UNCONVENTIONAL WISDOM

Unique investor insights from Wattle Partners

September 2020

The month that was…

- US President Donald Trump stole the headlines as the month came to an end, with the announcement of his positive COVID-19 sparking volatility to begin October. The trend had already been towards more volatility and market divergence, as the strong economic recovery showed signs of dissipating. With stimulus running out or being withdrawn, and a dangerous second wave hitting both Europe and the US, investors had become increasingly concerned about the outlook. Combine that with the 'pub fight' [US Election Debate,] and many investors likely thought about packing up and going back to cash. Yet doing so would avoid the many winners still out there in the global economy.

- Australia remains a global laggard, the ASX down 13% over the last 12 months compared to the S&P 500 which is 30% higher. Most of the blame lies with Australia's continued reliance on the banking sector, which fell another 6.2% in September, and remains down 31.1% over 12 months. The Materials sector remains a standout, up 2.4% over the last 12 months drive by higher iron ore prices, despite a fall of 3.7% in September. The lack of growth opportunities in Australia has forced investing into smaller companies, but particularly the Buy Now Pay Later sector, sending many companies to incredible valuations. The sector is up 27% over the last 12 months but fell 6.9% in September. The sector and small caps in general are not for the faint hearted and are naturally more volatile. Compare this to the energy sector, which remains down 41% over 12 months, dropping another 12% in September and there is little doubt about its popularity.

- Australia's relationship with China appears to be worsening, after a number of anti-[dumping investigations] and outright bans in sectors ranging from wine grapes to export beef. It is clear that China is using COVID-19 related volatility to become more self-sufficient, which does not bode well for many over-exposed Australian companies. Fortunately, Australian iron ore remains of the highest quality and is benefitting from Chinese Stimulus 101, build roads, bridges, and apartment buildings. This will be the lone positive in the September quarter GDP results. The month of September continues to evidence the stark difference between Australia's top companies and the true global leaders who are growing in this environment. It has never been more important to seek revenue and earnings growth rather than trying to identify 'undervalued' assets.

- The Reserve Bank of Australia is coming under growing pressure as it is relied upon to continue to support the Australian

economy. First it was Paul Keating accusing the bank of 'indolence' and suggesting they are 'high priests' of the incremental for not going far enough to support the economy. Keating has suggested the RBA should be directly financing the Federal Government's bond issue, rather than doing so in the secondary market via bond purchases from the major banks. This policy is at the core of Modern Monetary Theory (MMT) and is particularly relevant in today's circumstances, where the economy desperately needs as much stimulus or 'compensation' for economic lockdowns as possible to stave off a potential depression. More recently an RBA Economist resigns letting fly with accusations of the central bank making 'bad' decisions based on conflicted research.

- The IPO market is heating up, with a long list of companies coming to market from business lender Plenti (ASX:PLT) to Adore Beauty, Air BNB, ANT Financial and a number of loss-making technology unicorns in the US. We spoke to a few groups during the month who noted that companies were desperate for cash in March and willing to take any terms and share discounts simply to have cash in the bank. As the year comes to a close, the tables have turned with a number of online, digitally enabled businesses seeking to capitalise on a COVID lockdown-led recovery, raise cash and go public. After the most turbulent year in recent memory, investors have clearly become desperate for growth, with falling dividends forcing them to take higher risk opportunities in search of returns. The trend is not limited to self-directed investors, with many professional managers launching their own smaller company strategies to capitalise on the theme.

- ESG or Environmental, Social and Governance issues were the focus of the month, after Rio Tinto's CEO and Senior executives resigned over the Juukan Gorge demolition. BHP Billiton also took the opportunity to flag its climate credentials, and AMP continued to clear the air following its much-needed board cleanout. The Federal Government announced its gas lead energy policy, where they will be seeking to back new and existing technologies to a carbon neutral future. Despite avoiding an outright announcement of a 2050 target, they are banking on cheap gas and a potentially Government fund power station to smooth the transition between high polluting coal and a higher portion of renewables.

- Australian unemployment unexpectedly fell to 6.8% in August catching every economist off guard, having expected a result of over 7.7%. This came after confirmation that Australia had officially entered its first recession in three decades. Looking more closely at the unemployment result, most jobs came from insecure, food delivery or self-employed type work, which is booming during COVID-19 but is simply not sustainable post lockdowns. It is clear that the likes of Job Keeper are keeping the real unemployment figure down, which Roy Morgan Research currently estimates is closer to 13%.

