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BEST of the BEST

MAGAZINE

Investment Insights

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Aura Core
Income Fund

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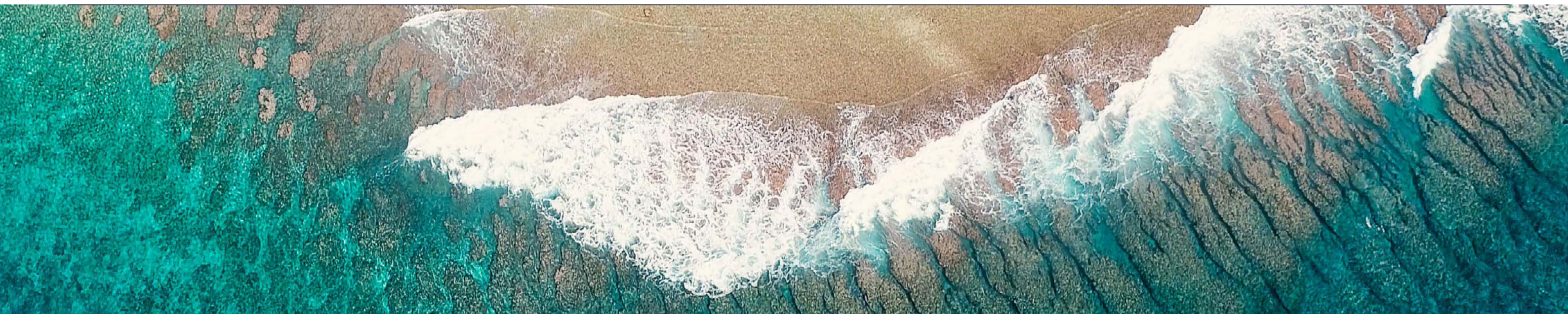

Aura Core Income Fund Target Return

The Fund aims to achieve a target return currently equating to 7.85%-9.85% [1] per annum net of fees and costs.

The target return is 3.5%–5.5% per annum above the Reserve Bank of Australia (RBA) Cash Rate, net of fees and costs, through the economic cycle.

MINIMUM INVESTMENT $25,000

The Aura Core Income Fund aims to preserve capital and provide a stable monthly income through exposure to a diversified pool of Australian private debt assets, predominantly made up of small to medium enterprise (SME) loans.

FUND BENEFITS:

- Aims to deliver stable monthly income.
- Aims to perform through the economic cycle. The Aura Private Credit team's track record has demonstrated that the SME loan asset class can deliver reliable income to investors through disruptive market conditions. Returns are earned from interest generally charged at a floating rate above the RBA Cash Rate.
- Low volatility and little correlation to public markets.
- Exposure to the private debt asset class that individual retail investors cannot easily access on their own.
- Access to the investment expertise behind the highly successful Aura High Yield SME Fund (available to wholesale clients only).
- A diversified portfolio of credit exposures across industries and geographies.

To learn more about the Aura Core Income Fund, please visit www.montinvest.com or call Rhodri Taylor directly on 02 8046 5000 to discuss the strategy.

[1] The Target Return is not guaranteed. The Fund's total return may rise, or fall based on, amongst other things, performance in the underlying loan assets and on movements in the RBA Cash Rate.

The Aura Core Income Fund (ARSN 658 462 652)(Fund) is issued by One Managed Investment Funds Limited (ACN 117 400 987 | AFSL 297042) (OMIFL) as responsible entity for the Fund. Aura Credit Holdings Pty Ltd (ACN 656 261 200) (ACH) is the investment manager of the Fund and operates as a Corporate Authorised Representative (CAR 1297296) of Aura Capital Pty Ltd (ACN 143 700 887 | AFSL 366230). You should obtain and carefully consider the Product Disclosure Statement (PDS) and Target Market Determination (TMD) for the Aura Core Income Fund before making any decision about whether to acquire or continue to hold an interest in the Fund. Applications for units in the Fund can only be made through a valid paper or online application form accompanying the PDS. The PDS, TMD, continuous disclosure notices and relevant application form may be obtained from www.oneinvestment.com.au/auracoreincomefund or from Montgomery.

