Webinar 2020_04

HYPERION GROWTH EQUITIES

What Mega Trends will Drive Equities in a post COVID-19 World?

Webinar Presentation
28 April 2020

HYPERION
ASSET MANAGEMENT

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Mark Arnold
- **Chief Investment Officer**
- **Managing Director**
- **Lead Portfolio Manager**

Jason Orthman
- **Deputy Chief Investment Officer**
- **Lead Portfolio Manager**

Hyperion's Mission, Values & Beliefs

Our values are:

1. Research driven, not marketing driven
2. Evidence based and merit based
3. Alpha focused
4. Think long term
5. Business owners, not share traders
6. Collective first

Hyperion's total FUM is predominantly from investment performance, not client inflows. The table below shows that alpha generation related FUM is currently approximately $2.5 billion (39% of total FUM), this compares to approximately $1.3 billion (20% of total FUM) that is from net client contributions.

FUM Generation		$B (AUD)
Net Flows from Clients	20%	1.3
Market Return	41%	2.7
Alpha	39%	2.5
Total FUM*	**100%**	**6.5**

Hyperion's mission is to protect and grow our clients' capital sustainably over the long term.

*Total FUM as of 31st March 2020

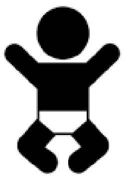
The Hyperion Philosophy

Protect, and Grow.

What Mega Trends will Drive Equities in a post COVID-19 World?

1. Post COVID-19 : what are expectations for economic growth?
2. Debt: what impacts will it have on equities?
3. Interest rates lower for longer : who will benefit?
4. COVID-19 disruptive change : which technologies will benefit?
5. Post COVID-19 : which companies will excel?

1 – Six decades leading up to the GFC Mega-Trends

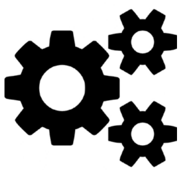


Improving demographics

Easy debt

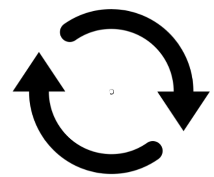
Robust middle class

Confidence in economic growth



Powerful machines

Cheap energy



Belief in unlimited natural resources

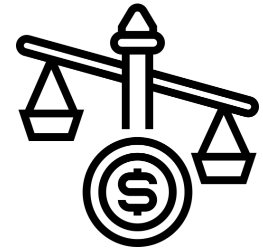
Benign competition

These tailwinds were considered <u>normal and permanent</u>

1 – Since the GFC there have been many drivers of slower economic growth

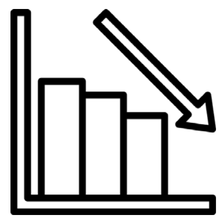
Ageing population

High debt levels

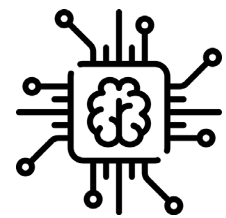


Rising wealth inequality

Natural resource constraints & disruption



Declining monetary tailwinds



Plus technology – greater automation, AI & sharing

1 - Post COVID-19, what are expectations for economic growth?

- Mega-trends that have dominated post GFC remain and will now accelerate as a result of COVID-19
- Expect subdued earnings growth for decades - EPS to be heavily diluted by emergency equity raisings
- Back to normal does not mean high growth, it means back to the problems we faced prior to the containment crisis, with an additional debt burden
- The index won’t generate any meaningful long-term growth
- There is no going back to the high growth levels that existed pre-GFC

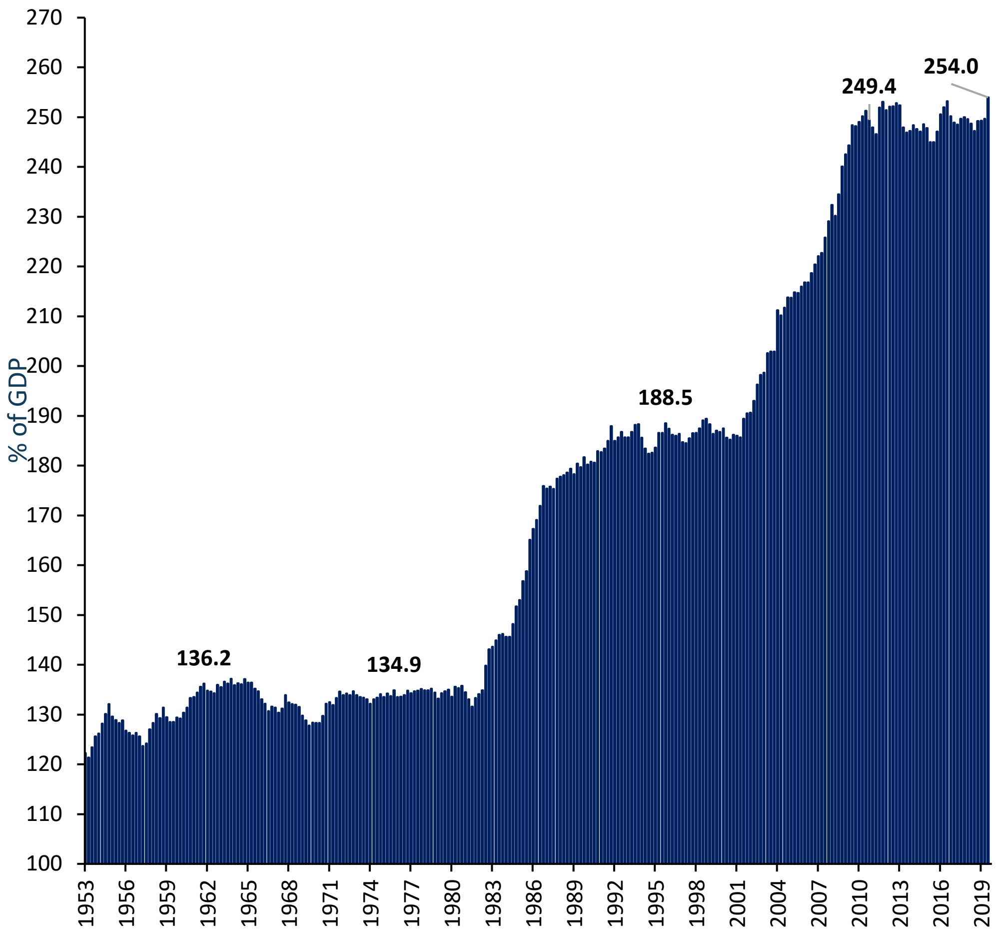
2 - Debt : what impacts will it have on equities?

