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# THE ROAD AHEAD

Preparing clients for tomorrow's  
investment landscape



■ Equities

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■ Private debt

■ Private equity

■ Retirement

# THE ROAD AHEAD

The financial landscape is evolving rapidly, presenting both challenges and opportunities for advisers navigating an increasingly complex investment environment. With shifting market conditions, regulatory developments and changing client expectations, staying ahead of trends across key asset classes has never been more critical for delivering effective advice.



This e-book is designed to provide Australian financial advisers and other wealth professionals with valuable insights into what lies ahead for a range of asset classes, including managed accounts, private equity, private debt, fixed income, infrastructure, global equities and retirement solutions.

These chapters explore the trends shaping these sectors of wealth management, the strategies that are gaining traction and how advisers can position themselves to capture the opportunities emerging in this dynamic space.

From the growing adoption of managed accounts for their transparency and customisation to the rising interest in private debt and infrastructure as diversifiers in uncertain markets, this resource examines how these assets are reshaping portfolios.

Global equities remain vital for growth, while fixed income is experiencing a resurgence as interest rates stabilise. In retirement planning, innovation and tailored solutions are addressing longevity risks and evolving client needs.

At a time when diversification and resilience are paramount, this e-book highlights the tools and strategies advisers need to support their clients in achieving their financial goals.

By understanding the interplay between traditional and alternative asset classes, financial advisers can provide more nuanced advice, helping clients navigate the complexities of today's investment landscape.

We hope this e-book equips you with the insights needed to guide your clients with confidence and clarity. The road ahead is full of potential, and with the right knowledge and tools, advisers can ensure they remain indispensable partners in their clients' financial journeys. ●

***Enjoy the read!***

**Momentum Media Wealth Management Team**

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# THE POWER OF PRIVATE DEBT: DEFENCE AND DIVERSIFICATION IN VOLATILE TIMES

Private debt has solidified its place as a vital asset class, offering attractive returns and stability in increasingly uncertain market conditions. This article explores the drivers of its growth, including the demand for tailored funding solutions and defensive investments, and emerging trends shaping its future in Australia and globally.

Q&A with Alan Greenstein, CEO and co-founder at Zagga





**In your opinion, has private debt established itself as a significant asset class for a diverse range of investors, particularly in recent years and into 2024? Do you anticipate this growth trend to continue?**

Private (or non-bank) debt has certainly solidified as a critical asset class for a broad range of investors, particularly in the post-2020 economic landscape. The search for higher yields amid a prolonged low-interest-rate environment initially spurred interest in private debt. Today, its appeal lies in its risk-return profile, its ability to provide steady and defensive income, and portfolio diversification benefits. According to Morgan Stanley<sup>1</sup>, the size of the private debt market at the start of 2024 was approximately \$1.5 trillion, compared with approximately \$1 trillion in 2020, and is estimated to grow to \$2.8 trillion by 2028.

These numbers reflect its rising popularity, not just among institutional investors like pension and sovereign wealth funds, but also among family offices and high-net-worth individuals looking to capitalise on the predictability of the returns this asset class can offer, often with less volatility than public markets.

Moving forward, the appetite for private debt is expected to remain robust. Market movements globally have resulted in private debt, especially that which is underpinned by real estate, becoming very popular as an alternative asset class and popularity is steadily growing. High interest rates may dampen demand for traditional fixed-income products, while private debt offers an attractive alternative with higher yields and more tailored risk management opportunities. The continuing pressure for financing, owing to tightening bank lending criteria and capital constraints, will further solidify private debt as an essential source of capital.

**Looking ahead to 2025, how do you expect market volatility to impact investment opportunities within the private debt landscape?**

Looking ahead to 2025, market volatility is expected to be a double-edged sword for private debt investments. On the one hand, heightened volatility in public equity and bond markets caused by ongoing geopolitical risks could increase the appeal of private debt, which historically offers more stability and predictable cash flows. On the other hand, if economic conditions worsen or a global recession occurs, default rates among private debt

borrowers – particularly those in riskier segments – could rise. Now, more than ever, the selection of a highly competent investment manager with a proven track record is paramount, particularly in the fast-growing commercial real estate sector where loans are idiosyncratic in nature and require thorough due diligence and structuring of risk management prior to investment. This specialist asset class requires intensive asset management and risk management. Fund manager selection is therefore critical when investors do their product due diligence.

**Given the rising geopolitical tensions, what proactive strategies are you implementing to protect your investments in the private debt sector?**

Geopolitical risks have underscored the need for proactive risk management in private debt portfolios. As an investor-first, conservative investment manager, one key strategy we continue to implement is diversification across sectors and borrower profiles within Australia, with a primary focus on the eastern seaboard. By spreading exposure across different markets and segments domestically, we aim to mitigate concentration risks, enhance portfolio resilience, and create stable, risk-adjusted returns for our investors, regardless of macroeconomic uncertainties.



**THE APPETITE FOR PRIVATE DEBT IS EXPECTED TO REMAIN ROBUST. MARKET MOVEMENTS GLOBALLY HAVE RESULTED IN PRIVATE DEBT, ESPECIALLY THAT WHICH IS UNDERPINNED BY REAL ESTATE, BECOMING VERY POPULAR AS AN ALTERNATIVE ASSET CLASS.**

**Alan Greenstein**  
CEO and Co-Founder, Zagga



Current geopolitical issues have made globally focused investors consider safer havens for their capital. Australia, with its strong, resilient economy and stable government with effective governance, is often viewed as a safe and attractive investment environment in times of global instability.

In addition to diversification, we maintain a stringent due diligence process, particularly assessing borrowers' ability to withstand macroeconomic shocks. Strong covenants and collateral structures remain essential for protecting downside risk.

Our investments are designed to form part of a balanced portfolio, optimising returns on the cash allocation without disproportionate increases in risk. Our investment strategy is tailored to align with this objective.

Senior private debt investments are not intended to outperform investors' other strategies or expose them to excess risk in the pursuit of higher returns. We believe that conservative returns, delivered consistently over many years with manageable risk, represent strong, attractive outcomes when viewed over time. Our business is structured to deliver this effectively, efficiently and consistently to our investors.

**How do you anticipate changes in the regulatory environment will affect private debt, and what implications might this have for fund managers and investors going forward?**

The regulatory environment is poised to evolve as private debt continues its growth trajectory, particularly as governments and regulatory bodies catch up with the rising popularity and global growth of alternative lending.

In the US and Europe, greater regulatory scrutiny around private debt funds is already occurring, with an emphasis on transparency, systemic risk, and investor protection. New regulations in Europe under the Alternative Investment Fund Managers Directive may impose stricter reporting and compliance obligations on fund managers. Similarly in the US, the US Securities and Exchange Commission has proposed rules that would increase reporting requirements for private funds, aiming for more disclosure around fees, expenses and fund performance.

It is likely that Australia will follow suit in the future, especially given the plethora of new entrants into the non-bank lending space, albeit over a longer period as our private debt market is significantly smaller, less sophisticated, and in several respects,

different from our northern hemisphere peers. The key is to promulgate regulation, which is relevant, implementable and efficient. A one-size-fits-all approach could do more harm than good.

While increased regulation may initially present challenges for fund managers in terms of compliance costs, it could lead to enhanced market confidence and potentially attract more investors who previously shied away owing to perceived risks. Additionally, regulations around environmental, social, and governance (ESG) investments may push private debt funds to integrate sustainability criteria into their investment strategies, which could reshape the market landscape moving forward.

### What emerging trends in private debt do you foresee shaping the market in 2025?

Looking ahead, several key trends are likely to shape the private debt market – particularly in Australia. These include increased offshore and institutional investor participation, greater adoption of technology and data analytics for risk assessment, and a continued focus on ESG factors.

In response to the volatile macroeconomic landscape, family offices worldwide are re-evaluating their investment approaches, particularly considering

higher capital costs and evolving returns from non-traditional asset classes. Many are diversifying beyond public markets and turning to private debt.

In Australia, this comes at a time when the demand for housing is significant – as the population grows, housing supply remains insufficient, and prices continue to climb – and is fuelling demand on both the borrower and investor side.

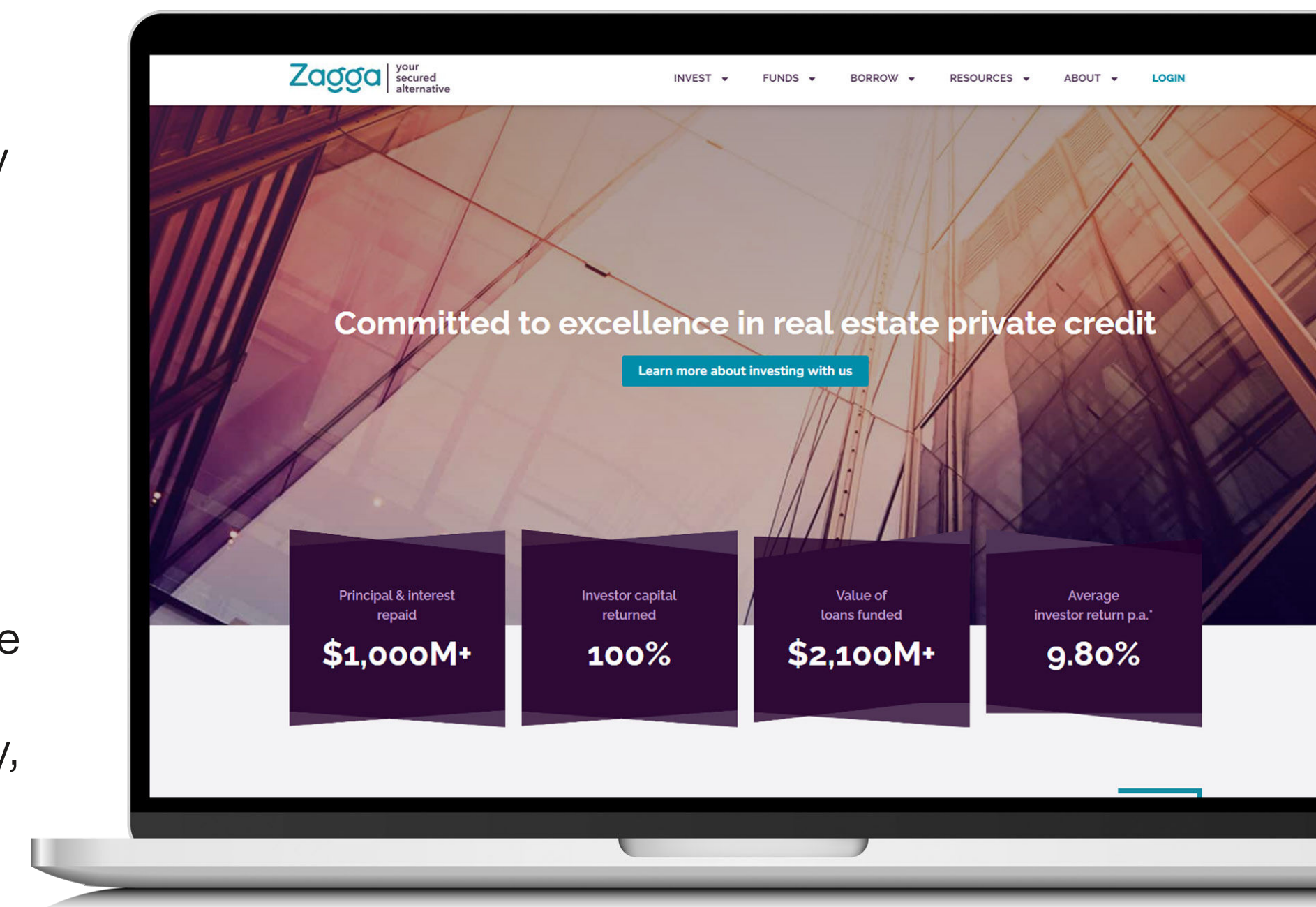
Despite the challenges posed by market dynamics, quality housing and commercial assets in prime locations across key cities remain attractive for family offices and institutional investors. Lending via private debt provides a compelling opportunity for investors seeking attractive, determinable income uncorrelated to market volatility. Add to that robust governance, a sophisticated investment sector and solid market dynamics.

