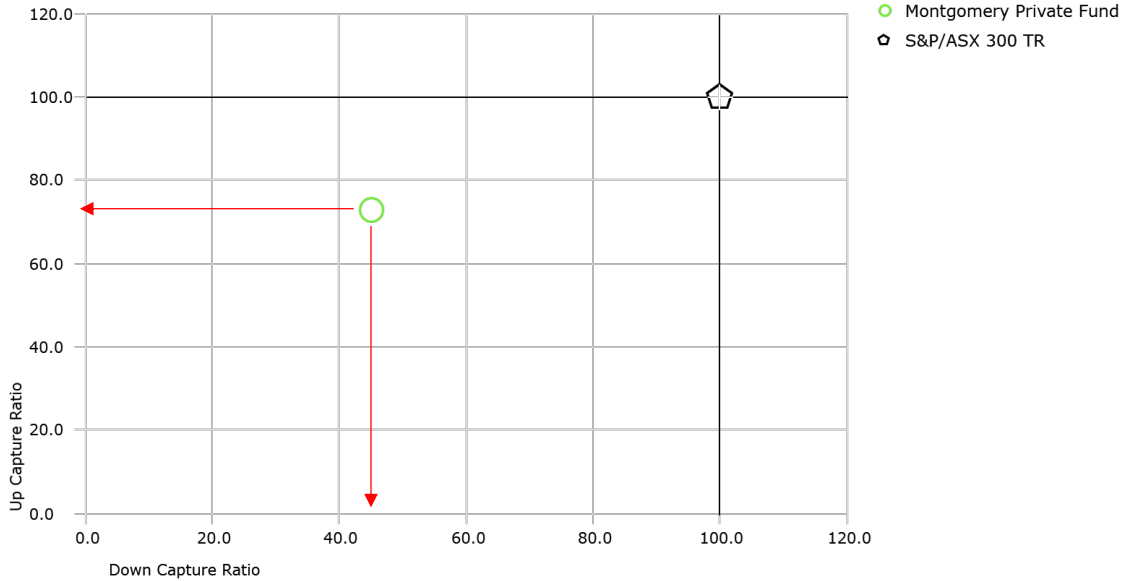


## Manager Analysis

### Upside-Downside Capture

Time Period: 1/01/2011 to 31/12/2019

Peer Group (5-95%): None - None



- Since inception, The Montgomery [Private] Fund has captured **73% of the upside** on average during months the market rallied
- Since inception, The Montgomery Fund has captured only **45% of the downside** on average during months the market fell

