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Investor Conference

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JULY 2021 CONTENTS

VOL 35 #06

If you have an idea for an EQUITY article, please contact the Commissioning Editor.

FROM THE CEO

By John Cowling

Investor Conference

This issue contains a number of articles written by members who attended the investor conference and helped in hosting the sessions. The feedback from members was very positive and we will release the recording of the conference for members to buy so that they can watch what they missed.

I was particularly pleased we were able to live stream the conference to the Hilton hotels in Brisbane and Perth for interstate members who could not get to Sydney but wanted to participate in the conference in the company of other members.

The "Grill the Chairmen" session was very revealing as Catherine Livingstone AO, John Mullin and Gordan Cairns all spoke of life-changing events they experienced which moulded the way they are as people and leaders today. Every business leader who spoke at the conference filled me with confidence in their leadership qualities and prospects for their companies. The current crop of ASX 200 CEOs seem to be an exceptional group of leaders.

This reinforced the importance of knowing the boards of companies in which we invest. It is the board that approves the company's strategy and oversees the CEO's performance. And it's not just the directors' qualifications and experience that counts but also their characters and ethical viewpoints.

The ASX 200 companies have a total of 1,305 non-executive directors. But the total number of unique directors (counting a director just once even if they are on multiple boards) is materially less at only 1,005 as many directors are on numerous boards. There are 485 female non-executive directors, but only 333 unique female directors.

It can be difficult to find out about individual director's qualities and as corporate mis-steps show, it is the quality of the board that is paramount in protecting your investment. Our company monitors attend AGMs, correspond with the board, research their backgrounds, take time to get to know them and explain what they think about the boards in their voting intention reports (VIs) published on the ASA website. You should check out what these VIs say about boards, after all it's your money in their companies you are entrusting them with.

A persistent theme from presenters at the conference was how seriously companies are taking decarbonising their operations. Elizabeth Gains, CEO of Fortescue, was particularly insightful on this topic, explaining Fortescue's future strategy around green energy and the use of hydrogen.

At the virtual conference last November, I was very impressed by Don Meij, his leadership style and focus on establishing the correct culture for Domino's Pizza, the company he leads. This year, Dr. Colin Goldschmidt, CEO of Sonic Healthcare, gave a similarly impressive presentation. The session is well worth watching when the recording is available.

CEO Elect

Rachel Waterhouse joined ASA on 15 June and is "learning the ropes" prior to taking up the CEO role later in the year. Rachel has provided a short article about her background to help members get to know her. Rachel will augment this by attending as many member meetings as she can over the next few months to meet you and better understand your needs.

Transition to Retirement

In the June issue of *Equity*, I asked one of our interns, May Tun to examine the question "Will you have enough to retire on?" The reason for this question was that I have become increasing aware of the damage being done to members retirement income from prevailing low interest rates.

But as bad as it is for us baby boomers now, at least we accumulated our retirement funds during a period of unparalleled prosperity in the stock market and house prices. Worse may be coming for following generations as during their accumulating years the returns on their superannuation balances will likely be less than what we were able to achieve. For their sakes, I hope not.

According to Dr Ashby Monk, the Executive and Research Director of the Stanford Global Projects Center and a specialist in pension and sovereign wealth funds, Australia is well placed with its superannuation regulations. *CEOWORLD* magazine just published its 2021 list of the best countries for retirement. It recognises New Zealand as the best country in the world for retirement, with a score of 71.78, while Luxembourg (68.04) and Switzerland (67.16) placed second and third, respectively. The 2021 rankings placed Canada (66.39) in fourth ahead of Australia (66.06) into fifth.

There are many subtleties to be discussed concerning which occupational retirement system is better in areas as diverse as member engagement, corporate governance, and the best way for individuals to spend-down their funds in retirement.

