Providence
Independent Investment Advisory

# Global Outlook & Strategy

Issue 74: 3rd Quarter 2019


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## 1. KEY POINTS

- **Central banks around the globe voicing concerns regarding slowing global growth**
- **Interest rates to stay lower for longer**
- **Intriguing divergence regarding the outlook from bond and equity markets**
- **Australian economy soft at a household level**
- **Trade concerns still overhanging markets**
- **Ensure assets held can withstand a downturn**
- **No change to defensive stance**

### A Tale of Two Halves

**There is no doubt global growth has weakened and appears likely to settle at roughly 3% for the year to June 2019. A modest rebound is likely in the second half of 2019 boosted by further global central bank easing and a possible outcome of the US and China trade negotiations.**

The yet unresolved impact of the US and Chinese trade war has had significant global ramifications. Most notably, the impact to global supply chains. Predicting the outcome of geopolitical events is fraught with danger as seen recently (e.g. Brexit, Donald Trump over Hilary Clinton and Scott Morrison over Bill Shorten).

However, one cannot ignore the intense desire by Trump to be re-elected and the historical correlation between a US recession and the failure of the incumbent President to be re-elected. Within that context, it is difficult to see Trump pursue trade negotiations that would be detrimental to the US economy and his second Presidential term. These factors, coupled with a US Federal Reserve that has indicated an easing bias and an allowance for the economy to "run hot" for short periods of time, plus the prospect of an 'insurance' cut in interest rates could see a strong rebound in global economic growth over the coming six months.

We should remain mindful that China, with what is essentially a President with no limit to his term, is coming from a slightly different political backdrop. Despite the trade war noise, excesses have built up in the Chinese economy as it stretched its stellar high single digit economic growth rate over an economy that almost tripled output over the last decade. Just 12 months ago, China was undertaking a restrictive monetary policy focused on reducing their level of debt. With the imposition of tariffs from the US, China (and its politically aligned central bank) has almost turned 180-degrees with a series of stimulus packages that have already demonstrated its economic fire power and internal economic resilience. China's improving economic numbers, following the US tariffs, demonstrates its transition to a more consumer-led economy that is less reliant on global participation. We expect these stimulatory measures will remain as trade negotiations and the transition to a more insular economy continues.

**With a slightly more favourable short-term backdrop, we find ourselves in the situation where bond and equity markets tell two very different stories. Globally, bond yields indicate a subdued level of inflation and benign global growth, while equities continue their march higher suggesting earnings can be maintained (if not improved). One can't help but think this may be the last hurrah!**

## 2. INVESTMENT OVERVIEW

The global economy is somewhat bifurcated with the manufacturing sector slowing while services expand, albeit at a declining rate (**Figure 1**). It is important to make the distinction between manufacturing and services Purchasing Managers' Indices (PMIs) given manufacturing PMIs tend to get more media attention and have been impacted by supply chain disruptions resulting from the trade war. Services, on the other hand, tend to drive employment. With services still expanding, it is difficult to see a significant economic downturn eventuate in the short-term, even with a contracting manufacturing sector.

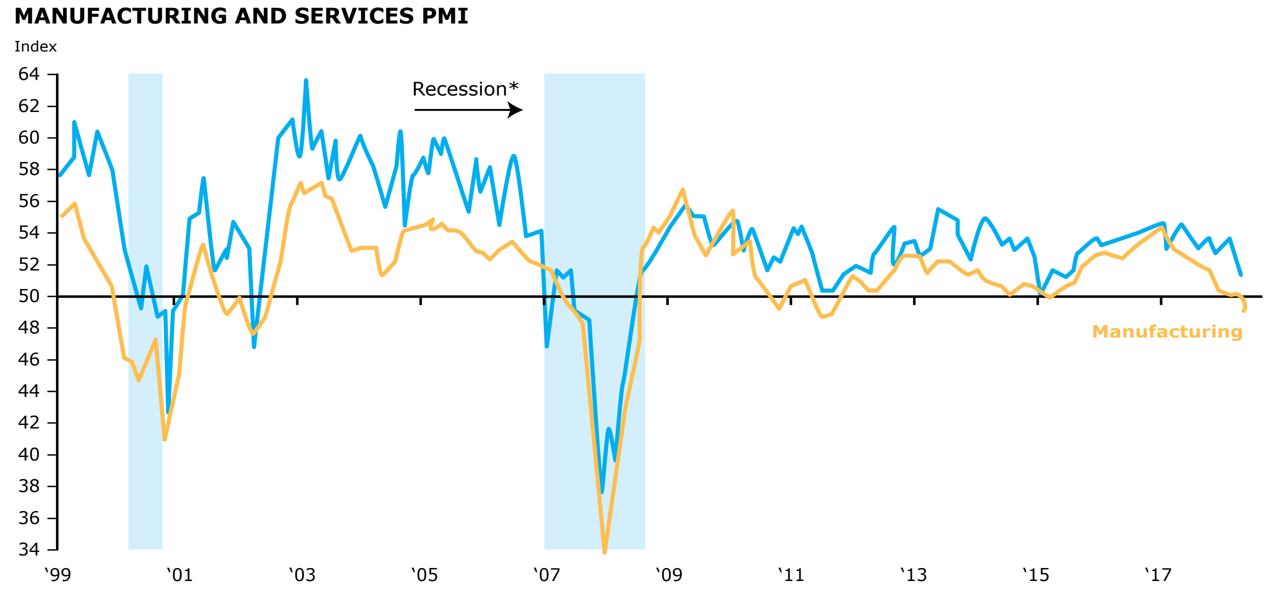
However, a greater possibility is a rebound in economic activity due to a trade war resolution that results in a manufacturing recovery.

Further supporting this is the US consumer still in good shape. Wage growth is showing signs of life, the savings rate is around its historical average and there is low-level unemployment. With consumption representing ~70% of US GDP, a healthy consumer does not indicate a US recession is imminent. The pending US corporate earnings season will help shine a light on the sector's health and determine if ambitious forecast US corporate earnings are deliverable, or if they have peaked. This will all help form a clearer picture of the state of the US economy as we head into another US Presidential election year.

On the other hand, we have a Federal Reserve that has done a stunning reversal on their tightening program to now indicate an easing bias. We must ask ourselves; what has caused their sudden alarm? We could fill a page with a list of possible reasons, though they'd be medium-to-long-term concerns. We will continue to closely monitor US inflation expectations, consumer confidence, services PMI and global forward-looking indicators of economic growth. Most of these show little reason to fear an imminent economic slowdown, but a deterioration in them would indicate the last hurrah is on the horizon.