### Market Performance

Time Period: 1/01/2011 to 31/12/2019

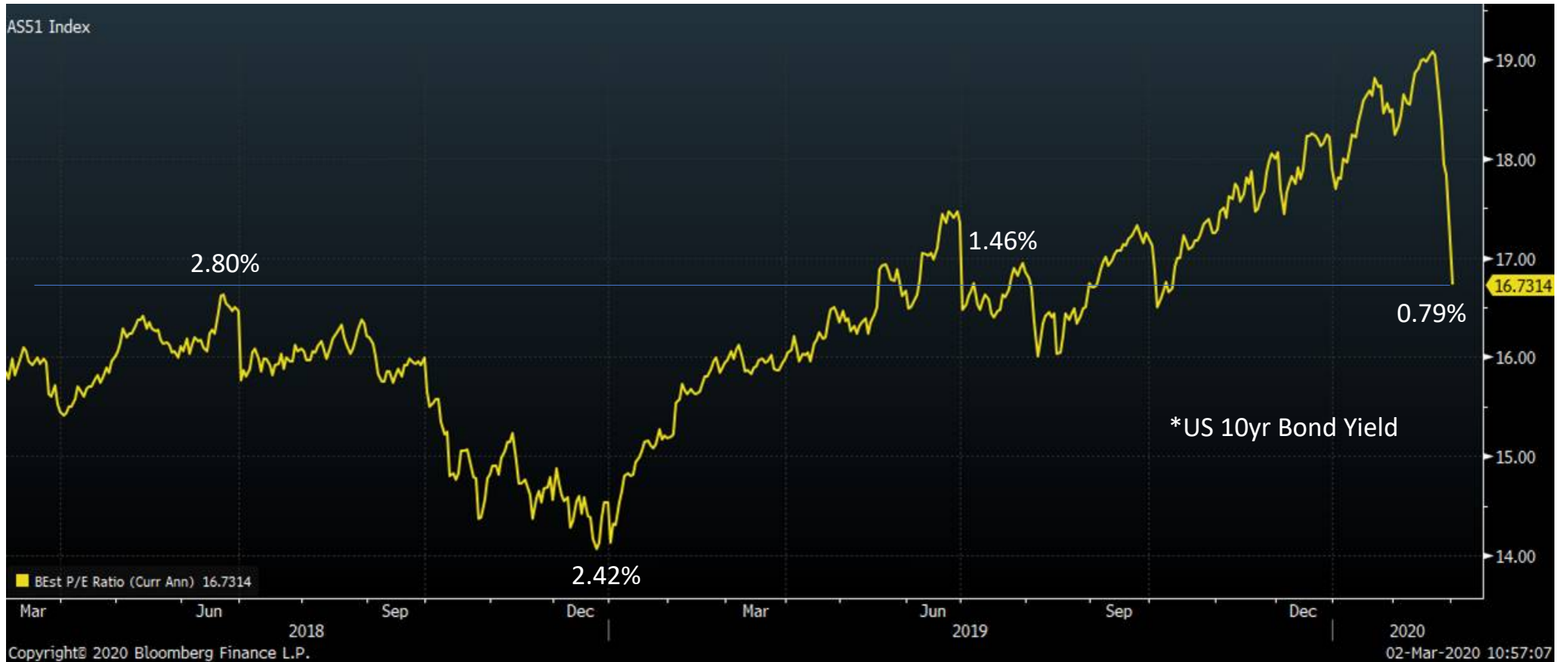
|                         | Up Period Percent | Down Period Percent | Best Month | Worst Month | Best Quarter | Worst Quarter | Up Capture Ratio | Down Capture Ratio | R2     |
|-------------------------|-------------------|---------------------|------------|-------------|--------------|---------------|------------------|--------------------|--------|
| Montgomery Private Fund | 61.11             | 38.89               | 6.73       | -5.50       | 15.26        | -6.25         | 72.77            | 45.08              | 84.61  |
| S&P/ASX 300 TR          | 63.89             | 36.11               | 7.23       | -7.70       | 10.92        | -11.65        | 100.00           | 100.00             | 100.00 |
| 25th Percentile         | 65.74             | 40.74               | 8.89       | -6.58       | 13.04        | -6.69         | 90.14            | 103.49             | 93.17  |
| 50th Percentile         | 63.89             | 36.11               | 8.16       | -6.97       | 11.87        | -10.99        | 76.27            | 56.80              | 77.91  |
| 75th Percentile         | 59.26             | 34.26               | 6.04       | -7.31       | 11.38        | -11.26        | 69.38            | 36.87              | 73.73  |