Australian real estate private debt becomes an attractive option for foreign and local investors alike, providing a positive platform for sustainable growth in the coming year, and as such, the private debt sector will continue to evolve, responding to both opportunities and challenges from regulatory, market and geopolitical developments. ●

Source: 1. Morgan Stanley | Private Credit Outlook



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# LEADERS IN RETIREMENT INCOME

Challenger is recognised as Australia's leading provider of retirement income<sup>1</sup> and Australia's largest annuity provider<sup>2</sup>. With over 35 years of experience delivering market-leading longevity protection and lifetime income solutions, our purpose is to provide Australians with financial security for a better retirement.

Q&A with Aaron Minney, head of retirement income at Challenger





### What are the current key challenges facing the Australian retirement system?

The retirement landscape in Australia has changed over the past couple of years, reflecting changed requirements for superannuation funds to consider how members maximise their income in retirement and pending changes to how Australians receive advice about retirement. While many people have investments outside superannuation, the success of the superannuation system is delivering significant retirement nest eggs to the average Australian retiree.

Australian Taxation Office data indicate that the average super balance for someone approaching retirement is now more than \$200,000.<sup>3</sup> The key challenge for retirees is converting this nest egg to the income they need through retirement. For the many households with more than \$500,000, there is often little awareness of what they can spend.

### How has the changing economic landscape, particularly with inflation and market volatility, impacted retirement income strategies?

Retirees have also noted some key concerns throughout 2024. This includes keeping up with the cost of living and worrying if their income will last for their lifetime.

A YouGov survey noted that two in three Australians over 60 said that the cost of living impacted their confidence that they would have enough money for retirement.<sup>4</sup> With more lifetime income streams available in the market through 2024, there has been an increase in the take-up of lifetime income streams by retirees. The most common choice remains the consumer price index (CPI)-linked lifetime annuity. This provides guaranteed income that protects investors directly from an increase in the cost of living. Other lifetime income streams can be increased with market exposure, providing an indirect offset to the rising cost of living.

A key advantage for retirees with a lifetime income stream is that it is generally only a part of their portfolio and they retain control over the majority of the investments and are able to spend more now, with an added comfort that they will have the money they need later in retirement.



**SUPERANNUATION IS 140 PER CENT OF GDP AND STILL GROWING. THE MATURING SYSTEM MEANS THAT MORE MEMBERS ARE REACHING RETIREMENT WITH MORE SAVINGS TO GENERATE RETIREMENT INCOME.**

**Aaron Minney**

Head of retirement income, Challenger





**With increasing life expectancy, what strategies should advisers consider to ensure clients' income last throughout their retirement?**

A concern that more clients are raising in retirement is FORO, the fear of running out. This is affecting many people who are approaching or already in retirement. Advisers need to be aware that their clients could be experiencing FORO and should have some strategies to help them manage it.

There are two key elements that drive FORO. One is that people are not sure about what their expenses will be over their lifetime. The other element is that people worry that investment returns might not hit their target.

One way to ensure that a client's money lasts for their lifetime is for them to reduce their spending. This will mean that their money lasts, but it isn't a satisfactory solution. What they need is the confidence to spend now and enjoy their best lifestyle while they can. Helping the client understand how their spending is likely to change over retirement – it will get lower as they move into a more passive phase, as higher health costs are typically more than offset by lowering other spending. It is also beneficial to have a source of income that will last their lifetime. The Age Pension does this, but most people need a little more.

In a recent National Seniors Australia and Challenger Partnership Research report, 90 per cent of home owners stated that they need more than the Age Pension for their basic lifestyle expenses<sup>5</sup> – on average, \$10,000 a year for singles and \$15,000 for couples. This can generally be met with a small allocation to a lifetime income stream. If they use a CPI-linked lifetime annuity, the client can have confidence that their needs will be met throughout their lifetime.

**With ongoing regulatory changes, particularly around superannuation and tax policies, what long-term impacts do you expect these to have on the retirement system moving forward?**

Superannuation is 140 per cent of gross domestic product and still growing. The maturing system means that more members are reaching retirement with more savings to generate retirement income. There will be further changes as super funds develop solutions focused on the income needs of retirees, not just the investment needs of their accumulating members.

With the maturing superannuation system, regulations are increasing the focus on the objective of superannuation to provide income



**WITH THE INCREASED FOCUS ON RETIREMENT AND LIFETIME INCOME STREAMS, PRODUCT INNOVATION IS LIKELY TO CONTINUE. THE BIGGEST CHANGE FOR RETIREES AND THEIR ADVISERS IS LIKELY TO COME FROM INCREASED AWARENESS OF THE INNOVATIONS THAT HAVE ALREADY BEEN IMPLEMENTED.**



for retirees. While the changes apply to superannuation funds, the impacts have been much broader. The industry has seen an increase in the number of lifetime income products with new providers entering the market and client interest increasing, especially for options that are indexed to higher inflation.

A deeper market will provide greater choice for retirees and increase their confidence in selecting different lifetime income products. The increased focus on retirement and deeper market also provides opportunities for advisers to assist their clients generate the income they need for retirement. Members are more likely to be aware of the risks in retirement, such as longevity and sequencing risks and advisers will have a role to play in assisting their clients to manage these risks.

**As we look towards the future, what role will product innovation play in improving the efficiency of the superannuation system for retirees?**

With the increased focus on retirement and lifetime income streams, product innovation is likely to continue. The biggest change for retirees and their advisers is likely to come from increased awareness of the innovations that have already

been implemented. For example, most lifetime income streams include a death benefit, but most retirees and many advisers are not aware that this is standard. This has been a key reason for avoiding lifetime income, so a better understanding of this feature will continue to support growth.

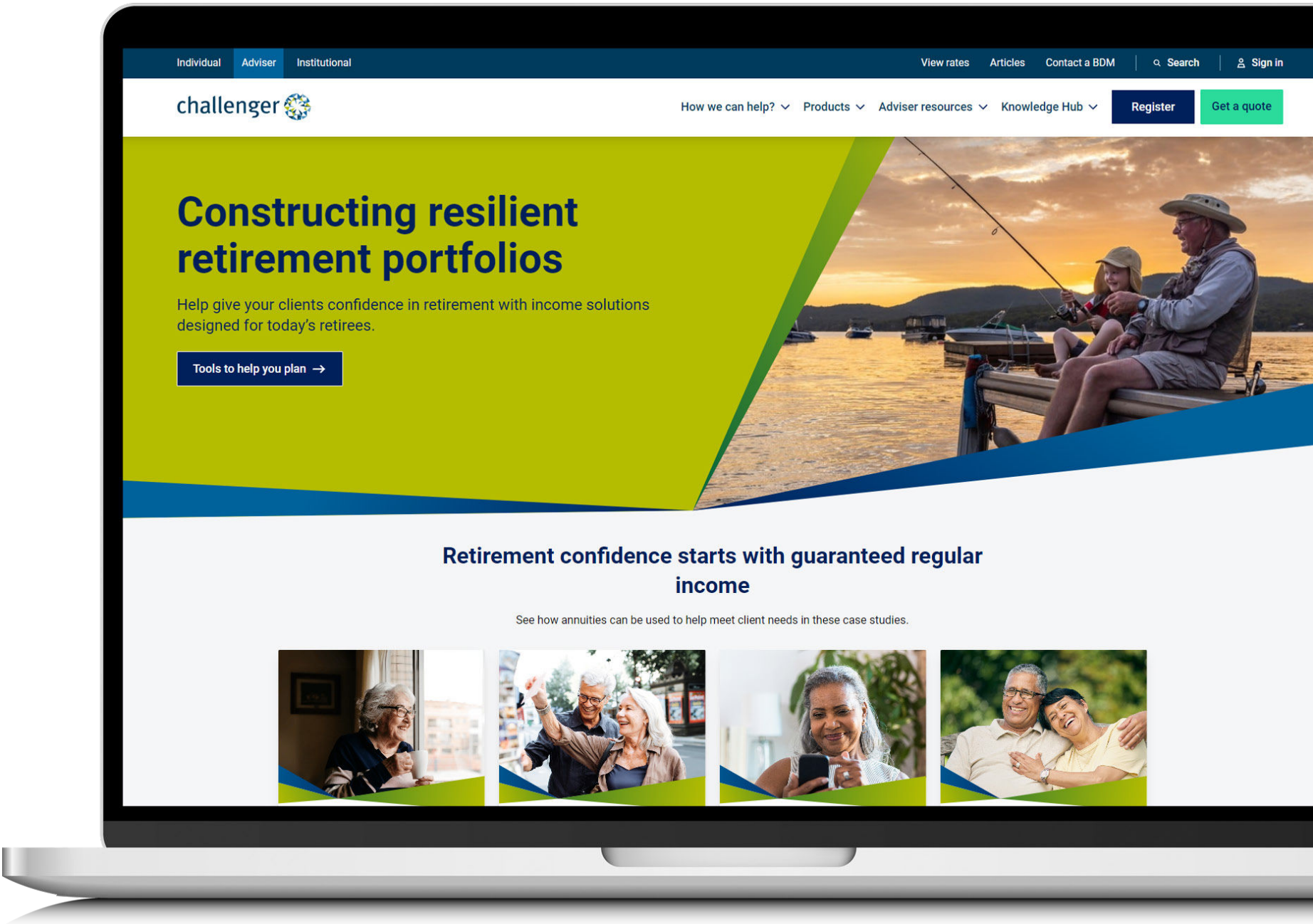
Research by the University of New South Wales academics has found that 57 per cent of Australians aged between 50 and 75 were not aware that there were investment options that provided a lifetime income.<sup>6</sup>

Efficiency will come from the take-up of these innovations through increased guidance and advice to Australians before they reach retirement. Improved access to retirement options through easier access on platform and through an increasing number of superannuation funds will improve the retirement system for all Australians. ●

- 1. Marketing Pulse adviser survey, June 2024
- 2. Plan for Life - March 2024 - based on annuities under administration
- 3. Australian Taxation Statistics 2021–22
- 4. More than a nest egg: Challenger Happiness Index
- 5. Older people’s financial wellbeing and preferences - National Seniors Australia
- 6. Explaining Lifetime Income Product Demand Using the Decision States Model. Jiamin Yan, Presentation to the 32nd Colloquium on Pensions and Retirement Research Cepar November 2024



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ASSET MANAGEMENT

# PRIVATE EQUITY HAS EARNED ITS KEEP THROUGH MULTIPLE MARKET CYCLES

Far from being a “flat-track bully” that only thrives in benign conditions, private equity has successfully navigated all manner of market events and crises since its emergence. This article touches on the timeless proposition for private equity and industries especially well-placed to benefit from structural tailwinds.

