

# Investment news

**Pitcher Partners Investment Services Pty Ltd**

## Kellie Davidson – Partner

With economic momentum fading over much of the year, the decision from many major central banks to lower interest rate settings helped deliver yet another bumper year for investors, with both equities and bonds rallying strongly over the course of 2019.

Australian equities sat at the top of the performance charts for the 12 months to 30 November, led by the property sector which rose 27%! Traditional 'bond proxy' investments have been a big beneficiary of low interest rates, however we note much of the performance has been generated through multiple expansion, as opposed to higher quality measures such as underlying revenue or profit growth. Unhedged global equities performed strongly too, led higher by the U.S with all three of its major share market indices hitting all-time highs over the period. Emerging markets underperformed, held back by macro and political concerns.

Fixed interest investors also enjoyed the party, with the sharp compression in yield curves helping our preferred local and offshore bond indexes rise 10.7% and 9% respectively. Credit was also a source of positive returns, with spreads tightening further across most sectors.

In news over the quarter, trade tensions between the U.S and China have continued to ebb and flow ahead of the impending mid December deadline for another round of tariffs. The U.K Government managed to stumble through arranging another extended deadline for Brexit, the outcome of which is likely to be more certain now given the sweeping win by the Conservatives in the recent U.K election. Impeachment hearings began against President Trump, which are likely to provide some distraction heading into the U.S Presidential election next year. And Saudi Aramco listed on the Saudi stock exchange, with an eye watering valuation of ~US\$1.8tn on its first day of listing!

In Australia, the RBA outlined under what environment it was likely to undertake a program of Quantitative Easing. Whilst the RBA remain upbeat about the prospects of a gradual turnaround in the economy, the macro data released over the quarter failed to match those ambitions. The fallout from the Royal Commission/ongoing regulatory investigations into the conduct of the major banks claimed further scalps at Westpac, with its CEO resigning and Chairman announcing an accelerated retirement date following failed reporting obligations to AUSTRAC. A major fine is likely.

## Investment market performance summary – 30 November 2019

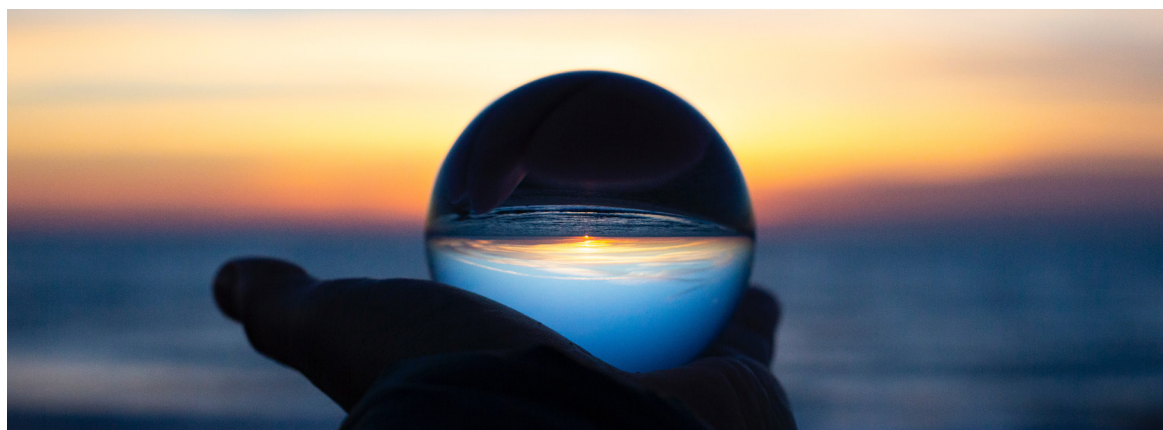
Indices	Current	3 months	1 year
ASX 200	6,846.0	3.7%	20.80%
ASX 200 (Acc)	74,048.8	4.8%	25.98%
US S&P 500	3,141.0	7.3%	13.80%
Japan Nikkei	23,293.9	12.5%	4.22%
UK FTSE 100	7,346.5	1.9%	5.25%
MSCI World	2,292.3	7.2%	12.29%
German Dax	13,236.4	10.9%	17.58%
French CAC	5,905.2	7.7%	18.01%
HK Hang Seng	26,346.5	2.4%	-0.60%
Shanghai Comp	2,872.0	-0.5%	10.96%
ASX 200 Prop (Acc)	60,640.2	0.8%	26.97%
Global Prop	2,975.7	3.5%	14.15%
Australian Bonds	10,411.3	-0.2%	10.69%
International Bonds	1,061.4	-1.0%	9.04%
Commodities			
Gold (oz)	1,464.0	-3.7%	19.95%
Oil (Barrel)	55.2	0.1%	8.33%
Iron Ore (Tonne)	83.7	-4.7%	29.30%
Aluminium	1,770.0	1.0%	-9.60%
Copper	5,864.0	3.8%	-5.40%
Lead	1,936.5	-4.0%	-1.75%
CRB Index	176.7	3.7%	-2.80%
Currency			
AUD/USD	0.7	0.4%	-7.43%
AUD/EUR	0.6	0.1%	-4.94%
AUD/GBP	0.5	-5.6%	-8.70%
AUD/JPY	74.0	3.4%	-10.77%
AUD/RMB	4.8	-1.3%	-6.23%

