

 WHITEPAPERS

Why I'm doubling down on the call to invest in Private Credit and Digital Income

With the traditional 60/40 portfolio approach proving less effective at balancing risk and return in today's environment, many investors are reassessing asset allocation and considering the inclusion of alternative assets to enhance diversification and resilience. Private credit can offer asset-backed income streams that are less dependent on public market movements, while market-neutral digital income strategies aim to generate returns from volatility rather than market direction, adding differentiated sources of return to a portfolio.

By Roger Montgomery
Montgomery Investment Management
March 2026

For the better part of nine months, I have been waving a flag – sometimes quite vigorously – about the need for investors to look beyond the traditional confines of the stock and fixed interest (bond) markets.

That's a big shift. Since late 2022, we have advocated for investing heavily in equities, clearly stating the combination of disinflation and positive economic growth would be good for markets, especially innovative companies with pricing power.

But that view has changed.

The market is now historically expensive, and the concentration of money in an investment theme (artificial intelligence), many believe to be structural, but which will prove (again) to be cyclical, suggests portfolio weightings and priorities need to change – while artificial intelligence (AI) innovation clearly benefits end consumers, this does not necessarily translate into strong returns for investors in these stocks, especially those that purchased later or disregarded valuation.

So, it's heartening to see this view echoed by Lakshman Anantakrishnan, the Chief Investment Officer at ANZ Private. In his recent piece for *The Australian Financial Review*, Lakshman argues that the era of "easy" investing is officially dead.

The last twenty-odd years have been smooth for the passive investor. We benefited from the structural tailwinds of low inflation, falling interest rates, and a global order based on 'rules' that kept volatility low. Central banks also used unconventional stimulus measures to avoid prolonged negative growth and crises.

That era is quickly becoming a thing of the past. Lakshman observes we are now entering a new phase characterised by fiscal dominance, deglobalisation, and most importantly, demographic shifts that are "shrinking working-age populations while tilting political priorities toward [wealth] redistribution", that are fundamentally rewriting the rulebook. "The low-inflation, low-interest-rate regime appears extinct", says Lakshman.

The consequence of all of this, as well as the very high price-to-earnings (P/E) ratio the major indices are now trading at, is that the double-digit returns the broad indices have delivered for investors are likely to be over. Lakshman adds that in the next period, "Drawdowns are steeper, rebounds are sharper, leadership rotates more frequently and performance is increasingly driven by rapid policy recalibration rather than the earnings cycle."

And the consequence of central bank and government intervention is that leverage (debt) has expanded materially.

"The Silicon Valley Bank bailout prevented contagion. The Credit Suisse-UBS merger stabilised European banking. Emergency bond buying contained the UK gilt crisis, and the Bank of Japan has repeatedly intervened in currency markets. Even tariffs haven't triggered global recession."

"While policy intervention may have raised the bar for systemic risk, when the financial system absorbs shocks without deleveraging, the eventual fallout is likely asymmetric," says Lakshman.

If you're still holding an overweighting in mega-cap U.S. technology stocks, particularly a concentrated portfolio of AI-stocks, and hoping the "old" correlations of the traditional 60/40 portfolio will protect you, it is time for a serious rethink.

Generation wars

A generational shift is upending the political landscape, and for investors, the implications may be serious. For decades, Gen X and their parents, the Baby Boomers, rode a wave of cheap money and skyrocketing asset prices, while Millennials and Gen Z largely missed out.

The rise of event betting platforms like Polymarket and Kalshi, alongside Memecoins and non-fungible tokens (NFTs), is all the product of a generation that has given up on owning their own home and is looking for faster ways to make money.

Today, it's the Millennials and Gen Z that hold the keys to the ballot box; they aren't looking to preserve the status quo – they're looking to rebuild it.

Consequently, we're witnessing a pivot away from the era of "Central Bank supremacy" toward a new age of 'Fiscal Activism'. Because younger voters missed the boat on the property and equity booms, their political demands are centred on redistribution: higher wages, a resurgence in collective bargaining, and a direct assault on wealth through higher taxes.

