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# Regal Partners Ltd (RPL)

## Q2 flows and returns beat expectations

**Recommendation**

**Buy** (unchanged)

**Price**

**\$2.61**

**Target (12 months)**

**\$3.68** (previously \$3.45)

**GICS Sector**

**Diversified Financials**

**Expected Return**

Capital growth	<b>41.0%</b>
Dividend yield	<b>3.1%</b>
Total expected return	<b>44.1%</b>

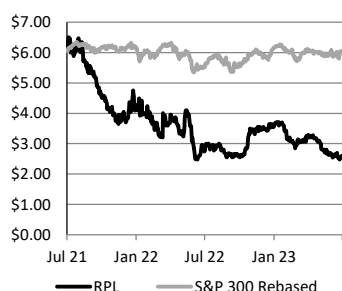
**Company Data & Ratios**

Enterprise value	<b>\$626m</b>
Market cap	<b>\$657m</b>
Issued capital	<b>254.7m</b>
Free float	<b>20%</b>
Avg. daily val. (52wk)	<b>\$265k</b>
12 month price range	<b>\$2.48-3.71</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	2.66	3.15	2.95
Absolute (%)	-1.9	-17.1	-11.5
Rel market (%)	-3.5	-16.2	-21.0

**Absolute Price**



SOURCE: IRESS

**Q2 FUM and flows**

The company released a Q2 update showing June FUM of \$5.8bn, rising from \$5.5bn at end of March. This was well ahead of our expectation of \$5.3bn, which was based on investment returns to the end of May. Within this FUM, net flows were \$0.2bn, driven by flows into the Regal Private Credit Opportunities fund and the Attunga Capital Power and Enviro Strategy, which were not in our forecasts. Net inflows for the 12 months to June 2023 were \$1.1bn and ahead of the company's target of \$1.0bn.

**Investment Performance**

Investment performance in Q2 was \$0.2bn or 3.6% of opening funds, and was ahead of our expectations of -0.7%. Our forecast was based on an aggregate of individual fund performances to the end of May. We noted that four of the public funds had performed well in June, and this announcement shows the funds' performance in June was more broadly based than we expected. The company noted that performance fees are expected to be \$7m for H1 FY23, which is within our expected range of \$7-9m, derived from our bottom-up analysis of fund returns. The company expect other income (predominantly returns on shareholders seed capital) to be \$9m in H1. This is above our estimate of \$2.5m, higher due to the strong fund returns in June. The company also announced it has entered a \$50m credit facility with HSBC, which provides additional funding for working capital and inorganic growth.

**Investment view: BUY target price \$3.68/sh**

We continue to favour RPL over its peers as we expect future fund performance and inflows to be strong which should over time lead to growing FUM, management fees and performance fees. We have updated our model for the revision to FUM, and returns on shareholder funds, which sees our reported EPS forecasts increase by 0.2% for FY23, 6.0% for FY24, and 11.8% for FY25. We value RPL using a DCF valuation with a WACC of 10.3% applied to our forecasts for EBITDA, adjusted for tax and working capital. We value the company at \$3.68 per share. (\$3.45 previously). The company are due to report H1 FY23 results on 24 August.

**Earnings Forecast**

Year end Dec 31	2022a	2023e	2024e	2025e
Sales revenue (A\$m)	88.3	85.9	134.6	159.3
EBITDA (A\$m)	27.2	29.9	68.1	84.6
NPAT (adjusted) (A\$m)	13.9	16.3	43.6	56.1
EPS (adjusted) (cps)	5.7	5.5	14.5	18.5
EPS growth (%)	-84.1%	-3.7%	161.9%	27.8%
PER (x)	45.5	47.3	18.1	14.1
Price/book (x)	1.0	1.5	1.5	1.4
EV/EBITDA (x)	23.0	20.9	9.2	7.4
Price/CF (x)	12.4	33.0	14.0	10.9
Dividend (¢ps)	4.0	8.0	9.5	13.5
Franking (%)	100.0%	100.0%	100.0%	100.0%
Yield (%)	1.5%	3.1%	3.6%	5.2%
ROE (%)	5.4%	3.8%	9.9%	12.1%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Forecasts & changes to forecasts

## Forecasts

We show our forecasts for FUM and profitability in Figure 1.