Q&A with David Chan, portfolio manager at MLC Private Equity





### Considering global economic challenges, including persistent inflation throughout 2024, and geopolitical issues, how have these factors influenced the attractiveness of private equity?

The private equity industry has navigated many market and geopolitical events over the past four decades, including the 1987 sharemarket crash, the bursting of the late 1990s internet bubble, the Global Financial Crisis, the COVID-19 crisis, Russia's invasion of Ukraine, and most recently, the global inflation and interest rate outburst.

There's always something taking place in some corner of the globe with the potential to upset financial markets. In that context, current geopolitical challenges are, in effect, business as usual.

The case for private equity does not rest on benign market conditions and geopolitical tranquillity, but rather on a more timeless proposition that well-chosen private equity investments, as part of well-diversified portfolios, are attractive because they provide the following:

- Potential for superior returns from genuinely active management by private equity (PE) managers who take a hands-on approach to creating value in investee companies.
- Capacity to provide complementary industry and sector diversification, relative to listed equities' industry and sector composition.
- Ability to move rapidly to capitalise on market conditions by quickly right-sizing investee companies in tougher economic conditions or through accretive mergers and acquisitions and investment during stronger economic times.
- Capacity to improve the investment frontier by increasing return potential while managing overall portfolio risk.

### How do you foresee the global economic climate impacting private equity returns in 2025?

All things being equal, lower interest rates, on the back of falling inflation, are positive for asset class valuations and improve investor risk appetite.

On this basis, 2025 may see greater investor interest in private equity (and other risk assets), both from a capital allocation angle, as well as asset disposal perspective, to realise value.

### What sectors or industries are currently showing the most promise for private equity investments, and why?

We are broadly agnostic about the industries we invest in. Nevertheless, our PE program does show an overweighting to three structural growth themes:

- Healthcare.
- Consumer-related industries.
- Technology, especially financial technology, and business-to-business software.

We believe these thematic will benefit from long-term structural trends which will play out over time, matching the multi-year investment horizons associated with private equity.

In these industries, we generally back specialist healthcare, consumer or technology private equity managers who "know what good looks like", given their deep industry expertise and sector knowledge.

We like the specialist private equity model in healthcare, consumer and technology as we often see specialist PE funds winning deals over generalist funds, impressing founders with their Rolodex of industry experts, track records of delivering successful returns in similar businesses,



## 2025 MAY SEE GREATER INVESTOR INTEREST IN PRIVATE EQUITY (AND OTHER RISK ASSETS), BOTH FROM A CAPITAL ALLOCATION ANGLE, AS WELL AS ASSET DISPOSAL PERSPECTIVE, TO REALISE VALUE.

**David Chan**  
Portfolio Manager, MLC Private Equity



and ability to implement proven playbooks of tried-and-tested value creation initiatives.

**How do you anticipate easing monetary policy will influence private equity valuations and IPO activity, and what strategies are you implementing to mitigate the risks?**

Investment success comes not just from owning good assets. Risk management is equally important. Without intensive and constant focus on downside management, a PE investment program could be undone by failures in one part of the program, overwhelming positive returns elsewhere.

That is why, as part of our investment process, we model investee companies against severe “what if” downside scenarios.

What if interest rates stay high or go even higher? What if inflation persists? What if there is a recession? What if the company’s most material contract isn’t renewed? What if the worst-case scenario the private equity manager contemplates occurs? What if even worse eventuates?

We follow a “tried-and-tested” process designed to make sure that all our investments have a margin of safety so they can be resilient should the operating environment sour.

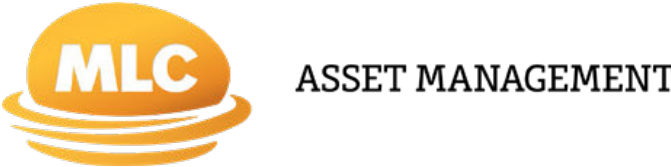
Cash flow is particularly important in this regard. In its absence, companies cannot survive, let alone fulfil basic obligations like paying lenders, suppliers and employees on time.

That is why we analyse prospective investee companies for their cash flow durability. We do not invest in venture capital businesses which are loss-making. We invest in cash flow positive private equity opportunities which we feel can be resilient in a downturn but retain significant upside if managed as well as the private equity firm intends.

**How are you leveraging mega-trends such as AI, ESG, and reshoring in your investment strategy to drive transformational growth in the current market environment?**

Our general partners (GP) are actively evaluating and leveraging artificial intelligence (AI) to transform their value creation plans and internal processes. More specifically, one of our GPs is leveraging generative AI to boost front office and back office productivity.

They also hired a director of artificial intelligence to lead the firm and its portfolio companies’ artificial intelligence strategies and initiatives.



Another of our GPs applies AI to analyse large data sets to extract insights and optimise processes. In addition, it also employs AI to analyse market trends, such as natural language processing to gauge sentiment from customer feedback and social media posts.

Two examples from our co-investments include:

- 1. A company that’s expanding its AI/machine learning (ML) technology use case from plate recognition to human behavioural detection. It recently landed a pilot project in a major US state to help detect and reduce human trafficking across borders.
- 2. A data-as-a-service business technology company running experiments and prototypes using automated machine learning, which provides model building development capabilities as part of the Microsoft Azure data cloud. It also leverages AI/ML to reduce manual processing and friction of processing customer/enterprise data.

We strongly believe that companies with excellent ESG credentials minimise risks and ultimately often command higher exit multiples. Near-shoring/reshoring is just one example of this (reduces supply chain risks and can increase exit multiples).

Likewise, companies that standout for energy efficiency, waste/carbon emission reduction, and diversity in executive leadership and boards are examples where those who excel command valuation premiums, in our experience.

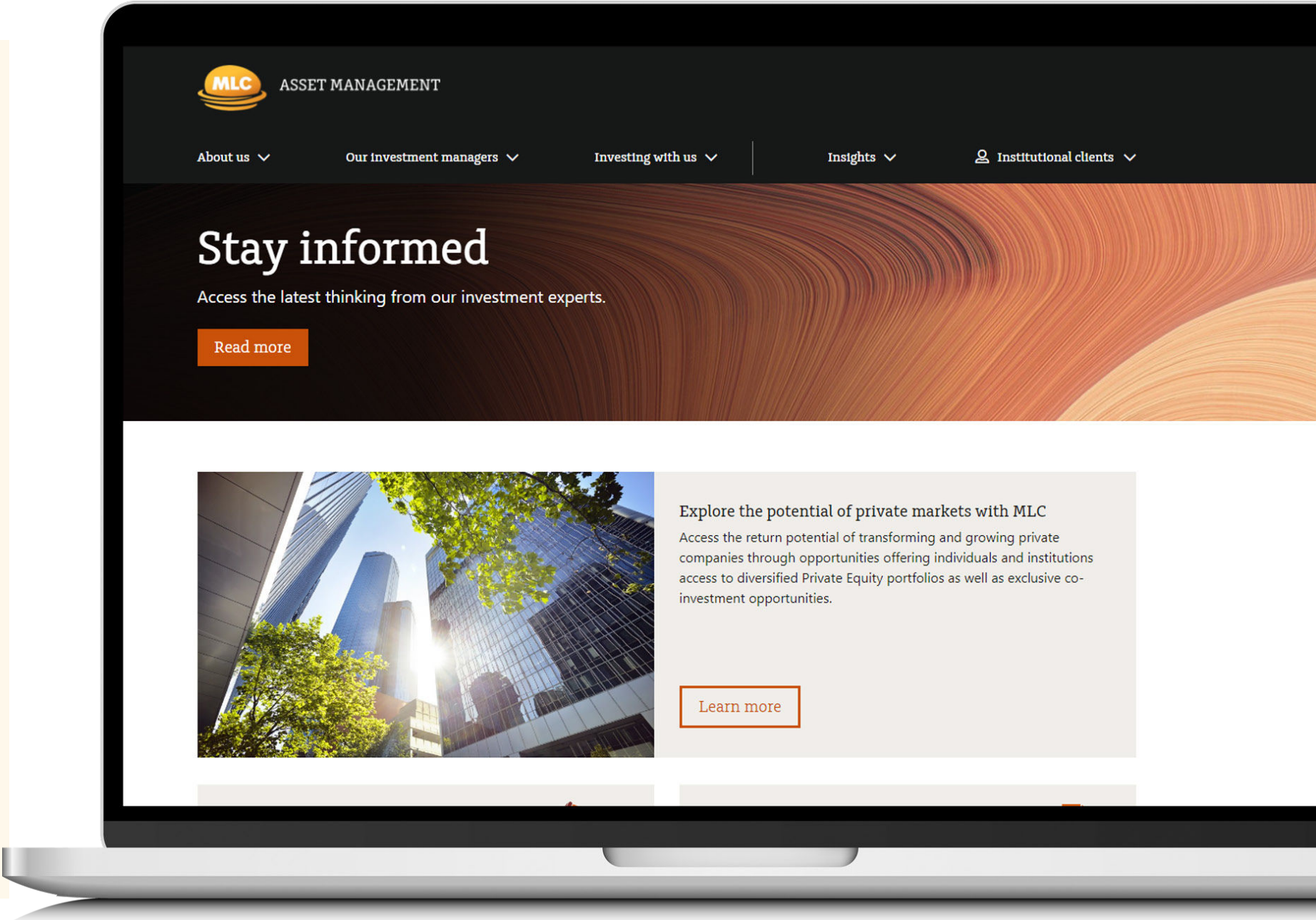
It’s easy to pay lip service to diversity, and we’re especially pleased that our GPs are implementing principles. For instance, one of our GPs can boast that 60 per cent of their operating partners are female. ●

Important Information

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ASSET MANAGEMENT

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# INFRASTRUCTURE OUTLOOK FOR 2025

Infrastructure's differentiated returns and inflation pass-through mechanism are all the more attractive in a concentrated market with renewed inflation concerns. Here we look at why we think we're still seeing a catch-up of a gap between infrastructure earnings and total returns since 2022 and how opportunities continue to be widespread across the infrastructure landscape.

Q&A with Shane Hurst, managing director, portfolio manager at ClearBridge Investments





Why invest in infrastructure?

The concentrated market of 2024 and the return of inflationary pressures are a good reminder of what sets infrastructure apart from other asset classes and why this will be valuable in 2025. First, infrastructure offers a differentiated source of returns. Unlike general equities and real estate, the key driver of long-term returns for infrastructure investors is growth in the underlying asset bases. Regulators generally provide an allowed return with reference to the underlying asset base of these essential companies, though how this occurs varies by region. If the regulator is providing steady allowed returns on a growing asset base, we would expect earnings to increase at broadly the same pace as the underlying asset growth.

Second, infrastructure offers inflation protection. Infrastructure assets are designed to provide long-term benefit for their communities and stakeholders and, as a result, allowed returns are generally linked to inflation. This inflation “pass-through” mechanism allows prices paid by the users of the asset to adjust periodically and ensures that the returns to equity investors funding these assets are not eroded over time due to the effects of inflation. Importantly, this inflation pass-through

can take anywhere from three months to three years to have an impact on reported earnings, depending on the type and location of the assets.