- If the COVID-19 period in sharemarkets is remembered for anything, it will be the return of the retail or 'Facebook' investor. Whether it is the Robin Hood crowd in the US, the new Super Hero app in Australia, or the huge growth in Comsec's retail trading, it is clear who is having the biggest impact on short-term valuations in smaller technology companies. Trading data showed institutional trading was usurped by retail investors on various occasions in recent months, sending the likes of Zip Co (ASX:Z1P), Afterpay (ASX:APT) and little known company Brainchip (ASX:BNC) to incredible valuations, before quickly retreating. In our experience, whilst quick gains may be possible, these 'growth' opportunities are best outsourced to specialists who offer greater diversification.

Model Portfolio Update

- Investment Committee -

Index	Index Points - July	Index Points - September	Performance	
			1 Month	1 Year
S&P/ASX 200	6060.5	5815.9	-4.0%	-13.0%
All Ordinaries	6245.9	6009.3	-3.8%	-11.6%
US Dow Jones	28430.1	27781.7	-2.3%	3.2%
US S&P 500	3500.3	3363.0	-3.9%	13.0%
Hang Seng (HK)	25177.1	23459.1	-6.8%	-10.1%
FTSE 100 (UK)	5963.6	5866.1	-1.6%	-20.8%
Nikkei 225	23139.8	23185.1	0.2%	6.6%

Top 5 Performers	1 Month	Bottom 5 Performers	1 Month
Boral Ltd	20.3%	AMP Ltd	-21.9%
Munro Global Growth Fund	9.8%	Qube Holdings Ltd	-13.8%
Platinum Asia Fund	8.1%	Link Administration Services Ltd	-8.0%
Franklin Global Growth Fund	7.4%	Telstra Corporation Ltd	-7.6%
Aoris International Fund - Hedged	7.1%	Commonwealth Bank of Australia Ltd	-6.4%

The return of volatility – As quick as it disappeared, volatility returned in September, global markets seemingly tiring from the 'wall of worry'. The continued machinations of the US-China Trade War, beginning of the US Election campaign and Australia's deteriorating relationship with China all contributed to a weaker performance. But ultimately, the weakness was driven by the threat of a second wave of economic shutdowns and a lack of progress on another round of fiscal stimulus.

Sector	September	Quarter
A-REIT	-1.6%	6.7%
Communications	-2.4%	-4.3%
Cons. Discretionary	-2.6%	7.7%
Cons. Staples	-7.2%	-4.9%
Energy	-11.6%	-15.2%
Financials	-6.2%	-6.9%
Healthcare	0.4%	0.3%
Industrials	-0.7%	-0.2%
IT	-6.9%	12.3%
Materials	-3.7%	2.2%
Utilities	-3.7%	-9.5%

The Australian market continues to underperform the rest of the world, with our continued reliance on China and lack of economic complexity unable to benefit from the work-from-home trend occurring across the world. The Federal Government is seeking to address this through recent announcements, but an economic transition of this scale will take years.

Healthcare was the standout once again, managing a positive return of 0.4% in September, supported by CSL Ltd (ASX:CSL). It was the cyclical, consumer-facing businesses that performed best in what can best be described as a rotation to a 'COVID-normal' world; property fell 1.6%, consumer discretionary, -2.6%, and industrials, -0.4%. The energy sector was among the hardest hit, falling 11.6% as oil prices slid once again as an increase in supply coincides with a stagnation in demand.

Despite protestations about inflated equity market valuations, it is becoming increasingly clear that this is a small business, not a big business recession. Big businesses have the scale and capital to further solidify and in many cases gain market share. In many cases, these are modern, digitally enabled and scaleable models, with recent reports showing the true strength and underlying growth possible from these business models. The risk is clearly to those companies who require scale before getting back to previous levels of profitability, many of which fall into the 'value' camp. These companies have higher costs of doing business, meaning their expenses will increase well before their revenue has recovered to previous levels.

Congratulations are due

Before providing an update on a number of key holdings, we wanted to highlight the recent recipients or nominees for the respected Hedge Fund Rocks awards.

- Munro Global Growth Fund – Run by Nick Griffin, won the Best Long Short Equity Fund;
- JP Morgan's Global Macro Opportunities Fund didn't win best Macro Fund, but was

voted the Best Offshore Manager in Australia.
- Nanuk New World Fund – Won the Responsible Manager of the Year from Financial Standard.