The H1 FY23 FUM figure of \$5.8bn is higher than our last forecast of \$5.3bn or our previous forecast of \$5.6bn. This represents an upgrade to future FUM, management fees and profitability, shown in the table below. Offsetting this, we have slightly reduced our expectations of future performance fees from 80bp to 70bps in FY24 and FY25, and from 60bps to 50bps in H2 FY23 (run rate) and FY26, reflecting the ability of the funds to earn performance feed in relation to current high-water marks.

Note that in Figure 1 the Historic FUM figures are pro-forma and include FUM from VGI, whereas the historic income statement is derived from the statutory disclosures. This is effectively RFM prior to the merger and includes VGI partners from 3 June 2022. This differs from some of the historic pro-forma numbers reported by the company.

**Figure 1 - Regal Current Forecasts**

FUM and revenue	1H22a	2H22a	2022a	1H23a	2H23e	2023e	2024e	2025e
<b>FUM movements (\$m - PF for 22)</b>								
Open	6.2	4.6	6.2	5.2	5.8	5.2	6.4	7.8
Net-flows	-0.3	0.8	0.5	0.4	0.4	0.8	1.0	0.6
Distributions/ Other moves	-0.2	-0.1	-0.3	0.0	-0.1	-0.1	-0.1	-0.1
Market growth	-1.1	-0.1	-1.2	0.2	0.2	0.4	0.5	0.6
<b>Close</b>	<b>4.6</b>	<b>5.1</b>	<b>5.2</b>	<b>5.8</b>	<b>6.4</b>	<b>6.4</b>	<b>7.8</b>	<b>8.9</b>
Net flow (% opening)	-5%	17%	8%	8%	8%	16%	16%	8%
Market growth (%)	-18%	-2%	-19%	4%	4%	8%	8%	8%
Growth (%)	-26%	11%	-16%	12%	10%	22%	22%	15%
Average FUM (\$m - PF for 22)	5.6	5.1	5.4	5.5	6.1	5.8	7.1	8.4
Management fee rate (% - PF for 22)	1.20%	1.15%	1.17%	1.10%	1.10%	1.10%	1.20%	1.20%
<b>Revenue (\$m)</b>				1H23e				
Management Fees	20.9	29.7	50.6	30.3	33.4	63.7	85.0	100.6
Performance Fees	22.7	8.9	31.6	7.0	15.2	22.2	49.6	58.7
<b>Total Fees</b>	<b>43.6</b>	<b>38.6</b>	<b>82.2</b>	<b>37.3</b>	<b>48.6</b>	<b>85.9</b>	<b>134.6</b>	<b>159.3</b>