- Public debt
  - Many economies are adding substantially to their public debt
  - Government Debt to GDP ratios to increase substantially
  - This debt will need to be repaid eventually
  - Higher taxation rates likely
  - The spending associated with this new Government debt will help stabilise and boost short-term economic activity but will result in lower growth in the long-term

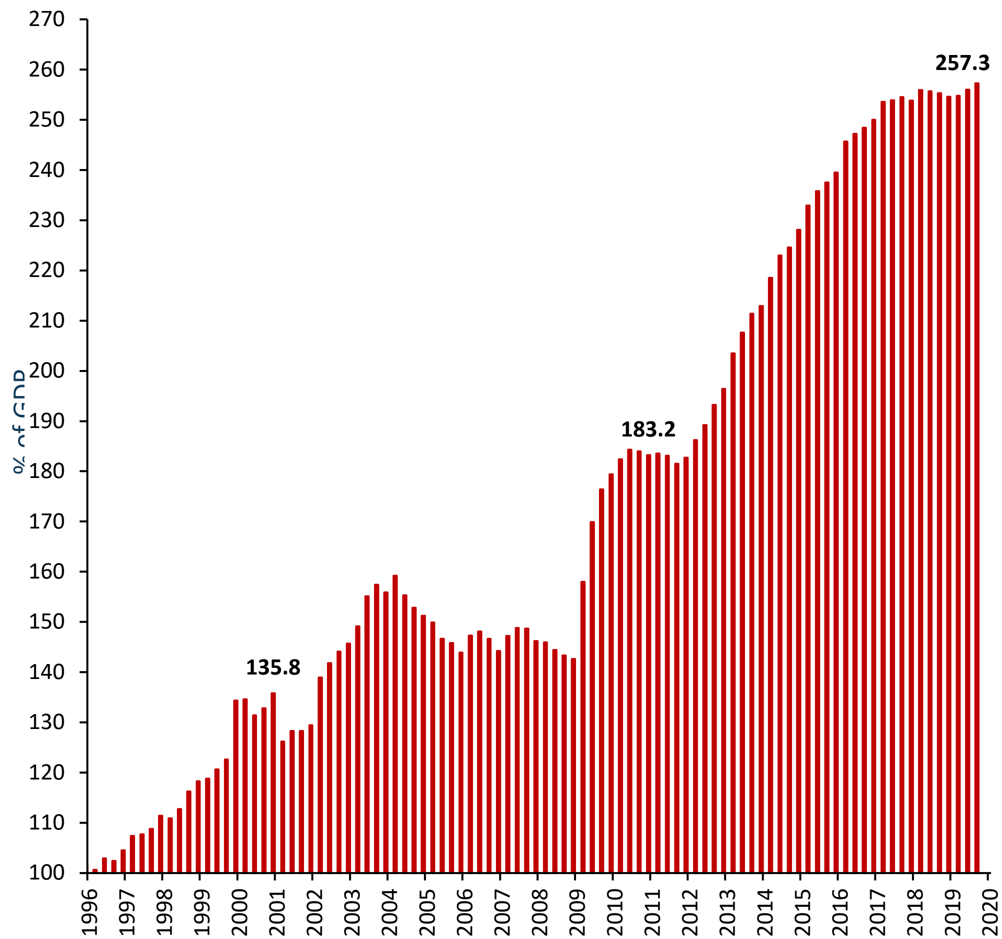
- Private debt
  - Its all about earnings and income – higher debt impedes long term profit and EPS growth
  - Many fragile companies, unable to invest in attractive opportunities
  - More “zombie” companies to emerge
  - Many will need to ultimately recapitalise, diluting EPS for extended periods
  - Households that are forced into the gig economy will have less borrowing capacity
  - Expect consumer credit growth to be subdued

2 - The financialisation of society has made households, businesses and Governments fragile