The Evolution of Wattle

Following a substantial amount of feedback from clients and members of our Advisory Committee, we have made the decision to simplify our reporting to you. Going forward, the Capital Stable and Risk Bucket's reported in your Quarterly Review and Portfolio Statements will be replaced with a more traditional approach, albeit with Wattle Partners unique overlay.

To summarise, the ASX-focused Value and Income Buckets will become the Domestic Equities allocation; the Thematic Bucket will become your Global Equities allocation; and the Targeted Return Bucket will be separated into a Defensive and Growth Alternatives allocation.

Portfolio Updates

Boral Ltd (ASX:BLD): It was a busy quarter for BLD with the new CEO taking over, immediately cancelling the dividend as the company shored up its finances. The profit result surpassed expectations, hitting $181 million, but the US Headwaters business remains a drag. It was written down by $1.3 billion and is up for sale. BLD has avoided the need for a capital raising and recently welcomed Seven Group as a major shareholder (10%), sparking the potential for merger and acquisition activity. With over 25% of revenue coming from infrastructure and extensive property assets, the company is well positioned to benefit from upcoming fiscal stimulus.

Munro Global Growth Fund (MUA0002AU): Munro continued its strong 2020 performance delivering another double-digit return. Management reduced short positioning to just 13% in recent months as markets continued to rally, similarly to GQG, Munro has pivoted towards its Innovative Health area of interest, now 15% of the fund, with digital enterprise (14%) and e-commerce (13%) close behind. Chinese e-commerce player Alibaba was the standout, reporting a 34% increase in revenue with the old-fashioned bricks and mortar division growing 88% as China exited lockdowns earlier. By far the highlight was the announcement that ANT Financial, the $200 billion fintech, of which Alibaba owns 33%, was set to IPO before the end of 2020.

AMP Ltd (ASX:AMP): AMP underperformed during the quarter, despite unexpectedly announcing a special dividend of 10 cents per share. Management announced a 42% fall in profit to $149 million, but in a positive sign every business unit contributed to the result. The exit from insurance has clearly been well timed. The future AMP is beginning to take shape, a focus on the leading infrastructure asset manager, AMP Capital, of which they now own 100% and the fast-growing AMP Bank, deposits up 18%. The board announced they will consider offers for all of their business, sparking takeover discussions.

Qube Holdings Ltd (ASX:QUB): QUB underperformed as volumes across their various ports and distribution businesses were hit by the economic shutdowns. Revenue increased 9% to $1.8 billion for the financial year but profits fell 15.4% to $104 million, partially due to the sale of some major assets in 2019. Management elected to cut rather than cancel the dividend as they increase capital expenditure at their Moorebank Terminal. QUB are seeking to realise a portion of this transformational asset, which offers automated distribution for the likes of Target and Woolworths, via a partial sale, a clear positive.

Platinum Asia Fund (PLA0004AU): Asia took the mantle from the US during the quarter, leading returns as the region emerged from COVID-19 in better shape than the US and Europe. The fund's concentration in China, 53%, offers importance on the ground diversification as trade rhetoric picks up around the world. Exposure to both Korea (12%) and India also supported the strong recovery.
Indian conglomerate Reliance Industries, which spans sectors from oil production to telecommunications, was the highlight adding 27% after announcing deals with Amazon and KKR. Similarly, Korean giant Samsung is benefitting from the US-China trade war, signing a $6.6 billion deal to deliver 5G technology in the US.

Commonwealth Bank of Australia Ltd (ASX:CBA): CBA reported a 12.4% increase in profit to $9.6

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billion, which included the sale of 50% of the Colonial First State business. Excluding this, cash profit actually fell $7.3 billion, but management decided to reinstate the dividend at the top of APRAs 50% of earnings guidance range. Bad debts remain a cause for concern, with the regulator increasing aggressive on foreclosures, the bank announcing a total of $1.2 billion in provisions for these loans. Net interest margin remains stronger at 2.04% and over 74% of the bank's loan book is funded by customer deposits, up $15 billion.

Federal Budget

- Drew Meredith -

The Federal Government delivered it's delayed but much needed annual Budget this week. The conclusion: massive deficits, tax cuts and a boon for businesses large and small. Whilst positive, there was little in the way of support for the businesses most impacted by forced Government shutdowns, being tourism, travel and education, with the Budget effectively assuming Job Keeper payments will be enough to support them.