Note FUM may not add up due to rounding

<b>INCOME STATEMENT</b>	1H22a	2H22a	2022a	1H23e	2H23e	2023e	2024e	2025e
<b>Y/e Dec 31 (\$m)</b>								
Sales revenue	37.7	50.6	88.3	37.3	48.6	85.9	134.6	159.3
Operating Expenses	24.5	36.6	61.1	25.9	30.1	55.9	66.5	74.7
<b>EBITDA</b>	<b>13.2</b>	<b>14.0</b>	<b>27.2</b>	<b>11.4</b>	<b>18.6</b>	<b>29.9</b>	<b>68.1</b>	<b>84.6</b>
Depreciation & Amortisation	-1.5	-3.7	-5.2	-4.1	-3.8	-8.0	-7.1	-6.6
<b>EBIT</b>	<b>11.7</b>	<b>10.3</b>	<b>22.1</b>	<b>7.2</b>	<b>14.7</b>	<b>22.0</b>	<b>60.9</b>	<b>78.0</b>
Net Interest	0.0	0.0	0.0	0.6	0.6	1.2	1.4	2.2
<b>Pre-tax profit</b>	<b>11.7</b>	<b>10.3</b>	<b>22.1</b>	<b>7.8</b>	<b>15.4</b>	<b>23.2</b>	<b>62.3</b>	<b>80.2</b>
Tax	-4.2	-3.9	-8.1	-2.4	-4.6	-7.0	-18.7	-24.1
<b>Adjusted profit</b>	<b>7.5</b>	<b>6.4</b>	<b>13.9</b>	<b>5.5</b>	<b>10.8</b>	<b>16.3</b>	<b>43.6</b>	<b>56.1</b>
Non-operating profit	0.0	0.0	0.0	-1.0	-1.3	-2.2	-2.6	2.0
<b>Reported net profit</b>	<b>7.5</b>	<b>6.4</b>	<b>13.9</b>	<b>4.5</b>	<b>9.5</b>	<b>14.0</b>	<b>41.0</b>	<b>58.1</b>
<b>NCI</b>	<b>2.6</b>	<b>-0.3</b>	<b>2.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>2.9</b>	<b>4.1</b>
<b>EPS Reported</b>	<b>5.0</b>	<b>2.7</b>	<b>6.9</b>	<b>1.5</b>	<b>3.2</b>	<b>4.7</b>	<b>13.5</b>	<b>19.2</b>
<b>EPS Adjusted</b>				<b>1.9</b>	<b>3.6</b>	<b>5.5</b>	<b>14.5</b>	<b>18.5</b>
DPS (cps)	0.0	4.0	4.0	4.0	4.0	8.0	9.5	13.5
Franking		100%	100%	100%	100%	100%	100%	100%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We include seed capital gains/losses and associate income in non-operating profit, as we feel this better represents the earning capability of the business, and calculate an adjusted EPS figure on this basis.

## Changes to forecasts

Figure 2 – Changes to forecasts

Earnings Revisions	FY23e (new)	FY23e (previous)	% Change	FY24e (new)	FY24e (previous)	% Change	FY25e (new)	FY25e (previous)	% Change
Reported revenue (S\$m)	85.9	83.9	2.3%	134.6	126.8	6.1%	159.3	146.0	9.1%
EBITDA underlying (S\$m)	29.9	28.7	4.2%	68.1	63.0	8.0%	84.6	76.0	11.4%
NPAT (underlying) (S\$m)	16.3	15.4	5.8%	43.6	40.1	8.9%	56.1	50.0	12.2%
EPS (underlying) cps	5.5	5.2	6.1%	14.5	13.3	9.1%	18.5	16.5	12.3%
EPS (Reported) cps	4.7	4.7	0.2%	13.5	12.8	6.0%	19.2	17.2	11.8%
Dividend (¢ps)	8.0	8.0	0.0%	9.5	9.0	5.6%	13.5	12.1	11.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We show the changes to our forecasts in Figure 2.

- Our revenue forecasts increase by 2.3% for FY23, 6.1% for FY24 and 9.1% for FY25.
- Our EBITDA forecasts increase by 4.2% for FY23, 8.0% for FY24, and 11.4% for FY25.
- Our reported EPS forecasts increase by 0.2% for FY23, 6.0% for FY24, and 11.8% for FY25.

# Valuation

## DCF valuation

We value RPL using DCF valuation, with a WACC of 10.3% applied to EBITDA after tax. We use our forecasts for the next 4 years and then project forward using the long-term real growth rate of 4.0%. We value the next 10 years EBITDA after tax at \$355m. We value the terminal value at \$1,488m, assuming long term growth of 4.0% plus inflation of 2.5%, which discounted to present value terms, gives a present value of \$507m. This gives a total NPV of \$862m.

Adding the forecast end 2023 net cash of \$31m and half the seed capital of \$87m and deducting non-controlling interests of \$43m (we have assumed 5% of DCF value, given that NCI represents about 5% of FUM). This gives a value for the business of \$9m or \$3.68 per share at December 2023 (\$3.45 previously).