Source: Morningstar Direct

# OPPORTUNITIES

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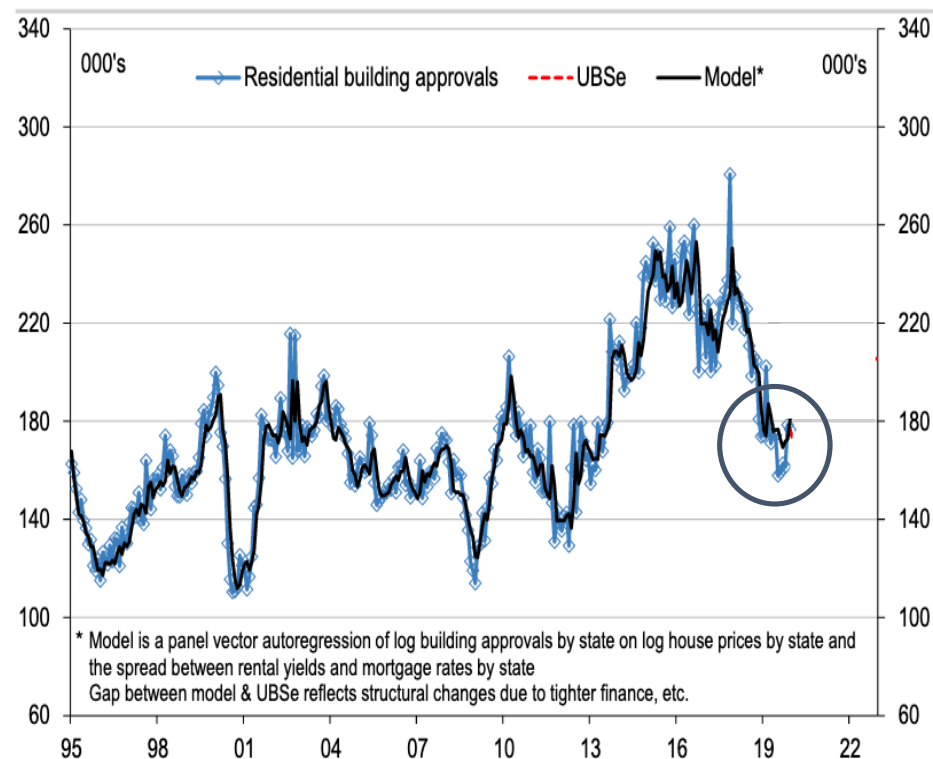
# S&P/ASX200 – 12M FORWARD PE – CASH BENEFIT



# ...HAS AN OPPORTUNITY ARRIVED?



- Home prices have rebounded strongly since May-19,
- Sydney and Melbourne up c.11% - a record pace.
- Improving sentiment towards residential property
- Have approvals bottomed at c.160k in late 2019?
- History suggests booming home prices support turnover and a wealth effect,
- Spending to lift (particularly on household goods).
- Note: Prior approval high of 220k unlikely due to tighter lending standards and low level of development applications at council.



Source: ABS, CoreLogic, REIA, RBA, UBS

# POTENTIAL BENEFICIARIES



## Real Estate Platforms



REA Group

Domain

## Retail & Travel

Harvey Norman

adairs

FLIGHT  
CENTRE

Sydney  
Airport



JUMBO

kogan.com



city chic

## REITS



## Building materials & services



Aviva

# CLIMATE CHANGE & YOUR PORTFOLIO

PRESENTATION BY  
THE EINVEST FUTURE IMPACT SMALL CAPS FUND  
ASX:IMPQ





# ABOUT EINVEST

## Active ETF Specialists

Founded in 2018 by Camilla Love and senior executives of Perennial

## 5 Active ETFs

IMPQ, EIGA, ECAS, ECOR & EMAX

Shares for income, sustainable small caps and active fixed income

## Focused

We only distribute Active ETFs where active management makes sense

## Part of the solution

Transparent, liquid and lower cost structures

## Institutional quality

We provide you access to institutional quality, boutique fund managers via ETFs

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# What is IMPQ?