FROM THE EDITOR

Welcome to our third edition of ***Best of the Best*** for 2024. With its articles covering Ingenia Communities Group, CSL, Gen X and the housing crisis, this month's ***Best of the Best*** has inadvertently become part of an emerging focus on unprecedented generational shifts. And as we stand on the cusp of these unprecedented demographic shifts, more of our investment thinking meets its effects.

The aging population, a rise in life expectancy – from just 25 years during the Roman Empire to over 72 years today, retirement planning, biotech that offers the hope of living beyond 125 years, and for the first time in human history, a population over 60 that outnumbers those under 15 all represent or are part of demographic transformations reshaping global economies and markets.

An aging population alters consumption patterns, healthcare needs, and lifestyle choices, thereby influencing which industries will thrive in the coming decades. We think private credit, with its attractive returns, monthly income and very low volatility, will be huge, which is why we partnered with Brett Craig and his team at Aura Credit Holdings to offer vital solutions to investors.

The healthcare sector stands also at the forefront of this shift, with an increasing demand for medical services ranging from preventive care to advanced surgical procedures. Companies specialising in age-related healthcare technologies, including eyecare and minimally invasive surgeries, are poised for significant growth.

Importantly, for investors, these are slow-moving and highly predictable demographic trends that can be used to align investment portfolios. Companies that derive significant value from catering to an aging population are likely to offer sustainable growth. By focusing on industries set to benefit from the so-called "silver economy," investors can capture the rewards of a market evolution that is both inevitable and expansive.

Unlike artificial intelligence (AI), and being slow moving, there is much less risk of this being a fad.

By embracing these demographic realities, we not only position ourselves for significant financial growth but also contribute to solutions that improve the quality of life for an aging global community. And this potential for financial outperformance should inspire optimism and motivation in our investment strategies.

We hope you enjoy this edition of ***Best of the Best.***

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CSL posts strong sales and profit growth

Roger Montgomery, Founder and Chairman

Roger discusses CSL's solid financial performance, driven by strong demand in its Behring segment, margin recovery, and operational efficiencies, while highlighting challenges from gene therapy adoption, slower flu vaccine demand, and modest growth from its Vifor acquisition.

Australian Securities Exchange (ASX) healthcare leader CSL (ASX:CSL) posted a robust 11 per cent rise in sales from US$13.3 billion to US$14.8 billion, with CSL's Behring segment, that markets products like immunoglobulin derived from blood plasma, contributing over 70 per cent of total sales. The company also reported a 21.8 per cent increase in earnings before interest, tax, depreciation and amortisation (EBITDA), a 24 per cent rise in earnings before interest and taxes (EBIT) and a 15 per cent growth in net profit for 2024, after adjusting for currency fluctuations.

Growth across all metrics was largely in line with expectations and primarily driven by the solid performance of CSL's Behring division. This business experienced strong demand for immunoglobulin and benefited from a return to solid collections, up 23 per cent. Indeed, Behring's gross profit growth of 16 per cent represented 90 per cent of the group's total improvement.

Behring's gross profit margins have been pressured in recent years by plasma shortages and higher blood collection costs during the Covid-19 pandemic. A return to pre-pandemic margins of approximately 56 per cent is viewed as a critical profit driver for CSL over the medium term, and while CSL had forecast a 100 basis point improvement in Behring's gross margins, the company reported a 120 basis point improvement, largely due to lower collection costs, operational efficiencies, and price increases. This improvement, however, was partly offset by adverse currency movements. Nevertheless, Behring's gross margins are operationally trending in the desired direction.

CSL had previously indicated it would take three to five years for Behring's profitability to return to pre-Covid levels.

CSL licensed Hemgenix, a gene therapy for hemophilia B, from uniQure in fiscal 2020. Gene therapies pose a potential long-term risk to the demand for plasma-derived treatments, so success by CSL with its own gene therapies could help mitigate concerns about disruption. It is still very early days, however. Hemgenix and other gene therapies are very costly, so adoption is initially very slow. Hemgenix received a significant number of referrals in 2024 but was administered to only 12 patients.