**Figure 3 - DCF valuation**

WACC Calculation / key assumptions											
Risk free rate		4.0%									
Market risk premium		6.0%									
β = beta		1.20									
Borrowing rate		6.0%									
Tax rate		30.0%									
Target gearing		15.0%									
Cost of equity		11.2%									
Cost of debt		4.2%									
<b>WACC / Discount rate</b>		<b>10.3%</b>									
<b>Inflation</b>		<b>2.5%</b>									
<b>Nominal growth rate</b>		<b>4.0%</b>									
<b>Long-term real growth rate</b>		<b>6.6%</b>									

(\$m)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Beyond
EBITDA	30	68	85	85							
Provisions	1	10	5	1							
Working Capital	-5	-13	-7	-1							
Tax paid	-7	-19	-24	-24							
Maintenance Capex	0	0	0	0							
<b>Total cashflow/terminal value</b>	<b>19</b>	<b>46</b>	<b>59</b>	<b>60</b>	<b>64</b>	<b>68</b>	<b>72</b>	<b>77</b>	<b>82</b>	<b>88</b>	<b>1,488</b>
<b>Total operational NPV (A\$m)</b>	<b>862</b>										
Net cash/(debt)	31										
Seed Capital (50%)	87										
NCI (5% of operational NPV)	-43										
<b>Total NPV (A\$m)</b>	<b>937</b>										
Shares in issue (m)	255										
<b>Value per share (A\$/ps)</b>	<b>3.68</b>										

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Regal Partners Limited (RPL) Overview

## Company description

Regal is a medium sized boutique asset manager founded in 2004 by Andrew and Philip King in Sydney, Australia. It manages a number of alternative investment strategies and performs investment management and investment advisory services to a number of Australian Unit Trusts and Cayman Island Companies. It invests in public and private securities across the globe with a focus on Australia, employing market neutral and absolute return strategies.

The manager selects shares that it believes are undervalued or overvalued and are expected to rise or fall, using fundamental research. The investment process focuses on a four-step stock selection process, which focuses on: the bottom-up valuation of companies; top-down macro factors; identifying catalysts for change; and finding alternative insights in selection of its investments.

## Risks

RPL is subject to all of the following risks:

**Key people risk:** The loss of any key investment personnel may result in the loss of investment mandates.

**Performance and net flows:** The ability to attract and retain funds paying active management fees, depends in part upon showing a track record and on-going capability to achieve performance criteria.

**Acquisition risks:** Acquired growth can be risky. Acquired staff sometimes leave, while acquired clients or their advisors, might not like the newly formed company. Recently recruited staff are more risky than known internal promotions. A key requirement of, and test of management is how well they ensure an orderly integration.

**Market risk:** Management fees are usually based upon market values of the assets under management. Any significant movements in asset prices can have a material impact on RPL's revenue and earnings.

**Currency risk:** RPL operates funds in multiple currencies outside Australia, particularly the US, UK and Europe, recording revenue and expenses in different markets. Any major currency movements can significantly impact the FUM, revenue and earnings and subsequently, the valuation of the group in A\$ terms.

**Regulatory risk:** RPL is regulated by multiple agencies in different jurisdictions and changes in the regulatory regimes under which it operates may increase compliance costs and/or increase the capital requirements of the group.

**Move to index funds:** clients may seek out cheaper passive alternatives in favour of active investment management.

**Data, information technology and outsourcing:** RPL and its investment teams rely on a wide range of data sources and technology in the day-to-day management of the Funds. Provision of such, and other functions (such as fund accounting and custody) may be outsourced to third parties. RPL may be face reputational risk and/or be liable for losses as a result of the failure of one of these parties, in its role of managing assets on behalf of its clients.