DEVELOPING A SUSTAINABLE PORTFOLIO



Seek companies which are making a positive contribution to a Sustainable Future



Investing sustainably is a superior investment strategy



~45 small & mid-cap stocks focused on strong returns



Purchase IMPQ on the stock exchange



Responsible Investment Association Australasia



Ethical Advisers Co-op



Principles for Responsible Investment



30% Club  
GROWTH THROUGH DIVERSITY

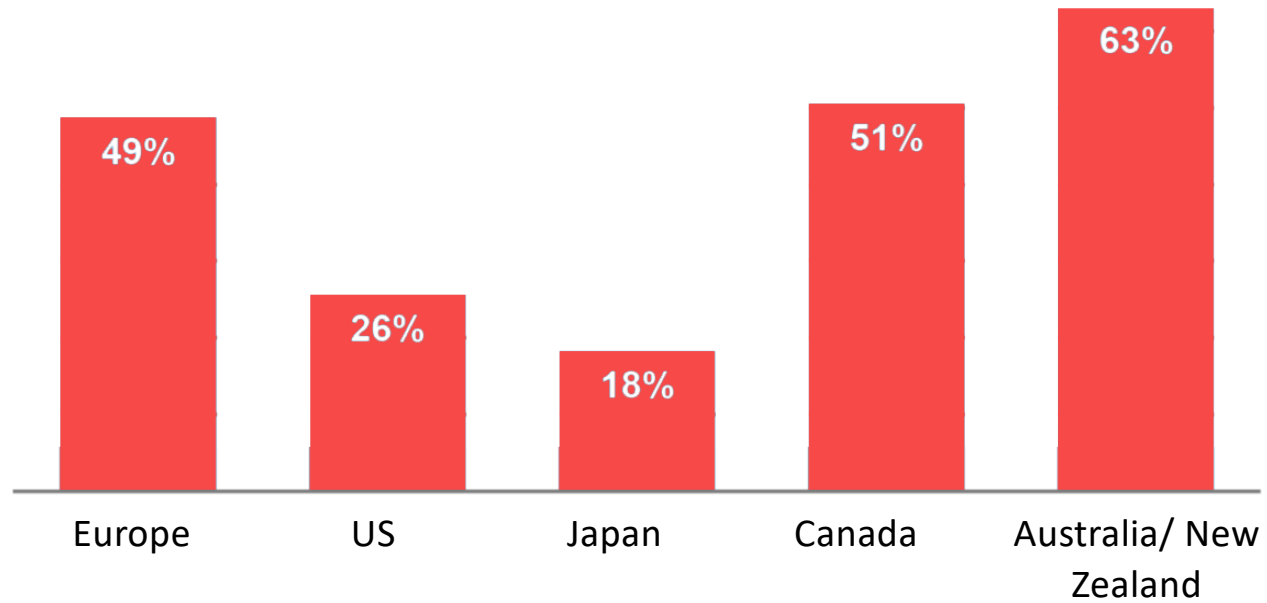


TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



# SUSTAINABILITY IS A GROWING INVESTMENT STRATEGY

Sustainability AUM as a % of total managed assets

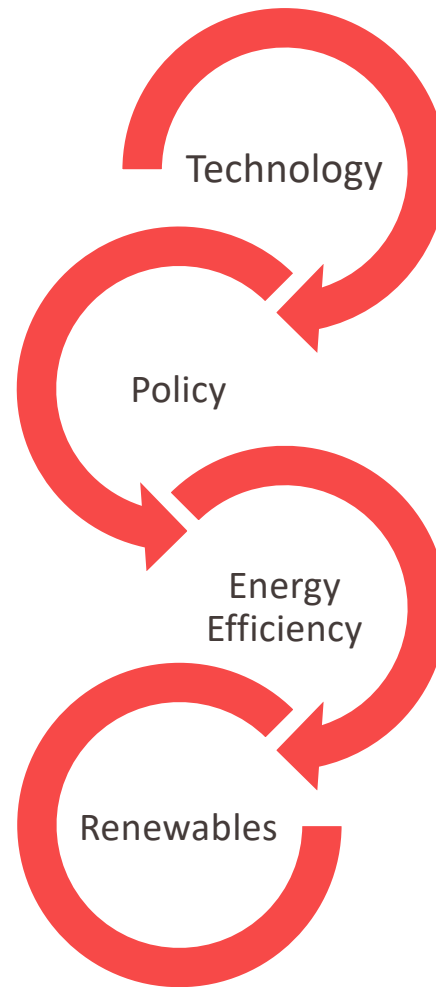


# THE ENVIRONMENT MATTERS



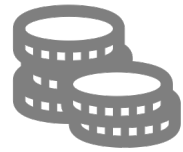
Source: Reddit  
eInvest - Proprietary and confidential