## Figure 1: Manufacturing PMI is contracting, but services remain in expansionary territory albeit slowing

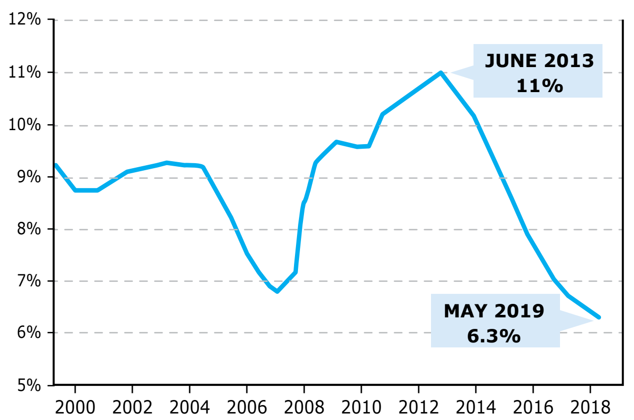
Source: JP Morgan




Europe continues to disappoint with data indicating no reprieve from the sluggish economic activity that has plagued the region for close to a decade. Surprisingly, inflation in the region follows the same trend, despite an employment boom over the past six years (**Figure 2**), with unemployment falling from 11% at its peak in June 2013 to the current 6.3%. One would think relieving some of this excess capacity might tick inflation higher, but this has not been the case. We remain mindful that any further pursuit of protectionism by the US may see Europe the next target for tariffs. It is important to remember that much of the Eurozone's GDP is highly leveraged to global trade (**Figure 3**). As a result, any tariff impositions may have significant economic ramifications for an already fragile region. Unsurprisingly, we have seen the European Central Bank (ECB) follow the US narrative of a possible further easing of monetary conditions.

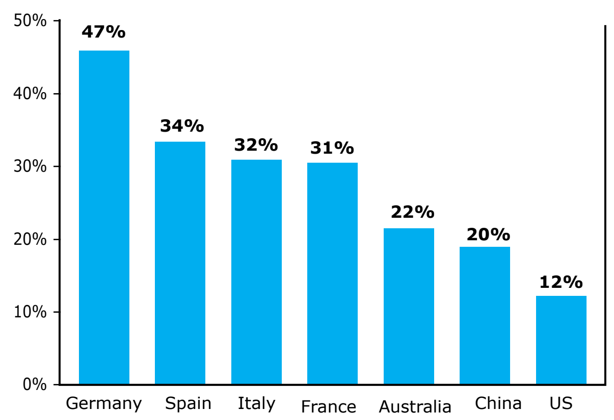
## Figure 2: EU Unemployment

Source: Factset



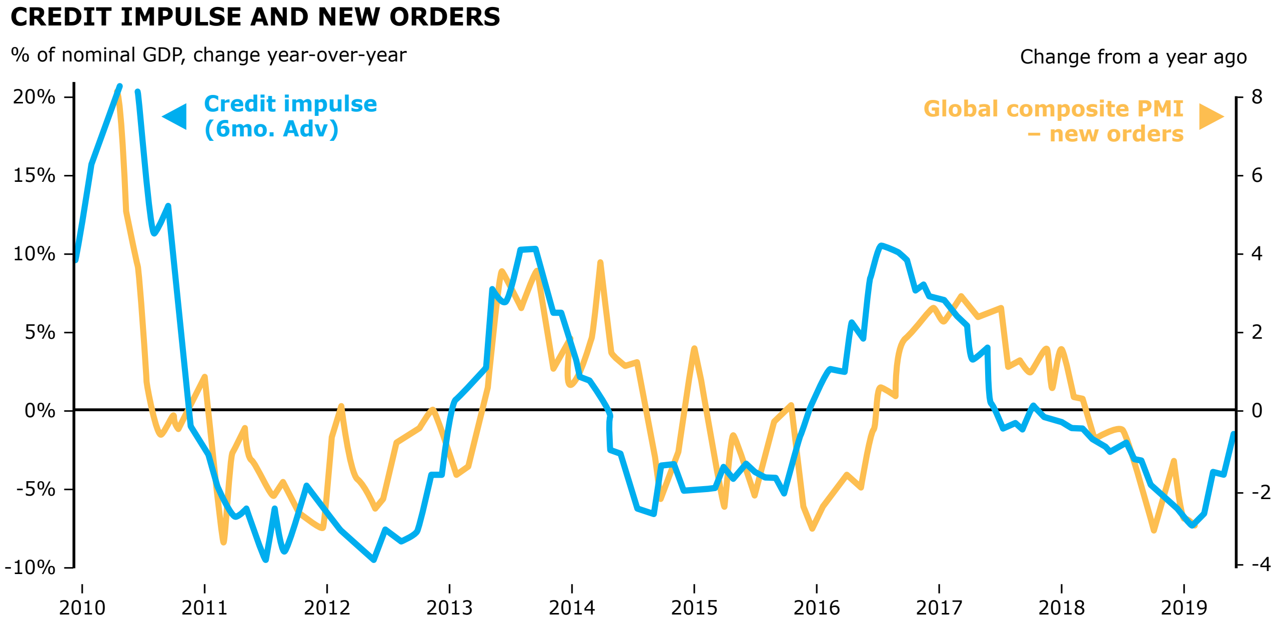

## Figure 3: EU Exports of Goods and Services as % of GDP (2018)

Source: Heuristic Investment Systems



China remains a notoriously difficult economy to read and has demonstrated the power of having a politically aligned central bank, printing reasonably strong economic numbers in the face of a trade war with the US. While the economic output has come from their go-to fiscal stimuli of fixed asset investment and lower reserve requirements, the real kicker for the rest of the world is a resurgence in the credit impulse in China. This historically demonstrates forecasting capabilities for Global Composite PMI New Orders indicating a rebound in global economic growth is possible over the next 12 months (**Figure 4**).

**Figure 4: China Credit Impulse and Global PMI**
Source: JP Morgan




Unfortunately, this stimulus in China may be unsustainable long term. China is acutely aware of the imbalances that occurred in the shadow-banking and off-balance sheet lending segments of the economy as it grew. In fact, prior to the current tariff-driven round of economic stimulus, China had tightened monetary conditions to rein in these risks. We believe a resolution to the trade war with the US will see the current stimulus withdrawn, a resolution of the downward trajectory of the China credit impulse and, ultimately, a slowing global economy. As a result, our medium-to-long-term global economic view remains cautious.