Source: Bloomberg.

**December 2019**

Our articles this quarter include a review of some of the key events we believe will influence markets over the coming year, a deeper dive into the emerging Australian property build-to-rent sector, a discussion around the current merits of value investing and conclude with our usual summation of our key asset class views looking forward into next year.

Lastly, we would like to conclude this message with a very warm festive greeting from all of us here at Pitcher Partners Investment Services and we very much look forward to helping you achieve your financial goals in 2020 and beyond.



## ***2020 Vision – A brief discussion on key market drivers for the year ahead***

**Duncan Niven, Director – Research**

With the festive season nearly upon us and as we head into a new year, a new decade even, a crystal ball for predicting the course of the next 10 years would certainly be at the top of my investment wish list!

Global economic momentum has clearly decelerated through 2019, weighed down in part due to rising trade tensions.

For global growth to rebound, we believe a trade resolution will need to be arrived at by the U.S and China, even if it is most likely only temporary in nature. We believe this is likely to restore some level of business and consumer confidence. In addition, this also could spur a rebound in global manufacturing, which if combined with the still to arrive stimulatory impact from loose global monetary policy, it is easy to envisage an environment where growth edges back higher, especially through the second half of the year. Any additional fiscal stimulus from Governments could potentially accelerate this trend.

However, when you reflect upon another year of very strong price returns across many asset classes, this fully valued environment has certainly left us with less ‘shock absorbers’ to buffer against any negative events that could occur through 2020. We expect volatility will continue to be more spasmodic than in the past reflecting the plentiful liquidity environment and full valuations – shorter, sharper and more intense bursts before then settling lower as issues/concerns play out.

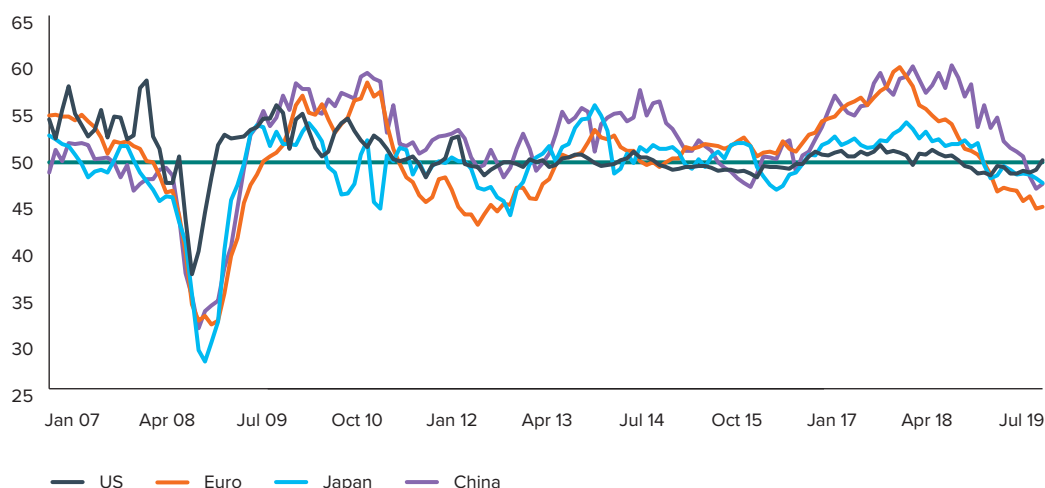
Going forward we do expect a moderation of returns compared to the extreme (yet welcome) performance enjoyed in recent years, however we do believe conditions to remain supportive for investing in the year ahead. For further detail on our specific asset class views, we recommend you take a look at our ‘Melbourne Pitch Report’ article at the back of this newsletter.