# WHAT IS THE SOLUTION?



# INVESTING FOR THE FUTURE

Capital for solutions



Divest from significant emitters



Innovation and R&D



Generate returns



# INVESTMENT THEMES

*Higher growth & less volatile*

## Industries set to benefit

|                             |   |
|-----------------------------|---|
| Healthcare                  | ✓ |
| Water Management and Supply | ✓ |
| Renewable Energy            | ✓ |
| Low Carbon Technologies     | ✓ |
| Education                   | ✓ |

*Lower growth & more volatile*

## Industries at risk of disruption

|                      |   |
|----------------------|---|
| Coal Operations      | ✗ |
| Oil and Gas          | ✗ |
| Casinos and Gambling | ✗ |
| Alcoholic Beverages  | ✗ |
| Tobacco              | ✗ |
| Processed Foods      | ✗ |
| Forestry and Logging | ✗ |

# WHY FOCUS ON SUSTAINABLE SMALLER COMPANIES?

## *Sustainable Investing In Small-mid Companies*

1. Innovative solutions and technologies
2. Providing capital to support growth
3. Greater opportunity for engagement
4. Larger ownership of company to influence change
5. Support for smaller listed company sustainability teams
6. Avoiding large cap stocks with sustainability issues
7. Leverage Perennial's significant small cap expertise







# RENEWABLE ENERGY ASSETS OF OUR HOLDINGS

*Reducing GHG in Broad Economy*


~1,000 MW  
Capacity



-  Solar
-  Hydro
-  Wind
-  Energy storage

~4,500 MW  
Capacity



-  Hydro
-  Wind
-  Geothermal

~500 MW  
Capacity



-  Solar

**1 MW powers ~300 homes**

Based on the renewable assets of our portfolio holdings as at December 2019  
Statistic according to the Climate Council  
eInvest – Proprietary and confidential



# INNOVATION IN GHG REDUCTION



NZ energy company producing 100% renewable hydro electricity with large market share



Mature NZ energy company producing 100% renewable hydro and geothermal electricity with large market share



Portfolio of solar energy plants across Australia and the US



A growing Australian renewable energy company that is focused on the corporate and industrial customers

## INNOVATION IN GHG REDUCTION



Early-stage – carbon dioxide capture technology to reduce CO2 in cement and lime – partnering with European cement industry



Dairy company targeting efficient farming practices that significantly reduce GHG emissions