The signs are everywhere. Whether it's the debate over negative gearing, changes to superannuation tax breaks and Capital Gains Tax, or the rise of protectionist "Australia-first" industrial policies, the message is clear: governments must take the steering wheel back from the central banks.

This shift toward fiscal dominance will create a fundamentally different environment for your capital. It means investors need to prepare for structurally higher government debt as governments spend more to appease their shifting electorates, a market that becomes increasingly sensitive to election cycles rather than just earnings cycles and the inflationary aftershocks, for as long as the government's foot remains on the spending pedal.

The myth of diversification in the "New Regime"

Lakshman makes a crucial point: historical correlations are breaking down. Traditionally, when stocks fell, bonds rose, acting as a counterweight. But since early 2021, we've seen equity-bond correlations turn positive. In a world of sticky inflation and fiscal activism, your "safe" government bonds might sell off at the exact same time as your equity portfolio.

Furthermore, the concentration risk in the S&P 500 is staggering. Performance is being driven by a handful of AI-themed behemoths. While the "AI economy" is real, the multiples being paid for these stocks – fuelled by passive funds blind to valuation and quality – assume an uninterrupted path to adoption that history shows the real world rarely delivers.

Beginning last year, I have advocated for taking some profits from these crowded trades and reallocating them into "private" alternatives. Not because I've lost faith in quality equities, but because the risk-reward profile has shifted.

As Apollo Global Management recently revealed, "the strategic inclusion of private markets is the next evolution of model portfolios". Their analysis, shown in Figure 1 on the next page, reveals incorporating private market investments can improve risk-adjusted outcomes and deliver diversification benefits while meeting a range of investment goals.

Figure 1. Shifting the efficient frontier with private markets



Source: Apollo Global Management

According to Apollo’s analysis, from 4Q06 to 2Q25, a traditional 60/40 portfolio of public stocks and bonds returned just 7.3 per cent on an annualised basis. Adding private market investments to this 60/40 portfolio incrementally increased returns and lowered risk over this same time period, with a portfolio of 100 per cent private markets delivering a 10.3 per cent annualized return.

So, we need to add assets to our portfolios that dance to their own tune, that are uncorrelated with equities and bonds – assets like Aura Private Credit funds and the Digital Asset Funds Management (DAFM) Digital Income Fund – Digital Income Class.

Table 1., highlights how diversification into alternatives such as private credit and high frequency arbitrage funds has the potential to protect investors during periods of heightened equity and bond market volatility.

Table 1. Performance during recent “Growth Scares”

Event	S&P 500 Performance	Aura Private Credit	DAFM Digital Income
April 2025 ("Liberation Day")	~12–19% drawdown (Panic over global trade and tariffs).	Steady Income. NAV remained at \$1.00; monthly distribution maintained at ~0.75%–0.80%.	+9.4% return. High volatility in digital asset futures provided one of its "most fertile" trading environments.
August 2024 (Yen Carry Trade Unwind)	~8% intra-month drop. (VIX spiked to 65+; sharp deleveraging).	Stable. Unaffected by global currency swings; SME loan re-payments continued as normal.	Positive return. Captured profits from the spike in BTC/ETH futures volatility during the deleveraging.
Early 2024 (Rate hike fears)	~5% drawdown. (Sticky inflation prints caused a mid-quarter wobble).	Hedged. Being a floating-rate fund, returns actually improved as the "yield" outlook stayed higher for longer.	Positive return. Maintained its record of delivering gains during months when equities closed in the red.

Aura Private Credit: The defense component

When people hear “private credit,” they often think of large, risky corporate loans and loans to property developers. But the Aura Private Credit Income Fund, for wholesale investors, is a different fund entirely. It’s what I like to think of as more “defensive credit.”