CSL's Seqirus business – one of the world's largest influenza vaccine companies produced a solid result and outperformed the market despite lower vaccination rates and competition. The outlook for this business, however, is less clear and more cyclical, with lower demand for flu vaccines having a negative impact. Longer term, the seasonal influenza market is moving from three main players to five, thanks in part to the shift from development of vaccines through eggs or cells to mRNA technology-led solutions.

In 2021, CSL announced the acquisition of global specialty pharmaceutical company Vifor, a company with leading positions in iron deficiency, nephrology (kidney care) and cardio-renal therapies. Vifor has experienced challenges in the U.S. – its key market and revenue increased by just three per cent. The slow growth was attributed to a requirement for patients to try less expensive treatments first.

CSL has projected FY25 Group revenue to rise by just six per cent to between US$3.2 billion and US$3.3 billion; however, EBITDA is expected to jump almost 18 per cent, EBIT to grow 22 per cent and net profit to rise by 15 per cent.

This article was written on 19 August 2024. All prices and movements in prices are on this date. The Montgomery Fund and the Montgomery [Private] Fund owns shares in CSL. This article was prepared 16 August 2024 with the information we have today, and our view may change. It does not constitute formal advice or professional investment advice. If you wish to trade CSL, you should seek financial advice.

Could Gen X please stand up?

Roger Montgomery, Founder and Chairman

Roger discusses how Gen X faces financial challenges, including delayed family milestones, inadequate retirement savings, and reduced government support, suggesting private credit funds as a potential solution for stable, high returns to meet rising living costs.

As a Gen X'er myself, it seems the press has left us behind, sandwiched as it were, between the Baby Boomers and Millennials. So, when an article purporting to describe me occasionally appears, I sit up and take notice. What do the media and financial experts think of my generation? Did they get it right? Or are they necessarily broad generalisations that don't apply to me or my friends?

According to a recent article published in the Australian Financial Review (AFR), if you are a Gen X'er born between 1965 and 1980, the following applies to you:

- Many of us attended university and travelled in our 20s resulting in marrying, having kids and buying homes later than previous generations.
- Having started families later, major financial obligations continue well into your 50s – and sometimes even later.
- 18 per cent of us own at least one residential investment property.
- 48 per cent of us are worried about running out of money during retirement.
- 30 per cent of us are worried we'll never have enough savings to retire.
- Three-quarters of us think high levels of government debt will result in less government financial support being available when it's our turn to retire.
- If we make it to age 65, we are expected to live to 85 as a male, and 88 as a woman, meaning we will require more to retire on than prior generations.
- Many of us will be among the first to retire with a lifetime of super accumulated (although when the super guarantee began in 1992 it was just 3-4 per cent of salary), and,
- Perhaps consequently, the average Gen X super balance is well below where it needs to be for a "comfortable" retirement.
- 55 – 59 year olds should have at least $316,000 in super.
- If you're no longer working, and turn 60 next year or later, you will be able to access your super.
- From 2030, you'll be able to access your super regardless of your work status after you turn 65.
- From 2032, depending on your eligibility, you'll qualify for the age pension once you've turned 67.

With careers peaking later and the thick of family life occurring later, financial and retirement planning has taken a back seat. In fact, according to one major planning firm, only seven per cent of Gen X'ers are taking financial advice. And according to another financial planner quoted in the article, we are "in denial" about retirement because we think we are much younger than we actually are. I am almost certain every generation thinks the same way about the ravages of time.

Yes, many of us did go to university and travel, but I know just as many who settled down to work quickly, building careers and businesses. Sure, for those of us who could conceive naturally, we did tend to have kids later than our parents. Typically, we were born to parents in their early twenties, while we didn't start having children in our mid-to-late 20s. Many of us continued having children into our late 30s, and some even in our 40s.

While I know a reasonable number of Gen X'ers who own investment properties, I know plenty more who don't. Steeply rising prices made some of them choose not to buy, while others have chosen to eschew an investment property because they simply don't want the maintenance or the obligation to return to the same destination for their holidays.