We dedicate the rest of this note to discussing a selection of the key issues/themes which we expect will help set the tone for financial markets over the year ahead.

## Trade war and global manufacturing

As outlined earlier, we believe a comprehensive trade deal agreement between the U.S and China could reignite the global manufacturing cycle, which has been declining over the course of the last 18 months or so. It's clear that the trade wars have weighed substantially on business confidence and investment. Europe has been heavily impacted, especially Germany and its Auto industry.

### Global manufacturing PMI data – October 2019



Source: Bloomberg, monthly to October

On balance, we believe the best outcome for trade is a partial truce/compromise on the tariffs currently on the table, given there are several engrained ideological and political differences between the two nations. Progress is being made on this front at the time of writing this note, however the bigger picture issues around technology theft and the protection of intellectual property rights are unlikely to be resolved any time soon.

Lastly, a risk does exist that the U.S will turn its attention toward other trading partners, including Europe. We have seen some modest evidence of that to date with tariffs proposed on French imports in retaliation to France's taxation on U.S tech companies. The Auto sector is likely to be most at risk, which is a concern given how important it is to the Eurozone economy.

So we expect trade disputes to remain an ongoing feature for markets next year, however they could change direction. Trump will be keen, as part of his re-election campaign, to establish some 'wins' and we believe a strong stance on nationalistic trade will be a key part of his political mandate.

### Politics – U.S presidential election, impeachment, Brexit, Middle East and ...?

It can't be a financial market commentary without seemingly having to refer to President Trump on a repeated basis. Trump will be keen to portray a demonstration of strength in the 2020 presidential election race. We may see further economic reform, infrastructure spending and domestic regulation introduced over the course of the year – Trump's apparent fixation with a strong U.S share market should auger well for equity investors. Balancing against this, certainly the impeachment proceedings currently in place are designed at the very least to discredit him, however we believe the probability of him being actually impeached is very low given the Republicans control the Senate. The media will likely continue to publish a variety of partisan news flow between now and then. It's too early to tell which party will win and where control of congress and the White House will ultimately sit, however early soundings suggest that in the control of the Democrats, its tax reform (hikes) agenda is likely to be less friendly to financial markets than the policy agenda of the Republicans.

The sweeping win by the Conservative party in the recent UK election provides impetus for a resolution to Brexit, with Boris Johnson placing a 31 December deadline on a soft or hard exit from the Eurozone. Then the focus will turn to the real outcome of negotiating new trade deals and underlying businesses and consumers adjusting to the new reality. We feel it unlikely that the widespread opposition to Brexit will just dissipate and that economic and political uncertainty could still prevail for some time.

In turning attention to the Middle East, tensions remain between Saudi Arabia and Iran, which has strong ramifications for the direction of energy prices. The attack by allegedly Iranian backed rebels on Saudi Aramco's (and the world's) largest oil refinery and its Khurais oil field in Q3 was another flashpoint in the conflict between the nations.

And in recent times North Korea has been increasing its rhetoric against the U.S, which we believe is ultimately a request to bring them back to the negotiating table in regard to its current economic sanctions.

We do note the ongoing levels of inequality in many countries – be it wealth, healthcare, education or job opportunities. This has fuelled a resurgence in the rise of more extreme left and right winged political parties. This is clear across Europe for instance, while human right protests continue and show no signs of abating in Hong Kong. Pockets of unrest have been evident in South America as well.

Lastly, the past 20 years of globalisation has seemingly taken a backward step in 2019, with the U.S taking a very strong nationalistic stance, especially around trade (discussed above). Whether globalisation takes a further backward step to ‘protectionism’ or ‘regionalisation’, we expect this theme to persist and provide ample fodder for the media to speculate around.

### **When will there be a recession in the U.S?**

With the U.S now in its longest period of post war economic expansion, plenty of debate is out there as to the timing of a potential U.S recession. These worries have been fanned this year through a couple of fleeting inversions of the yield curve – a historically reliable precursor of recessions (providing the inversion is sustained).

However, if we look at other historical causes of U.S recessions, which have typically been centred around economic imbalances and/or overly tight monetary policy, the factors are looking pretty weak at this point – corporates and consumers are relatively cautious, and the Federal Reserve is pretty much on hold/in data watch mode, perhaps with a mild dovish bias at this point.

