Hello and welcome to our special symposium edition of Conversations. GSFM's investment strategist Stephen Miller closed our Investment Symposiums in Brisbane, Sydney, and today in Melbourne. In doing so, he summarised and provided his unique perspectives on the key takeouts of the day. He's at the microphone today with Ben Williams, GSFM's Head of Retail Business to discuss those key themes and what they suggest about the year ahead.

Before I hand over, I need to read this important notice:

The information contained in this podcast is general and does not consider your objectives, financial situation or needs. The information and views contained in this update reflects, as of the date of recording, the current opinions of the participants and are subject to change without notice. Before making an investment decision in relation to a Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider both the Product Disclosure statement and the Additional Information. GSFM Responsible Entity Services has produced a Target Market Determination (TMD) in relation to all the GSFM Funds. The TMD sets out the class of persons who comprise the target market for the various Funds which can be downloaded from our website. Past performance information given in this podcast is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance. This podcast was recorded on Thursday 3 September 2026.

Ben and Steve, the floor is yours.

Ben Williams

G'day, Steve.

Stephen Miller

Hello. Nice to be here, Ben.

Ben Williams

In thousands of conversations with advisors and researchers over the last twelve months, this theme has kept coming up of diversification or the lack thereof. We see AI in every headline. We talk about a single factor market. So, we broke up the conversation with our symposium this week around that thesis and whether or not there's A) a problem, B) anything we can do about it, and C), whether or not relative value is still a, you know, useful signal for investors. What was your take on some of the segments today?

Stephen Miller

To take those three questions in succession, A) is it a problem? No. Certainly, it's a problem that can be addressed, which I think was the implication in your second question, you know, by maybe looking at things that might have worked in the past, ways of thinking that might have worked in the past, and sort of evolving them to the new investing environment we find ourselves in. And thirdly, is relative value still important? Yes, it is. If only because, and I don't think it's only, but because it also provides potentially meaningful avenues for diversification.

Ben Williams

And one of the big takeaways from the opening session around AI as a driving force behind both equity and fixed income returns was whether or not I've got enough breadth in my portfolio, enough diversification across equities and bonds. What about the correlation problem? Are they behaving the same way, and is that something that we can do something more with?

Stephen Miller

Again, I don't think it's a correlation problem. I think what we need to do is to perhaps recut our approach to, say, asset allocation. And rather than think about percentage allocations to equities or bonds, and this goes to the diversification element too, we sort of say, "Well, I've got so much exposure to AI-themed risk. How do I best want to execute that exposure? And how much do I want to sort of have exposure to AI equity risk, which may be more volatile? How much do I want to have in a fixed income bucket, which may be less volatile? And how do I proportion between those different structures?" So, in other words, think about the theme first and then what structure you might want to apply that to, whether that's debt or equity or some other piece.

Ben Williams

And then when we think about the speakers and the presentations in that first thematic Nick Griffin from Munro, global growth investor, AI investor, but obviously many more themes behind their portfolios. What were some of the takeaways from Nick's presentation that drew you in?

Stephen Miller

The key one is this. As an old-fashioned macro bond guy, uttering these words may well get me chucked out of the Bond Managers Union, but I'll plough on in any case, and I think it's a great lesson for not only this year, but previous years. It's that don't get down in the macro weeds, or don't get down too far in the macro weeds. There are some big structural elements at play at the moment in the global economy, and they're way more important than what we might sort of call traditional macro metrics.

So, to give you an example, at the start of the year, a macro-focused analyst might have had a very guarded view about how financial assets would perform this year. They would have pointed to sticky inflation. They would have pointed to elevated oil prices, particularly as we got into the year after the Iranian conflict. They would have pointed to the fact that bond yields would stay elevated, that central banks may tighten further. They would have said, well, they're headwinds for the economy. They're headwinds for the equity market. And do you know what? Some might have said that equity markets are richly valued, that slowing economic growth means slower earnings growth. And so, at best, you're not going get much from your bonds, and because of that, you're probably not going to get much from your equities either. You'd be lucky to eke out positive returns.