**We are less positive about Australia's short and long-term outlook.** Look no further than the Reserve Bank's recent interest rate cut as an indication of the economic malaise Australia is faced with. Policy inaction over the past decade has left our economy on a fragile balance between "houses and holes" (the housing market and mining). This narrowness has historically provided us with an economic resilience to broader macroeconomic factors, however there are some wobbles in the domestic housing market while some key commodity prices are at record highs. Much of the economy-boosting capital expenditure required to extract these commodities has already occurred. While there is some evidence that house price falls have decelerated, the flow-on effects to consumer confidence and household consumption have only just begun.

While we have technically not had a recession in Australia for a record-breaking 28 years, we are currently experiencing a per-capita economic recession (**Figure 5**). That is, GDP per person has fallen for the past two consecutive quarters. Furthermore, employment intentions have decelerated (**Figure 6**) which is a lead indicator for employment growth. Should this turn negative we could expect further increases in unemployment which may have detrimental effects on an already fragile housing market. It is no wonder the Australian Prudential Regulatory Authority (APRA) has increased capital requirements for the big four Australian banks. Overall, it is difficult to be excited about the Australian economy despite some short-term positive shifts in sentiment derived from political certainty and record low interest rates.

**Figure 5: Australian Real GDP growth per capita**

Source: Heuristic Investment Systems, ABS

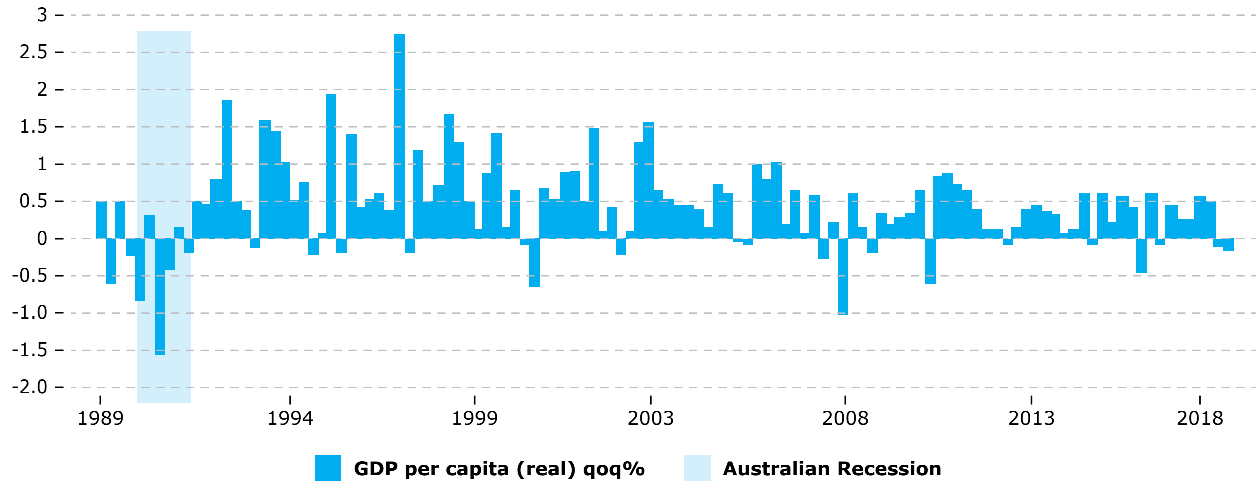
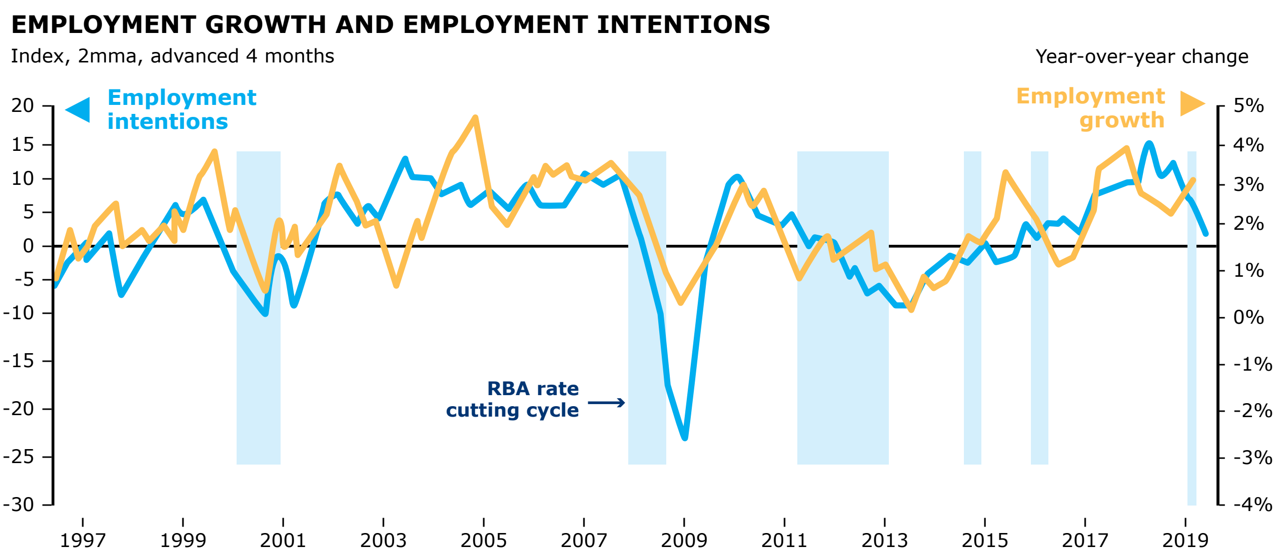



**Figure 6: Australian Employment Growth and Employment Intentions**

Source: JP Morgan



With this global macroeconomic backdrop and central bank policies, it has become increasingly difficult to generate income for portfolios. We are reluctant to participate in "the search for yield" where the risk for capital loss greatly outweighs the income potential. Our approach is to increase diversifying assets, primarily via Australian government bonds, which have demonstrated negative correlation to risk assets during economic stress. We are also diversifying heavily both across, and within, asset classes to capture idiosyncratic opportunities and reduce broad market exposures.

Overall, it is increasingly important to focus on the assets we want to own in the event of any economic stress, while being poised to capture opportunities when they present themselves. As a result, we will continue to hold relatively high levels of cash and remain focused on maintaining liquidity. We continue to believe that forward looking returns are likely to be modest relative to history.