One difficult-to-dispute finding is that many in our generation will live longer than the generations that came before us. Fortunately, we have some superannuation to fund that longer retirement, but unfortunately, the government has managed, over a few decades, to shift the narrative. The new narrative – one we have swallowed hook, line and sinker – is that we are entirely responsible for funding our own retirement. For the previous generations, and for whom there was no super, the responsibility fell on the government through the aged pension. That pension is slowly being withdrawn such that three-quarters of Gen X may be justified in their expectations that "high levels of government debt will result in less government financial support being available when it's our turn to retire". And keep in mind the growing population of older people dependent on some form of social security needs to be supported by a declining population of workers and their taxes.

The majority of Gen X'ers have insufficient super to fund retirement, is a reality financial planners will try and help within the interim, but which some financial engineering and innovation will be required to ultimately solve.

The bottom line is that each generation experiences financial challenges and cost-of-living crises that higher returns (and ideally without higher risk) can help solve.

At the moment, and in the absence of newer innovations, I firmly believe private credit funds – those that can generate annual returns higher than the equity market's average annual returns, without any of the volatility, while producing monthly cash income and annual returns of around 10 per cent, are going to be in very big demand for Gen X, as well as the baby boomers already facing their own financial challenges.

An increasing number of wise financial planners are looking closely at private credit as a solution to the need for attractive and truly uncorrelated returns along with cash income to meet the increasing costs of living longer.

If the AFR's assessment of Gen X is correct, more of us should be taking a closer look at private credit.

This article was written on 14 August 2024. All prices and movements in prices are on this date.

Ingenia Communities – accessing retirement as an investment strategy

Michael Gollagher, National Account Manager

Michael discusses how the baby boomer retirement wave presents an investment opportunity, exemplified by Ingenia Communities growth in over-50s residential developments, supported by rising rental income, a strong development pipeline, and favourable demographic trends.

There comes a point in our lives where we are exposed to the thought or process of retiring. It could come one day when we open our annual superannuation statement. Or it could come when a parent or workplace mentor announces their intentions to hang up the tools and move into the next phase of life...

No matter the journey, a comfortable retirement is a dream and goal of many Australians and something that we all ponder at some point in life. Given the size of the baby boomer demographic in Australia, the question can be posed, is this an investment opportunity?

In our opinion, the short answer is 'yes'! One of the opportunities we have seen as a way to access the retirement actions of Australians, is through our investment in Ingenia Communities Group (ASX:INA).

Ingenia Communities is a leading operator, owner and developer offering quality residential communities and holiday accommodation. Across Ingenia Lifestyle, Ingenia Gardens, Ingenia Holidays and Ingenia Rentals, the group's property portfolio is worth approximately $2.5 billion and is spread across 102 sites around Australia. In their most recent report, Ingenia Communities posted revenue of $472.3 million, an increase of 19.7 per cent on the prior year, and earnings before interest and tax of $125.7 million, an increase of 17 per cent on FY23. The business continues to focus on pivoting from an accumulator of assets (properties) to a developer with a particular focus on the over 50s and retirement living space.

This raises the question of: how does this allow me to play the baby boomer retirement wave?

The largest sleeve of Ingenia Communities' investment property portfolio is Ingenia Lifestyle at 47 per cent. This division offers land lease homes, in communities for the over 50s market. These homes range from a budget offering priced at $340,000 to properties over $1,000,000 in attractive coastal and outer urban locations. This portfolio meets the needs of a growing demographic of over 50s who are seeking to unlock their equity through a process of downsizing, while also benefiting from a move to a location that offers significant lifestyle and community activities and benefits.

This part of the business provides an underpinning to Ingenia Communities' revenue growth over time. The rental income alone last year grew by 7 per cent due to the consumer price index (CPI) linked to the rental review process. This provides a strong inflation hedge for the group's earnings. This, coupled with the addition of 365 new home settlements over the FY24 year, saw headline revenue growth exceed 12 per cent for the year. Ingenia Communities currently has 4,460 homes that are generating an average of $203 per week in rent, with a development pipeline in excess of 5,000 new sites.

