

Financially speaking

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Your brain is a supercomputer

The human brain is incredible, so we're celebrating the extraordinary in what is often seen as ordinary, starting with the human brain. It's capable of the most remarkable feats, even if we don't recognise them when they're happening.

In the time it takes you to read these first few paragraphs, your heart will pump about five litres of blood. It sounds like a lot, but that's nothing compared to the 30,000 to 40,000 skin cells you'll shed in the same time period. Meanwhile, your eyes will blink around 12 times without you having to think about it, although maybe you're starting to think about it now?

The human body is a marvellous feat of evolution, improved and reworked and rejigged over millions of years.

Take the human brain. We know it helps us think, and solve problems, and remember the lyrics to songs, but what else does it do every single day without our input? And how can we help it do it better?



It filters information at lightning speed

As you read this article, your brain is doing more than just making sense of the words on the screen. Not content with simply converting lines into letters and letters into words and words into sentences, your brain is keeping an eye on your surroundings, too. Whether you're reading this on a computer at work or scrolling through it on your phone, your brain is right

now absorbing and discarding information about your immediate environment. Maybe it's the conversations of your colleagues nearby, or the slight vibrations of someone walking past.

Whatever they might be, there are myriad visual, tactile, olfactory and auditory stimuli competing for our attention at any given moment. Luckily for us, the human brain is capable of processing enormous amounts of data and deciding what's worth paying attention to so that we don't have to. This process is known as selective filtering or selective attention. Generally, our brains do it all the time. It's how you're able to focus on a single conversation in a crowded room. Your brain tunes out the unnecessary data (loud music, nearby movement) and helps you zero in on the information you need.



It regulates our temperature

Regulating body temperature is another of the brain's core functions that doesn't always get the kudos it deserves. We buy anti-perspirant deodorant to avoid sweaty underarms, and we hug our chests to stop ourselves from shivering, but those sweats and shakes are the brain's way of cooling and heating our bodies for us.

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As humans, it's crucial to our physical health that our body temperature remains stable at 37 degrees Celsius. This is our body's sweet spot: the temperature that allows it to perform all of the processes and functions we rely on to live well. When our temperature fluctuates, our brain steps in to correct it through a process called thermoregulation.

Sensory receptors on our skin detect our external environment – things like humidity, air-conditioning, or a cool summer's breeze. The sensory receptors then relay this information via our nervous system to the hypothalamus in the brain. After receiving the information, the brain makes a call about whether the body needs to heat up or cool down to remain at 37 degrees. Pretty cool, right?



It can store a *lot* of information

You've heard of a gigabyte, but what about a petabyte? Scientists believe the brain's potential capacity for information storage is about 2.5 million gigabytes, or 2.5 petabytes. That's about 1,125,899,906,842,624 bytes.¹ Yes, really. Here's why.

The human brain is made up of about 1 billion neurons. Each neuron forms approximately 1,000 connections to other neurons, which adds up to more than 1 trillion connections. When it comes to storing information and memories, neurons combine to exponentially increase those connections and the brain's capacity for storage.

To put it another way, if your brain was a digital recording device, 2.5 petabytes would be enough to store something like 3 million hours of television. It would take almost 300 years of continuous recording to use up all that data.

Or to put it yet another way, that's more memory power – much, much more – than the computer on board the Apollo 11 during the first moon landing.² Your brain is literally out of this world.



Give your brain a break

The next time there's a word on the tip of your tongue but you can't quite get it, or (worse) you accidentally call someone by the wrong name, give your brain a break. Even when our minds feel slow and sluggish, remember: inside your skull, hard at work, is a supercomputer.

¹ IT Pro: What are petabytes and just how big are they?

² Business Standard: Would your phone be powerful enough to get you to the moon like Apollo did?, ABC: The Lunar Module Computer

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It's green, but is it a good investment? Here's how to know

Investment managers analyse green investments against a range of benchmarks, but it boils down to three things, says Regnan's Maxime Le Floch.

For professional investors ESG benchmarks are now integrated into regular decision making. For individual investors, that's not yet the case.

A recent Gallup study showed smaller US investors don't spend time focusing on environmental, social and governance factors when making investment decisions – and the majority don't know much about it.

But that's changing. The survey showing an uptick in smaller investors' interest in responsible investing. And recent political outcomes, including the success of the Greens and independents in the Australian federal election, will force greater focus on ESG at a policy level.

So, how should a small investor approach ESG?

"Start by make sure what you're considering is actually green", says Maxime Le Floch, an analyst with Regnan's Global Equity Impact Solutions team. "Second, focus on solutions with a strong relative advantage over competitors. And finally, focus on long-term opportunities."



1. Make sure it's green

Investors need to define what green is to them, Le Floch says. "There's a spectrum of how green investments are and debates around that within scientific communities and within industries."

"These are very complex multi-dimensional issues and it's not just about climate change. It's also about ocean health, foods, wastewater and many other issues," he says.

Investors need a framework to benchmark green investments, and the United Nations Social Development Goals (SDGs) are a good place to start.

"That's the roadmap. From there you need to do some work in terms of translating the goals into actionable investment ideas and that takes research. It might be around offshore wind, new types of plastic, recycling technologies or water treatment."