# 3. ASSET CLASS REVIEW

## 3.1 Equities

There are several reasons why global equities remain relatively attractive. The most obvious is the relative attractiveness to bonds, most often referred to as the Equity Risk Premium. On this, metric global equities (including Australia) are below their long-term average valuation. Additionally, most global equity markets are trading around their long-term average forward PE multiple (**Figure 7**). Our enthusiasm becomes more muted when we look at the earnings outlook. Currently, all major equity market forward earnings growth estimates are below their long-term average growth rates (**Figure 8**). This raises the question of whether we should be paying long-term average valuations for a more muted level of earnings. We think in conjunction with an attractive equity risk premium, this is reasonable for now.

**Figure 7: Equity Market PE Multiples relative to history**

Source: Factset

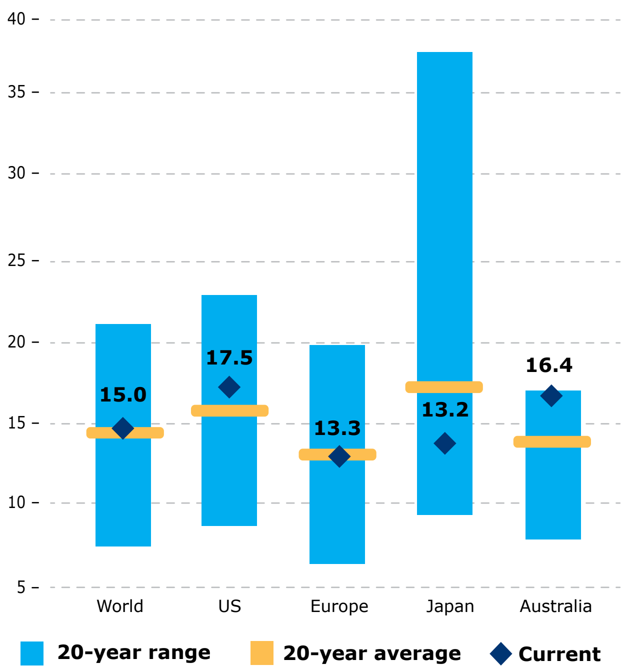
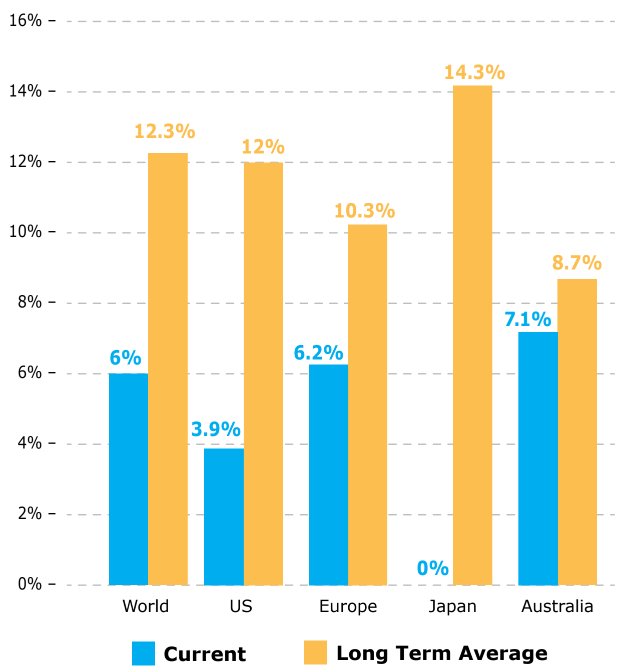



**Figure 8: Equity Market earnings growth relative to history**

Source: Factset



We have found some markets prove useful indicators for the state of the global economy. The Russell 2000 is an index of small companies in the US and is often regarded as a reasonable bellwether for the US economy given the constituents are predominantly domestically focused. While the larger S&P 500 index has shown a stellar recovery from the December 2018 market sell off, the Russell 2000 has not recovered to the same extent (**Figure 9**) suggesting some weakness in the US economy.

**Figure 9: Russell 2000 relative to S&P500**

Source: Factset

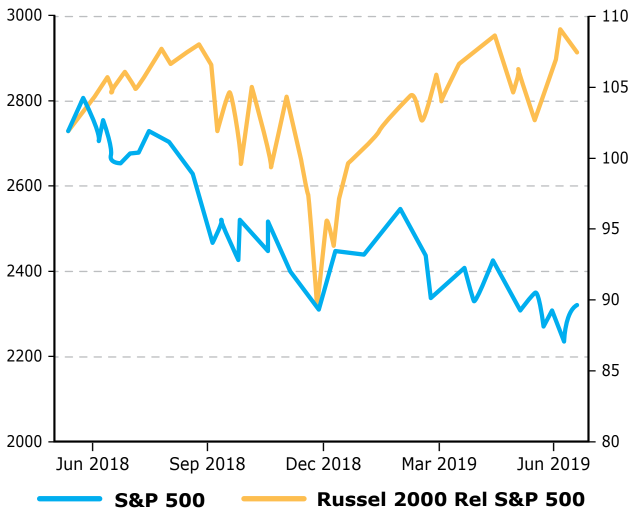
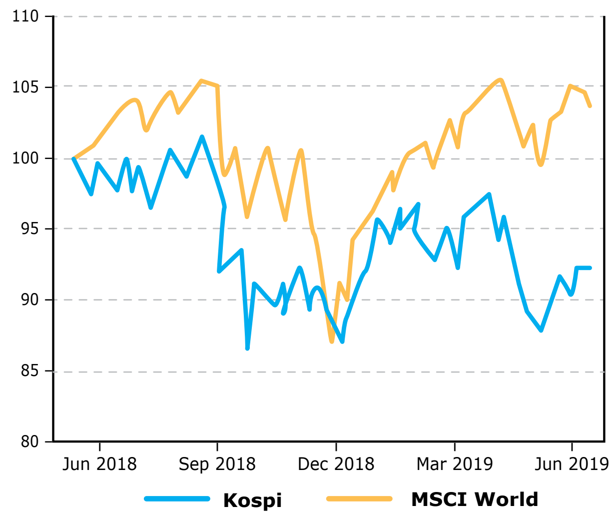



**Figure 10: South Korean Kospi indexed to MSCI World**

Source: Factset




We also monitor the South Korean Kospi Index. This has a predictive power for the state of the global economy, which makes sense given South Korea's economy is heavily dependent on exports. We have also seen a deterioration in this index (**Figure 10**) with an underperformance of approximately 13% over the year when compared to the MSCI World Index. The South Korean economy would be heavily influenced by the trade tension between Japan and Korea in conjunction with China and the US. Regardless, we continue to monitor the Kospi as an indication of the direction of the global economy.