One thing, however, is clear: the compulsory super scheme in Australia is clearly superior to the voluntary 401(k) scheme utilised by the United States. As a result, the American retirement system is in full-out crisis mode while the Australian super scheme is comparatively tranquil and well set up to continue to mature as the overall Australian population ages throughout the 21st century.

To share just a few statistics from the US 401(k) retirement plans: 48% of current US workers between the ages of 50 and 64 are on track to being poor when they reach retirement. The aggregate national retirement deficit is currently estimated to be US$4 trillion for all US households where the head of the household is between 25 and 64. Worse still, on average, a typical working family close to retirement (55 to 64 years old) has only about A$134,000 in retirement savings. This compares to A$181,000 in Australia, which is still not enough for a dignified retirement.

So, what to do? Veteran investor (and keen follower of Warren Buffet) Charlie Ellis says the simple answer is to defer retirement.

It's quite simple really. The numbers explain it clearly: retire at 65 and live to 87 means you need to have accumulated enough to live off for 22 years. But retire at 70 and you have both five years more accumulation and savings, and five years less retirement years to fund. So as long as you enjoy your job, my advice - keep working.

From the CEO Designate

By Rachel Waterhouse

"The best time for new beginnings is now!" **– Unknown.**

This article comes as I am about to embark upon my newest role – that of CEO Designate of ASA.

The prospect of joining ASA is very exciting, and I'm really looking forward to applying what I've learnt throughout my career to ensure the association continues to thrive.

The ASA has a lot of potential, as showcased at the recent investor conference in Sydney. The presentations I attended and the people I met there have given me confidence that we can continue to grow as the independent voice of retail shareholders to make investment fair and accessible to retail investors.

I hope to meet many more of our members over coming weeks and am excited about being able to work for you and the association.

Before I begin, I thought I'd tell you a little bit about who I am and where I've come from.

Who is Rachel?

I am a business professional with over 20 years' experience, with a background in governance, marketing, engagement, membership, and communications.

My career started in a major toy chain, working there throughout school and university and as supervisor and manager.

After graduating with a Bachelor of Business, majoring in industrial relations, I moved to Sydney from the Central Coast and worked for a company that ran marketing campaigns, before turning to financial services.

In that phase of my career, I worked as a product manager, with a strong focus on marketing and communications. This included editing an investment magazine for credit unions and writing material providing advice to investors.

My career journey then turned to associations, with general management roles at the Australian Institute of Company Directors and Governance Institute of Australia. These roles covered membership, member services, events, and brand management.

At the Governance Institute I took on the communications function and increased the organisation's profile significantly, while at the same time improving our engagement with members and other stakeholders.

Throughout my career, I have continued my professional development, obtaining a Master of Business Administration a decade ago and enhancing my skills with a Graduate Diploma of Applied Corporate Governance and Risk Management from the Governance Institute. I am now a chartered governance professional.

I have written and spoken about the importance of governance and risk management and how it improves business performance and am looking forward to applying that knowledge to my new role.

So, what can I contribute?

ASA is well-respected by the business community and an important voice on the need to improve the financial wellbeing of Australian shareholders and investors.

We need to promote this voice extensively and build the profile of ASA within the investment community even further.

ASA's focus issues, monitoring guidelines, and the many volunteers who monitor ASX companies support all retail investors. Our policy positions are integral to our continued influence with the government to make change to support retail investors.

From a membership perspective, the services we provide should match what the members want and should deliver tangible value to our base.

I will be applying my knowledge and experience from my roles in other associations to these areas so that we can capitalise on our good reputation and improve our appeal to prospective new members.

We want to know how we're doing and how we can improve, so I encourage you to continue to reach out to John Cowling and me with any ideas and suggestions.

My life as an investor

My investment journey commenced when I was at university when I bought into a managed fund.

I bought my first shares in my 20s around the same time as our first house purchase. Like many investors, we have experienced both returns and losses on our portfolio.