Its features include:

- 1) **Diversification:** Instead of a few big bets, the fund holds over 13,900 small loans to Australian small to medium size enterprises (SMEs).
- 2) **Regular monthly income: Aura Private Credit Income Fund** investors have received average monthly income of 0.76 per cent since inception in August 2017 to 31 January 2026.
- 3) **Asset-backed security:** All loans are secured and the average size of a loan is just \$132,029.
- 4) **Track record:** Since its inception in 2017 to 31 January 2026, the Fund has delivered a net return of 9.47 per cent p.a. (on a distribution reinvestment basis) with zero capital losses in any month.
- 5) **No investment in distressed businesses or property construction:** The Fund does not lend to distressed businesses or industries deemed risky at the time of investment. They do not provide construction finance to property development projects.
- 6) **BB+ rated: Independent bank grade risk analysis** provides transparency to investors. As at 31 January 2026, the Aura Private Credit Income Fund portfolio had an S&P Equivalent Portfolio Credit Rating of BB+.

In an asymmetric world where systemic shocks become more frequent, a monthly income stream backed by secured loans and untied to the NASDAQ is a significant tactical advantage.

Table 2. Portfolio comparison: Traditional vs. diversified alternatives

Feature	Traditional 60/40 portfolio	Diversified alternatives approach
Asset composition	60% equities (mostly S&P 500/ASX 200), 40% bonds/treasuries.	40% quality equities, 30% Aura Private Credit, 30% DAFM Digital Income.
Target return (p.a.)	~6.5% – 7.0% (Projected for 2026).	~10% – 12%+ (Based on fund targets & historicals).
Correlation	Positive & Increasing. Stocks and bonds now frequently move together, failing to hedge each other.	Low to negative. Credit and High Frequency (HFT) arbitrage operate independently of stock market direction.
Volatility profile	Moderate (7%–9%), but prone to sharp drawdowns due to AI-driven concentration.	Low to mid. Aura offers "stable" 3% vol; DAFM profits from market swings rather than being hurt by them.
Inflation protection	Poor. High inflation devalues bonds and compresses equity multiples.	Strong. Aura uses floating rates; DAFM captures volatility (which usually spikes with inflation).
Market sensitivity	Highly sensitive to Federal Reserve pivots and "Big Tech" earnings.	Uncorrelated. Returns are driven by SME loan repayments and HFT price gaps.
Key risk	Systemic. A "bubble burst" in AI could tank the entire 60% equity sleeve simultaneously.	Operational & liquidity. Requires wholesale status and understanding of private market timelines.

Digital Asset Funds Management: Profiting from volatility, not from direction

If Aura provides the defensive ‘anchor’, the Digital Income Fund – Digital Income Class could become the ‘uncorrelated engine.’ Many investors associate “digital assets” with the volatility of Bitcoin. Digital Asset Funds Management Digital Income Fund is of those preconceptions.

It is a market-neutral, high-frequency trading (HFT) strategy with a successful four-year track record that profits from volatility rather than direction. The Fund’s algorithms place thousands of trades each day, capturing (arbitraging) tiny price discrepancies in digital asset futures across global cryptocurrency exchanges. If an arbitrage profit is available, Digital Asset Funds Management’s trading algorithm will place a trade. If no profit exists, a trade won’t be placed, so, in theory, money should not be lost.

While strategies like this are primarily the exclusive domain of proprietary trading firms and institutions, at least one is now accessible to wholesale Australian investors through the Digital Asset Funds Management Digital Income Fund – Digital Income Class.

The result? It doesn’t matter if Bitcoin goes to US\$200,000 or US\$20,000. The Digital Income Fund – Digital Income Class aims to profit from the volatility and the trading volume.

Since its inception in May 2021 to 31 January 2026, it has delivered a compound annual return of 21.41 per cent p.a. (after all fees), with positive returns in 56 of 57 months. When the S&P 500 has a “growth scare” and drops, the Digital Income Fund – Digital Income Class has historically held firm or even thrived because of volatility.