**We have included a more detailed analysis of the Australian equity market in our "Thoughts from the Research Department" section on page 14.**

## 3.2 Property

The solid performance of the Australian Real Estate Investment Trust (A-REIT) sector has been remarkable. However, much of this performance at an index level can be attributed to just a few names (Goodman Group, Dexus and Mirvac). Some of them could arguably struggle to qualify as a traditional Real Estate Investment Trust. For example, just 43% of Goodman Group's revenue is generated from property management yet it accounts for almost 20% of the ASX 200 A-REIT index.

Concentration risk is also a concern for us at an index level with the top 10 stocks accounting for over 90% of the total index. This is one of the main reasons we opt to use an active manager for our A-REIT exposure. It ensures we have a well-diversified exposure to the entirety of the A-REIT sector, not just the top 10. The concentration at the index level has been beneficial for investors recently, however we would be concerned of its resilience in any economic downturn.

We continue to explore several direct property transactions that have defensive characteristics that don't rely on capitalisation rate compression to generate a rate of return.

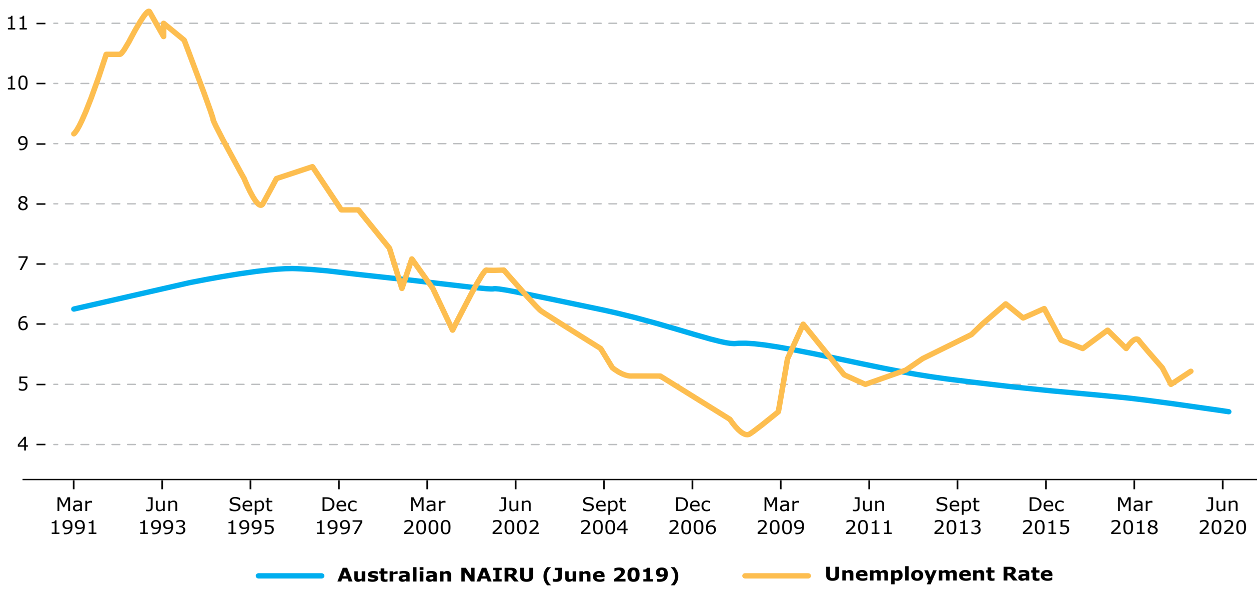
These defensive characteristics are generally expressed through multiple return drivers, such as an ability to add value to an asset or a repositioning opportunity.

## 3.3 Fixed Income

We continue to add Australian government bonds to client portfolios. While the running yield is not overly attractive on a stand-alone basis, the diversification benefits that Australian government bonds offer in the event of a major macro-economic or equity market event are attractive. While correlations between equities and bonds have shifted over time, our analysis demonstrates that when market volatility is in the top quartile, bonds tend to increase their negative correlation to equities.

Outside of these diversifying qualities, the Reserve Bank's recent change to their estimate of the non-accelerating inflation rate of unemployment (NAIRU) from 5.5% to 4.5% suggests an easing interest rate bias will continue. Simply put, when the observed unemployment rate is below the estimate of NAIRU, labor market conditions are tight which leads to wage growth and inflation. With the current unemployment rate sitting at 5.2% and trending higher (**Figure 11**), we are still a long way from having the observed level of unemployment below NAIRU and, as a result, are a long way from generating inflation. This suggests the RBA is still prepared to cut interest rates to drive unemployment lower to generate wages growth, and therefore inflation. With these factors in mind, we do not believe that a significant rise in bond yields (prices lower) is likely in the short term and believe it is reasonable to expect some further yield compression (prices higher).

**Figure 11: Australia NAIRU estimate and Unemployment Rate**
Source: Heuristic Investment Systems




With regards to credit, we remain cautious on the amount of issuance within the BBB+ universe of investment grade credit. This creates a risk that defaults from investment grade credit may be higher in any subsequent event than has been the case historically. As such, we prefer asset-backed securities and senior secured loans that provide investors with greater security.

Cash rates in Australia remain at record lows, therefore it is unsurprising to see some opportunists taking advantage of the desperate search for income. Understanding what your underlying exposure is in a product is extremely important from a risk management perspective. We have recently seen a product offering "term deposits" at superior levels to those available at banks. Upon further investigation, we noted that these "term deposits" were being used by the issuer solely to fund a subsidiary company making investments in private equity and venture capital. In our view, this is venture capital financing that should be providing returns at multiples of a term deposit and carries the corresponding downside risk for such returns. Instead, investors would be receiving returns slightly higher than term deposits but assuming the significant downside risk.

## 3.4 Alternatives

Our primary alternatives exposure has been via private equity which has provided fantastic risk-adjusted returns. Given this stellar performance, the sector has attracted significant amounts of capital with over US$2.5 trillion now sitting on the sidelines looking for investment opportunities. This is before considering the debt that would be applied to a private equity investment. Furthermore, this massive accumulation of funds has occurred at a point in time when private equity transactions occur at elevated pre-GFC valuation levels. Looking ahead, it is difficult to see the same level of returns continuing.

We are extending our alternative investment search and due diligence towards the listed infrastructure sector. These assets have a historically high correlation to government bonds while yields fall (prices increase), but unfortunately also tend to follow equity markets lower in the event of a market sell-off. This is predominantly due to the high debt load that infrastructure companies carry due to the reliable and often contracted nature of their earnings. Given the definition of infrastructure continues to broaden, we will be opting to use an active manager who defines infrastructure similarly to us; critical infrastructure with predominantly contracted revenues.