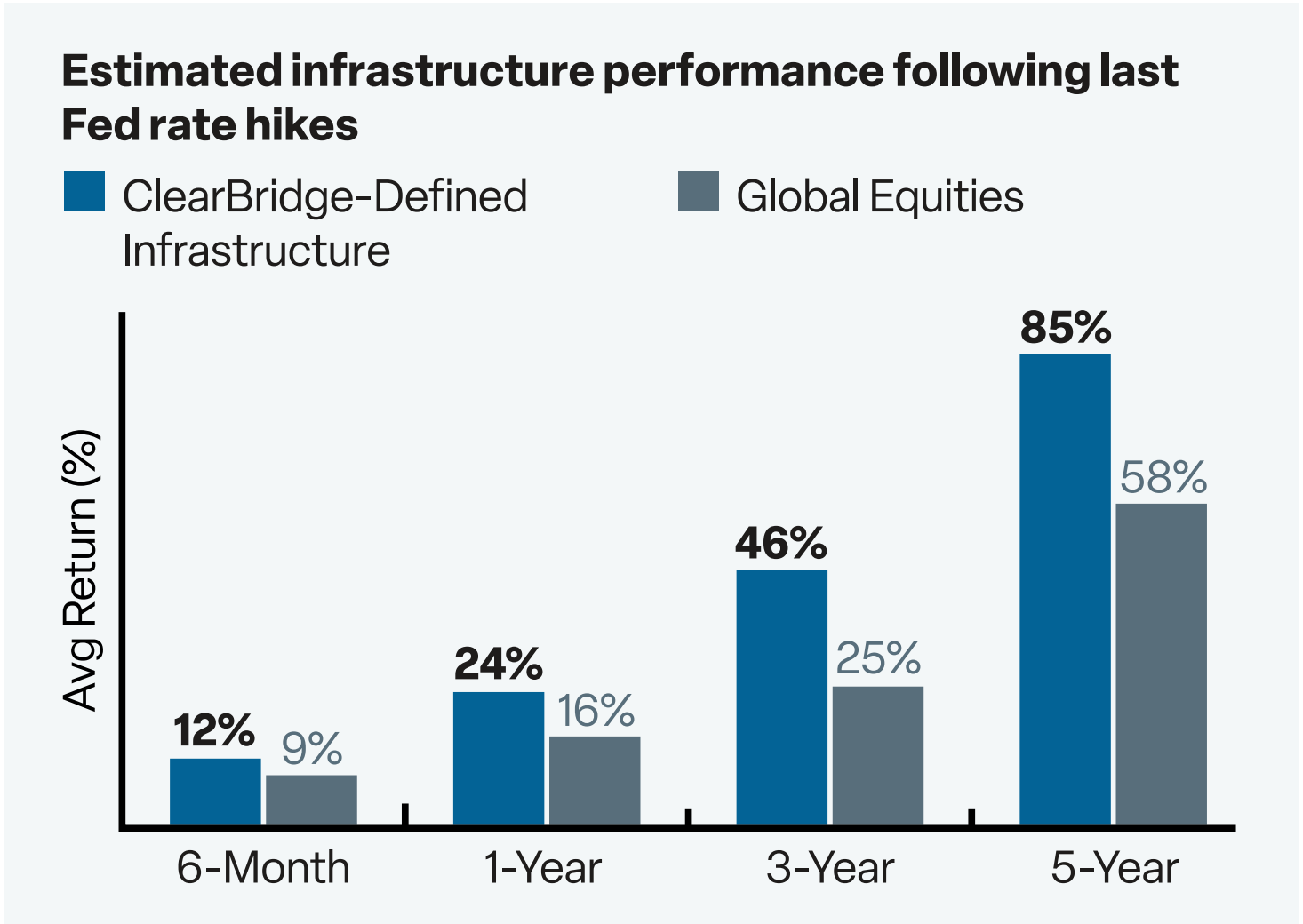
With early 2024 returns for most investors dominated by momentum related to the Magnificent Seven stocks, or more recently cyclical stocks surrounding the US presidential election, infrastructure’s differentiated returns offer some diversification away from the risks of concentrated trades. And with Donald Trump’s policies potentially leading to a second round of inflation, infrastructure’s inflation pass-through mechanism will likely be all the more valuable in 2025.

What is the outlook for infrastructure in 2025?

Peaking interest rates are a good sign for infrastructure, as we have seen it outperform global equities following the last Federal Reserve rate hike prior to cutting cycles (**Exhibit 1**). Following global central banks kicking off easing in late 2023, market breadth has continued to improve. As this has occurred, the market has begun to recognise the strong fundamentals and secular themes of the infrastructure asset class. These include decarbonisation, growing power demand from artificial intelligence (AI) and data growth, and significant network investments to

replace ageing assets, improve resiliency and meet the needs of realigning supply chains and onshoring trends.

Exhibit 1: Infrastructure performance following last Fed rate hikes



Source: ClearBridge, FactSet, at 30 September 2024. ClearBridge-Defined Infrastructure includes constituents of the RARE 200 and RARE Income Universe for the past five years, at 30 September 2024 – the investment universes of the ClearBridge Global Infrastructure Value Strategy and ClearBridge Global Infrastructure Income Strategy, respectively. Hypothetical outcome, noting not all stocks in the ClearBridge-Defined Infrastructure were available during each historical cutting cycle. ClearBridge-Defined Infrastructure, total returns in local currency. Global Equities: MSCI AC World Index, gross returns in local currency. Performance reflective of the 6-month, 1-year, 3-year and 5-year period following the last Fed rate hike prior to cutting cycles in 1989, 1995, 2001, 2007, 2019 and 2023 (2023 cycle – 6-month and 1-year performance only).

“  
**INFRASTRUCTURE ASSETS  
ARE DESIGNED TO PROVIDE  
LONG-TERM BENEFIT FOR  
THEIR COMMUNITIES AND  
STAKEHOLDERS AND,  
AS A RESULT, ALLOWED  
RETURNS ARE GENERALLY  
LINKED TO INFLATION.**

**Shane Hurst**  
Managing Director, Portfolio Manager,  
ClearBridge Investments



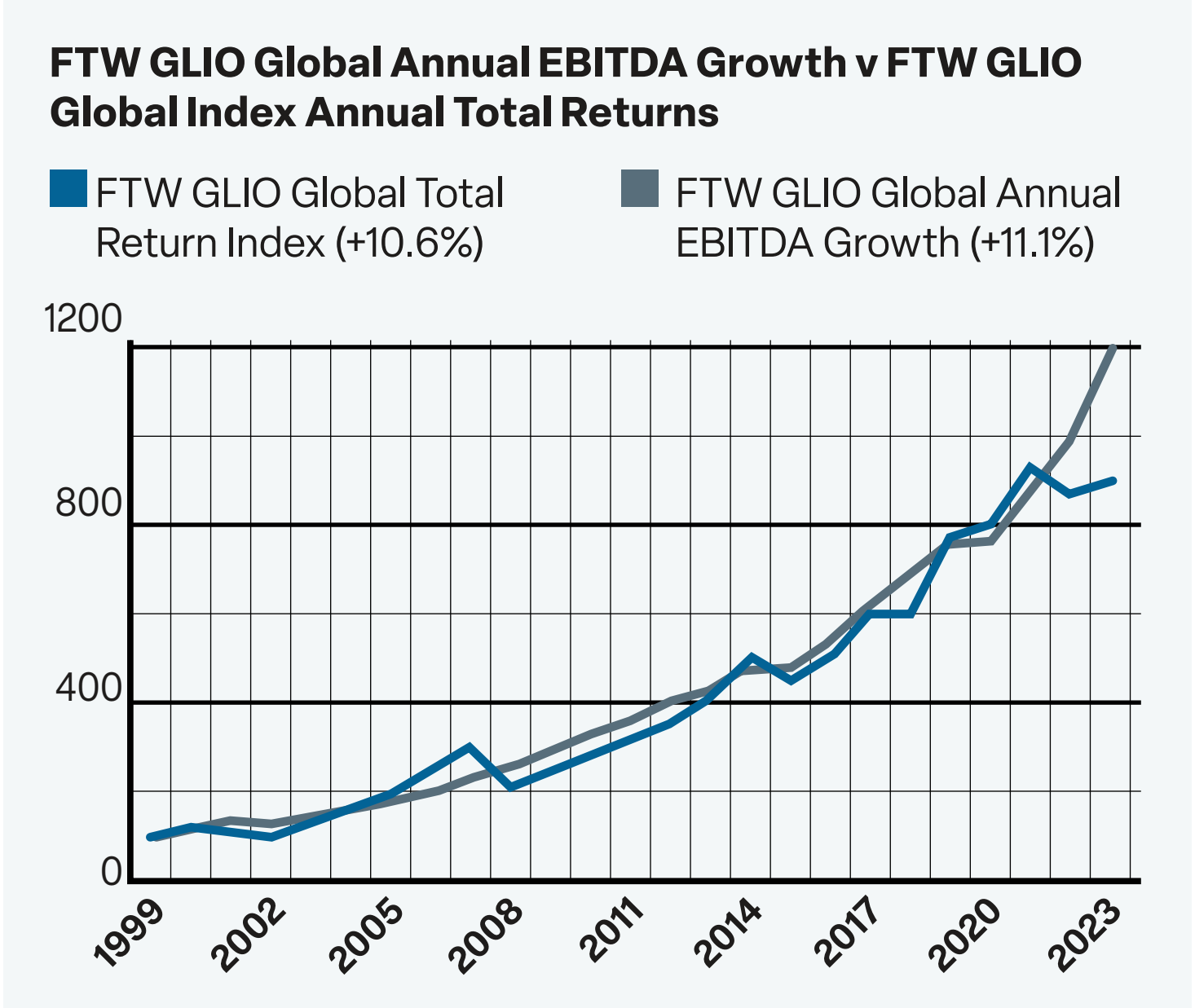
For utilities, we think their earnings stability will be sought after in what looks to be a more unpredictable and volatile market going forward. Add to this the structural tailwinds we are seeing in AI, decarbonisation and network investment, and utility asset bases and earnings are set to grow at some of the fastest levels we have seen in many years.

User-pays infrastructure assets are more tied to gross domestic product growth, which is projected to stay at 3.1 per cent in 2024 and rise to 3.2 per cent in 2025, per the International Monetary Fund. This bodes well for economically sensitive assets such as toll roads, airports and ports. Haulage rail in the US should also see increasing momentum, as the US economy continues to be a standout grower among its peers. The risk remains, meanwhile, that reflation could hinder some of the consumer-driven services such as travel at the margin.

Zooming out, we believe we’re still seeing a catch-up of a gap between infrastructure earnings and total returns since 2022, and valuations are attractive for this reason. Even though there is a strong positive correlation between infrastructure earnings growth and infrastructure total returns,

increasing earnings and strong fundamentals were not enough to keep infrastructure valuations from falling due to the rise in real bond yields in 2023 **(Exhibit 2)**. We expect this gap to close over time as the market recognises the strong long-term themes of infrastructure.

**Exhibit 2: Infrastructure total returns typically track earnings**



Source: Global Listed Infrastructure Organisation (GLIO).  
FTW GLIO Global Index is the FT Wilshire GLIO Global Listed Infrastructure Index.



## Where do we see opportunities in infrastructure?

Opportunities continue to be widespread across the infrastructure landscape, with utility fundamentals some of the best we have ever seen. The market is still massively underestimating the growth in electricity demand driven by AI and data growth, as well as any pro-growth fiscal policy that would boost manufacturing. Utilities with exposures to these strong themes, and a high likelihood of earnings upside surprises, look well positioned.

North American energy infrastructure assets also have an outstanding growth trajectory, driven by consolidation in the sector, rising AI-related demand for gas infrastructure and the essential role gas fuel plays in stabilising the grid as coal plants get retired. North American rail is expected to be a dynamic place, with pricing pressure from the trucking market a counterbalance to improving volumes and company network and operating efficiencies.