So on balance, whilst growth has decelerated, we feel that recessionary fears are premature at this point. Indeed some upside risks to growth are evident through:

- The drag from the trade war should fade absent any further escalation (which admittedly can't be purely discounted).
- Easier and greater stability in financial conditions should provide a boost, with evidence this is already flowing into the housing data and consumer sentiment.
- A tightening labour market, which is already at decade lows, should lift wages and drive a pick-up in consumption, which should more than account for any lag in business investment that we are seeing to date.
- Inflationary pressures are moderate at this point.

### **Australia – time for Q.E?**

Australia's economy has clearly slowed over the past 12 months. The recent cuts by the RBA to the current record low interest rate setting has not been enough to sufficiently stimulate local activity yet. Net exports and public spending on projects such as infrastructure have been a key highlight, however fading business investment, weak consumption and residential construction are dragging the economy lower.

At a cash rate of just 0.75%, the ability of the RBA to provide more stimulus is challenged. The transmission mechanism is now limited as the banks are unable to pass through the full level of rate cuts due to margin pressures on the deposit rates they offer to its customers.

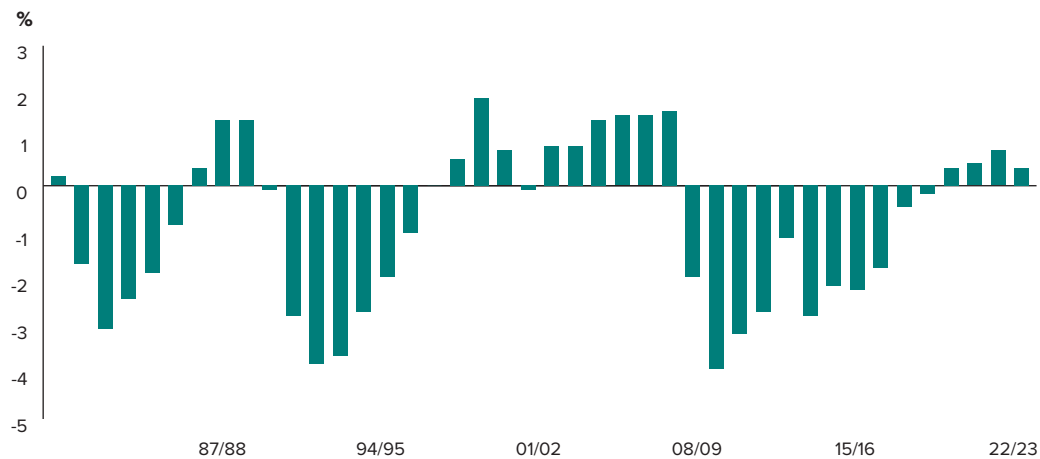
The fiscal impulse of ~\$7bn in tax cuts, or 0.5% of GDP, has not yet induced consumers to increase discretionary spending, who remain in a deleveraging mode. Business confidence is also low, which has resulted in a steadily declining investment rate as well.

Whilst there has been one round of tax cuts, we believe a more concerted and co-ordinated approach of fiscal and monetary policy is required to reinvigorate the economy and get it back toward the RBA's twin goals of tightening labour market capacity (unemployment rate of ~4.5%) and increasing inflation back toward its target range of 2–3%.

Australia is one of the few AAA rated countries globally and has one of the lowest Government debt to GDP ratios amongst the developed world (~40%). Having recently moved back into a budget surplus, the capacity is there for the Government to introduce further stimulus measures into the economy, however the Government have shown reluctance given its previously stated desire to deliver and maintain a surplus into the May 2020 budget. Josh Frydenberg has also stated publicly some opposition to any widespread stimulus measures.

## Australian Government budget balance

Percent of nominal GDP



Source: Australian Treasury

So where do we go from here? While we think the potential exists for further tax cuts if growth continues to decelerate and public investment remains high (although we note some of the infrastructure projects are beginning to experience delays/bottlenecks), the Government should also be looking into introducing structural reform and investing to create new jobs in different industries.

In turning attention to the RBA, it announced during Q4 that whilst not in its central case scenario for the economy, beyond 2 further potential rate cuts to a cash rate of 0.25%, it will look at introducing unconventional policy measures (otherwise known as Quantitative Easing) to provide stimulus to the economy. Whilst they have ruled out some practices used by the U.S, Japan and European central banks, including that of negative interest rates, it will look at alternative measures of introducing liquidity into the financial system. The effects of which are unprecedented/unproven.