Now, I've paraphrased and taken a few liberties there because I've set up the straw man, but I'm only doing so to highlight the deficiencies of a macro-focused projection. Because what happened? Well, actually central banks are probably going to tighten, including here in Australia. The Fed Chair Walsh told us on Friday at Jackson Hole that he's probably going to tighten. Bond yields, not only did they stay elevated, but they also actually went up further. The ten-year yield in the US was 420 at the start of the year, now it's 470. Equity markets, what did they do? Well, they had a bit of a wobble around the Iranian conflict, but they've powered on. And why did they power on? Well, they powered on because they were basically fuelled by the increasing role that AI plays in our economic life. Not only did they power equity markets, but they also powered economic growth, by the way. So those things are important. Whereas if you are focused on macro and interest rates and inflation and stuff like that, you might have missed that message that these structural themes are really important.

Now, you mentioned too, how do you diversify within that space if you're not looking at things through a macro lens? Well, there are other structural themes that are maybe important, and I know Nick mentioned a couple of these. Healthcare, for one. Defense, for another. There are all these big shifts happening, what some label structural mega trends, that are way more important than macro. AI is the most prominent of them, but it's not the only one; the other ones will be reflected elsewhere in Munro's portfolio.

Ben Williams

Dr Kevin Hebner from Epoch countered some of those comments and those mega trends in a more geopolitical lens. He talked a lot about the US versus China complex. What did you take away from his comments?

Stephen Miller

Well, I think, again, that was interesting. This also harks back to a question around diversifying. But what Kevin did say is he thought that it's at the heart of this great power conflict, and I think that's important. But what he did say is that this is the third industrial revolution, as he put it. And he also said that he thinks it's got further to run. So, he's saying, "Don't shrink from AI, but just be careful about how you reflect those themes in your portfolio." And that goes back, I guess, to the earlier question about how you express it. Don't be frightened of having AI risk, but

concentrate on how you spread it, including which instrument, but also including which geography, to the extent that you're able to do so.

Ben Williams

So perhaps a good wrap on that first section is around maintaining your AI exposure is a natural inclination but be aware of how much you are really exposed to in terms of that factor risk across both equities and fixed income.

Stephen Miller

Yeah. Be aware and think a bit about how you spread it across different instruments. Don't get too consumed by having too much.

Ben Williams

So, let's talk about that, how you can spread that risk across your portfolio. That was segment two. That was talking about you have options. There are ways to counter this risk, whether you enjoy the risk, whether you're looking to defend or insure against it. What were some of the observations around liquid alternatives or private markets being a panacea to your concerns with this sort of portfolio construction?

Stephen Miller

I'll tell you where I come from in that question, and I did mention earlier that I'm on the verge of getting chucked out of the Bond Managers' Union. This will probably seal the deal. You know, we think about a 60/40 portfolio, and that used to represent some benchmark of diversity. You know, 60 equities, 40 bonds. And I think, forget that. That has shot its bolt, right? It's, it's no longer got any utility, and I think the part that we need to have a look at is the bond part.

Now, I don't want to get too caught up in the numbers. This is just for illustrative purposes only. But rather than 60/40, it might be more useful to think about 60/20/20. So, 60 equities, 20 bonds, and 20 other, and that other might include things like, as you mentioned, infrastructure, things like commodities, which I think got a mention, but not a presentation. Why are those two in particular attractive? Because they do have inflation protection qualities. Bonds aren't very good at that.

The other thing could be trend following, which was the presentation we got from Man Group, and also private assets to some extent. But I think what's important about private assets is you probably, and I think this was the theme behind Marc-André's presentation, in looking at private assets, look at its complementarity to the rest of the portfolio, but also look at what you've got within the private asset complex, and also, as he put it, think about the non-linearity of liquidity.

Ben Williams

And Dr Lewis talked at length about the liquidity trade-off within private markets and the extent to which it doesn't remove any risk. It simply removes it to a different part of your portfolio. He talked a bit about private markets and private credit perhaps being even more concentrated than your AI exposure-whether it's linked to credit in the property sector or a particular sector. What were some of your observations about where he was thinking putting all of these pieces together?