The headlines were all about the $213 billion deficit, which is largely irrelevant. Net debt of the Government is expected to incresae to $703 billion this year and $966 billion in 2024 to support the measures, but it is much needed if Australia holds out any hope of avoiding a depression. This stands out as a huge move away from traditional conservative politics to 'balanced the budget' as doing so today would actually be taking money out of the economy at the time it is needed most. With interest rates pinned down via the Reserve Bank of Australia, concerns around the serviceability of interest on this debt is largely irrelevant.

We have summarised the major policy announcements as follows:

- **Stage 2 tax cuts** were brought forward abd back-dated to 1 July 2020. This will increase the 19% and 32.5% tax brackes to $45,000 and $120,000 respectively. The estimate tax benefit is $17.8 billion, and is expected to boost disposable income by around $8 billion this financial year alone. *Australian consumer and retail businesses rallied as a result.*
- **Business tax relief** was offered via the ability to use current year losses against past profits, reducing any tax payable, whilst also allowing the immediate writedown, rather than multi-year deprecation of all assets until 2022. This is great news for businesses that are still operating in COVID-19, offering the potential to ramp up investment, but offers nothing to those businesses who have no profits, or even revenue due to the lockdowns. *Asset heavy businesses including mining, recycling and manufacturing groups rallied.*

- **The Job Maker** package was outlined, offering businesses a $200 per week tax credit for employing those without a job between the ages of 16 and 35 in the hope of avoiding the costly societal issues that come from high youth unemployment. Another positive move which will move the dial on unemployment, but excludes older workers. *The fast food and larger retailing groups benefitted from the announcement.*
- **A $250 payment for pensioners** was announced with anyone eligible for payments ranging from the Age Pension to the Commonwealth Senior's Healthcare Card eligible. It will be paid automatically

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and follows the two $750 payments made thus far.

- **Use it or lose it –** As usual there was a huge boost to infrastructure spending, but on a use it or lose it basis. The Federal Government effectively forcing the states to put the shovels to work as soon as possible rather than wait. *The beneficiaries were property developed, builders and materials groups.*

- **Superannuation** remains a key focus of the LNP Government, heaping more pressure on the union/industry fund sector. A combination of measures were announced, disallowing the automatic opening of new super accounts for new employees, to avoid duplication, launching a comparison website to weed out underperformers and forcing more transparent on where industry fund members money is being spent, the loss making *The New Daily* newspaper a point of focus for the Government.

- **Australian seniors** will benefit from 23,000 new home care places over the next four years, costing $1.6 billion with granny flats also exempt from CGT.

There were a few takeaways from the numerous press releases post the budget, with most agreeing the budget was solid but lacking in a few important areas. The COVID-19 recession has been called the Pink Recession' as it has impacted working women far worse than men for one reason or another. Experts were hoping for greater support for childcare and a specific focus on improving job oportunities for women which was not forthcoming.

Looking at the assumptions, the Government remains hopeful of a vaccine to be released by mid next year and that most international borders will remain shut until the end of next year. Their GDP forecast has been highlighted as overly optimistic, a contraction of just 1.5% for the financial year, which suggests the booming commodities sector may be saving the economy once again. Of greatest concern is the expectation of a period of negative net migration, the so called immigration dividend has been key to Australia's growth for several decades.

Is NEAT better than the FANGS?

- Jamie Nemtsas -

Is this NEAT group about to overtake the FAANGS?

Video games have traditionally been associated with laziness, requiring someone to stay at home in a dark room when they could be doing more 'productive' things with their lives. *How things have changed.*

The 2019 Fortnite World Championships attracted 40 million entrants chasing a USD$30 million prize pool with the finals televised in front of a live audience exceeding 23,000 people. This is only the tip of the iceberg. The days of video games being dominated by teenage boys and middle-aged men are long gone, replaced with one of the fastest growing sectors in the global economy.

If there has been one investing lesson from the 2000's thus far, it is the important of identifying and being exposed to the most powerful economic trends; there is little doubt E-Gaming or E-Sports is one of them. According to data analyst NewZoo, the e-gaming sector has now surpassed the value of the Movie and Music industries combined. It is the fasting growing sport, physical and virtual, in the world. The sector is unique in that gaming is no longer the solitary endeavour it once was, rather virtual worlds are quickly replacing social networks where children and adults can connect with their peer groups. This has only been made more important as almost every country in the world is restricted during the COVID-19 lockdowns.