Going forward, expect a very acute focus on future employment, wages and growth levels. The market remains more sceptical of the future growth outlook than the RBA's expectation of a modest rebound into Q1 2020. Most economists are expecting us to arrive at a cash rate of 0.25% in Q2/Q3 next year. We hope, but doubt, that a coordinated stimulus program can revive Australia's fortunes in 2020, as we enter a record 28th consecutive year of economic expansion.



## ***The build-to-rent evolution***

### **Alistair Francis – Senior Investment Analyst**

Population growth and urbanisation have driven ever increasing numbers into the major global cities which combined with demographic and social change, has caused the residential property markets to experience rapid change.

For the younger generations, namely Gen Y and Z, their changing lifestyles and preferences when compared to previous generations is driving increasing demand for rental properties beyond what has been experienced in the past.

In Australia, the growing problem of housing affordability and the lack of secure longer-term rental accommodation in well-located areas is prompting commercial developers and state governments to try new ways of creating housing options.

**Build-to-rent** refers to a residential development in which all the units are retained by the developer and leased (rented) out to a tenant, rather than sold off. This is quite different to the typical residential property arrangements in Australia, known as build-to-buy.

Under a **build-to-buy** model, a developer builds apartments or units to sell to individuals who either live in their purchase or rent it out as an investment property. This offering has been very popular in Australia, especially more recently with the rapid growth in the self-managed superannuation fund (SMSF) savings vehicle.

In the U.S, the build-to-rent sector, otherwise known as multi-family accommodation has been so successful in housing tenants from a number of different age cohorts ie singles, families or retirees, that it is now the second largest Real Estate Investment Trust (REIT) sub-sector (by market capitalisation) on their stock exchange. Here in Australia, the evolution from the historically popular model of renting individual strata titled apartments or units from “mum and dad” styled investors to the creation of corporatised purpose build-to-rent apartment blocks has begun.

These modern, purpose build-to-rent accommodation offerings are expected to be modelled on the very successful off-shore experience (U.S, Germany, France, Netherlands and Japan), where their design contains many great renter amenities than the typical standard build-to-buy residential buildings. They have gyms, pools and recreation areas, are pet friendly, community facilities, higher levels of security, parcel delivery, with all services provided by on-site staff. In a rapidly evolving world of an app for everything, many of the apartments’ administrative services are typically managed by tenants on their own devices via the building app. The resident’s phone can run everything from accessing the building and the rental apartment, signing the lease, paying rent, requesting maintenance, booking a pooled car and interacting with other tenants using social media services. The buildings tend to be located in close proximity to transport nodes, shopping precincts and other lifestyle amenities.





*Beatrice apartments, Manhattan New York.*  
Source: Equity Residential (NYSE: EQR)

Equity Residential is a publicly traded real estate investment trust that invests in apartments. As of December 31 2018, the company owned or had investments in 307 properties consisting of 79,482 apartment units in Southern California, San Francisco, Washington D.C., New York City, Boston, Seattle and Denver.

Source: Wikipedia

By comparison, Australia is very much in its infancy, with just 10 mainstream build-to-rent developments so far that have been publicly announced, or are under development, totalling approximately 3,500 units (source: Landcom – Build to Rent in Australia, 2019). One such project was announced back in July 2019 where the world's biggest real estate investor, Blackstone (\$US512bn in assets globally) has signed its first build-to-rent residential foray in Australia with the Beck Property Group. The \$1.5 billion Caulfield Village (in Melbourne's south-east, adjoining the Caulfield racecourse) mixed-use project is part of the next leg of the Beck Group's 13 stage development over 15 years. This stage (still subject to development planning approval) includes more than 400 apartments and a full-line supermarket along with specialty retail stores.

Historically in Australia, the build-to-rent investment returns did not stack up due to the unfavourable tax treatment compared to other property types. The main disadvantages relate to state-based land Taxes along with the imposition of the Federal Goods and Services Tax (GST). The current GST classes the letting of residential premises as an "input-taxed sales", which in effect means no GST credit can be claimed on development and operational inputs. This is in contrast to residential developments that are build-to-buy and developments that provide what could be considered to be accommodation in 'commercial residential premises' (e.g. some student accommodation and serviced apartments) where GST inputs can be claimed.