In Europe in 2024, outside of select countries like Spain and Italy, long-duration assets, in general, underperformed. Anaemic economic growth, slow- to-respond central banks and a weak currency have led to weakness in the region. But there is a clear disconnect between valuations and where infrastructure assets are trading.

European utilities continue to benefit from drivers very similar to those in the US, where utilities have seen greater share price gains. Transport infrastructure, in particular airports, may see some economic headwinds in Europe in 2025, but with idiosyncratic drivers and the removal of overhangs we see these assets remaining attractive.

Elsewhere, utilities and infrastructure assets continue to suffer in Brazil as monetary policy tightens. Mexico will likely suffer from Trump policies and a weakening currency, and Australia, while yet to kick-off its rate-easing cycle, will likely see this occur in the first half of 2025, creating a positive environment across infrastructure sectors. New political leadership in the UK, France and the US will lead to some volatility, as governments wrestle with high deficits and differing global economic conditions and political priorities.

Overall, the ClearBridge Infrastructure team believes the opportunity set for global infrastructure remains highly attractive in 2025 as a growing and more demanding population, as well as multi-decade mega trends such as decarbonisation, reindustrialisation and digitalisation\_ drive growth. We continue to expect the flexibility of our portfolios to harness these opportunities over the long term to the benefit of our investors. ●

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# A World of Opportunities

**ClearBridge**  
A Franklin Templeton Company

Explore Our Infrastructure and Global Equity Capabilities  
[ClearBridgeInvestments.com.au](https://ClearBridgeInvestments.com.au)

# Atchison

## ATCHISON EXPLORES HOW MANAGED ACCOUNTS WILL DRIVE SUCCESS IN 2025

Managed accounts offer advisers an unparalleled opportunity to deliver value to clients. With FUM reaching \$205 billion in 2024, their evolution equips advisers to stay ahead of the curve and drive client success in an increasingly uncertain market, positioning managed accounts as a key tool for 2025 and beyond.

Q&A with Mishan Dahia, investment analyst at Atchison



# Atchison



## How have managed accounts evolved in 2024?

Managed accounts continue to evolve, experiencing explosive growth in the six months leading up to 30 June 2024. Funds under management (FUM) in managed accounts surged to more than \$205 billion, with new investment inflows of \$14.9 billion, up 27 per cent on the \$161.7 billion reported in June 2023, according to the Institute of Managed Account Professionals.

## What investment trends are expected to continue into 2025?

We'll continue to see breakthrough healthcare innovations – such as the adoption of GLP-1 drugs, gene therapy, immuno-oncology, mRNA technology, CRISPR gene editing and stem cell therapy – assisting with huge global medical needs, for example type 2 diabetes, weight loss, cancer treatment, rare diseases and infectious conditions. And where there are large patient populations, there are potentially very lucrative markets.

Atchison capitalises on healthcare and biotech advancements by assessing category-leading companies with strong “moats” (sustainable and deep competitive advantages), proven profitability and the capacity to capture additional market share.

This is achieved by assessing innovative healthcare exchange-traded funds (ETF), along with active management with a proven track record and low fees.

Other 2025 investment trends include artificial intelligence (AI) supply chains, data centres and advanced semi-conductor chips. According to McKinsey's AI analysis, *PwC's Global Artificial Intelligence Study* and Microsoft Transform's report, AI is expected to contribute US\$16 trillion (\$24.4 trillion) to the global economy by 2030, revolutionising supply chains across all industries, including healthcare, manufacturing, finance, smart cities, energy, automotive and logistics. Additionally, data centres powered by AI consume 2 per cent of global electricity currently and are estimated to represent 10 per cent of demand by 2030.

AI's expansion generates second to fifth-order effects, increasing demands for maintenance, automation, electricity, semiconductor manufacturing, data centres, design, materials, equipment and distribution. This is why it is important to ensure investment committees and asset managers are performing a deep dive on quantitative analysis, assessing the best ETFs and the most appropriate active managers to capture value across supply chains.

## What role will macroeconomic forces have on managed accounts in 2025?

Macroeconomic forces are an important consideration in managed accounts, as they impact market conditions, asset class performance, volatility, risk mitigation, strategic/tactical positioning, and the ongoing task of ensuring that portfolios remain resilient and responsive to both global and domestic market trends.

The International Monetary Fund's chief economist, Pierre-Olivier Gourinchas, recently stated: “The battle against inflation is almost won. After peaking at 9.4 per cent year-on-year in the third quarter of 2022, we now project headline (global) inflation will fall to 3.5 per cent by the end of 2025.”

Conversely, Australia remains positioned to record the second-highest inflation figure out of 42 advanced economies.

While global inflation is expected to ease, it is projected to remain elevated in Australia. To mitigate this, we adjust asset class positioning tactically by overweighting defensive assets and inflation-resistant sectors domestically, while favouring growth exposures internationally. This tactical tilting is reviewed monthly with a 12-month outlook.

# Atchison



## AI IS EXPECTED TO CONTRIBUTE US\$16 TRILLION TO THE GLOBAL ECONOMY BY 2030, REVOLUTIONISING SUPPLY CHAINS ACROSS ALL INDUSTRIES, INCLUDING HEALTHCARE, MANUFACTURING, FINANCE, SMART CITIES, ENERGY, AUTOMOTIVE AND LOGISTICS.

**Mishan Dahia**

Investment analyst, Atchison



Asset managers should appropriately consider and quantify macroeconomic forces and their implications on asset classes. Regarding specific regions, it's important that professional investors can clearly articulate asset class positioning, regarding distinctions such as growth/defensive, active/passive, or sector, factor and market cap exposure.

### **Considering the shifting regulatory environment and market conditions, what best practices should advisers implement to deliver the most value through managed accounts in the upcoming year?**

There are many "best practices" that require consideration, including understanding your client and their objectives, risk tolerance, investment horizon and current portfolio, along with the frequency and quality of communication an adviser has with their clients. However, from an asset manager's perspective, asset allocation drives returns. Therefore, having a clear philosophy and framework surrounding the type of asset classes, along with appropriate exposures, ensures your clients' portfolios are protected from shifting regulatory changes and market conditions.

Exposure to growth assets is essential for enhancing portfolio returns, providing capital appreciation and

outpacing inflation over the long term. Australian equities offer a stable domestic market and strong dividends, while international equities provide diversification (industry and currency) and exposure to global brands, innovation and technology. Real assets contribute to stability and consistent income, while liquid alternatives add diversification, uncorrelated returns and alpha through strategies like currency alpha, trend following, distressed debt, commodities, and buy/write.

Atchison positions managed accounts to balance these growth assets by blending domestic stability with international growth exposure and layering in inflation-resistant real assets. Liquid alternatives are selectively integrated to capture uncorrelated returns, enhancing portfolio resilience and adding flexibility to allow the portfolio to respond dynamically to market shifts.

Exposure to long duration versus floating rate asset classes require careful consideration – particularly in an environment of interest rate regimes moving at different speeds (and in some cases, direction). With expectations of falling interest rates, long-duration bonds are tactically added to capture potential capital gains if yields fall, particularly in global markets, while, floating rate assets are emphasised domestically,

# Atchison

as the Reserve Bank of Australia's relatively slower easing cycle aligns with expectations of prolonged higher rates in Australia. Investment grade, high yield, securitised, private, bank hybrids, term deposits, and cash require consideration.

**Given the growing popularity of managed accounts, how can financial advisers effectively leverage this investment vehicle to meet client needs in the coming year?**

**For advisers not using managed accounts:**

- Seek advice and guidance from other advisory groups using managed accounts. This allows a non-biased view to understand best-in-class practice.
- Understand what type of managed accounts advisory groups are using and why.
- Understand performance, fees, platform availability, passive/active options, company track record, product suitability, white labelling, differing risk profiles, peer analysis and customisation offering.

**For advisers using best-in-class managed accounts, benefits include:**

- Complete transparency and control into the underlying investments of the portfolio.

This entails line by-line data tracking of underlying holdings – helping to deal with even the most active, engaged clients.

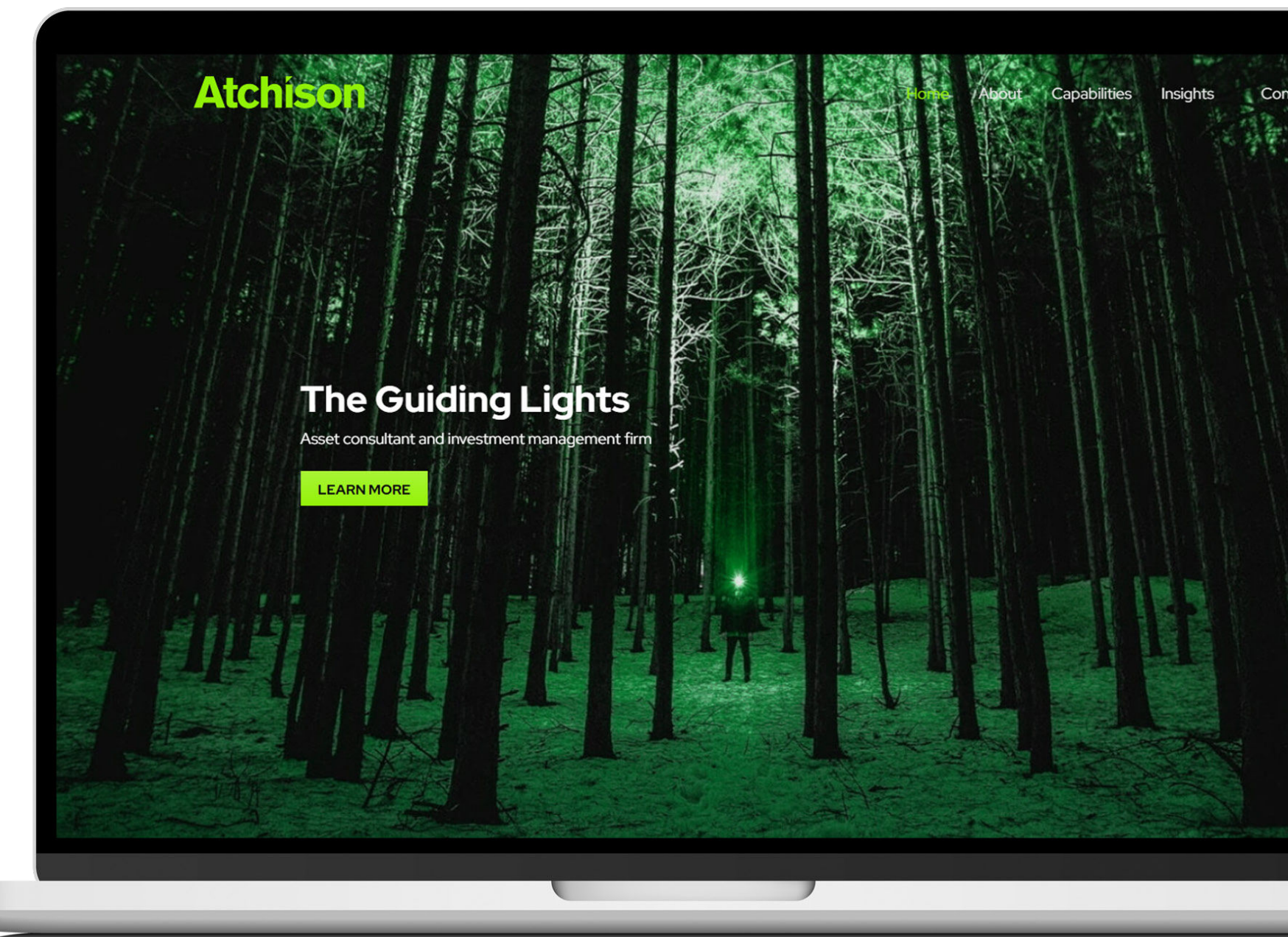
- Reduced implementation lag from four weeks to just a few hours; saving time, labour cost, energy and effort for both clients and the financial advice practice.
- Operational efficiency and transparency through reducing administrative/staffing costs. The requirement to send records of advice statements for each investment change, and then executing these changes comes at a significant administrative, labour, time, efficiency, business and opportunity cost – relative to separately managed accounts.
- An all-inclusive online portal, updated for convenience and transparency for individual advisory groups, and thus, clients. This includes tactical asset allocation papers, strategic asset allocation papers, product profiles, two-page client reports, detailed interactive web-based reports, approved product list monitoring, rebalance updates and investing philosophy.