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There are four clear leaders in the e-gaming space best described as the NEAT four; Nintendo Co. Ltd (TYO:7974), Electronic Arts Inc. (NASDAQ:EA), Activision Blizzard Inc. (NASDAQ:ATVI) and Tencent Holdings Ltd (HKG:0700). For the uninitiated, the most popular titles in order include the Super Mario or Pokemon series, FIFA and Madden titles, Call of Duty and Fortnite among others. Yet the sector is far deeper than just those who create and distribute video games. It include everything from the creators of content and the software providers that enable this, the producers of semi-conductor and graphics chips that power these games, professional e-sports teams, including Manchester United, online streaming services like Twitch, console manufacturers like Sony and Microsoft and of course, the venues that house the growing tournaments.

To provide some context around the growth of the industry, gaming itself is split not five key sub-sectors:

- PC Browser Games –$3 billion market in 2019 which saw a 13% fall in sales;
- Downloaded PC Games –$33 billion market which grew sales by 7%;
- Smartphone Games (think Candy Crush) – $64 billion market that grew 16%;
- Tablet Games - $14 billion market that grew 2.7%; and
- Console Games (XBOX etc.) - $45 billion market that grew 7%.

Overall, the sector has grown 12% per annum since 2015 far exceeding the performance of the global economy. The latest earnings season offered a unique insight into the powerful growth occurring within the sector, the NEAT group offering the following highlights:

- Nintendo (TYO:7974) reported a 428% increase in quarterly profit and 108% increase in sales amid a boom in gaming as the world is stuck in lockdown. They also had five games in July's top 10 best selling games list.
- Electronic Arts reported 70% year on year revenue growth to $1.4 billion for the June quarter and a 104% increase in user growth during the lockdowns.
- Activision Blizzard – Announced 270% growth and $536 million in new in-game spending after its Call of Duty franchise hit 100 million users. Group revenue grew 20% after World of Warcraft also delivered a strong quarter.
- Tencent – Smashed all estimates boosting revenue by 29%, the fastest growth in two years, The companies online gaming division, which owns Fortnite creator Epic Games, grew at 40%.

Looking a little deeper, it becomes clear why gaming companies are receiving so much attention. On the one hand, traditional value investors aren't able to value them as they do not have 'tangible' assets, everything they create is in the form of intellectual property. The result is a higher margin business, with return on equity exceeding 15% for Activision and 24% for Tencent, little in the way of dividends and revenue growth well above 20% year on year.

Given the incredible growths and the fact that some 60%+ of sales now occur online, you would be forgiven for thinking that these companies would already be well reflected in the benchmark indices like the Nasdaq. That's not the case, with the likes of Activision (0.6%) and Electronic Arts (0.4%) barely registering.

For Australians seeking to invest in the sector, the opportunities are limited, either invest directly into US-listed stocks or engage someone like Nick

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Griffin of Munro Partners, who identified the trend in 2017 noting the following on Activision:

"They own great content with great communities around the content that they can leverage, not only just into further games sales, but advertising and also e-sports".

Alternatively, Van Eck is set to release an Australian version of its E-Sports or ESPO index, trading under the same code which will offer a direct exposure to every part of the e-gaming sector.

Can Trump pull a Bradbury?

- Drew Meredith -

Before last week's positive COVID-19 test there was little doubt President Trump was on the comeback trail. Amid signs of an economic recovery, positivity around hopes for a vaccine and progress on another fiscal stimulus package all was looking up for a second term. Then came the 'Presidential Debate' in which Trump brought Democratic candidate Joe Biden down to his own level in what was effectively a street fight. As the many memes flying around social media joked, are these the best two candidates that a current of 300 million can deliver?

In investment markets we have a tendency towards hyperbole. The concept that there are binary implications for such complex events may bring us comfort, but history has shown it simply isn't accurate. 2016 is a perfect case in point. Media and investment markets were rife with doomsday scenarios exclaiming a Trump win would be the end of the world for the US economy, suggesting stockpiling gold and selling equities. It couldn't have been more wrong. Despite President Trump's unconventional approach, his policies were effectively down Republican Party lines. Will it be the same in 2020?

Global macroeconomic analytics firm BCA Research recently published a detailed paper looking at the real impacts of a Biden or Trump victory. The cliff note version: *both will be reflationary and a positive for the US economy.* But it isn't that simple, the complexities of the US system mean the President, who ultimately control foreign policy can be from a different party to those who control the Senate, where laws are made.

