



Staying focused on  
*global opportunities*

SYMPOSIUM

AUGUST 2018



# OUR PANELLISTS



## SCOTT HASLEM

CHIEF INVESTMENT OFFICER  
CRESTONE WEALTH MANAGEMENT

Scott has more than 20 years' experience in global financial markets and investment banking, providing economics research and investment strategy across equity and fixed income markets. Prior to joining Crestone, he was Managing Director and Chief Economist, Head of Macro Research for Australia and New Zealand at UBS.



## ANIL SABHARWAL

HEAD OF ENGINEERING, AUSTRALIA AND GLOBAL  
PRODUCT VICE PRESIDENT  
GOOGLE

Anil leads Google's global efforts in the space of personal communications and photos. Responsible for the overall strategy, as well as product, engineering, and design, Anil directed the team that conceived, built, and launched Google Photos in 2015. He also leads Google's 700 engineers in Australia.



## HAMISH DOUGLASS

CHIEF EXECUTIVE OFFICER, CHIEF INVESTMENT  
OFFICER AND LEAD PORTFOLIO MANAGER  
MAGELLAN FINANCIAL GROUP

Hamish is Co-Founder, Chief Executive Officer and Chief Investment Officer of Magellan Financial Group and Lead Portfolio Manager of Magellan's global equity strategies. He was appointed to the Board in November 2006 and is a former member of a number of Australian government boards and panels.



## HELEN DALLEY

ANCHOR AND JOURNALIST  
SKY NEWS BUSINESS AND SKY NEWS  
AUSTRALIA

Helen is a Walkley award-winning journalist and one of Australia's most experienced and highly-respected TV journalists and interviewers. She currently anchors *Trading Day* and *The Final Count* on Sky News Business. She was recently Anchor of *News Now* on Sky News Live, the primetime national news on Sky, and was host of *The Dalley Edition*, and *Late Agenda* on Sky News Live and *Business View* on Sky News Business.



## PAUL BASSAT

CO-FOUNDER AND PARTNER  
SQUARE PEG CAPITAL

Paul co-founded SEEK in 1997 and served as joint-Chief Executive Officer from 1997 to 2011. SEEK has market-leading businesses in Australia, China, Brazil, Mexico and South-East Asia.

Paul is Director of Wesfarmers Ltd and a Commissioner of the Australian Football League. He is also on the board of Innovation Australia and the P&S Bassat Foundation.



# Staying focused on *global opportunities*

The current growth cycle is maturing. The outlook from here appears to be even more uncertain and volatile than we've experienced in recent years, with the likelihood that returns will also be more moderate.

Faced with these challenges, we continue to encourage investors to stay focused on global opportunities where markets have greater long-term return potential, given their exposure to faster-growing sectors, stronger earnings expectations and less demanding valuations.

We recently invited a group of Australia's most prominent thought leaders to provide their views on emerging trends and how these are likely to affect markets.

Our panel included **Scott Haslem**, Chief Investment Officer from Crestone Wealth Management, **Anil Sabharwal**, Head of Engineering Australia and Global Product Vice President from Google, **Hamish Douglass**, Chief Executive Officer, Chief Investment Officer and Lead Portfolio Manager from Magellan Financial Group, and **Paul Bassat**, Co-Founder and Partner from Square Peg Capital. The panel was moderated by **Helen Dalley**, Anchor and Journalist from Sky News Business and Sky News Australia.

## Key themes to emerge from the event were:

**Australia's equity market is seen as hamstrung** by its over exposure to large sectors with low earnings outlooks and a lack of exposure to faster-growing secular trends, such as healthcare, technology and consumer spending.

**Investing in leading companies** is about identifying those that are able to solve real user problems and that are unlikely to be disrupted in the medium to long term.

**Businesses that have been investing for the long term** and thinking strategically about their respective markets are vastly outperforming those focused on short-term 'sugar hits' like dividends and meeting quarterly guidance.

# STAYING FOCUSED ON GLOBAL OPPORTUNITIES

## THE NEED TO LOOK GLOBALLY

**Haslem** provided an overview of where we currently are in the macro and asset cycles, how we are positioned tactically, and why we believe investors should continue to stay focused on global opportunities as they build long-term diversified portfolios.

**Haslem** explained that while market participants continue to fret about the end of the macro cycle, he believes the evidence points more to a maturing cycle.

"Most forecasters continue to expect global growth to remain strong at around 4% into 2019", albeit no longer accelerating. Key leading indicators, such as the global purchasing managers index, suggest that this should be the central case for now, despite all the geo-political risks that dog that outlook. However, he acknowledged there is growing evidence that the cycle is becoming less synchronised, with the US showing increasing signs of growth leadership, with that recently impacting our view on markets. While most other economies have stabilised at an above-trend pace mid-year, a combination of a stronger US dollar and higher oil price has started to undermine other parts of the globe, such as emerging markets. For Australia, growth is expected to stay robust. But headwinds from weaker housing and credit were likely to constrain growth to trend, in contrast to the current above-trend pace of growth in the US and Europe.

Even though we are in a maturing growth cycle, **Haslem** explained that this should still deliver positive returns for equity markets. He explained that history has shown that in the 12 months after the peak in global growth, equities have, on average, risen by 5.5%.

"Australia's equity market is hamstrung by its over exposure to large sectors with low earnings outlooks (such as financial and real estate) and a lack of exposure to faster-growing secular trends (such as healthcare, technology and consumer spending)."