In this video with Clint Maddock, Founder of Digital Asset Funds Management, we take a detailed look at the Digital Income Fund – Digital Income Class and how it works. [You can watch this video here.](#)

The bottom line

Lakshman is right: static allocations and “mean-reversion” assumptions are dangerous in 2026. Every asset in your portfolio must have a clearly defined role.

Some assets are there to capture the long-term compounding of great businesses. Others – like Aura and Digital Asset Funds Management – are designed to protect you when traditional correlations betray us. Taking some “AI chips” off the table and moving them into these uncorrelated, higher-yielding private markets isn’t just a defensive move; it’s becoming a strategic necessity.

If Lakshman is right and the “easy” years are over, then it’s time to examine your risk allocation and portfolio weightings.

This video, [Private Credit: a smart choice for retirees](#), features a deep dive where I explain the mechanics of private credit and why it serves as a robust alternative to traditional fixed income in volatile markets.

If you would like to learn more about the Aura Private Credit Income Fund (wholesale clients only), and the Aura Core Income Fund (retail clients) please visit the web page: [Private Credit – Aura Private Credit Income Fund and Aura Core Income Fund](#).

If you would like to learn more about Digital Asset Funds Management's Digital Income Fund (wholesale clients only) please visit the fund page: [Digital Income Fund – Digital Income Class](#).

Did you want to get in contact with the team at Montgomery?

Private clients: Please call David Buckland or Rhodri Taylor on (02) 8046 5000 or email investor@montinvest.com.

Advisers/ Researchers/ Consultants: Please call Scott Phillips (National) on 0417 529 890, Michael Gollagher (QLD) on 0409 771 306, Dean Curnow (NSW, ACT & WA) on 0405 033 849, Toby Roberts (NSW & ACT) on 0402 093 561, and David Denby (VIC, SA & TAS) on 0455 086 484.

Disclaimer:

You should read the relevant Product Disclosure Statement (PDS) or Information Memorandum (IM) before deciding to acquire any investment products. Past performance is not a reliable indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

This information is provided by Montgomery Investment Management Pty Ltd (ACN 139 161 701 | AFSL 354564) (Montgomery) as authorised distributor of the Aura Core Income Fund (ARSN 658 462 652) (Fund). As authorised distributor, Montgomery is entitled to earn distribution fees paid by the investment manager and may be issued equity in the investment manager or entities associated with the investment manager.

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 the online application form that accompanies the PDS. The PDS, TMD, continuous disclosure notices and relevant application form may be obtained from www.oneinvestment.com.au/auracoreincomefund or from Montgomery.

The Aura Private Credit Income Fund is an unregistered managed investment scheme for wholesale clients only and is issued under an Information Memorandum by Aura Funds Management Pty Ltd (ABN 96 607 158 814, Authorised Representative No. 1233893 of Aura Capital Pty Ltd AFSL No. 366 230, ABN 48 143 700 887).

Any financial product advice given is of a general nature only. The information has been provided without taking into account the investment objectives, financial situation or needs of any particular investor. Therefore, before acting on the information contained in this report you should seek professional advice and consider whether the information is appropriate in light of your objectives, financial situation and needs.

Montgomery, ACH and OMIFL do not guarantee the performance of the Fund, the repayment of any capital or any rate of return. Investing in any financial product is subject to investment risk including possible loss. Past performance is not a reliable indicator of future performance. Information in this report may be based on information provided by third parties that may not have been verified.

The Digital Income Fund is available for wholesale investors only. Performance of the Digital Income Fund – Digital Asset Class since its inception on 1 May 2021. Net returns after fees and expenses as at 31 January 2026 and assumes reinvestment of distributions.

This is general information and doesn't take your personal circumstances into account, so seek independent advice before investing. Investing involves risk, including the possible loss of principal. Past performance is not a reliable indicator of future performance. Diversification does not ensure a profit nor guarantee against a loss. Montgomery Investment Management holds AFSL number 354564.