### Table 1 - Financial summary

Regal Partners (RPL)						Price Target (A\$)	3.68	Share Price (A\$)	2.61		
						Recommendation:	Buy	Market Cap (A\$b)	657.05		
<b>INCOME STATEMENT</b>						<b>VALUATION DATA</b>					
Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e	Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e
Sales revenue	150.0	88.3	85.9	134.6	159.3	Net profit adj (\$m)	60.4	13.9	16.3	43.6	56.1
Operating Expenses	62.2	61.1	55.9	66.5	74.7	Adjusted EPS (c)	36.1	5.7	5.5	14.5	18.5
<b>EBITDA</b>	<b>87.8</b>	<b>27.2</b>	<b>29.9</b>	<b>68.1</b>	<b>84.6</b>	Reported EPS (c)	36.4	6.9	4.7	13.5	19.2
Depreciation & Amortisation	-2.0	-5.2	-8.0	-7.1	-6.6	Adj EPS growth (%)		-84.1%	-3.7%	161.9%	27.8%
<b>EBIT</b>	<b>85.9</b>	<b>22.1</b>	<b>22.0</b>	<b>60.9</b>	<b>78.0</b>	P/E ratio (x)	7.2	45.5	47.3	18.1	14.1
Net Interest	0.0	0.0	1.2	1.4	2.2	CFPS (c)	na	21	8	19	24
<b>Pre-tax profit</b>	<b>85.9</b>	<b>22.1</b>	<b>23.2</b>	<b>62.3</b>	<b>80.2</b>	Price/CF (x)	na	12.4	33.0	14.0	10.9
underlying Tax	-25.5	-8.1	-7.0	-18.7	-24.1	DPS (c)	24.0	4.0	8.0	9.5	13.5
<b>Adjusted profit</b>	<b>60.4</b>	<b>13.9</b>	<b>16.3</b>	<b>43.6</b>	<b>56.1</b>	Yield (%)	9.2%	1.5%	3.1%	3.6%	5.2%
One-off items	0.0	0.0	-2.2	-2.6	2.0	Franking (%)	0%	100%	100%	100%	100%
<b>Reported net profit</b>	<b>60.4</b>	<b>13.9</b>	<b>14.0</b>	<b>41.0</b>	<b>58.1</b>	EV/EBITDA (x)	7.1	23.0	20.9	9.2	7.4
NCI	0.5	2.3	0.7	2.9	4.1	Price/book (x)	na	1.0	1.5	1.5	1.4
<b>Reported net profit- RPL S/H</b>	<b>59.9</b>	<b>11.6</b>	<b>13.3</b>	<b>38.2</b>	<b>54.1</b>	NTA (\$)	na	1.52	0.98	1.04	1.15
<b>Adjusted net profit - RPL S/H</b>	<b>59.9</b>	<b>11.6</b>	<b>15.6</b>	<b>40.7</b>	<b>52.1</b>						
<b>CASHFLOW</b>						<b>PROFITABILITY RATIOS</b>					
Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e	Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e
EBITDA	87.8	27.2	29.9	68.1	84.6	EBIT/sales (%)	57.2%	25.0%	25.6%	45.3%	49.0%
Change in provisions	38.9	-17.3	0.8	10.1	5.4	Return on assets (%)	51.0%	6.7%	4.5%	12.2%	14.6%
Working capital change	-56.6	32.7	-5.1	-13.1	-7.0	<b>Return on equity (%)</b>	<b>76.6%</b>	<b>5.4%</b>	<b>3.8%</b>	<b>9.9%</b>	<b>12.1%</b>
Net interest	0.5	0.5	1.2	1.4	2.2	Dividend cover (x)	1.5	1.7	0.6	1.4	1.4
Tax paid	-25.5	-8.1	-7.0	-18.7	-24.1	Effective tax rate (%)	29.7%	36.9%	30.0%	30.0%	30.0%
Other	3.0	0.0	0.0	0.0	0.0	<b>LIQUIDITY AND LEVERAGE RATIOS</b>					
<b>Operating cashflow</b>	<b>48.1</b>	<b>35.0</b>	<b>19.9</b>	<b>47.7</b>	<b>61.1</b>	Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e
Capex	-0.1	-0.1	-0.1	-0.1	-0.1	Net debt/(cash) (\$m)	-16.4	-39.8	-31.0	-49.0	-77.9