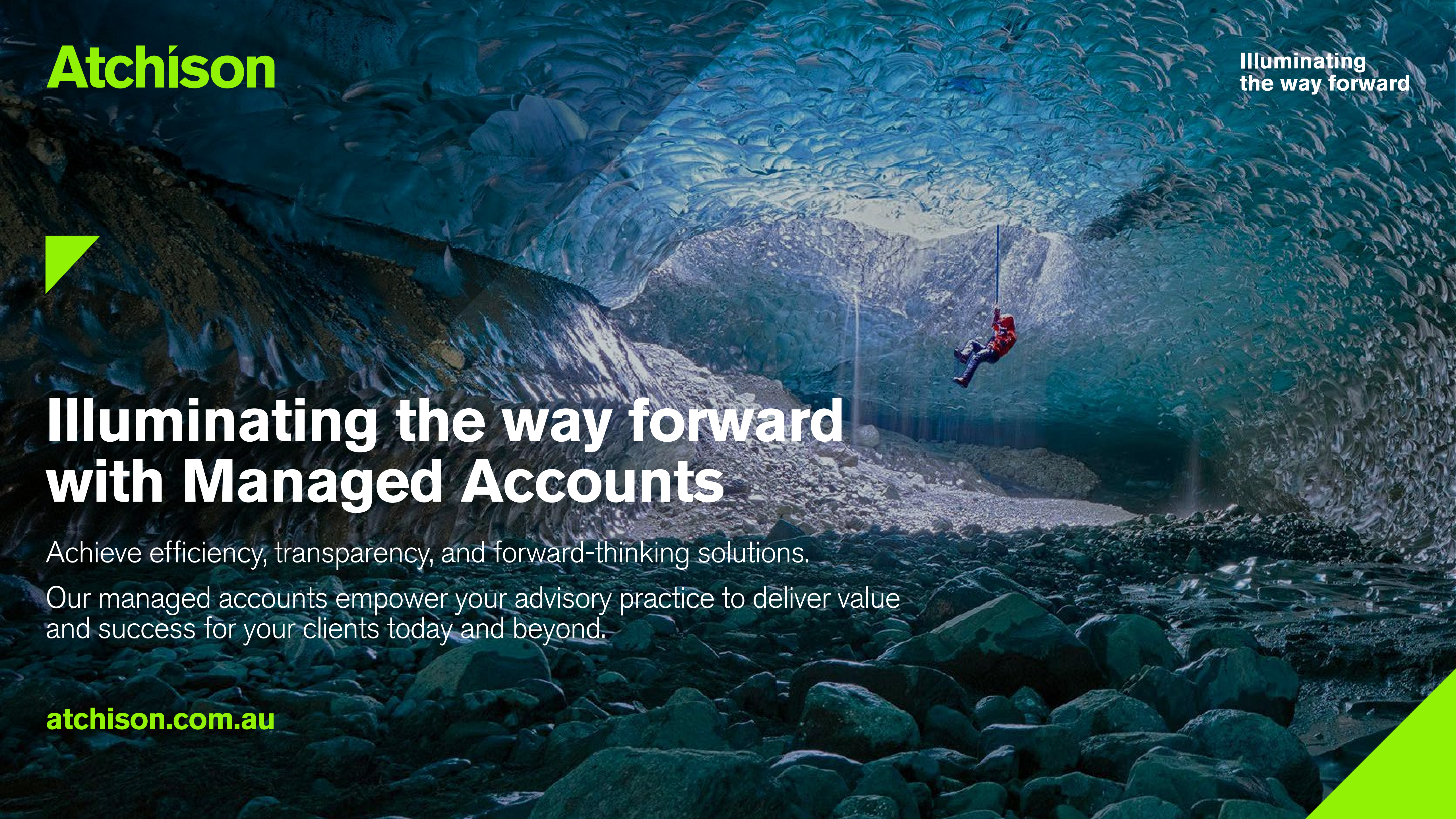
Best-in-class managed accounts help financial advisers stay ahead of the curve, providing expert

insights and dynamic portfolio management in an increasingly uncertain world. For advisers looking to offer differentiated investment solutions, managed accounts present an unparalleled opportunity to deliver value and drive client success in 2025 and beyond. ●



To learn more about how Atchison can help, click here.



A person in a red jacket and blue pants is rappelling down a rope in a cave. The cave walls are covered in a dense, textured pattern of small, light-colored rocks or crystals. A waterfall is visible in the background, cascading over a rocky ledge. The overall scene is dimly lit, with the primary light source coming from the waterfall and the person's headlamp.

**Atchison**

Illuminating  
the way forward



# **Illuminating the way forward with Managed Accounts**

Achieve efficiency, transparency, and forward-thinking solutions.

Our managed accounts empower your advisory practice to deliver value and success for your clients today and beyond.

**[atchison.com.au](http://atchison.com.au)**





# UNLOCKING FIXED INCOME OPPORTUNITIES: MAXIMISING YIELDS AND STABILITY

With interest rates fluctuating and economic uncertainty looming, fixed income investing has become more complex than ever. Discover how to capitalise on opportunities and mitigate risks in this dynamic market and hear about the latest trends, strategies, and top-performing funds.

Q&A with Lloyd Mitchell, head of fixed income and markets at Mason Stevens





Mason Stevens is a leading provider of integrated wealth platform technology that uniquely focuses on investor portfolio outcomes. More than just an administration platform, the innovative technology, paired with experienced investment specialist support, empowers advisers to deliver on their clients' investment objectives via an unconstrained investment universe.

Mason Stevens' strength in working with financial advisers stems from its deep background in investments. Chief executive officer Tim Yule emphasises that they approach the platform market from a different perspective, one focused on optimising investment outcomes for advisers and their clients.

"We have a strong focus on investment outcomes and helping our advisers optimise those outcomes for their clients. Our platform technology is focused on the delivery of sophisticated investment solutions for advisers and their clients, and we complement that with the delivery of scalable capabilities through managed accounts to help advice practices to thrive.

"We provide an extensive suite of investment options and services, including access to all asset classes such as equity exchanges globally, true multi-currency capability, real time execution, small denomination over the counter fixed income securities and access to alternative investments," Yule says.

### Persistent inflation and fixed income

The Australian fixed income landscape is closely intertwined with developments in the US market, leading to volatility in local prices that reflect both economies. Since the end of 2022, declining inflation in the US has positively influenced long-term interest rates in Australia albeit not without volatility. While Australian inflation has also decreased, it hasn't fallen to the same degree, creating a divergence in market expectations.

Currently, the pricing of interest rate cuts appears, in our view, more rational than it did prior to the September Federal Reserve meeting. Previously, the Australian yield curve suggested multiple rate cuts by year-end, a scenario that seemed unrealistic at the time.

Even though the RBA has shown the first signs of leaning dovish. Now, forecasts indicate that

the Reserve Bank of Australia (RBA) may not implement its first cut until April 2025.

Assuming the yield curve is accurately priced, and no cuts occur for at least five months, floating-rate credit income securities focused on investment-grade assets, we believe will continue to deliver attractive yields. In Australia, yields of 6–7 per cent remain achievable even if one or two cuts occur over the next year.

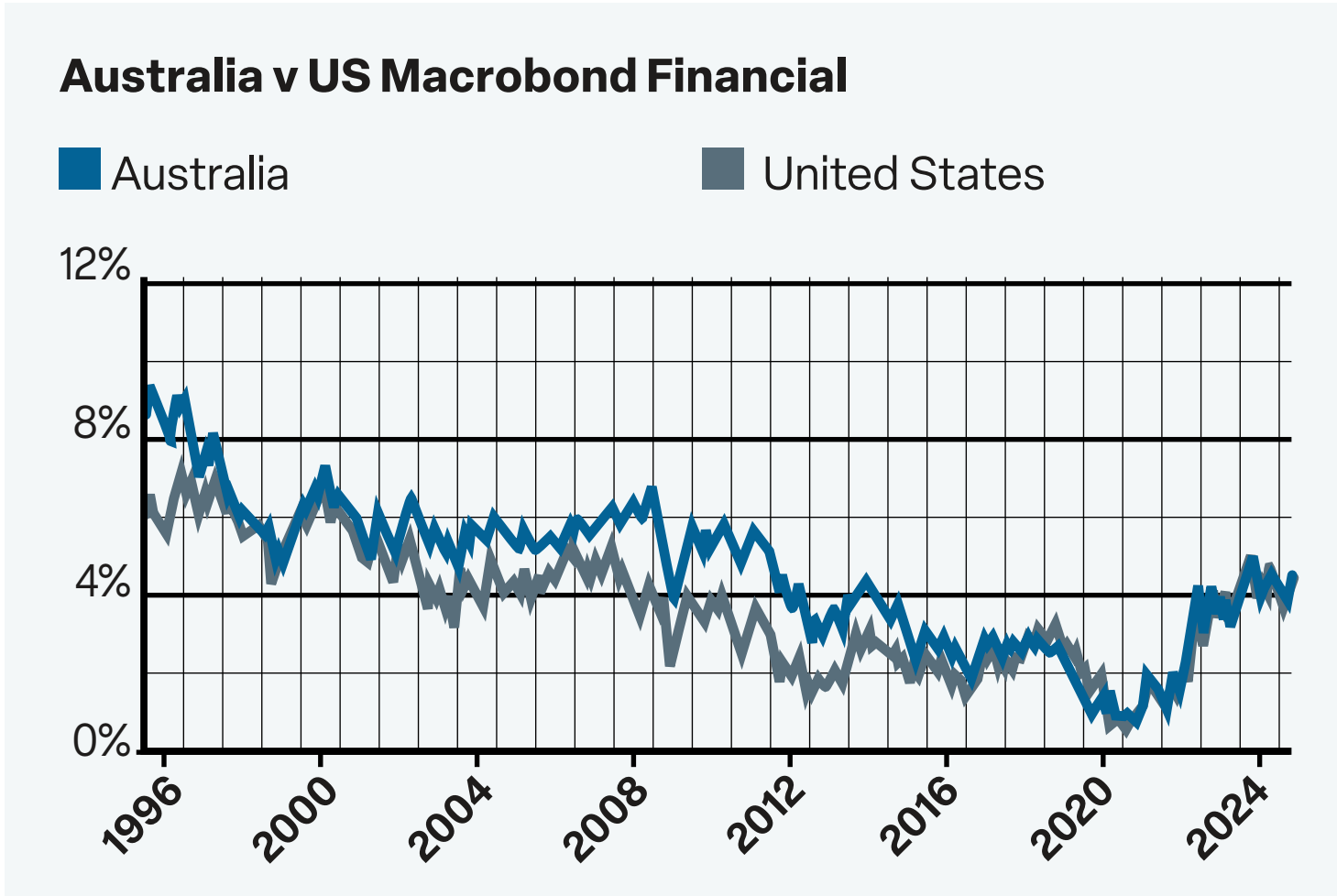
In contrast, the US has already seen the equivalent of three rate cuts (50 basis points in September and 25 basis points in November), with expectations for one or two more by year-end and a total of three cuts anticipated by this time next year. This could lead to a cumulative reduction of 1.5 per cent in base rates, significantly lowering yields from their peaks earlier this year.