Indeed, **Haslem** highlighted that the opportunity set was not just technology companies in the US, but global multi-national companies across different sectors and regions that were best in class at using technology to deliver long-term earnings growth.

Reflecting the view that we are in a maturing cycle, **Haslem** ran through our current tactical positioning. With inflation normalising, he explained that we are particularly underweight fixed income, most notably in credit where global markets are seeing a withdrawal of liquidity. Since we don't want to be too aggressively positioned later in the cycle, we are neutral equities—but are overweight international versus Australia. We are also increasingly focused on opportunities in alternative assets, given the diversification they can add to portfolios, particularly late in the cycle.



**SCOTT HASLEM**

CHIEF INVESTMENT OFFICER  
CRESTONE WEALTH MANAGEMENT

*"Australia's equity market is hamstrung by its over exposure to large sectors with low earnings outlooks."*

## INVESTING IN LEADING COMPANIES

The panel acknowledged that businesses that have been investing for the long term and thinking strategically about their respective markets are vastly outperforming those focused on short-term 'sugar hits' like dividends and meeting quarterly guidance.

In picking leading companies, **Douglass** explained that he is looking for multi-national businesses that are true global players. He sees technology platform businesses, which are playing in many different markets, as being truly unique, with many of them still at an early stage in the monetisation of revenue. "While in the context of history Alphabet and Apple are very large companies, we would argue that in huge parts of their businesses, they're very early on in the monetisation of revenue."

**Douglass** explained that he is also looking for traditional businesses, which are unlikely to be disrupted in the next 10 years. Acknowledging that the competitive advantage of some traditional big brands is likely to be disrupted, he admitted that this is a more challenging task. "We ask ourselves can we invest in businesses for the next decade that we think are very unlikely to be disrupted. Once you start thinking like that, it starts to get really hard."

**Bassat** described how he aims to identify winners in the venture capital space. He acknowledged that to invest in this space, investors need a high tolerance for risk—but quite often, the leading companies end up being very big winners. In identifying the key ingredients of such companies, he says "it goes to theme, it goes to timing, and it particularly goes to team—the groups of people that can build really significant businesses off the back of disruptive opportunities."

## AN INSIGHT INTO INNOVATION

**Sabharwal** provided his insight into the inner workings of one of the great companies of the world. Central to the Google mind-set is its focus on innovation and its drive to solve user problems through the application of artificial intelligence (AI) and machine learning.

"Each conversation within Google now includes how machine learning and AI can be used to solve problems and make use of technology that wasn't available five years ago."

Another key aspect of Google's culture, he explained, is the importance of respecting and encouraging failure. "We don't expect that everything you'll work on is going to succeed, so we encourage that. We reward failure and move onto the next thing."

**Sabharwal** acknowledged that a key challenge for large organisations, like Google, is how they compete with smaller, more agile companies. He explained that, in order to stay ahead of the curve, it's important for large organisations to continuously challenge their current business model and understand their unique ability to add value—whether that's through scale, brand, or an ability to apply amazing advancements in machine learning and artificial intelligence.

In talking about innovation, **Bassat** noted that "when we talk about technology, we often confuse software innovation with technology. Software innovation is a form of technology innovation, and a large proportion of the disruption that occurs in the world today is driven by software-enabled business models".

On AI he noted that it is a simple concept. "Computers can process information incredibly quickly and keep getting faster. When we talk about AI, we're not talking about computers processing things, we're talking about computers making decisions."



**PAUL BASSAT**

CO-FOUNDER AND PARTNER  
SQUARE PEG CAPITAL

*"It goes to theme, it goes to timing, and it particularly goes to team."*



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#### DO YOU SEE VALUE IN THE MARKET NOW?

The panel discussed whether they feel some of these leading companies are currently expensive. **Douglass** offered his view that they aren't as expensive as they look, with Facebook's share price only just back at levels it was at a few months ago. In discussing Google's share price increase in past years, he feels that it is still fundamentally undervalued on a long-term view.

"The Google cloud platform is very early on in monetisation. Waymo is their driverless technology, which is another area that's exciting—and they're so far ahead of anyone else."

The panel acknowledged the potential of Chinese technology companies but that they need to expand beyond the Chinese market.

**Haslem** commented that as we invest in some of these companies we need to be cognisant of potential regulatory over-reach. With the rise of extremist political parties around the world, what we see as over-reach may very well become the new norm.

#### WHAT DOES THIS MEAN FOR AUSTRALIA?

The panel discussed that there are many companies in Australia doing great things, but they're expensive and there's a scarcity of technology drivers. This, in turn, is supporting the need to look globally for investment opportunities. **Sabharwal** acknowledged the positive developments in Australia around recent policies, encouraging capital into start-up ventures but highlighted the need to encourage migration to support these companies and the economy more broadly.

#### IN SUMMARY—PREPARE FOR THE UNKNOWN

In response to a constantly-changing macro and investment landscape, we recognise that clients are looking for a far more dynamic approach to managing their portfolios. Investing requires allocating capital in an uncertain future, so it's important to come up with a strategy to adequately manage risk and return and prepare for the unknown.

At Crestone, we spend a lot of time building globally-diversified portfolios that aim to deliver returns and protect wealth through the ups and downs of market cycles. Key to this is ensuring an appropriate exposure is maintained to the world's leading companies that are able to take advantage of secular trends. This increases the chances of protecting and growing your wealth now and into the future.



**HAMISH DOUGLASS**

CHIEF EXECUTIVE OFFICER, CHIEF INVESTMENT  
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