Investments	0.0	0.0	0.0	0.0	0.0	<b>Net debt/equity (%)</b>	<b>-21%</b>	<b>-9%</b>	<b>-7%</b>	<b>-11%</b>	<b>-16%</b>
Asset sales	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	1.7	5.9	6.0	5.3	5.4
Other	28.6	14.9	-8.2	-8.5	-3.9	<b>INTERIMS</b>					
<b>Investing cashflow</b>	<b>28.5</b>	<b>14.8</b>	<b>-8.3</b>	<b>-8.5</b>	<b>-4.0</b>	Half end December 31 (\$m)	1H21a	1H22a	1H23e	1H24e	1H25e
Equity raised	0.0	0.0	0.0	0.0	0.0	Sales revenue	79.5	37.7	37.3	63.9	76.9
Dividends paid	0.0	0.0	-20.4	-21.2	-28.3	<b>EBIT</b>	<b>40.2</b>	<b>11.7</b>	<b>7.2</b>	<b>27.7</b>	<b>37.2</b>
Other	0.0	0.0	0.0	0.0	0.0	Pre tax profit	40.2	11.7	7.8	28.3	38.2
<b>Financing cashflow</b>	<b>0.0</b>	<b>0.0</b>	<b>-20.4</b>	<b>-21.2</b>	<b>-28.3</b>	<b>Adjusted profit</b>	<b>27.5</b>	<b>7.5</b>	<b>5.5</b>	<b>19.8</b>	<b>26.7</b>
<b>Net change in cash</b>	<b>76.7</b>	<b>49.8</b>	<b>-8.8</b>	<b>18.0</b>	<b>28.9</b>	One-off items	0.0	0.0	-1.0	-1.3	-1.3
<b>Cash at end of period</b>	<b>16.6</b>	<b>39.8</b>	<b>31.0</b>	<b>49.0</b>	<b>77.9</b>	<b>Reported profit</b>	<b>27.5</b>	<b>7.5</b>	<b>4.5</b>	<b>18.5</b>	<b>25.4</b>
<b>BALANCE SHEET</b>						Interim DPS (cents)	12.0	0.0	4.0	4.3	5.9
Y/e Dec 31 (\$m)	2021a	2022a	2023e	2024e	2025e	Interim adjusted EPS (cents)	14.6	3.2	1.9	6.6	8.8
Cash	16.6	39.8	31.0	49.0	77.9	<b>ASSUMPTIONS</b>					
Receivables	64.4	27.7	34.1	49.5	57.7	Y/e Dec 31	2021a	2022a	2023e	2024e	2025e
PPE	5.7	4.9	3.0	1.8	1.1	<b>FUM movements (\$m)</b>					
Intangibles	15.1	183.8	183.8	183.8	183.8	Open		6.2	5.2	6.4	7.8
Other	66.6	230.5	230.5	230.5	230.5	Flows, distributions and market		-1.0	1.2	1.4	1.2
<b>Total assets</b>	<b>168.4</b>	<b>486.6</b>	<b>482.3</b>	<b>514.5</b>	<b>551.0</b>	Close		5.2	6.4	7.8	8.9
Payables	7.7	3.8	5.0	7.3	8.5	Growth (%)		-16%	22%	22%	15%
Debt	0.2	0.0	0.0	0.0	0.0	Average FUM (\$m)		5.7	5.8	7.1	8.4
Provisions	38.9	21.6	22.4	32.5	37.9	<b>Revenue (\$m)</b>					
Other	42.8	25.3	25.3	25.3	25.3	Management Fees	28.7	50.6	63.7	85.0	100.6
<b>Total liabilities</b>	<b>89.6</b>	<b>50.7</b>	<b>52.7</b>	<b>65.1</b>	<b>71.7</b>	Performance Fees	109.5	31.6	22.2	49.6	58.7
Shareholders' equity	17.2	394.1	394.1	394.1	394.1	Administration Fees	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders funds</b>	<b>78.8</b>	<b>435.9</b>	<b>429.6</b>	<b>449.4</b>	<b>479.3</b>	<b>Total Fees</b>	<b>138.2</b>	<b>82.2</b>	<b>85.9</b>	<b>134.6</b>	<b>159.3</b>
<b>W/A shares on issue</b>	<b>0.0</b>	<b>166.4</b>	<b>251.7</b>	<b>255.7</b>	<b>256.3</b>						

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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