US Total Debt to GDP



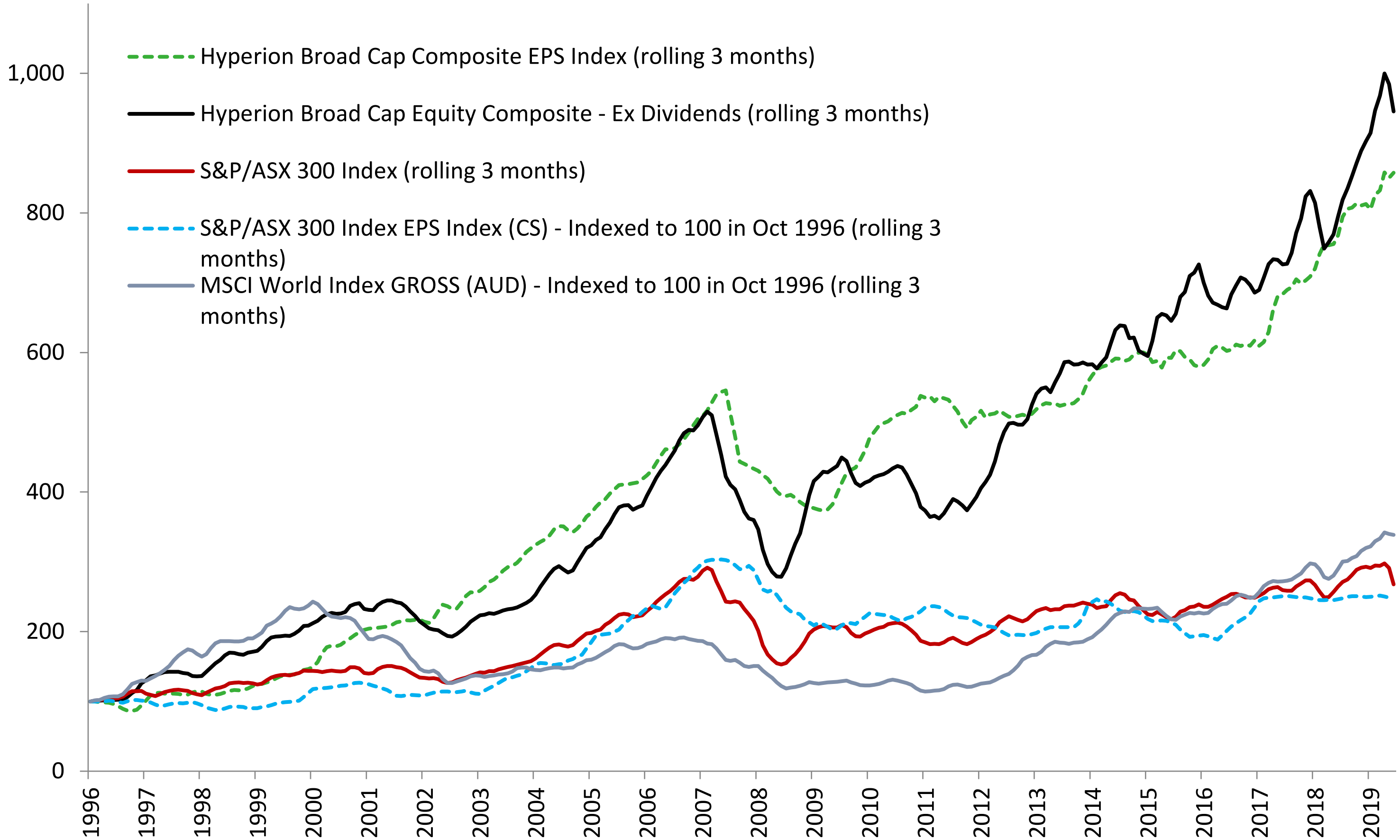
China Total Debt to GDP



Sources: Bank for International Settlements; Hyperion Asset Management

2 - Debt : what impacts will it have on equities?

- Lessons from GFC : Hyperion Australian Growth strategy
  - “Dotted green line” quickly returns to 2007 peak
  - “Dotted blue line” still below 2007 peak after 13 years