Finally, we believe the risks of a strengthening AUD/USD have increased. Since 2017, much of the depreciation in the AUD/USD can be attributed to declining interest rate differentials between the two countries (i.e. the interest rate in Australia less the interest rate in the US). This relationship has recently broken down with the interest rate differential narrowing due to expected interest rate cuts in the US, yet the AUD has continued lower (**Figure 12**). In addition, the AUD/USD has also exhibited a strong correlation with the iron ore price over the longer term yet has not adjusted to reflect the recent strength in the iron ore price (**Figure 13**) and subsequent benefits to the Australian terms of trade. Offsetting these short-term risks is the measure of purchasing power parity signalling fair value for the AUD/USD.

**Figure 12: AUD/USD and 2 Year Spread**
Source: Heuristic Investment Systems

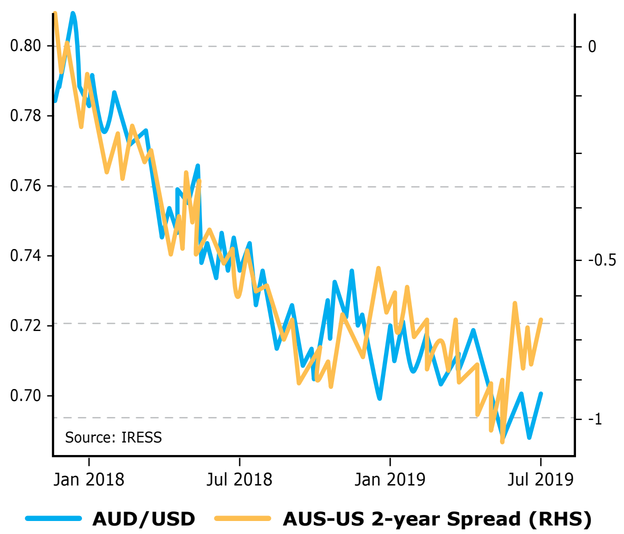
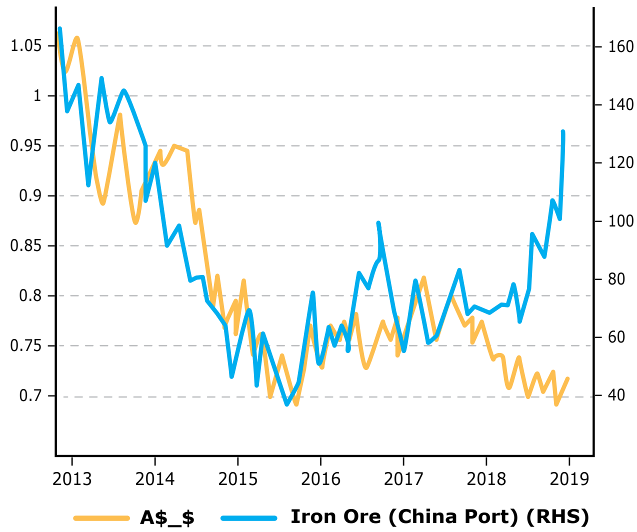



**Figure 13: AUD/USD and Iron Ore Price (Chinese Port) correlation has broken down**
Source: Heuristic Investment Systems



# Thoughts from the Research Department

## Australian Equities

Having rallied close to 23% from the bottom of last year's correction, the Australian equity market is now within striking distance of its non-income inclusive all-time high.

As this rally has developed, we've seen previously correction-inducing headwinds turn to substantial tailwinds, which have accelerated into the second half of this year. Only nine months ago, we had central banks globally focusing on managing a tightening cycle, a US President determined to lift American growth through cash repatriation and tax cuts and US inflation looking like it may start to accelerate. We now have an almost mirror image across the board. Trade war-related global tensions have seen oil prices ease to the point where Saudi Arabia and Russia have had to agree on production cuts to better manage market prices. Mario Draghi & Jerome Powell's dovish commentary (and potential 'insurance cuts') have helped drive $13.4 trillion worth of bonds into negative yielding territory. All of which has combined to drive investors into asset classes and valuations that previously would have been difficult to fathom.

With that as the backdrop, the Australian Equity market (as one of the higher yielding markets globally) has benefited from a surge of funds looking to capture a significantly weaker Australian dollar, a 'surprise' election win for the incumbent political party and a surging iron ore price which is helping to deliver the much-publicised current account surplus. At current levels, we see local valuations as elevated - if not stretched - and would view the upcoming earnings season with a degree of caution as investor interest turns from headline yield to underlying growth. With that in mind, we see the domestic economy as being delicately balanced, with a heavily indebted household currently servicing debt at record low interest levels, but with underlying economic activity suggesting there may be weakness ahead. We are increasingly wary of declining levels of activity in the construction sector and a consistent stream of downgrades from retail stocks. With that backdrop it's important to remember that construction and retail trade are Australia's 4th and 2nd largest employers. With the election-related surge in part-time employment fading, there is a real possibility the domestic unemployment rate will tick up and unemployment, rather than NAIRU, will become a real talking point.

Acknowledging the above risks and considering current equity valuations, we see reason to be cautious and maintain our traditional value style. We continue to balance sustainable earnings growth with a focus on free cash flow generation, along with a heavy consideration of a company's ability to sensibly fund their future growth.

To help incorporate this focus into our portfolio construction process, the Providence Direct Equities Team regularly run a filter across the Top 200 Companies listed on the ASX. We do this to help monitor our investing universe, and to help identify any potential portfolio inclusions. These filters are used to focus on a variety of measures, ranging from straight valuation (Price to Earnings and Free Cash Flow Yields), balance sheet security (Net Debt/EBITDA, Net Debt/ Equity) as well as company profitability (Return on Equity, Return on Assets, Cost of Equity) and a company's abilities to pay out distributions (dividend yields, free cash flow coverage of dividends). As a rough output from what is quite a broad universe, we then apply an ESG overlay to remove any stocks that derive any material portion of their earnings from tobacco, firearms, gambling or alcohol and remove stocks where we see the potential for any governance issues.