In addition, access to financing has also been cited as an inhibitor to its growth, with banks unlikely to lend on development or term debt on ownership. In the more mature markets around the globe, with larger populations and deeper pools of capital, build-to-rent has attracted large amounts of institutional and debt funding who see this as an attractive investment opportunity, with its steady and growing yield along with capital appreciation as the market has matured in a low interest rate environment.

As society's housing needs evolve globally, it is hoped that Australia's growing problem of housing affordability might be alleviated by both state governments and commercial developers working together to explore further opportunities in the build-to-rent space.



## ***Does value matter anymore?***

**Duncan Niven, Director – Research**

*“Markets can remain irrational longer than you can stay solvent”.*

***John Maynard Keynes***

This is one of my favourite financial market quotes and very relevant to the environment we currently face in financial markets. It is often quoted with respect to value investing, which has underperformed as an investment ‘style’ relative to Growth over the past decade. We don’t believe Value investing is dead, however it certainly requires a great deal of patience – a rare commodity perhaps in financial markets nowadays?

In this note we provide an introduction to Value and Growth investing, discuss the factors behind the performance of the two segments and what might need to occur to see a reversal of Value’s fortunes relative to Growth.

Value investing is buying a company at a price that you believe is cheaper than your assessment of its current or future value. Growth investing is about buying a business because of its high current or future projected rate of growth in either earnings and/or profit.

Value investing can be broadly defined across **three main categories**:

- 1 Deep value:** buying companies that are trading at a substantial discount to a valuation. Companies that fall into this category typically aren’t this cheap without reason and are usually experiencing some temporary or structural challenges. As such, they tend to fall into the ‘high risk/high reward’ bucket and could take a long period of time to pay off.
- 2 Relative value:** buying companies that are trading below the respective historical average multiple or that of a sector or broader index. Usually the discounts on offer here aren’t anywhere near as wide as deep value investing and as such, the volatility doesn’t tend to be as high and the returns tend to be smoother over time.
- 3 Intrinsic value:** buying companies that are at a discount to your assessment of an absolute valuation, such as a Discounted Cash Flow (DCF) method. This approach is generally ignorant of relative value techniques such as commonly used multiples/ratios (P/E ratio, EV/EBITDA, P/CF). It is easy to become lulled into buying growth stocks under this approach and we often find many fund managers mis-labelling their stated investment approach within this category.

Over the very long term, whilst there are shorter term rotations across various cycles, Value investing has outperformed Growth by some margin, however there has been a very different story at play over the last 10 years.

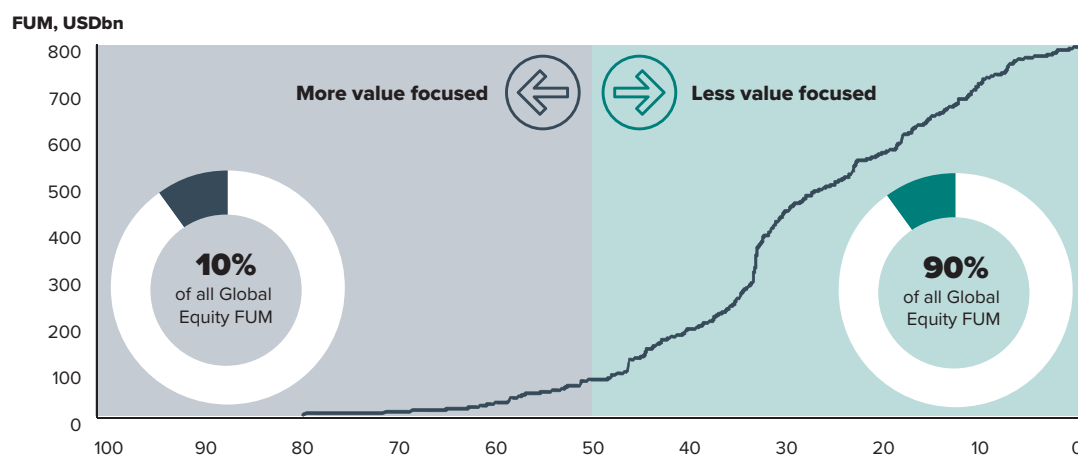


Usually Value outperforms typically in the mid to latter stages of a market cycle, where cheaper access to money, accelerating economic momentum, increased demand for goods and services all benefit sectors such as cyclicals, banks and typically many commodity plays as well. However, the last decade has seen the game played on different rules – so, why has this occurred?