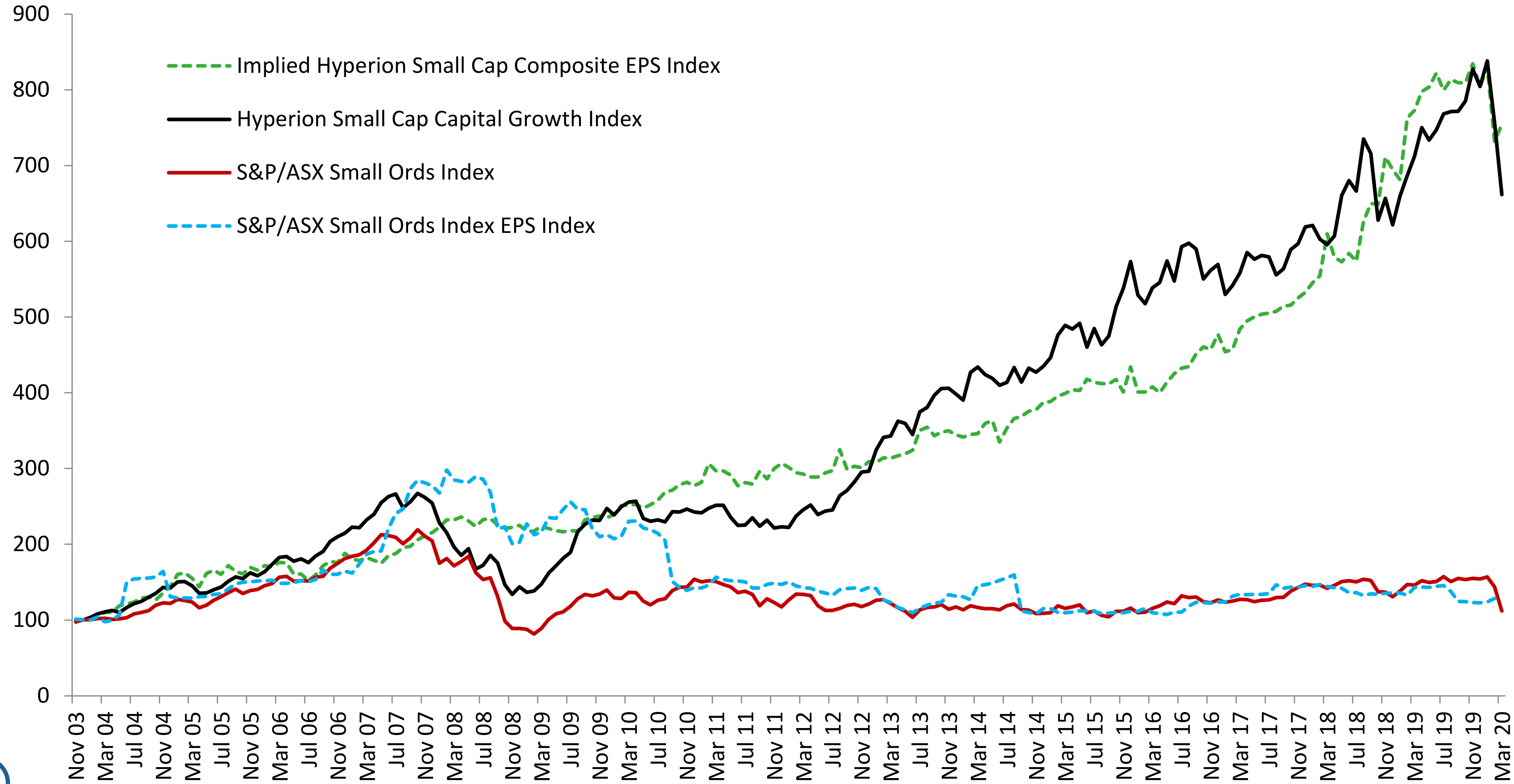


Source: Hyperion

*The Hyperion Broad Cap Composite includes all discretionary portfolios that invest in securities listed on the Australian Securities Exchange (ASX) which pass Hyperion’s rigorous investment Process.

2 - Debt : what impacts will it have on equities?

- Lessons from GFC : Hyperion Small Growth strategy
  - "Dotted green line" no meaningful fall from 2007 peak
  - "Dotted blue line" well below 2007 peak after 13 years



Source: Hyperion

3 - Interest rates lower for longer – who benefits?

- The world is “turning Japanese”
  - Many Governments are now copying the Japanese blueprint
  - Central banks have dropped official rates to very low levels
  - QE (buying assets) is being aggressively pursued
  - Governments are borrowing aggressively to help support businesses and unemployed during the crisis – some of these programs may remain longer term
- Who benefits:
  - Cheap access to funding for strong businesses, households and Governments
  - Potential for marginal businesses to be kept alive that are “zombies”
  - Companies that can grow structurally become more valuable
  - Lower cost of capital but cheap capital only available to those with sustainable income

4 – COVID-19 disruptive change: which technologies will benefit?

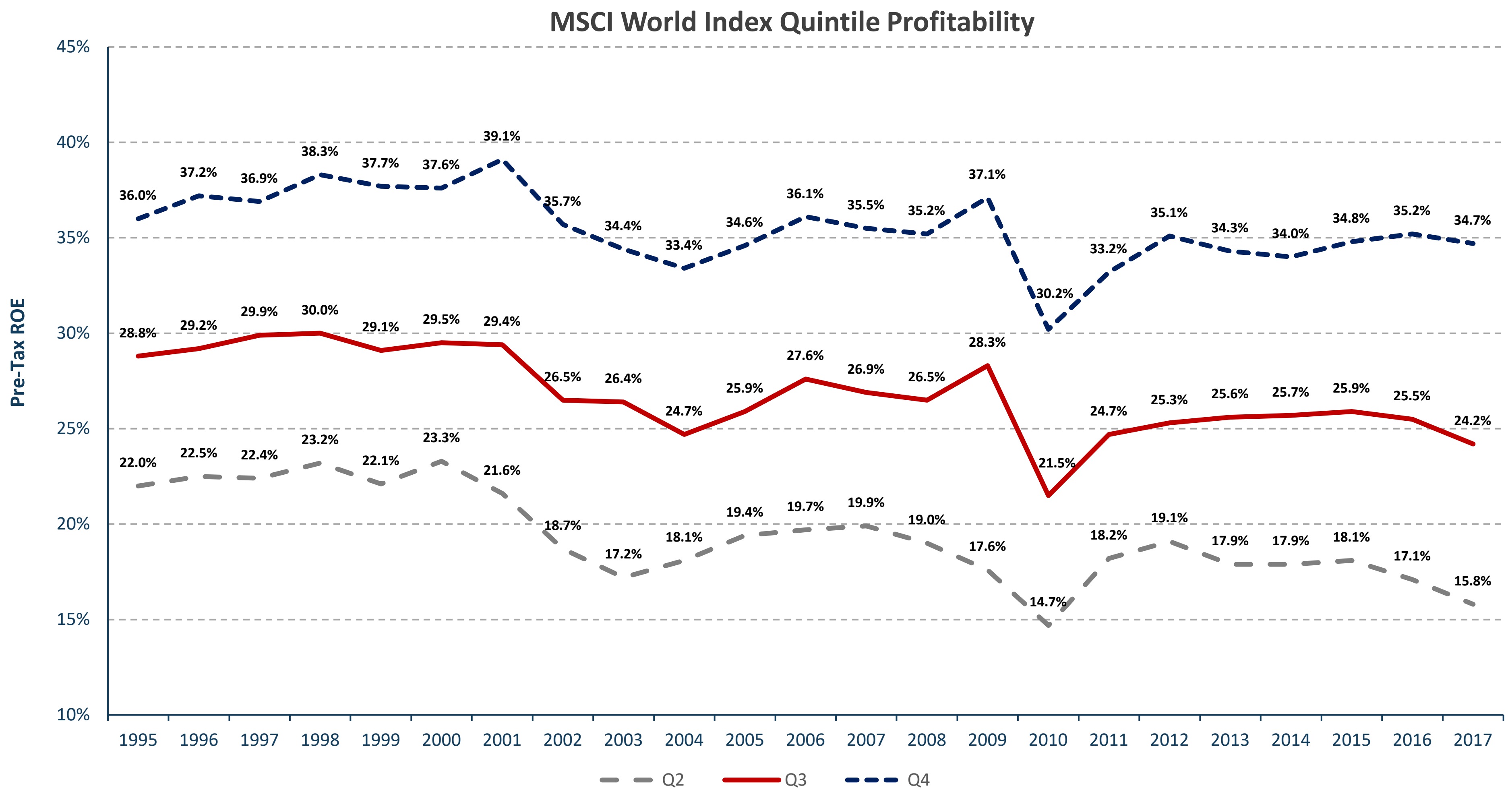
- Remember it's not all about the economic disruption from COVID-19
- Technologies that will benefit going forward are those that can operate and grow demand in a low growth and disrupted world
- Companies will need to shift from on-premise software to the cloud
- Enable software that supports remote and digital use
- Technologies include:
  - Online/digital media
  - e-commerce
  - electronic payments
  - Cloud based software
  - Low carbon energy generation, storage and transportation