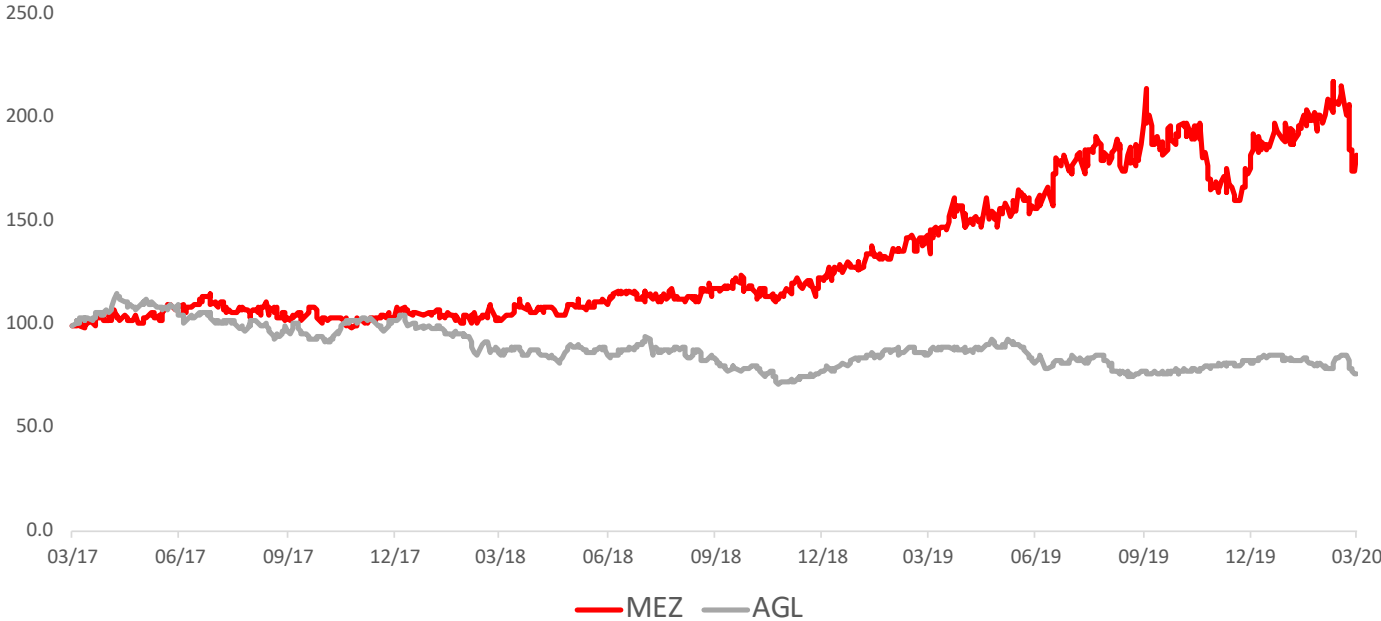


Carbon fibre wheels result in significant weight reduction improving the fuel efficiency of vehicles

# CLIMATE RISKS & OPPORTUNITIES

Meridian Energy (ASX:MEZ) vs AGL (ASX:AGL)

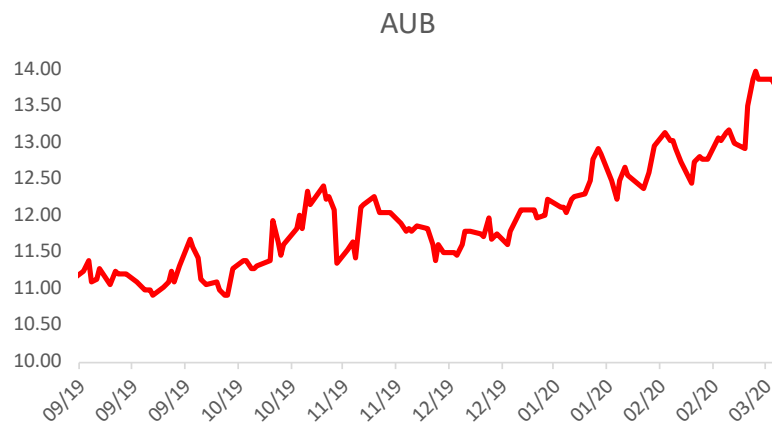
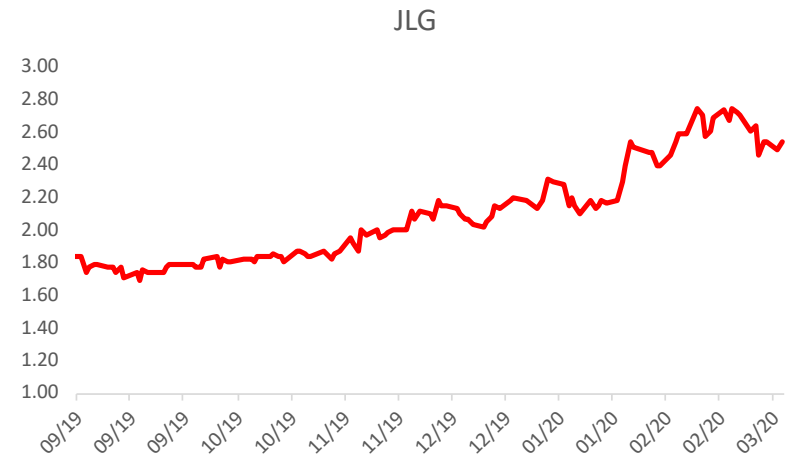
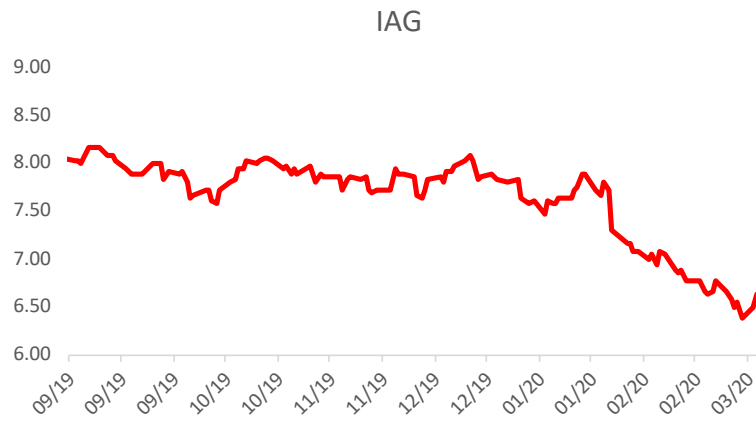
Indexed at 03/03/2017