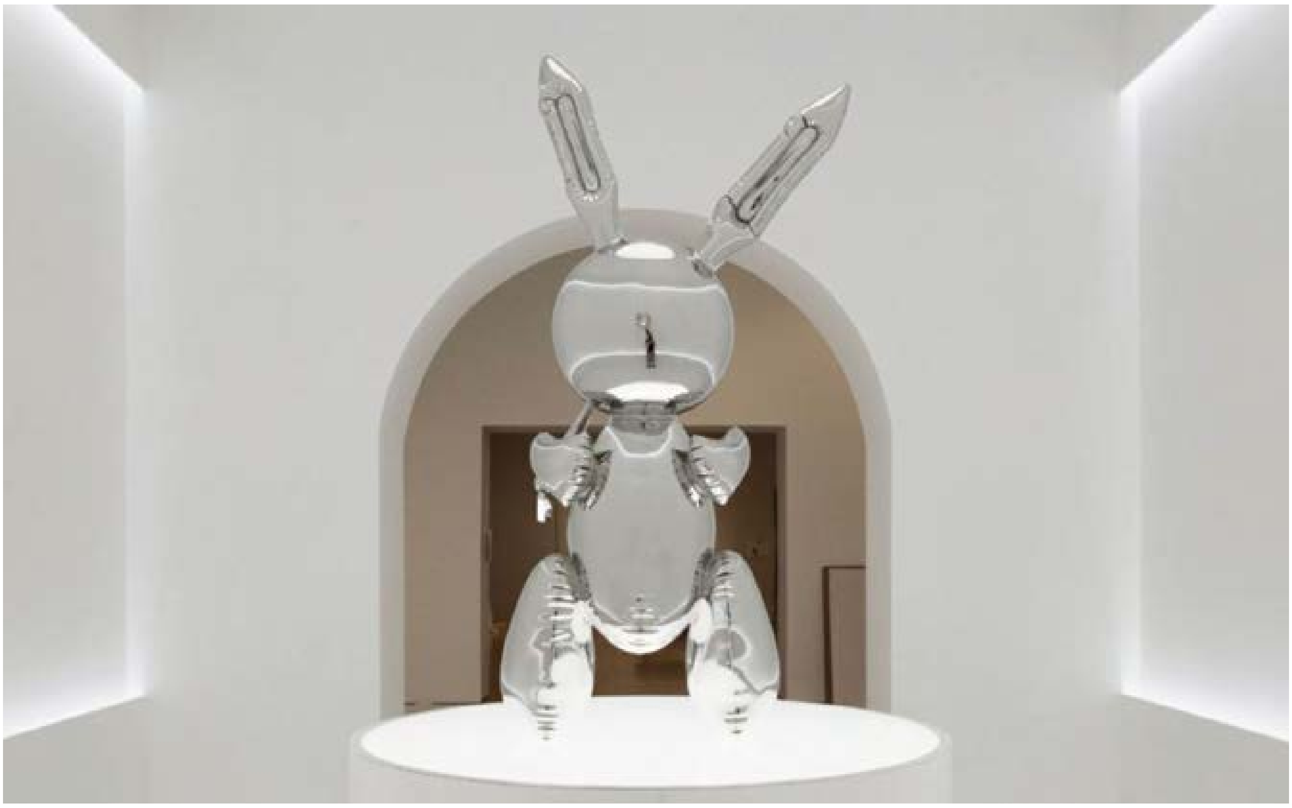
In terms of recent portfolio transactions, we have added to some of our positions on weakness, whilst also looking for companies whose earnings growth and valuation gives us comfort that the valuation will fare better than most of the market in a downturn. To that end, we are currently focused on stocks that provide client's portfolios with a greater share of non-economically correlated growth. Companies such as the Intellectual Property Services firm IPH Limited (ASX: IPH) and our favourite 'rubbish stock' Cleanaway (ASX: CWY) are being added to portfolios. Over the last few months we have participated in the recent buybacks (ASX: BHP, CTX, WOW), while we wait for Brambles (ASX: BXB) to receive clarification from the ATO and shareholder approval on their impending pro rata cash return to shareholders following the sale of their IFCO business.

Whilst being cautious on the domestic economic outlook we are conscious of the markets potential to continually grind higher over the short-to-medium term. Lower discount rates and a lower cost of capital help to produce higher equity valuations as company's future cash flows are discounted at a lower rate. With global interest rates currently at their depressed levels, higher company valuations can be justified. With that backdrop we continue to be invested with a style tilt firmly favouring value over momentum. While in the short-term this may prevent us from outperforming to the extent that some of the mid-cap Australian tech stocks have, also known as the 'WAAX' Stocks (Wisetech, Altium, Appen, Xero), we feel it prudent to focus on giving the portfolio a genuine valuation buffer over some of the more extreme market valuations. We believe this gives Providence clients a much higher 'sleep at night' factor, while still generating reasonable returns for portfolios.

# Thoughts from a Contrarian

In the giddy atmosphere of pre-GFC New York, hedge funds were the biggest game in town and Stevie Cohen was one of the biggest players in the game. Returns at his firm S.A.C. Capital Advisors were almost too good to be true; he was a regular on the social pages and he had entered the art market in a big way. The purchase of a sculpture entitled "The physical impossibility of death in the mind of someone living" for $10 million made headlines around the world. The sculpture consisted of a 14-foot tiger shark, suspended in a tank of formaldehyde. Just like everyone else on Wall Street at that time the good times for Stevie ended abruptly. S.A.C. pleaded guilty to insider trading, payed a US$1.8 billion fine and was banned from running money for outside investors. As for the pickled shark, it began to rot. It turns out formaldehyde is a bad choice as a preserving agent for half a tonne of flake. Whoever tries it next will know better. It's a fitting tale to remember the excesses of the pre-GFC world. The tale, however, is not over because Stevie is back. He's back running a hedge fund and back in the art market. It turns out the shark was a bargain, at least compared to Cohen's latest purchase. In May this year he was outed as the buyer of a 3-foot-tall inflatable stainless-steel bunny for $130 million. At least the rabbit is stainless steel, so he won't have the problem he had with the inappropriately pickled shark, but it still seems a bit expensive.

As central bankers continue to bemoan the lack of inflation, asset prices from equities to art to stainless steel rabbits continue to march higher. Even after a recent correction, a cottage on Sydney's North Shore still commands a price more akin to a private island with an air strip. This rabbit is literally inflated and yet mention it as an example of rampant asset price inflation to an economist and you will receive a blank, confused almost pitying stare in reply. I'm not sure if the bunny has a name but I would suggest "The physical impossibility of inflation in the mind of an economist".



The view expressed in this article is an independent view and does not necessarily represent the views of Providence

# Providence Investment Committee

**Stephen Christie**

Steve has over 20 years of investment and finance experience, including Director and Head of Private Wealth for Ord Minnett, Chairman of the Ord Minnett Investment Committee and Head of Asset Allocation for Goldman Sachs JBWere Private Wealth Management. Steve holds a PhD in Applied Finance, is an Honorary Fellow at Macquarie University, an Adjunct Professor at Notre Dame University Sydney and a Trustee Director of major industry super fund QSuper.