5 – “Old World” companies will struggle post COVID-19

- Companies with a digital distribution model are more flexible than those that rely on physical distribution
- Many marginal and average quality “old world” businesses will struggle.
- These include:
    - Traditional (non-digital) retail businesses
    - Traditional (non-digital) media businesses
    - Highly discretionary products and services
    - Commodity based businesses
    - Banks and other highly leveraged lending businesses
    - Retail REITs
    - Other capital intensive and debt heavy businesses

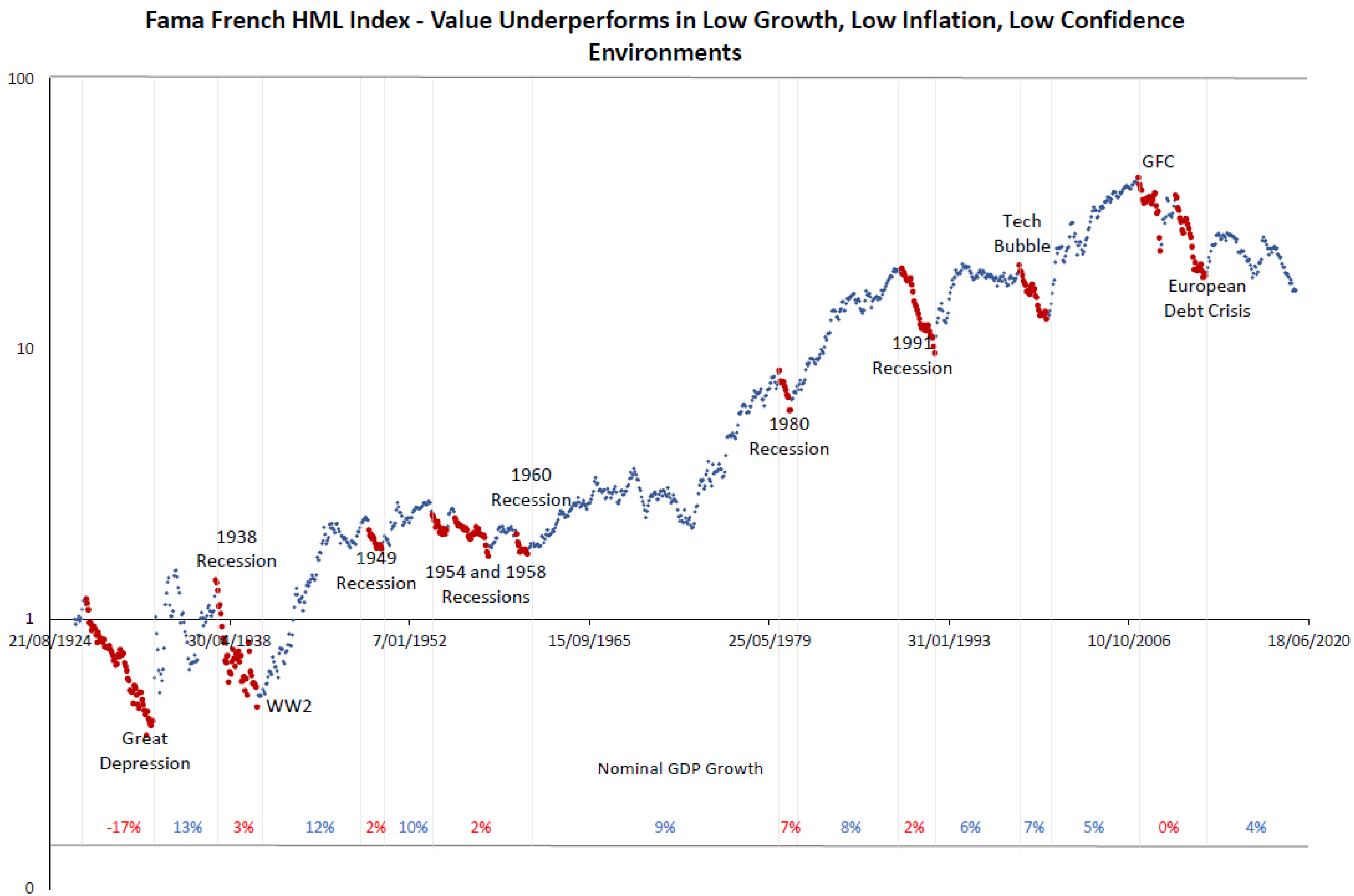
5 - Which companies will excel in the post COVID-19 world?