Source: Factset  
Perennial Value Management Limited – Proprietary and confidential

# CLIMATE RISKS & OPPORTUNITIES

IAG (ASX:IAG), Johns Lyng Group (ASX:JLG) & AUB Group (ASX:AUB)



Source: Factset

# OUR RETURNS & PERFORMANCE

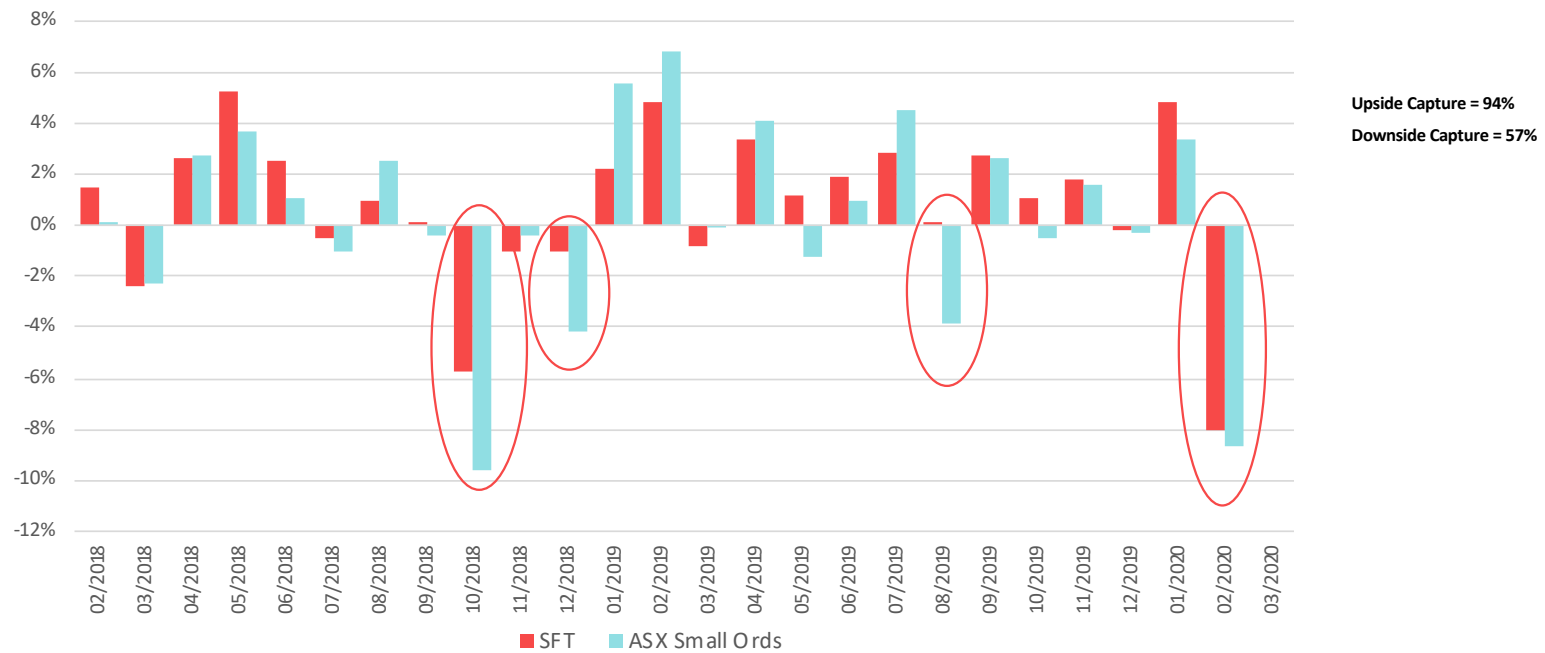
*Alpha Generation of the eInvest Future Impact Small Caps Fund*