**Steven Crane**

Steven has over 40 years of investment experience having started in financial markets in the early 1970s. He has held such positions as Senior Portfolio Manager and member of the Asset Allocation Committee at AMP. For seven years he was the Chief Executive of ABN Amro. His current directorships include: Chair of NIB Holdings limited, APA Group, Bank of Queensland and Transfield Services.

**Chris Grubb**

Chris has held senior fund management and broking positions within the Jardine Fleming Group in Japan, Hong Kong and Singapore. He was also a Director of Jardine Fleming Ord Minnett and Chairman of Investor's Mutual and Investor Web and is currently a Director of several Asian-focused investment funds. He also chairs Boardroom Australia and is a Director of Boardroom Limited in Singapore. Chris also acts as an executive coach.

**Peter Hooker**

Peter has held such positions as an Industrial Analyst at BZW Australia (now ABN Amro), Director reporting to Head of Research, was on the Equities Executive Committee and Director and Head of Industrial Research. He has a B.Sc. in Chemistry, B.E. in Chemical and Materials Engineering, and Graduate Diploma in Finance and Investment. He has over 25 years of experience in investment markets.

**Richard Nicholas**

Richard has over 30 years of experience in private client portfolio management in London, Hong Kong and Australia. Richard started his career with Deloittes in London before cutting his investment teeth with the Rothschild family. He was the founding Research Director at S&P Fund Research UK and Investment Director at Hill Samuel Pacific in Hong Kong. He has also held senior positions with Hambros Pacific in Hong Kong, Alliance Capital in Asia and ANZ Private Bank. He is currently Director at Peak Investment Partners.

**Michael Ogg**

Michael has over 20 years of experience in investments, starting his career at JPMorgan Investment Management in London in the early 90s. In Australia, Michael worked for AMP Asset Management holding senior roles in Institutional Equities and for Deutsche Bank as a Client Advisor in Private Banking. Michael has an MA (Honours) Economics from Aberdeen University.

**Jonathan Pain**

Jonathan has 30 years of international investment experience. He has held such positions as Chief Investment Strategist of HFA Asset Management, Chief Investment Officer of Rothschild Australia Asset Management, Head of Investments at Gulf International Bank in Bahrain and Chair of the International Asset Allocation Committee at Paribas Asset Management in London. He holds a joint honours degree in Economics and Politics from Keele University and a Masters degree in the Economics of Finance and Investment from Exeter University.

**Grant Patterson**

Grant has over 30 years of experience in equity markets. Prior to forming Providence he was a Director of ABN Amro and Head of Retail Broking. He has also held other senior positions such as Senior Institutional Dealer, Head of the Sydney Institutional Dealing Desk and also Head of Corporate Liaison.

**Stephen Roberts**

Stephen has over 40 years of experience as an economist and financial markets strategist in banking, broking and funds management. He has worked as Chief Economist with Equitilink and UBS. He worked on the Secretariat of the Australian Financial System Inquiry (Campbell Committee) in 1980, helping draft recommendations that led to the deregulation of the Australian financial system. He is an honours graduate in Monetary Economics from the London School of Economics.

**James Smith**

James has over 20 years of investment market experience (cash equities). Prior to joining Providence, he held the position of Deputy Head of Domestic Sales at CIMB Securities (Australia) and was a member of the CIMB Equities (Australia) Management Committee. He has also held positions as Director - Sales at RBS, ABN AMRO and Sales at Deutsche Bank. James was responsible for Melbourne Sales/Account management in his previous roles over the last decade and in the last two years, was also responsible for New Zealand.

**Marc Wait**

Marc has over twenty years of investment experience. He began his career in Sydney with HSBC and Citigroup Global Asset Management (CGAM) managing Fixed Income and Money Market portfolios. Marc has also held positions in London with CGAM as a Fixed Income Portfolio Manager and Fidelity International where he was the Group Leader, Short Dated Bonds and chaired the Fixed Income Asset Allocation meetings for the firm. Marc was subsequently the Head of Treasury at the Abu Dhabi Investment Authority. Marc has a B.Agr. Ec (Honours) from the University of Sydney and is a Chartered Financial Analyst.

**Ian Wenham**

Ian has over 30 years of experience in equity research, investment strategy and portfolio management. He has held such positions as Equity Analyst with Meares and Philips and Research Director of BZW Australia covering equity strategy and industrial research. He was also Regional Research Director with BZW Asia and Director of Asian Research at Lehman Brothers Asia where he chaired the Investment Policy Committee and was the firm's supervisory Analyst for the Asia-Pacific Region. He has also managed strategic global equity investments for the Lowy Family Private Fund. He currently heads his own investment firm.

# Glossary of Terms

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| Capitalisation rate | Income yield from a property investment. |
| Correlations | A measure of how things move together. Values close to 1 suggest a strong positive relationship (i.e. they move together), values close to -1 suggest they move in opposite directions. |
| Credit impulse (China) | The change in the growth rate of credit in China relative to GDP. A positive credit impulse has tended to lead manufacturing PMI. |
| Dovish | Within the context of monetary policy, a "dovish" stance implies an easing policy bias (lower interest rates). |
| Equity Risk Premium | What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds. |
| Forward PE multiple | Price Earnings Ratio - the share price divided by next years expected earnings per share of the company. |
| Free cash flow | The net operating cash receipts from a company, less any capital expenditure requirements. Generally, a reasonable measure of cash available to shareholders. |
| Inflation | When the inflation rate is above 0 and the general price level of goods and services increases. |
| Interest rate differential | The difference in interest rates between two countries. |
| Momentum Investing | Following the trend of a previous returns i.e. buying stocks that have had a high return over the past 12 months and selling those that have had poor returns. |
| PMI | Purchasing Managers' Index. A survey of purchasing managers at a diverse range of businesses that are reflective of the underlying economy. A number above 50 indicates an improvement in their outlook for purchases. |
| Protectionism | Protecting a domestic economy from foreign competition. An example of a tool used may be to impose taxes on imports from foreign countries. |
| Purchasing power parity (PPP) | A way of comparing currencies by comparing the cost of a basket of goods. Two currencies are at equilibrium when the basket of goods costs the same, considering the exchange rate. |
| Recession | A period of economic decline, technically identified by 2 successive quarters of GDP decline. |
| Running yield | The yield you would currently receive from a bond. It does not include any potential capital movements. |
| Shadow Banking (China) | Lending conducted by unregulated companies. |
| Stimulus | Using monetary policy or fiscal policy to attempt to stimulate economic growth. |
| Tariffs | Imposing a tax to be paid on specific imports or exports. |
| Value Investing | Buying securities or assets that appear under-priced based on fundamental analysis. |

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