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PACIFIC CURRENT GROUP

FROM OUR CEO

As a firm that regularly talks with investment managers and institutional allocators around the world, we regularly gain insights that stem from this global perspective. To be clear, these thoughts are not necessarily earth-shattering or even unique to us. Recently, the specific thought on our minds is that the speed of the Australian investment management industry is following the same evolutionary path as the US and Europe and is rapidly accelerating.

For years the organic growth of the Australian superannuation market fueled asset manager proliferation and supported lofty fees among traditional active equity managers. We believe that this golden era is essentially over for good. To be clear, this doesn't mean there won't be new investment managers that grow rapidly, and it doesn't mean that many managers won't produce impressive outperformance. It does, however, mean that traditional active equity managers will face increasing challenges.

If we are right about the trajectory of the Australian market, then we think it will be characterized by the following for many years to come:

- *Consolidation among traditional managers will accelerate (e.g., Perpetual and Pendal).*
- *Active equity managers' market share will systematically decline vis-à-vis passive managers and in-sourcing to Super funds.*
- *Fee compression will continue among active equity strategies, and performance fees will become less common and less lucrative.*
- *Fewer traditional managers will start up.*
- *The demand for private capital strategies will increase, in part because there is less competition, and in part because many of them*

offer attractive income streams that will be viewed favorably by individual investors upon retirement.

- *There will be rapid growth in delivering private capital strategies, such as private credit and private equity, into wholesale and retail distribution channels where reasonable fees are still available.*
- *Institutional investors will increasingly seek creative ways to gain more exposure to private capital strategies, though they're profound, and in our view excessive, fee sensitivity will limit what they can achieve.*

Most of the above trends have been prevalent in both the US and Europe for more than a decade, except that the US and Europe have not experienced the same level of fee sensitivity to private capital strategies that appears in Australia. As a result of these trends, valuations for publicly traded asset managers in the US and Europe have changed significantly, with traditional investment managers now trading at large discounts to listed private capital-oriented firms.

The following table compares the P/E ratios of publicly traded asset management firms across time.

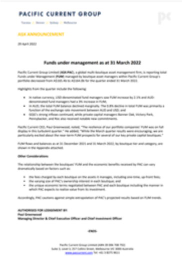
	Average Over:					
	20 Yrs	**15 Yrs**	**10 Yrs**	**5 Yrs**	**1 Yr**	**YTD**
US Traditional	**15.9x**	**14.8x**	**13.3x**	**11.9x**	**11.9x**	**10.6x**
US Diversified Alternatives	**NA**	**NA**	**10.5**	**12.3**	**17.6**	**14.6**
US FRE-Centric Alternatives	**28.1**	**28.1**	**28.1**	**28.1**	**31.8**	**20.9**
EU Traditional	**16.3**	**14.2**	**13.7**	**13.9**	**14.0**	**11.4**
EU Diversified Alternatives	**13.0**	**12.8**	**13.2**	**14.5**	**15.5**	**13.2**
EU FRE-Centric Alternatives	**21.3**	**21.3**	**23.8**	**28.6**	**39.5**	**30.6**

Source: FactSet. Data as of April 2022

As is clear from the table, P/E ratios of traditional firms have declined in recent years, while those of alternative firms have stayed steady or increased. Fee-Related Earnings (FRE) is something we refer to as "contractual revenues." These are the highly resilient, dependable revenues that PAC seeks to gain exposure to via its investments in private capital managers. We believe that a portfolio tilted in favor of FRE-oriented managers will deliver higher and more predictable growth over time, which should then translate into higher valuations of PAC's business.

PAUL GREENWOOD, CEO & CIO

FUNDS UNDER MANAGEMENT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ASX ANNOUNCEMENT

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Andrew Hines

MARKETING MANAGER

Andrew joined our team at Pacific Current Group in July of this year. He supports the sales team by developing sales materials, final presentations, and other marketing collateral. Click here to read more about his background.

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