| Period to 29 February 20   | 1 Mth (%) | 3 Mth (%) | 1 Year (%) | 2 Year (%) | Since Inception (% p.a.) |
|--|-----------|-----------|------------|------------|--------------------------|
| Perennial<br>Smaller Companies Sustainable<br>Future Trust       | -8.1%     | -3.8%     | 10.5%      | 9.0%       | 9.4%                     |
| <i>Future Impact Small Caps Fund<br/>(Managed Fund) ASX:IMPQ</i> | -8.0%     | -3.5%     | <i>n/a</i> | <i>n/a</i> | 6.0%                     |
| S&P/ASX Small Ordinaries<br>Accumulation Index                   | -8.7%     | -5.9%     | 1.6%       | 2.6%       | 2.5%                     |
| Value<br>Added/Detracted   | 0.6%      | 2.1%      | 8.9%       | 6.5%       | 7.0%                     |

Source: Perennial Value Management. Perennial Smaller Companies Sustainable Future Trust inception date is 1 February 2018. Past performance is not reliable indicator of future performance. Net of fees performance shown. Perennial Value Management Limited – Proprietary and confidential  
The Future Impact Small Caps Fund has been operating since May 2019. To give a longer term view of our performance in this asset class we have shown longer returns for The Perennial Smaller Companies Sustainable Future Trust which has been operating since February 2018.

# AND LESS DOWNSIDE RISK

*Sustainable Future Trust: Lower Volatility vs The Market*



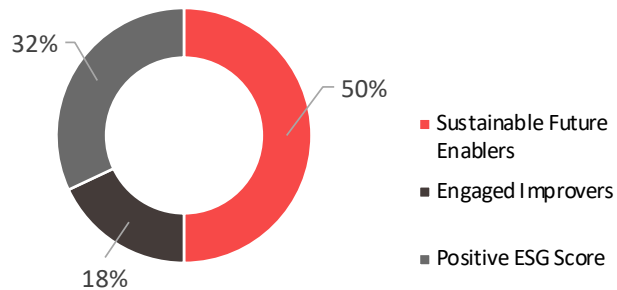
Source: Perennial Value Management. Perennial Smaller Companies Sustainable Future Trust inception date is 1 February 2018. Past performance is not reliable indicator of future performance. Net of fees performance shown.

eInvest- Proprietary and confidential

# WHAT ARE WE AIMING FOR?

## *Developing a Sustainable Portfolio*

We exclude: companies that are exposed to thermal coal, oil and gas, gambling or the sale of weapons, tobacco, alcohol or unhealthy fast food.



We actively select companies that are:

### **Sustainable Future Enablers:**

Making a positive contribution to creating a sustainable future.

### **Engaged Improvers:**

Actively engaged in reducing ESG impacts or improving ESG outcomes.

### **Positive ESG Scores:**

That conduct business taking into consideration ESG criteria or operate in ESG friendly industries.

# SUSTAINABLE FUTURE ENABLERS

*Making a Positive Contribution to Creating a Sustainable Future*

janison



mesoblast



envirosuite



calix



NEXT SCIENCE

fluence



limeade®



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