In their paper, BCA highlight that there are powerful events occurring outside of the White House that are just as, if not more, important in the outlook for investment markets. The Federal Reserve's recent decision to shelve its inflation target in preference for full employment, stands out as an inflationary event. The continued fiscal largesse of the US Government, combined with a more protectionist stance and the almost bipartisan need to counter China will remain key issues in the weeks to come.

Starting with the commonalities, both Trump and Biden have promised a boom in infrastructure spending and a focus on re-energizing the manufacturing sector that has seen millions of jobs sent overseas. The difference, Trump is seeking to do this through tariffs, Biden through a proposed Carbon Border Tax, that would punish those not meeting their climate and emission objectives (China anyone?). **Winner: Tie.**

The result is that fiscal largesse is a given. The difficult will no doubt fall from its 'extreme highs' according to BCA, but for different reasons. Both parties are well aware that if Government spending falls faster than private activity recovers, they will be governing over another likely extended recession and potentially a depression. The result, is another

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$2 trillion in additional spending from a Democrat win, compared to a second Republican term. The difference, however, is that the Democrats would fund this through a series of tax increases, primarily focused on businesses. Despite suggestions that Biden was supportive of the big-tech sector, these tax increases would hit them the hardest. Trump would offer a double whammy, with his clear intent to disrupt the monopolies. **Winner: Let's call it a tie.**

The risk of economic lockdowns remains higher under a Biden White House, following his statement that he would 'follow the medical advice'. Yet BCA see the bar for another national lockdown as being set quite high, particularly with state-based measures now in place. **Winner: Biden on health, Trump on the economy.**

Having considered the economic implications, what will be the impact on sharemarkets. Well, it's complicated. It really depends on whether a Trump win coincides with a Democratic senate or vice versa.

Let's start with the worst case. Biden wins and the Democrats have a clean sweep. In this case, those increasingly popular value stocks will continue to underperform. Biden's policies are heavily targeted at renewable and cleaner energy, will place huge pressure on the country's massive oil and gas sector, increasing regulation and placing further stress on an already stretched sector. Healthcare companies would also be hit, with the US adopting policies more akin to Australia's system, capping the price of pharmaceuticals and profits along with them.

The best case, Biden with a Republican senate would seem to deliver the best of both worlds. A slowdown in the exhausting trade war with China, a boom in spending but without many of the economy dragging tax increases that are being proposed. This would be reflationary, a positive result for the financial sector and a boon for the failing US infrastructure sector. The next best, a Trump win and a Democratic congress. This would reduce the Republican's ability to pass further tariff increases but allow Trump to veto any laws that go against his free market mantra.

So, to conclude, a Trump or Biden win is not the end of the world that it has been made out to be. If the last twenty years has shown us anything, it is that businesses and economies do not stop due to elections, or even due to pandemics. Businesses and people adjust and in this environment there will be many winners and losers, but generally more of the former than the latter. To summarise the winners and losers:

1. Trump wins – Great news for infrastructure, energy and healthcare companies, bad news for big technology and China exposed businesses;
2. Biden wins – The 'value' companies will only get cheaper, energy with among the worst hit. Tax cuts, if deliverable, will hurt profitability at the worst possible time, but infrastructure stimulus will be inflationary, benefitting the clean energy, utilities and financial sectors.

IPO – Plenti (ASX:PLT)

- Vanessa Cullen -

Shares in consumer lending company Plenti (ASX: PLT) look to have stabilised, having tumbled 25% from the initial IPO price of $1.66. At the time of writing the share price sits at $1.28. Given the haircut applied to the stock in the secondary market, is Plenti worth a punt?

Firstly, what does Plenti do? Formerly known as RateSetter, the company raised $55 million from the take-up of new shares by institutional and retail investors. According to the company, "Plenti is a technology-led consumer lending and investment company. Through the Plenti Lending Platform, it is able to provide a transparent marketplace where investors and borrowers, empowered by technology, can transact together and share the benefits."

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One thing the company makes well clear is that it is not a bank. It is part of a new generation of modern businesses using technology to replace traditional middlemen and reduce the costs of providing financial services. It offers automotive lending, renewable energy (home solar installation) lending and personal lending, all fast-growing areas. Customers take out a loan through Plenti, which is essentially borrowing from other Plenti users of the platform i.e. peer-to-peer (P2P) lending. Investors that lend to these borrowers are paid interest in return. Although the $55 million IPO offering didn't deliver a stag profit, Plenti has been successful.

