PAC Capital

# PAC NEWSLETTER

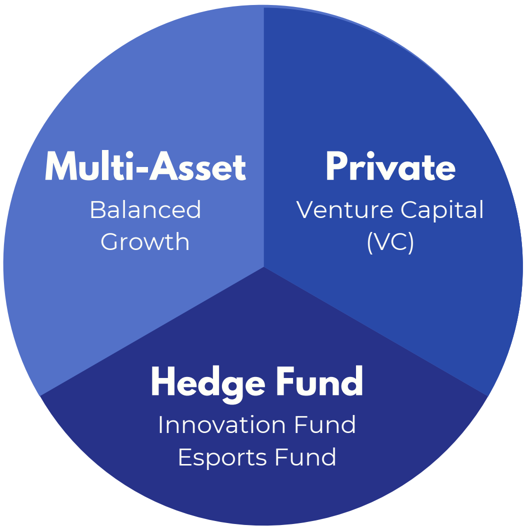
Persistence Ambition Consistency

## A Message from the Chief Investement Officer

by Clayton Larcombe

October was a great month for all PAC Capital funds. Our multi-asset portfolios outperformed benchmarks; our hedge funds posted outstanding returns; and our private investments continued to grow. As usual, final performance figures will be ready to be released mid-month.

As we approach the end of 2021, PAC continues to go from strength to strength. Across all teams and divisions, it has been a pleasure to watch the depth and talent of personnel grow. Excitingly, we expect to announce new additions to the team over the coming months as we continue to expand. PAC is innovative and forward-thinking, and this is driven by our ability to combine individuals with unique but complementary skill sets. The business is well-positioned as we look to close out 2021 and enter the new year.

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# PAC's Macro Wrap

by George Smyrnis - Senior Analyst

Most international markets rallied through October, despite a continuation of several worrisome issues (i.e., defaults in China's property/construction sector and rising energy prices). Further, concerns about forthcoming central bank tapering to combat (hyper)inflation became a focal point during the month. Amidst these concerns, we were pleased with the performance of our multi-asset funds that benefited from: (i) an overweight to international equities; (ii) the removal of emerging market equities; (iii) exposure to Australian property; and (iv) an underweight to foreign exchange.

Our overarching expectation throughout October differed slightly from consensus. We believed that supply dislocation concerns and (hyper)inflation worries were already priced in and the magnitude and longevity of their impact upon economies was overstated. Consequently, we positioned the multi-asset funds towards technology with a slight overweight to international equities and entirely avoided emerging market equities. We believed U.S. large/mega technology companies would be largely sheltered from supply disruptions and inflationary pressure since they primarily sell digital goods and services and have demonstrated strong pricing power. Conversely, emerging market companies, which focus on industrial goods and agriculture, would be challenged by logistics delays and cost-push inflation.

We also continued to believe accelerated tapering was unlikely, the reopening thematic (especially in Australia) would continue, and fears of a complete collapse in China would subside. Our conjectures proved mostly valid and supported: (i) the rally in global equity markets; (ii) the rally in the Australian Dollar as a proxy for risks in China; (iii) very strong performance in domestic property; and (iv) flat fixed interest markets. However, on 29 October the Reserve Bank of Australia suddenly lost control of its yield policy causing a sharp decline in Australian Fixed Income. This foreshadows how interest rate changes can cause drastic movements in security prices, even if expected. We believe managing the multi-asset funds through tapering activities will be central to their success through 2021 and into 2022.

## Markets Overview

for the month to 31st October 2021

### Indices

| Indices | Close | +/- | % |
|---|---|---|---|
| Dow Jones | 35,819.56 | 1,975.64 | 5.84% |
| S&P 500 | 4,605.38 | 297.84 | 6.91% |
| NASDAQ Composite | 15,498.39 | 1,049.81 | 7.27% |
| VIX | 16.26 | -6.88 | -29.73% |
| FTSE 100 | 7,237.57 | 151.15 | 2.13% |
| Hang Seng | 25,377.24 | 801.60 | 3.26% |
| Japan Nikkei 225 | 28,892.69 | -559.97 | -1.90% |
| S&P ASX 200 | 7,323.70 | -8.46 | -0.12% |

### Currency

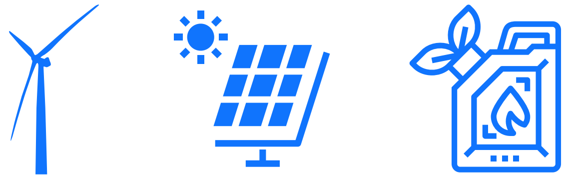
| Currency | Close | +/- | % |
|---|---|---|---|
| AUD/USD | 0.751 | 0.029 | 3.99% |
| AUD/EUR | 0.649 | 0.026 | 4.13% |
| AUD/GBP | 0.548 | 0.012 | 2.28% |
| AUD/CAD | 0.931 | 0.016 | 1.74% |
| AUD/NZD | 1.050 | 0.002 | 0.23% |