A material decline in return on equity over the past 2 decades



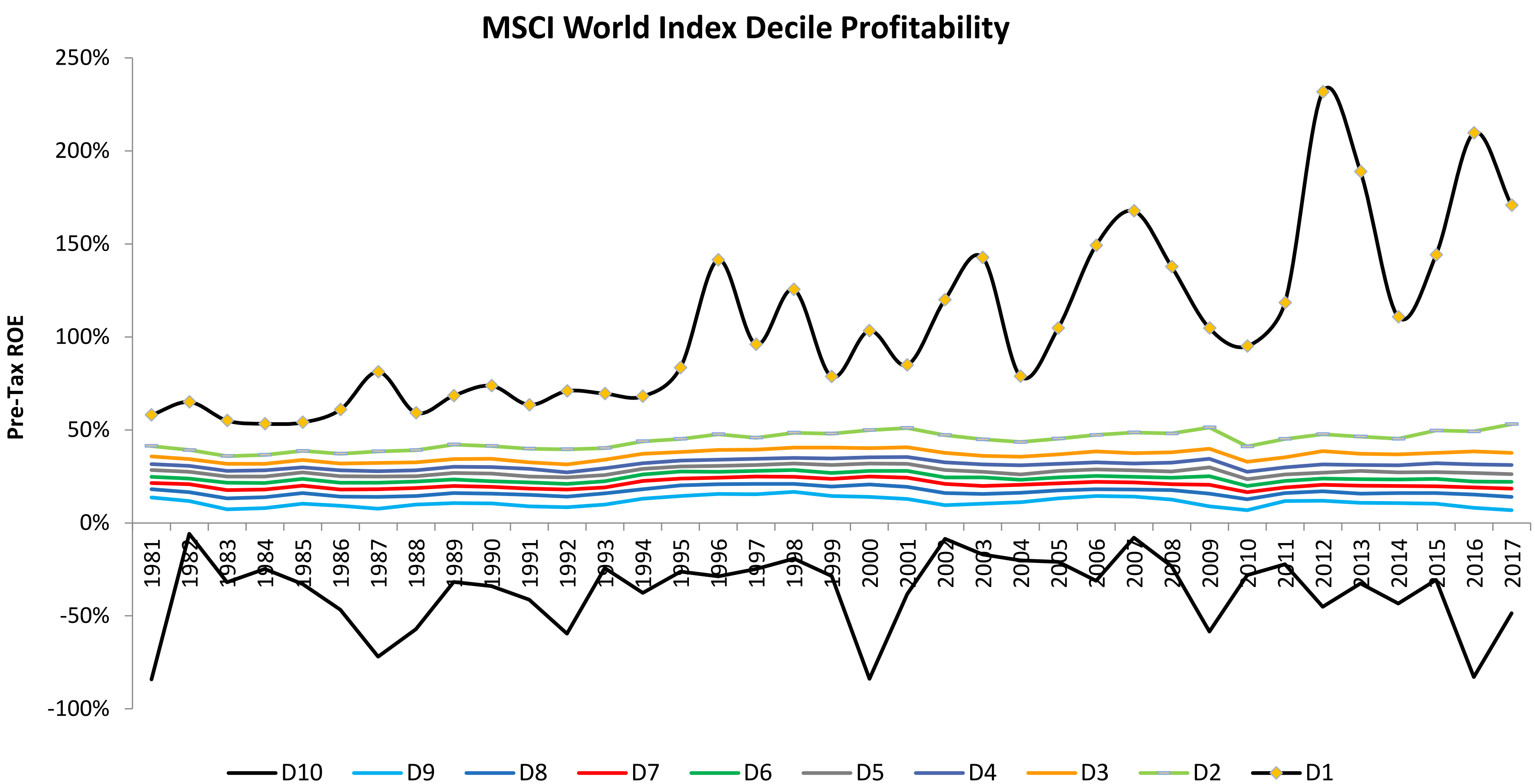
Sources: UBS; Hyperion Asset Management

5 - The value style investment performs poorly in difficult low growth and low inflation environments



Sources: Kenneth French; Hyperion Asset Management

5 – The internet and smart phones created a winners take all world



Sources: UBS; Hyperion Asset Management

5 - Which companies will excel in the post COVID-19 world?

- Future returns will be *concentrated* in a small number of winners with:
  - Structural tailwinds
  - Large addressable markets
  - Sustainable competitive advantages
  - Capital light, proven business models
  - Low debt levels
  - Management with long-term focus

Global Growth	Australian Growth	Small Growth
Amazon	CSL	Dominos
Microsoft	Dominos	Wisetech
Alphabet	ResMed	Fisher & Paykel
Visa	Cochlear	REA
PayPal	REA	Technology One

5 - Which companies will excel in the post COVID-19 world?