The lender has listed with a market capitalisation of approximately $280 million. Plenti chairman Mary Ploughman said: "The board firmly believes that Plenti, with its determined and capable management team, is well-positioned to continue to grow strongly through leveraging its technology platform, as well as the strong foundations it has in place across borrower experiences, its borrower introducer network, its funding diversity and its credit risk management capabilities."

The company's fundamentals are not bad. Plenti grew its annual revenue to $41.5 million in the year to June, up from $28 million in FY18/19. Since its launch it has helped more than 55,000 borrowers. The only thing that is of concern is its negative cash flow in the last three years. Plenti is a loss-maker, with a net loss of $16.4 million in the year to June.
The company plans to invest the $55 million raised in the IPO back into itself to fund future growth. Management and shareholders, including Federation Asset Management, are committed to its growth from a loss-making business with a bright path ahead.

Looking East, with Platinum

- Rachana San -

As highlighted in the introduction to this monthly report, COVID-19 has forced a realization for us and likely many Australian investors, that there is simply a lack of high-quality growing companies available for investment. Economic shutdowns have heaped incredible pressure on many of our largest businesses, with dividend cuts unlikely to be recouped any time soon. Moreover, long-term structural issues were ultimately placing pressure on sales long before the Coronavirus hit. So where can we look for diversification? The US market is well represented in global indices, up to 60% of most benchmarks, but with concerns about market valuations, is it time to start looking East? We certainly think so.

The response of the likes of China, Japan and Korea to the Coronavirus compared even to Australia has been exceptional, which has placed their entire region on a strong footing as we look towards the future. There are a number of powerful trends emerging, many sped up by the virus, from the exponential growth in the number of new millionaires in the region, to improving living standards or even more powerful, the huge changes occurring in global supply chains. US-focused businesses are being forced to move away from China, whilst China itself is seeking to become more self sufficient in many parts of its own supply chains.

There are a limited number of high quality options to invest in the region, with many index options overweight to just a few major technology names. Hence, our preference has been to use the specialist Platinum Asia Fund, which we actually advised clients to switch into amid the chaos of March/April. The switch has been rewarding, the fund up 14.3% in the last six months, outperforming the benchmark which has returned 0.5%. This despite many of

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Platinum's other strategies underperforming due to their inherent 'value' focus.

Why Platinum?

Platinum is one of the most experienced and trusted managers of international equities in Australia with around $23 billion in assets under management. It focuses solely on managing international equity portfolios for retail and institutional investors in markets across Asia, Europe the US and emerging markets. Platinum defines its investment process as being value-oriented with all investments based on fundamental analysis seeking to purchase companies at a discount to their future value.

Platinum has been operating since 1994 and has consistently outperformed the major global sharemarket indices throughout this period across the majority of its sector and region specific funds.

The Asia Fund provides a targeted exposure to those sectors in Asia we expect to outperform and benefit from the growing middle class in the future. The strategy was established in 2003 and now sits at a total value of $4.2 billion. It focuses solely on investing into those companies and well-known brand names that are exposed to the huge consumption growth in Asia's emerging economies.

One of the most powerful themes occurring over the next decade is the burgeoning middle class in India and China and the implications this will have on consumption across the board. As the incomes of these people improve, their demand for both staples and discretionary or luxury items will increase substantially; from dairy and cleaning products, to beer or beauty products. This theme is likely to benefit the established players, with well-known brands and global scale more than smaller domestic players.

What are the key holdings?

The Asia fund has performed strongly driven by the funds larger exposure to China (55%) along with material holdings in Korea (12%) and Taiwan (8%). The fund is best considered an emerging markets strategy with key holdings in Tencent and Reliance the drivers of performance. Reliance Industries is India's answer to almost every US business with operations across energy, IT and now social media following a deal with Facebook. Other key holdings include semi-conductor leader, Taiwan Semiconductors (or TSMC), electronics manufacturer, Samsung, insurance giant AIA Group, and e-commerce world beater Alibaba. The fund offers unique geographical diversification and exposure to economies in a far better position than the US should this second wave outbreak continue unabated.