Stephen Miller

In essence, the message I got from Marc-André 's presentation was that diversification in little slivers is way more important in the private asset space, or the private credit space for that matter, than it might be in a conventional portfolio, where if things sort of get a bit hairy, you've got access to liquidity and are able to shift things around. And I think that's sort of quite relevant to the way we think about things in Australia at the moment, given that the high profile that certainly some liquidity issues attaching to certain private credit funds are now getting in the press.

I think the attribute that currently is most prominent in those private credit or private asset funds in general that are having difficulty is that they didn't really think much about concentration risk. So that's one thing. The second thing is the sense that I got is that you really need to think long and hard about what you're taking on when you buy a so-called evergreen private asset portfolio, whether that's in the credit space or the equity space.

Ben Williams

So, I think we can sum up that second section. There's certainly insurance available. There are options available to de-risk your portfolio, de-hype your portfolio.

Stephen Miller

Without question, but again, going back to the introduction, it's not necessarily bonds anymore. You know, it's infrastructure, it's commodities, it's private assets, it's trend following. There might be one or two other things. Long-short portfolios, quant hedge funds, macro hedge funds. You know, those sorts of things.

It's not bonds, and the reason that bonds, I think, are a little bit weakened as a diversifier to a portfolio that at its core is equities, is because, A) that assumed negative correlation is really only an early 21st century phenomenon. You know, the chart that Man presented, showed that in the 20th century and the 19th century, actually bonds and equities tended to be positively correlated, as they are now. So, you know, I thought that was really interesting. So, you've got to think differently. Don't think that bonds are a diversifying asset. These other things are assuming way more prominence and should deserve way more attention.

Ben Williams

Our third and final presentation set looked at relative value still being a really relevant lever for decision-making in portfolios, moving money around, not just across asset classes, but within. What were your observations around the underlying sectors or breadth of portfolio choice you got in that space? Active management's hard at the best of times. Where's the value that you saw in that portfolio?

Stephen Miller

Well, I think active management is hard at the best of times. What I got from those presentations was active management is probably more important in these – I don't want to use the term peripheral, but let's call them value sections – whether that's small cap, small and mid-caps, whether that's geographies or what have you. I think Qiao in her presentation on global small and mid-caps, she had said, it's an overlooked and underutilised sector. She said if some big, large cap firm releases results, her inbox is flooded with research emails on it. If some mid cap firm releases results, she's waiting for the email that sometimes never arrives. What that presents is opportunity. You've got opportunity to add alpha in that space, and because it's, it's overlooked, it's underappreciated, and so you can discover some quite interesting stock gems within that universe.

Tim presented something similar in the Australian context, and again, you know, came up with some great stock stories to illustrate that point. Yes, you have to be patient. You know, sometimes these things might take a while to emerge, and as Tim pointed out, they can in the Australian market, which is quite a, an idiosyncratic market. There can be a lot of distortions at work, but they will work out eventually. You've got to be a bit patient to get that, but stay with it, and as I mentioned earlier, it's a diversifier.

And of course, geography is a diversifier as well, and one of the better ones, particularly given the AI theme, is in Asia, as well as there being some unique pockets of interest, such as Indonesia, as Andrew highlighted in his presentation.

Ben Williams

It's interesting, isn't it, that out of reporting season recently across Asian equities, Australian equities and global small and mid-caps more broadly, that a lot of company results have been very favourable. Earnings have been exceptionally strong. And yet the slower growers with less earnings opportunity have tended to outperform. So, as you say, it's a waiting game for some, it's a patience game for others but there's opportunity there.

Stephen Miller

Yeah, and, and again, this goes to the issue...we're investors, not punters, dare I say. And as investors, one of the attributes that you should focus on is having a little bit of patience. That doesn't mean that you tolerate persistent underperformance, but if you understand the investment philosophy of your underlying manager, you've presumably bought into that already, and I think you need to give that philosophy time to work.

Ben Williams

Steve, thanks for chatting with us today and covering the symposium for us. It was another great week, and we'll do it all again next year.

Stephen Miller

Thank you Ben.