- Low interest rate settings around the globe have fuelled pockets of excessive risk taking in some financial markets.
- Segments of economic growth have been concentrated rather than broad based. These areas have taken the lion share of investment flows, such as the U.S equity market and also technology or communications sectors.
- Rise of the machine – over the last decade, there has been a sharp rise in the level of quantitative products/investment strategies (such as passive/index funds and ETFs, trend following strategies), a large number of which are constructed or built without reference to an asset's underlying absolute valuation. This level of 'embedded' momentum has arguably exacerbated the level of outperformance that growth has enjoyed over value in the last decade.

### Very little investor interest in value managed funds over the last 10 years

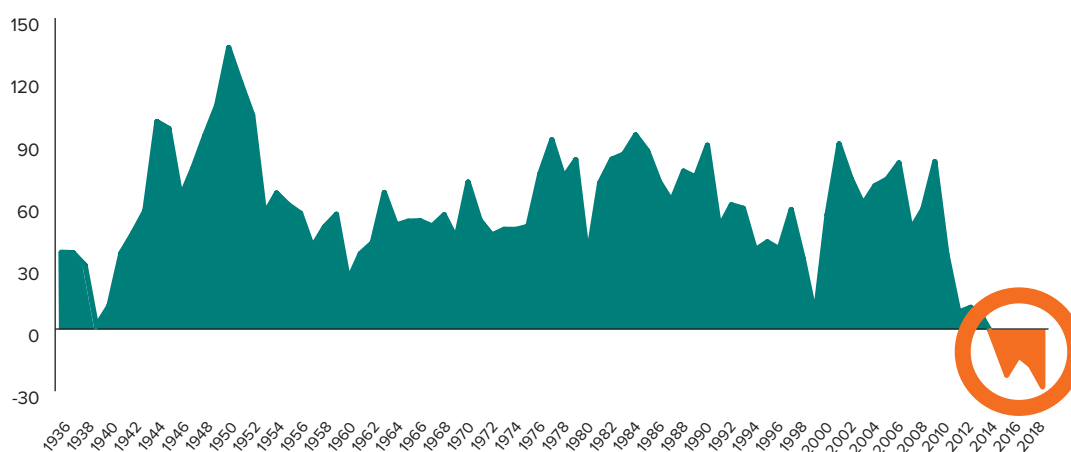
#### Style split of Global Equities FUM



Source: Schroders, Morningstar Direct, report date: July 2019, data as at 31 March 2019 (most recent date with largest populated group available).

Whilst we can certainly relate to the reasons for how capital has been allocated away from value investing over the past decade, we believe the distortions this is creating will give rise to some attractive investment opportunities moving forward – indeed the chart below highlights that in some cases, the opportunity set has never been greater.

### Rolling 10-year total return difference: Fama French high minus low (HML) value growth



Source: SIM analysis, Professor Fama's data library, Tuck University, as at 31 December 2018

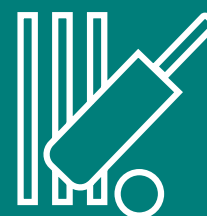
We don't wish to join the veritable graveyard of financial commentators filled with those espousing the impending outperformance of value, or joining others that have proclaimed the timing of future recessions, hyperinflation, housing market collapse, resurrection of Elvis ... well, perhaps scrub that last one.

Indeed, whilst we have observed some recent short term pockets of outperformance from value, the conditions which would provide the best environment for Value stocks to outperform are certainly not all at play yet, including:

- A broad based economic expansion
- Noticeable rise in private demand/consumption
- Growth stock buyer 'fatigue'
- Major downward earnings revisions to growth sectors
- A mild pickup in inflation and rising interest rates

So we wait and watch. Certainly, many active fund managers have felt the pain of holding too many value stocks. Indeed, many performance track records of Value managed funds are looking quite bleak right now in a relative sense against the index, but like how economic cycles will eventually evolve, we believe the right managers will ultimately deliver for patient investors.

# The Melbourne Pitch Report



## Pitcher Partners Investment Services

The Pitcher Partners Investment Services Investment Strategy Committee is composed of senior advisors and our research team with the purpose of framing the near to medium term investment outlook. We have summarised the views of the committee below.