As part of their impact assessment of companies, Le Floch and the Regnan team employ various tools such as life-cycle analysis.

This considers the full life-cycle of a product – from raw materials to production to use to disposal or recycling – and consider all environmental impacts in each stage.

2. Relative advantage of a solution

There is seldom just one ESG solution to a challenge and investors need to consider which is the best outcome for a problem.

“It’s important to not just look at the environmental benefits of a technology but also how it performs relative to other technologies,” Le Floch says.

The simplest example is the automobile sector. Internal combustion engine cars have become less pollutant and with the introduction of hybrid vehicles, the improvement has accelerated.

“But they can only go so far. Electric vehicles provide much greater environmental benefits and have a cost profile that’s getting more attractive. When you include how much you pay for petrol, maintenance and the depreciation of the vehicle, cost parity is coming much faster than was expected,” Le Floch says.

“An investor wants to be exposed to a green asset where the relative advantage has reached a point whereby there is accelerating growth coming to those solutions.”

3. Invest for the long-term

Investing for the long term is more important today with rising inflation, Le Floch says.

“It’s really important to stay focused on the long-term opportunities – the total addressable market, structural opportunities, the need

to decarbonise that is recognised by governments, companies and investors.

There is a big increase in the number of companies aiming for net zero carbon emissions. That will create demand for offshore wind power, for example. There are these types of structural drivers from companies making net-zero decisions.

Investors should focus on areas where there are structural growth opportunities – offshore wind, wood-based fibres, water treatment solutions,” he says.

“Green assets are attractive because their environmental benefits are going to be increasingly recognised and rewarded”, Le Floch says. “There will be higher demand for these technologies if they can prove they are benefiting the economy and that’s what investors should look for.”

Source: This information has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and is current as at June 22, 2022. PFSL is the responsible entity and issuer of units in the Pental Multi-Asset Target Return Fund (Fund) ARSN: 623 987 968. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pentalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pentalgroup.com/ddo. You should obtain and consider the PDS and the TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. This information is for general purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient’s personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation. Read the full article here: www.pentalgroup.com/education-and-resources/esg-its-green-but-is-it-a-good-investment-heres-how-to-know

Fixed income – new dynamics demand fresh thinking

How changing markets require investors to think and act differently.

KEY INSIGHTS

- Changing dynamics mean that the past decade is probably a poor guide as to how bond markets might perform going forward.
- With central banks removing stimulus support and hiking interest rates, we expect tighter global liquidity, higher interest rates, and bouts of volatility to continue.
- While the environment is challenging, we see potential for great buying opportunities, so a flexible approach to bond investing is vital.

Bond market volatility is set to continue as markets prepare for life without central bank support. After more than a decade of stimulus measures, central banks are withdrawing liquidity and hiking interest rates in response to multi decade high inflation. Given that aggressive actions of central banks drove yields down so low in the first place, their withdrawal is likely to be highly disruptive – and will ultimately have a much bigger impact on markets than economic growth forecasts.

Faced with rising rates and volatile markets, we believe that bond investors will need to think differently and adopt a broader, more flexible approach that emphasizes active duration management and volatility management. Below, we explore three key risks – and ideas to help mitigate them.

Key risks: Rising bond yields

Portfolio approach – Active duration management will be critical

We believe that managing duration actively will be critical to navigating this environment because it enables investors to tactically respond to different market environments and regime changes. It also gives investors the flexibility to take advantage of any pricing anomalies and dislocations that might occur in a volatile environment.

A broad approach with the scope to invest in different bond markets across the globe may also be beneficial as it offers opportunities to take advantage of scenarios where policy is diverging.

Key risk: Volatility in credit markets to continue**Portfolio approach – Defensive positioning and active duration management**

A defensive approach may work well in this environment as deploying hedging strategies can help to navigate volatility. Managing duration actively is also important, given the duration risks to which credit portfolios may be exposed.

Key risk: Stock/bond correlations are changing**Portfolio approach – Go broad using full toolkit of instruments**

A broad approach that deploys the full toolkit, including currency and derivatives markets, may help to balance and mitigate risks in a portfolio.

How the Dynamic Global Bond Strategy may help in this environment

The changing market environment means that investors can no longer rely on the post Global Financial Crisis investment playbook and will need to think and act differently going forward. We believe that the environment will suit our Dynamic Global Bond Strategy, which is flexible, has a strong emphasis on active duration management, and employs defensive hedges to provide diversification against risk assets.

General fixed income risks

Capital risk – The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

ESG and sustainability risk – May result in a material negative impact on the value of an investment and performance of the portfolio.

Counterparty risk – An entity with which the portfolio transacts may not meet its obligations to the portfolio.

Geographic concentration risk – To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk – A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk – Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk – The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk – Operational failures could lead to disruptions of portfolio operations or financial losses.

Source: T. Rowe Price. Arif Husain, CFA, CIO, Head of International Fixed Income, Lead Portfolio Manager, Dynamic Global Bond Strategy

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Thinking ahead? Let's talk about strategies for creating a positive financial future.

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