### Commodities

| Commodities | Close | +/- | % |
|---|---|---|---|
| Gold (NYM $/ozt) | 1,783.00 | 27.70 | 1.58% |
| Crude Oil (NYM $/bbl) | 83.57 | 8.35 | 11.10% |
| Silver (NYM $/ozt) | 24.01 | 2.48 | 11.52% |
| Iron Ore 62% ($/mt) | 121.23 | 1.53 | 1.28% |
| Copper (LME $/t) | 9,955.00 | 914.00 | 10.11% |

# The Future of Energy

by Will Sanderson - Analyst



Given the recent rally in commodity prices, it is timely to discuss our view on innovation within the energy sector. Over the past 10-15 years we have witnessed a heightened urgency in addressing the challenges posed by climate change. We have seen a virtuous cycle emerge as – governments have focused on green energy (as evidenced by the Paris 2015 Treaty and upcoming Glasgow talks), consumers are demanding cleaner and greener products, investors are pivoting towards 'green' investments and businesses are responding by increasing expenditure towards renewable technologies. Over this period, costs associated with the production of clean, renewable energy have been significantly reduced due to vast technological advancements. Indeed, according to the IEA World Energy Outlook, solar is now considered the cheapest source of electricity.

As governments, businesses and households continue to invest heavily in the future of energy, we explore two main questions:

- Which businesses will thrive as global energy production is transformed?
- How will a sudden uptake in renewable energy be facilitated by supporting infrastructure?

PAC Capital believes the most successful companies will be those that can dramatically improve the efficiency of generating renewable energy, by either: (i) substantially reducing generation, storage, and delivery costs; and/or (ii) ensuring a zero-carbon lifecycle at scale. We expect the companies that will lead the renewable energy space will likely relate to green energy sources (i.e., solar, wind, tidal, biofuel and hydrogen). We expect these cost savings and efficiencies to be driven by 'creative destruction' or 'resource driven innovation' from both emerging and incumbent firms. To this end, it is important to look for companies with breakthrough technologies or those who are experiencing a rapid decline in the cost per unit of production.

Examples of such companies include: Australian start-up Sundrive which recently broke the record for solar cell efficiency; Vestas Wind Systems which made the world's largest wind turbine; or Fortescue Metals which is pivoting to a renewed focus on producing green hydrogen.

Renewable energy power generation is expected to account for 65% of global power generation by 2050, up from 7% today, with fossil fuel usage expected to fall by 75% over the period (Transgrid, 2020). We believe focusing on supporting infrastructure will be essential to facilitate the sudden increase in emerging methods of energy production. This will mean the development of: (i) storage technologies that can hold and release clean energy when the sun is not shining and the wind is not blowing; (ii) long distance, high efficiency distribution networks to connect offshore wind and isolated solar and tidal facilities to the energy grid; (iii) commercial systems for household production and storage, electric vehicle charging, and carbon capture systems; and (iv) programs to facilitate workforce reskilling and placement.

Over the past decade, ESG themed funds have seen extraordinary interest. According to Bloomberg, ESG ETFs had the highest capital inflows of any funds in 2020 and current forecasts indicate US$1 trillion will be invested in ESG ETFs by 2025. We believe the increasingly passive expression of ESG investing provides an opportunity for the nimble, active investor. Typically, the holdings of passive ETFs are selected and weighted systematically based on market capitalization. We believe dynamic industries, such as renewable energy, provide ample outsized opportunities for those able to carefully consider the idiosyncratic fundamentals behind each business. Consequently, we are excited to provide our clients with exposure to our highest conviction ideas shaping the future of energy within the PAC Capital Global Innovation Fund.

# Talon Esports: Momentum Continues to Build

by Clayton Larcombe - Chief Investment Officer

PAC Capital was one of the first investors in Talon Esports and continues to be a major shareholder. Talon is an unlisted Esports organisation founded and headquartered in Hong Kong, and one of the fastest growing teams in the Asia-Pacific with millions of fans globally. The Asian Esports market is the largest and fastest growing in the world, accounting for 54% of global revenues and is expected to grow 10.5% YoY in 2021 (Niko Partners, 2021). They have teams competing in League of Legends, Arena of Valor, Overwatch, Tekken 7 and Street Fighter V. Talon is one of the most exciting investments in the PAC Private division. Among Esports franchises, Talon is an excellent candidate for investment due to their various and growing revenue pathways, their competitive success and their CEO Sean Zhang, who we have come to know as a highly capable leader.

Talon had a fantastic 2021 and we expect them to achieve all their key objectives: revenue growth is strong, competitive performances have been amazing, and social media numbers continue to climb steadily.

Talon is in a strong financial position, having recently completed a significant capital raise. Their bolstered balance sheet should support their numerous growth initiatives – including their new Philippines office and funds required to build out a DOTA 2 team based in the Philippines. Talon has been busy on the sponsorship front with a number of renewals and new deals in the pipeline to be announced over the next few months. Lastly, Talon has been exploring alternate monetisation methods including an NFT strategy which it plans to launch in 2022. They aim to use their players, teams, content creators and ambassadors to develop and market collectible and experiential virtual goods. We look forward to watching Talon develop in what is an exciting and growing sub-sector, and we will continue to provide updates as the story progresses.