Defensive Assets	
Cash	We believe this asset class provides optionality/flexibility in wake of higher levels of volatility. However, reflecting the high opportunity cost given current interest rate settings, we believe a neutral allocation is warranted at this time.
Fixed Interest	<p>The RBA has cut rates aggressively in the past six months, with the economy having slowed considerably over the past year. Without stronger fiscal policy support (and impact), the probability exists for up to two further cuts over the coming 6–12 months should employment conditions not tighten further from current levels. The RBA has signaled that it will look at adopting quantitative easing/unconventional monetary policy measures beyond this point should a recovery not eventuate.</p> <p>We still recommend an underweight stance toward rate duration, but note its diversification attributes, especially until there is greater alignment between the macro views of the RBA and the market more broadly. We like credit, however tight spreads indicate a lower probability of capital gains from here, although the primary market still remains well bid. Hybrid margins are close to historic lows and could be at risk of widening in anticipation of ongoing issuance trends. We still favour a floating rate bias over fixed for the medium to long term.</p> <p>Balancing consumption and labour market strength against weak trade and business investment, the Federal Reserve, after making two rate cuts in Q3, has hinted any future moves will be determined via upcoming data releases. Recent strength within its payroll data indicate some underlying momentum within the economy. The ECB has reignited its Quantitative Easing program, however we believe fiscal policy will need to augment this approach in order to try and reflate the European economy, which is suffering from the global trade overhang, sagging domestic demand and savings/investment imbalances. Supported by strong investment flows, we believe credit can still provide selective opportunities for skilled fund managers, especially within the private debt sector. We continue to expect further yield curve volatility as sentiment towards global growth oscillates.</p>

## Growth Assets

<b>Australian Equity</b>	<p>We retain our neutral stance, balancing on one hand, accommodative monetary and fiscal policy and ongoing yield support, while on the other, we see premium valuations, a slowing global economy and a potentially weaker earnings outlook. Domestic cyclicals may be a clear beneficiary of the positive local policy backdrop, whilst we believe pockets of the materials sector will remain leveraged to ongoing Chinese stimulus programs. Bank profit margins are likely to remain under pressure due to a flattening of the yield curve and ongoing wealth management remediation efforts. The wide dispersion between cyclicals and high growth stocks should provide alpha opportunities for active management, while the share price of bond proxy stocks will remain sensitive to current interest rate settings.</p>
<b>International Equities</b>	<p>While we acknowledge that risks are building, we favour global over domestic equities, reflecting superior earnings growth, valuation and diversification. We expect geopolitical tensions to remain omnipresent and dominate news flow, especially around issues such as Brexit, Iran, impeachment, the 2020 U.S Presidential election and trade. Global economic activity has clearly dipped, with the trade disputes dragging on business investment and confidence. Valuation support has moderated in markets such as the U.S, but it provides exposure to defensive high quality and growing companies, a thematic that continues to perform strongly. Other regions offer more compelling valuations, especially Europe and China, but exhibit greater macro and earnings risk – this supports our headline preference for active over passive management. Any moderate and sustained resolution in the 'trade wars' could see those markets re-rate quickly, although we assign a lower probability to this outcome at this point in time, indeed we may see an escalation in trade disputes between the U.S and Europe next year. We prefer a partial tilt toward unhedged exposures reflecting its downside protection attributes.</p>
<b>Property</b>	<p>Our views on local and offshore property remain unchanged (neutral).</p> <p>Positive fundamentals remain but valuations (in absolute terms) remain stretched post recent strong returns. The anchored rate environment may well provide a floor for yield sensitive investors, however we remain wary about lower quality retail and residential exposed investments at this point in the cycle, as well as those companies trading on higher valuation multiples priced on more cyclical earning streams. Some unlisted products may provide a buffer against any short-term volatility, but product and asset selection is critical. There is a clear preference for active management, given highly concentrated nature of the A-REIT Index.</p> <p>G-REIT valuations are full but arguably justifiable given the current market cycle and most major central banks in 'pause' or 'easing' modes. We continue to seek complementary offshore exposures when blending alongside local property investments – given the deeper and broader construct of G-REIT markets. There is a clear preference for active over passive. Any bouts of volatility may present selective opportunities for investors to gradually rebuild an exposure to this sector.</p>
<b>Alternatives</b>	<p>Overweight alternatives. This asset class provides an attractive source of absolute returns that are uncorrelated with traditional asset classes such as shares or bonds, with the ability to help cushion portfolios in the event of market stress. Product selection is crucial to maximise diversification benefits.</p>

This is our high level view, and we recommend clients speak to their advisors regarding how this may guide or impact individual investment portfolios

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