Investors can also explore alternative strategies for generating returns within fixed income, such as duration and spread strategies. Fixed-rate bonds can lock in favourable returns now to mitigate potential declines in cash rates. However, finding returns comparable to those experienced over the last two years may prove more challenging going forward, particularly in the US market.



Other ways to invest in fixed income in 2025

As we look ahead to 2025, the fixed income landscape offers various avenues for investment, particularly in light of the significant improvements seen since the credit market’s turbulence in mid to late 2022. Credit spreads, often viewed as indicators of financial conditions, have lowered considerably, especially in the US, where both investment-grade and high-yield spreads are at or near historically low levels. In Australia, while investment-grade spreads also remain compressed, there are still pockets of opportunity for discerning investors.



Source: Mason Stevens, Macrobond, US Department of Treasury, Macrobond Financial AB

To generate capital returns rather than just income, one strategy is to invest in fixed-rate bonds when long-term rates are elevated. Following the September Federal Reserve meeting, 10-year yields have risen by approximately 60–70 basis points in both Australia and the US. This increase can largely be attributed to stronger-than-expected employment data in the US and higher inflation and US Treasury issuance post-confirmation of Trump 2.0.

This scenario presents a potential entry point for investors willing to lock in yields now. The advantage of this approach lies in the capacity for capital appreciation should economic conditions falter and yields decline, alongside the benefit of maintaining fixed yields as cash rates decrease.

However, it’s important to note that fixed-rate bonds can exhibit higher volatility, necessitating a long-term commitment from investors who choose this route. A notable concern recently has been that the term premium in the US (as measured by the 2s10s spread) may not adequately reflect anticipated Treasury issuance over the next few years, given that fiscal deficits are expected to remain elevated and are currently 6–7 per cent of gross domestic product. Some may argue that this



**MANAGING VOLATILITY  
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INVESTMENTS REQUIRES  
AN UNDERSTANDING OF  
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THEIR RELATIONSHIP WITH  
ECONOMIC INDICATORS.**

Lloyd Mitchell

Head of fixed income and markets,  
Mason Stevens





has now been priced in; however, we won't really know until we get more policy insights from Trump.

In summary, while current credit spreads may suggest limited upside potential, investing in fixed-rate bonds at higher long-end rates can still deliver attractive returns. As financial advisers evaluate these options for their clients in 2025, understanding these dynamics will be essential for optimising fixed income portfolios amid evolving market conditions.

### Managing volatility in fixed income

Managing volatility in fixed income investments requires an understanding of market dynamics and their relationship with economic indicators. In the current landscape, several factors could trigger volatility, primarily stemming from the broader global economy. For example, should the US economy begin to falter, we could see credit spreads widen, leading to potential capital losses. Additionally, if inflation were to surge again, long-term rates might rise, reminiscent of the challenges faced in 2022.

While geopolitical events, such as tensions in the Middle East, developments in China or the US election have caused minor fluctuations in credit spreads, these impacts have generally been

short-lived. The prevailing trend of US economic exceptionalism has, in our view, kept spreads low and contributed to historically high returns for global credit markets.

Moreover, Australia has also averted a recession to date, which has bolstered risk assets locally. Australian banks, in particular, have benefited as concerns surrounding issues like the fixed-rate mortgage cliff and property price declines have largely not materialised; instead, property prices have rebounded in several states over the year. In credit markets, bank capital has also been upgraded by rating agencies.

To effectively manage volatility, it is crucial to monitor key economic indicators such as growth rates, inflation and employment data in both the US and Australia. A looming recession typically triggers sell-offs and sharp widening of spreads, thus, staying informed is essential and a component of the services provided by Mason Stevens OCIO.

One strategy to mitigate risk is to incorporate more interest rate duration into portfolios by investing in fixed-rate bonds. In a weaker economic environment, central banks like the Federal Reserve and the RBA may implement

surprise rate cuts, which would offset some of the widening in spreads.

While recession fears have diminished due to ongoing economic growth, albeit at a slower pace, the possibility of an inflation resurgence remains a concern that could lead to rising rates once again. In such scenarios, floating-rate bonds may offer more protection than fixed-rate options.

Assuming a soft landing scenario unfolds, which increasingly appears to be consensus opinion, sticking with income-yielding bonds is a good option in our view. Investment-grade bonds represent the safest choice under these conditions, followed by high yield and private credit options for enhanced yield potential.

A blended approach that includes a modest allocation to high-yield bonds can provide an additional ~100 basis points of income annually. From a duration point of view, we prefer Australia given the inflation and fiscal policy risks in the US. From an income point of view, Australia is also preferred, as higher rates for longer should continue to deliver a better income yield.

Both curves appear around fair value given the timing of cuts in both regions in our opinion.



Key ASX listings to watch in fixed income:

| NAME                                   | TICKET | CATEGORY                | IG/ HY  | 12 MTH YIELD | TOT. RETURN 1YR |
|----------------------------------------|--------|-------------------------|---------|--------------|-----------------|
| Exchange-Traded Funds (ETF)            |        |                         |         |              |                 |
| VanEck Australian Sub Debt             | SUBD   | Australian Fixed Income | IG      | 5.79%        | 7.50%           |
| Betashares Major Bank Sub Debt         | BSUB   | Australian Fixed Income | IG      | 5.58%        | NA              |
| VanEck Australian Floating Rate        | FLOT   | Australian Fixed Income | IG      | 4.93%        | 5.50%           |
| Betashares Interest Rate Hedged        | HCRD   | Australian Fixed Income | IG      | 4.69%        | 9.60%           |
| Listed Investment Trust (LIT)          |        |                         |         |              |                 |
| Metrics Master Income Trust            | MXT    | Australian Private Debt | IG / HY | 8.35%        | 8.97%*          |
| Gryphon Capital Income Trust           | GCI    | Australian Private Debt | IG / HY | 8.49%        | 9.58%*          |
| Perpetual Credit Income Trust          | PCI    | Australian Private Debt | IG / HY | 7.67%        | 9.02%*          |
| Qualitas Real Estate Income            | QRI    | Australian Private Debt | IG / HY | 8.61%        | 8.77%           |
| Mason Stevens Managed Portfolios (MPs) |        |                         |         |              |                 |
| MS Wholesale Fixed Income              |        | Australian Fixed Income | IG / HY | 7.61%        | 9.56%**         |
| MS Retail Fixed Income                 |        | Australian Fixed Income | IG      | 7.05%        | 7.73%**         |

Data from Bloomberg and Fund Factsheets October 2024  
\*NAV performance used for LITs  
\*\*As at end of September-2024

Although one could argue for lower Australian long-term rates versus the US.

Locally, we think that hybrid securities are currently fully valued, prompting a shift in focus towards alternative investment areas, particularly for investors prioritising liquidity in light of the Australian Prudential Regulation Authority’s recent decisions.

The introduction of exchange-traded funds (ETF) and listed investment trusts (LIT) on the ASX has opened new avenues for expressing investment views that were previously unavailable.

Recent one-year performance for these instruments have varied between 5.5 per cent and 9.6 per cent, with 12-month yields ranging from 5.6 per cent to 8.6 per cent. This asset class continues to present attractive return rates in our view, especially appealing to retirees or those nearing retirement who may be holding substantial cash reserves.

For further insights into these or other ETFs and LITs, we encourage reaching out to Mason Stevens Outsourced Chief Investment Office (OCIO) for guidance.

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**AS WE LOOK AHEAD TO 2025, THE FIXED INCOME LANDSCAPE OFFERS VARIOUS AVENUES FOR INVESTMENT, PARTICULARLY IN LIGHT OF THE SIGNIFICANT IMPROVEMENTS SEEN SINCE THE CREDIT MARKET’S TURBULENCE IN LATE 2022.**



Our Mason Stevens Fixed Income Managed Portfolios have outperformed our targets of 200 and 300 basis points over cash for the last two years across investment grade and blended investment grade (IG) and high yield (HY) portfolio alternatives.

Our one-year performance numbers have delivered attractive returns in investment grade (retail and wholesale) of 7.42 per cent and in blended IG/HY (wholesale only) 10.12 per cent.

At Mason Stevens, our focus is on providing a leading wealth platform that prioritises investment outcomes and empowers financial advisers to achieve their clients’ investment goals.

We believe that managed accounts (MA) are a cost-effective, profitable and scalable approach to building and managing a wealth practice. To complement our platform and MA-focused solution, we offer an OCIO service.

This offering includes a range of investment services designed to provide the necessary support to transition to an MA solution for your wealth practice. We work closely with our clients to tailor our OCIO service proposition to the unique needs and requirements of their business. The offering may include utilising our off-the-shelf MA solutions