Strong forecast EPS growth underpins the forecast 5 year IRR.

	Hyperion Australian Growth Companies Fund	Hyperion Small Growth Companies Fund	Hyperion Global Growth Companies Fund
5-year projected EPS Growth	21% p.a.	27% p.a.	24% p.a.
PE expansion (5 year)	-6% p.a.	-11% p.a.	-3% p.a.
Dividend Return	2% p.a.	2% p.a.	1% p.a.
5-year projected IRR	17% p.a.	18% p.a.	22% p.a.

As at 31st March 2020. Forecasts are before fees.

Source: Hyperion

Hyperion Net Fund Performance – 31 March 2020

$AUD Net Performance (%)	Inception* Total Return	Inception* p.a.	5 Year p.a.	3 Year p.a.	1 Year
Hyperion Global Growth Companies Fund (Class B)	**169.5**	**18.5**	**16.5**	**20.9**	**10.6**
MSCI World Index	89.6	11.6	8.5	10.3	4.6
Excess Performance	*79.9*	*6.9*	*8.0*	*10.6*	*6.0*

$AUD Net Performance (%)	Inception^ Total Return	Inception^ p.a.	10 Year p.a.	5 Year p.a.	3 Year p.a.	1 Year
Hyperion Australian Growth Companies Fund	**508.8**	**10.9**	**8.1**	**6.3**	**8.1**	**5.4**
S&P/ASX 300 Accumulation Index	262.1	7.6	4.8	1.4	-0.6	-14.5
Excess Performance	*246.7*	*3.3*	*3.3*	*4.9*	*8.7*	*19.9*

$AUD Net Performance (%)	Inception^ Total Return	Inception^ p.a.	10 Year p.a.	5 Year p.a.	3 Year p.a.	1 Year
Hyperion Small Growth Companies Fund	**874.7**	**13.9**	**10.2**	**6.0**	**6.1**	**-5.4**
S&P/ASX Small Ordinaries Accumulation Index	151.8	5.4	1.1	2.5	-1.3	-21.0
Excess Performance	*722.9*	*8.5*	*9.1*	*3.5*	*7.4*	*15.6*

Past performance is not a reliable indicator of future performance.

Total returns shown are net of fees and assumes the reinvestment of all distributions. No accounting has been made for taxation.

*Hyperion Global Growth Companies Fund Inception Date: 1st June 2014

^Hyperion Australian Growth Companies Fund and Hyperion Small Growth Companies Fund Inception Date: 30th September 2002.

Source: Hyperion, FactSet.

Global fee structure aligns with your clients

	Management Fee	Performance Fee	5 Year Total Return Net Performance
Hyperion Global Growth Companies Fund (Class B)	**0.70% p.a.**	**20% p.a.**	**114.5%**
Magellan Global Fund	1.35% p.a.	10% p.a.	73.9%
MFS Global Equity Trust	0.80% p.a.	--	46.9%
Platinum Unhedged Fund	1.35% p.a.	--	27.9%
T.Rowe Price Global Equity Fund	1.18% p.a.	--	66.2%

Hyperion backs its ability to produce outperformance

Returns are net of fees. Past performance is not a reliable indicator of future performance.
As at 31st March 2020. Source: Morningstar.

The Hyperion Philosophy

Protect, and Grow.

Top performing fund 1QCY2020

Hyperion leads the Mercer long-only pack

Sarah Turner and Tom Richardson

Apr 24, 2020 – 4.05pm

Save Share

An aversion to short selling, a rejection of out-of-date business models and a willingness to pay for quality kept Hyperion's dominance of Australia's long-only fund managers intact in the March quarter.

Hyperion's flagship fund fell 12.5 per cent as the benchmark S&P/ASX 200 dropped 23.1 per cent in the fastest sharemarket crash on record last quarter. In just three weeks, equities went from a record high to a bear market.

Hyperion Australian Growth is the No. 1 fund over one year, with a return of 5.8 per cent before fees, according to Mercer.

The savage sell-down produced clear winners and losers. The managers widely regarded as investing in growth stocks broadly performed better than both the overall market and value-oriented competitors. The median long-only manager declined 24.5 per cent in the quarter.

Top 10 Australian shares managers following March quarter (%)

	Fund	1-year return	1-qtr return
1	Hyperion Australian Growth	+5.8	-12.5
2	Australian Eagle Long Short	-0.3	-15.7
3	Platypus Australian Equities	-1.3	-16.0
4	AB Managed Volatility Equities - Green	-1.6	-13.2
5	AB Managed Volatility Equities	-2.2	-13.7
6	AB Managed Volatility Equities (ex Global)	-4.1	-15.1
7	Bennelong Concentrated	-4.7	-19.8
8	ECP AM All Cap	-6.0	-19.8
9	First Sentier Concentrated - Growth	-6.3	-18.5
10	Australian Eagle Growth	-6.7	-20.2

SOURCE: MERCER

Questions?