Performance has been exceptional, with active management and a long history in the region paying off for investors. Since inception in 2003 the fund has returned 14.5% compared to the index of just 10.0%, with more recent returns even more pleasing +23.5% compared to 10.8% over the 12 months to August 2020. It is becoming abundantly clear that in a world starved of income and in many cases growth opportunities, investors need to seek exposure to those economies that are doing comparatively better, Asia being a standout in this regard. As we have seen the region is capable of doing well even when the rest of the world is slowing.

The approach and terms:

Platinum employ an active approach to investment management focusing on businesses and growth opportunities that are being mispriced by the market. The individual portfolio managers utilize both quantitative screening and qualitative assessment processes, placing importance on the

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comparison of each company against their global peers and identifying those businesses best place to succeed in new markets.

The fund offers to fee classes, a flat management fee of 1.35% or a performance-based fee which includes a lower management fee of 1.1% plus 15% of any outperformance over the benchmark MSCI index subject to a high watermark.

Does it provide an income?

As with all unlisted management funds, Platinum Asia's distribution is determined by the capital gains it makes in any given year. This means it will be variable and fluctuate based on market performance and in fact the timing of market corrections. In recent years, the distributions have been as follows:

- 2019-20 – $0.24 or 8.7%
- 2018-19 - $0.13 or 5.0%
- 2017-18 – $0.60 or 18.8%

Wattle Watch – Impact Investment Group

Impact Investment Group (IIG) announced the launch of its new $70 million impact investment fund designed to balance profit and purpose with a sustainable and socially conscious investment thesis.

We spoke with IIG CEO and Co-Fund Manager Daniel Madhavan about the fund and about his career at Impact Investment Group.

For those that don't know, IIG was founded in 2013 and has grown to serve more than 500 investors with $650 million of funds under management. The group has seen growing demand from advisers and private investors looking for "impact" investment options to help with diversification, quarterly yield, liquidity and attractive risk-adjusted returns. Impact investments means investments that deliver both a social good and of course profits for investors.

A bit about your team? Experience, specialty, goals?

It's pretty varied team of around 30 people in Sydney and Melbourne. He won't like me saying this, but our head of renewable energy infrastructure, Lane Crockett, is known in the industry as Mr Renewables. He's been in energy infrastructure for more than 25 years. Our chief impact officer, Dr Erin Kuo, had a background in finance, then did her PhD in measuring non-financial value. Our head of strategy, Jeremy Burke, was at the UK's Green Investment Bank where he was part of deploying about 3 billion pounds of investment into renewables. Most of our team have found their way to impact investing after starting their careers in traditional finance, or funds management, or accounting, or what have you. Some of the younger people have come straight into impact, but for the more experienced team, that option didn't really exist when they were starting out.

A timeline of events for IIG?

The business started out managing 'green' property assets back in 2013. It has come a very long way since then. The most recent green building completion was the tallest engineered timber office building in Australia. It's the headquarters of Aurecon, at 25 King Street in Brisbane. We launched our first solar fund in 2016, and a few months later our first VC fund, Giant Leap. Last year we won our first superannuation mandate, with WA Super, which is about to become part of Aware Super.

What is IIGs long-term vision?

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We want to be part of demonstrating how finance can be a force for good. If you drill down, we also have visions for the systems we work in; we are helping to make cities sustainable, make our energy systems 100% renewable, accessible and affordable. Some of our investments are in service of empowering people, and some are aimed to regenerate land, air and water.

Your latest fund, how does it fit with your renewable and property assets?

The Impact Alternatives Fund is designed to meet the needs we were hearing from a lot of investors and advisors. They're looking for a fund that has impact but also offers strong risk-adjusted returns and some other key features, such as diversification, income, and liquidity. Especially now, they're looking either to deploy cash they've pulled out of stocks, bonds and property that they think are fully valued, or even over-valued. So this is a genuine "alternatives" product, targeting low correlation with those other parts of a traditional portfolio. It's also absolutely an environmental and social impact fund. the structure is a fund of funds. Each of the Impact Alternatives Fund's six investment strategies has inherent positive social or environmental impact.

What type of investor is this fund targeting?

It's for wholesale investors only. But within that, it's designed for a broad range of investors, and should fit into a broad range of portfolios. We expect that it'll be the first "impact investment" for a lot of clients.

What are the specifics of the fund?

The overall return target is 6-10% a year with a quarterly yield of 3%-5%. The key being that it will have low correlation to public markets, bonds and property.

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