Having outlined the financial strength of Ingenia Communities, and the potential of development opportunities in their pipeline, it is not hard to see how this stock has made its way onto our radar and ultimately as an investment in the Montgomery Small Companies Fund.

The final question to answer is: will there be people to buy these properties? To answer that question, we will also address my opening comment around accessing the Australian retirement market.

The Australian Bureau of Statistics (ABS) released statistics in May 2024 reviewing Australian retirement trends and intentions (for the 2022-2023 period). This research found that there are currently 4.2 million retirees in Australia, with 130,000 people retiring in 2022. It is expected that a further 226,000 Australians will retire in the next two years with 710,000 people intending to retire in the next five years. The single year peak in retirement numbers is expecting in 2027 with approximately 188,700 people expected to retire that year.

With a tailwind of this magnitude, it is not hard to see the ample opportunity that sits before Ingenia Communities, from both the demographic support and the quality of their sites, and the communities they are building for their residents.

This article was written on 21 October 2024. All prices and movements in prices are on this date. The Montgomery Small Companies Fund owns shares in Ingenia Communities. This article was prepared on 21 October 2024 with the information we have today, and our view may change. It does not constitute formal advice or professional investment advice. If you wish to trade Ingenia Communities, you should seek financial advice.

The Aussie economy and society is bifurcating with the housing crisis

David Buckland, Chief Executive Officer

David discusses how Gen X is grappling with delayed financial milestones, insufficient superannuation, and longer life expectancy, emphasising the need for private credit funds to offer stable, higher returns as a solution to rising living costs and decreasing government support.

Australian governments at all levels are not known for thinking beyond the electoral cycle. Take the fact that Australia took on 540,000 immigrants last year, whilst births exceeded deaths by 110,000. Hence an additional 650,000 Australians, or 2.5 per cent of our population, at a time when our country is going through an unprecedented housing crisis.

The promise of one million dwellings over five years, or an average annual 200,000 dwellings, equate to 700 homes per day, assuming a five-and-a-half-day week. According to the Housing Industry Association (HIA), the year to December 2023 saw the commencement of 164,000 new homes, the lowest level since 2012, and only 114,000 completions. Assuming 2.6 people per dwelling, that covers 45 per cent of the net population increase in 2023.

And with unprofitable building contracts, cost blowouts, planning delays and labour shortages, the number of construction companies entering administration have jumped from 1,200 in FY22 to 2,100 in FY23 to 2,800 in FY24.

The housing crisis is a function of both the lack of supply and the lack of affordability. For example, the "Demographia International Housing Affordability report", surveys residential property across eight countries. The report measures housing affordability on a median price-to-income ratio, and then breaks the markets down into five distinct categories.

Unsurprisingly, most Australian capital cities are categorised as "impossibly unaffordable", and Australia's median multiple of 10x is at least twice that of the U.S. and the UK. And this doesn't really cover the more expensive suburbs in Sydney and Melbourne which are up with Hong Kong, Vancouver and San Jose, California.

I offer a simple example of my first property – purchased in the 1980s and paying around three times my pre-tax income. I had relatively little savings at the time, and no debt. That same property today would cost someone of similar age at least 14 times their pre-tax income. They must save hard (or get assistance) just to get a deposit, and even if they are lucky, they are already "behind" my generation by 11 multiples of their pre-tax income. And this comparison does not consider the possibility of a large HECS debt, and the enormous amount of stamp duty required on purchase.

In short, our politicians are misunderstanding the depth of the housing issue and unfortunately, it is largely responsible for the bifurcating economy and society, between the "haves" – those who have unencumbered property and are enjoying the higher rates of return on their cash holdings; and the "have nots" – those struggling with their mortgage, rent and the day-to-day cost of living.

This article was written on 4 July 2024. All prices and movements in prices are on this date.

IMPORTANT NOTICE

For more information on investing with Montgomery, please call Rhodri Taylor on 02 8046 5000, or email rtaylor@montinvest.com.

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