Research & Platform Availability

	Hyperion Global Growth Companies Fund	Hyperion Australian Growth Companies Fund	Hyperion Small Growth Companies Fund
Research	Lonsec Highly Recommended Zenith Recommended	Lonsec Recommended Morningstar Silver Zenith Recommended	Lonsec Recommended Morningstar Silver Zenith Recommended
Platforms	Aegis Asgard Ausmaq BT Panorama BT Wrap CFS FirstWrap FNZ Group HUB24 Macquarie Wrap M-funds MLC Navigator MLC Wrap Netwealth Praemium Premium Choice	AMP ANZ Asgard Ausmaq BT Panorama BT Wrap CFS FirstWrap FNZ Group Hillross HUB24 IOOF Linear Managed Accounts Macquarie Wrap Mentor (Oasis Badge) MLC Navigator MLC Wrap Netwealth Praemium Premium Choice SimpleWrap	AMP Asgard Ausmaq BT Wrap CFS First Wrap HUB 24 Macquarie Wrap Netwealth PowerWrap

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APPENDIX

The Global Economy will be Soft for Years to Come

"The world faces a low-growth, low-inflation, low-interest rate environment with headwinds including ageing populations, high debt levels and a disappearing middle class in Western economies."

Mark Arnold, CIO
Hyperion Asset Management

Lessons from GFC

- Its all about earnings
  - Avoid recapitalisations
  - Avoid permanent loss of capital
  - Reduce earnings cyclicality
  - Carry higher cash levels as appropriate
  - Quality earnings return more quickly

Organic revenue growth comes from two sources

Growth in the overall market + Growth in market share = Total revenue growth

- Most companies can access the first channel
- Only elite companies can access the second channel

In tougher economic conditions, the risk takers are exposed

- In good times, investors and fund managers can “get away” with taking extra risk
- In stressed times, average companies struggle and extra risk is heavily exposed
- Reliance on discretionary spend and debt becomes a burden

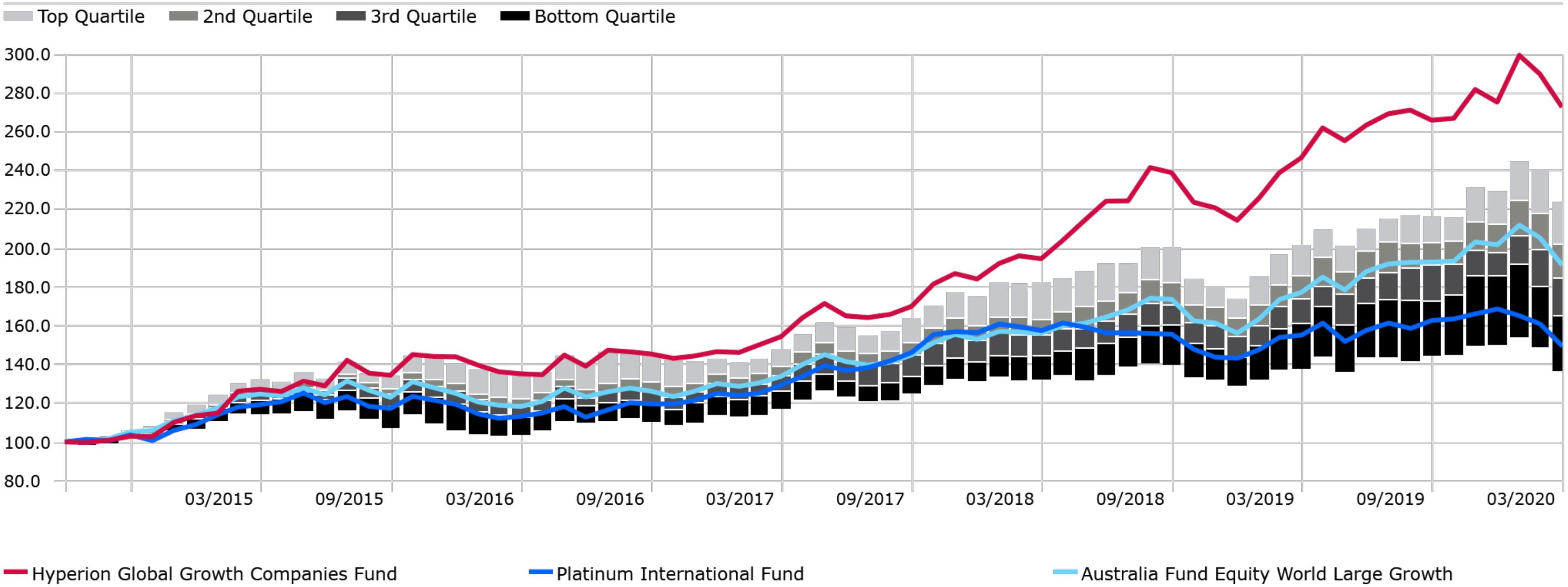
Negative growth in the overall market + Negative growth in market share = Permanent loss of capital

Hyperion Global Growth has strongly outperformed its "growth-style" peers since inception

Investment Growth

Time Period: 1/07/2014 to 31/03/2020

Peer Group (5-95%): Funds - Australia - Equity World Large Growth



Performance

Time Period: Since Common Inception (1/07/2014) to 31/03/2020 Calculation Benchmark: MSCI World Ex Australia NR AUD

	Return	Std Dev	Excess Return	Information Ratio (arith)	Best Month	Worst Month	Up Capture Ratio	Down Capture Ratio
Hyperion Global Growth Companies Fund	19.07	13.28	7.79	1.17	10.24	-6.39	119.00	77.98
Platinum International Fund	7.23	10.04	-4.05	-0.61	6.33	-7.09	67.85	71.07
Australia Fund Equity World Large Growth	11.70	10.68	0.41	0.17	6.53	-6.87	96.09	89.57

Past performance is illustrative only and not a reliable indicator of future performance.
Source: Morningstar Direct.

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For further information regarding Lonsec's Ratings methodology, please refer to Lonsec's website at: https://www.lonsecresearch.com.au/research-solutions/our-ratings.

MORE INFORMATION

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