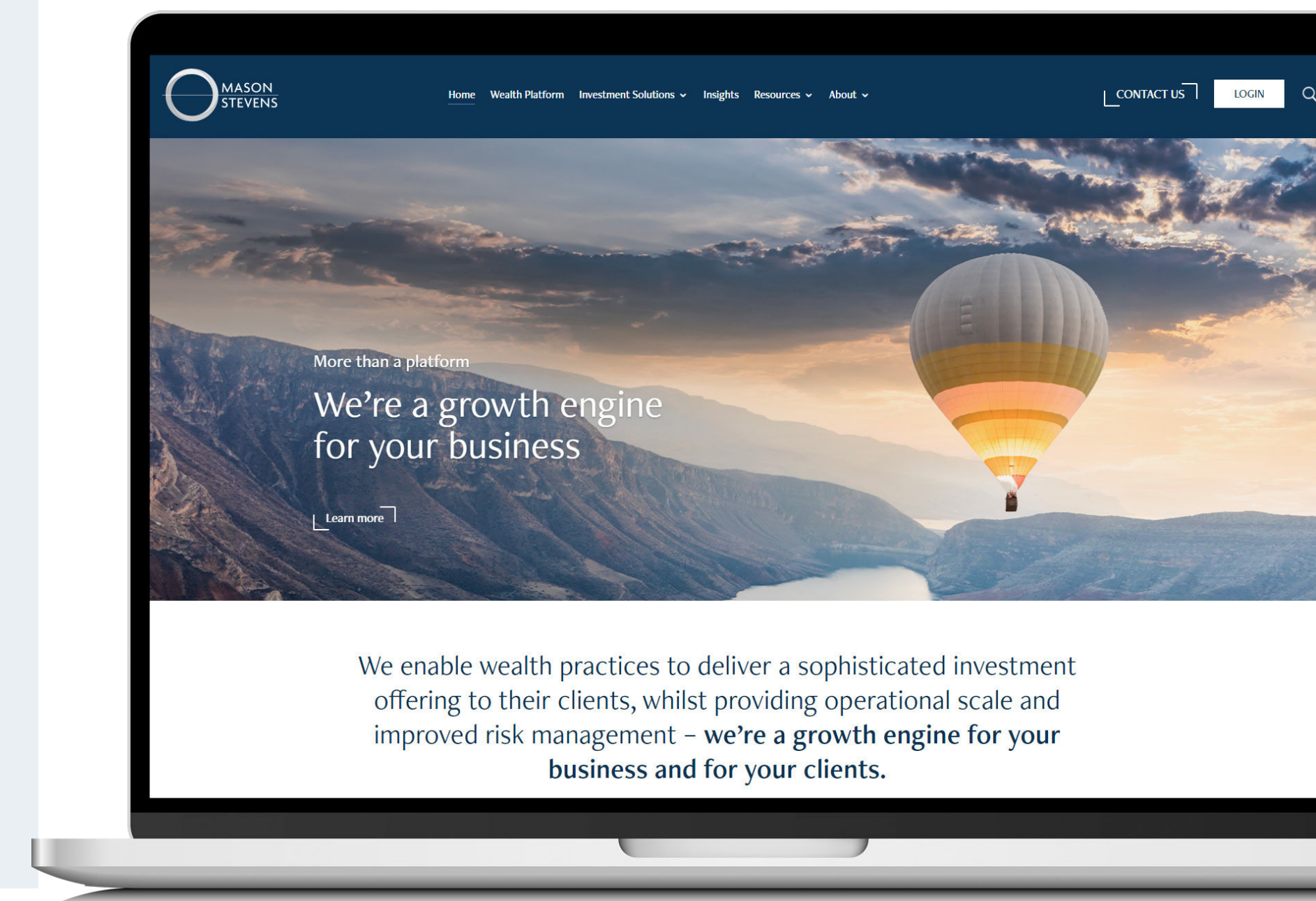
or alternatively we can take a tailored approach, delivering a differentiated solution for your clients. For wholesale clients, we offer: wholesale multi-asset managed portfolios (ETF or managed funds), wholesale fixed income and cash enhanced managed portfolios and additional access to curated private market deal flow with a basis for advice, IPOs, hybrids and OTC bond deal flow. ●

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Further information on the Mason Stevens Fixed income offering, click here.





More than a platform

# We're a growth engine for our clients

A sophisticated platform focused on investor portfolio outcomes. Access unique investments with the support of our highly experienced investment professionals. Unlock exclusive IPOs, direct equities, bespoke fixed income, managed investments and managed portfolios.





# WHY AN ALL-WEATHER APPROACH MAKES SENSE IN 2025

Peter Bates, portfolio manager, emphasises why a balanced investment approach in 2025 will help investors navigate anticipated market volatility and changing dynamics.





### In your opinion, how will geopolitical shifts impact investor sentiment and equity valuations in 2025?

When we think about geopolitical shifts impacting investor sentiment, it's important to look at both the short- and long-term effects. The US election is a major global event that has the potential to really shift investor sentiment and market behaviour. When I look at the short-term effects, say, six to nine months, the environment is currently bullish – interest rates are falling, combined with inflation falling. I think that's consensus. And with the election result and red sweep, we layer on a business-friendly administration that promotes reduced government regulation and lower taxes. The sum of all these things results in increased company profits and economic growth, which leads to positive stock momentum – similar to what we are currently seeing in the stock markets.

When taking a longer-term view, say six to nine months from now, I am continuously asking myself: what could ruin the party? Well, I think there's two major things. We're still threading the needle between the risk of more inflation and balancing real growth with government deficits. The bigger the government deficits are, the more

pressure there is on higher interest rates, and the more the government is trying to stimulate things, the more pressure it puts on what is already a tight labour environment which potentially leads to higher inflation.

And so overall, I think there's potentially two answers to the question. I think short-term, I am bullish and understand why equity markets are up. But in the longer-term, you've got to be more careful. I am proactively watching and managing multiple risks, so keep your hand on your wallet, because if inflation starts ticking up, this party could end, and ultimately, we're in an environment where markets aren't cheap.

### With increased market volatility anticipated in 2025, how will you adapt your investment style?

In my two-decade investment career, I have witnessed a variety of different interest rates cycles and large factor swings between growth and value, along with periods of heightened market volatility. With the way I invest, I believe we need to be aware of how all types of macroeconomic conditions and variables impact the companies in which we invest; however, it's also important to remember that we invest in businesses, not the direction of macro variables. I don't believe anyone truly knows where



**IN MY VIEW, THE ONLY WAY TO NAVIGATE MARKET VOLATILITY IS TO BUILD AN ALL-WEATHER PORTFOLIO THAT CAN PERFORM IN ANY ENVIRONMENT, WHETHER IN 2025 OR BEYOND.**

**Peter Bates**

Portfolio Manager, Concentrated Global Equity,  
T. Rowe Price





long-term interest rates are going to be in one- or two-years’ time from now. If someone tells me they definitively do, I will politely disagree with them. In my view, the only way to navigate market volatility is to build an all-weather portfolio that can perform in any environment, whether in 2025 or beyond.

**How have the performances of the “Big Seven” tech companies distorted overall market returns, and what implications does this have for equity investing strategies moving forward?**

In 2023, the Magnificent Seven massively distorted the market which led to a really narrow market. I think the market was up like 30 per cent<sup>1</sup> in the year, and roughly 60 per cent of those returns came from the Magnificent Seven. When looking at the recent market returns, in the second half of 2024, the returns have been a bit broader with more companies, including small caps, contributing to global returns.

The Magnificent Seven are such a big part of the market, and I think the companies are very well positioned to durably grow, so much so, that we manage the Magnificent Seven as if it was its own sector. If you’re a portfolio manager and make the decision, “I’m not going to own them because I think they’re too overvalued and too big to grow”, well, that

one decision is going to drive your performance, and you’re either going to be really right or really wrong. This is a risk we are currently not willing to take.

The way I look at it is that I want to pick the best of the best, because I do think there’s differentiation within the Magnificent Seven, and that way, I’m not just kind of making a one-way bet that drives my outcome. I’m picking stocks to drive my outcome. Right now, I own five of the seven, but I’m only overweight in two of these.

**What proactive strategies are you considering leveraging the changing market dynamics, especially concerning sector rotations and emerging trends?**

First, I don’t chase trends or fads, or aim to, solely just to be in the right sector. I only own 35 stocks, roughly, and I very much am looking for various quality factors in my companies.

In the current changing market dynamics, I am first looking for idiosyncratic change catalysts. What does that mean? Well, a company might be doing the same thing they have always been doing, or the industry is the same, but if they’re making an effort to get better and their peers aren’t, they will start to take market share.



Download the **2025 Global Market Outlook: Investing during transition** free pdf report.





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**THE WAY I LOOK AT IT  
IS THAT I WANT TO PICK  
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BECAUSE I DO THINK  
THERE’S DIFFERENTIATION  
WITHIN THE MAGNIFICENT  
SEVEN, AND THAT WAY, I’M  
NOT JUST KIND OF MAKING  
A ONE-WAY BET THAT  
DRIVES MY OUTCOME.**

As an example, I can think of companies that sell auto parts more effectively than other suppliers, and they end up growing and outperforming.

Second, I am also looking for durable growth trends. I’m looking for wide economic moats, and probably the best way to measure that is companies that have the ability to raise prices.

Lastly, I’m looking for well-managed businesses that have managers and teams that know how to allocate capital.

Ultimately, all of these things signal that I really want to own companies that are going forward and not backwards. I’m just looking to own within pockets of the market, idiosyncratic stories that can control their own destiny, but that are priced at a level that offer attractive risk and return. ●

1     Market defined as S&P 500 Index.

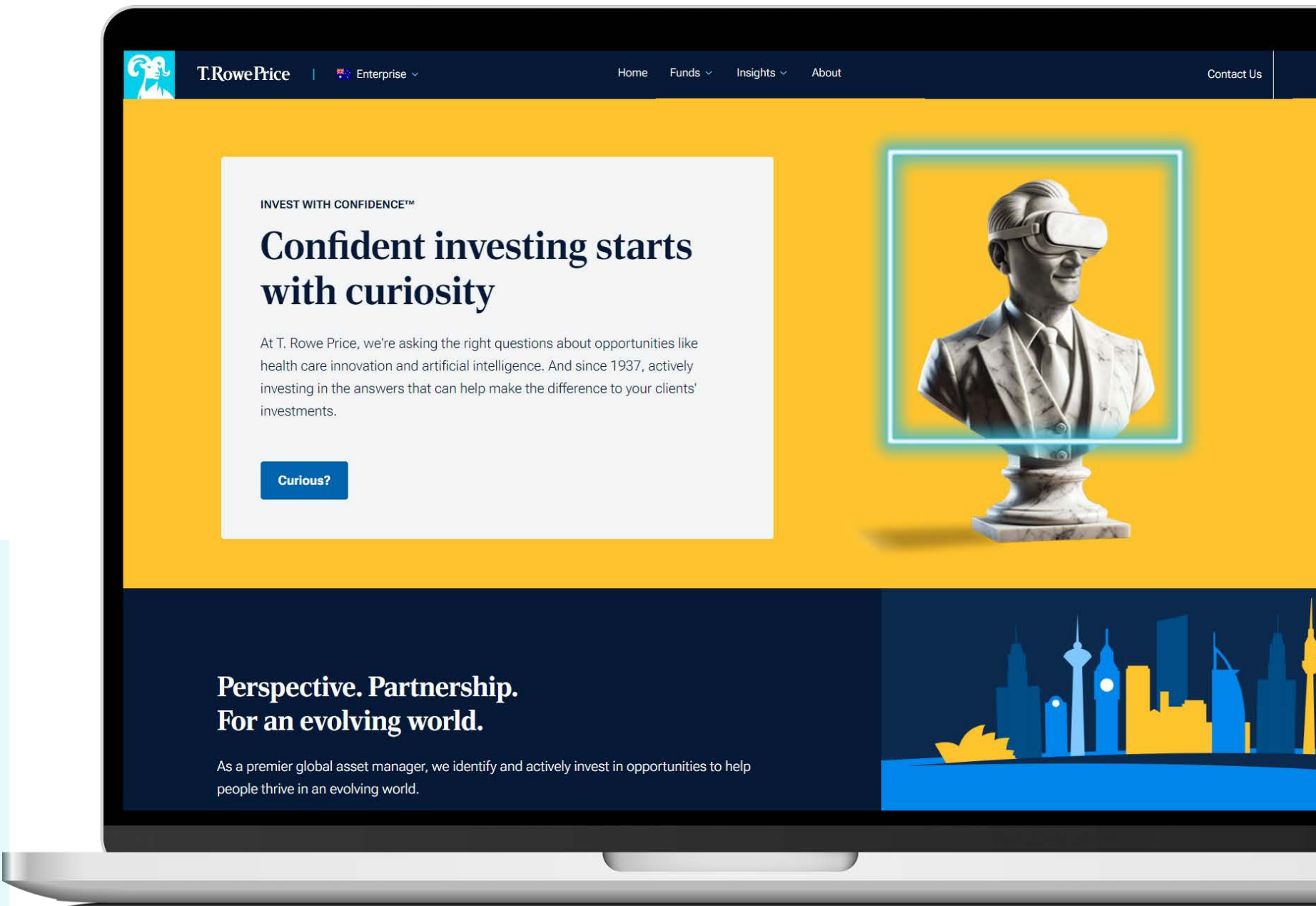
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