Last year, as many new investors entered the market, I increased our shareholding in a pharmaceutical business and purchased shares in a travel company and a bank. My current strategy is focused on the medium to long term and, although our average annual return for these investments has been 20%, I realise that this is unusual, arising from the 2020 pandemic-impacted market.

I found the high-quality information and expert presenters at the investor conference to be very useful, and I've been reflecting on my investment strategy as a result!

Anything else?

I'm happily married with three children, a tabby, and an 18-month-old golden retriever. If you're looking for me on the weekend, I'll probably be at a local soccer field watching the kids' matches and chatting with the other parents.

I'm an early riser – for several years now I've been getting up a few times a week for a 5.10am resistance or high-intensity gym class before work. I recently reached a milestone of 700 sessions, so I guess I'm quite committed.

I like to travel, but COVID has halted that temporarily. Hopefully, things will be looking up again soon and I can make my way around to see everyone.

For those I did not meet at the conference, I look forward to meeting you at an upcoming event or meeting. You can contact me on 0402 336 352 and Rachel.Waterhouse@asa.asn.au. E

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All facts data and performance valid at May 31, 2021

^Source: APSEC Funds Management, May 31, 2021: https://www.apsec.com.au/wp-content/uploads/2021/06/APAEF_202105.pdf

**Fund Returns are prepared on a redemption unit price basis after management and performance fees inclusive of GST. Distributions are assumed to be re-invested at the mid unit price. Individual tax is not taken into account in deriving Fund Returns. In calculating the NTA, the Atlantic Pacific Australian Equity Fund ("Fund") asset values have been calculated using unaudited price and income estimates for the month being reported. Past performance is not indicative of future performance.

How to position portfolios for a potential breakout in inflation

By BetaShares

Along with rising commodity prices over recent months, the recent much higher than expected lift in United States consumer prices has heightened global market concern over a potential breakout in inflation. Here are some potential ways investors can add an "inflation hedge" to their portfolios.

Post-COVID inflation shock

No sooner had global investors stopped worrying about the downside risks to economic growth due to the COVID crisis then another concern emerged – rising inflation.

The global economy is enjoying a V-shaped recovery, with the policy focus now on driving down still high rates of unemployment to levels that could start to generate a sustained lift in wage and price inflation.

Consumer spending has also lifted at a time when production and transport capacity in many economies is still recovering from the shutdowns and many workers, for various reasons, are holding back from seeking out new jobs. The result has been labour and product shortages and some pressure on wages and prices, far earlier than policy makers generally anticipated. Energy, food, and metal prices have already lifted strongly which has resulted in steep gains in wholesale prices.

These inflation concerns have recently come to a head, with a far higher than expected lift in US consumer prices in April. Indeed, even excluding volatile items such as food and energy, the so-called "core" US CPI Index rose 0.9% in the month which, along with very low price increases during the shutdowns this time last year, meant the annual core CPI rate lifted to 3% – the highest since the mid-1990s.

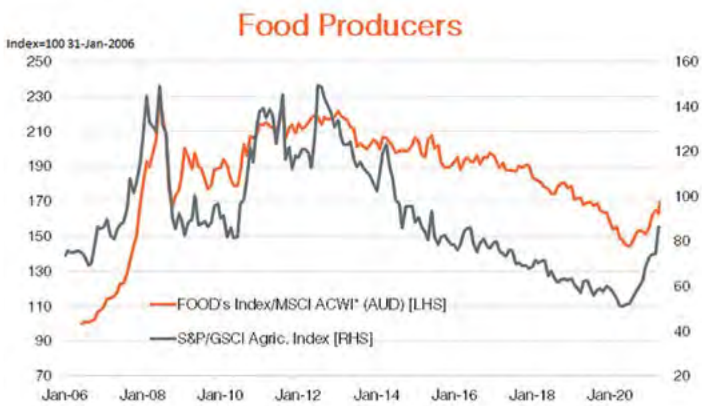
Debate now rages on whether the lift in price pressure is the start of a sustained increase in global inflation or merely the lingering effect of COVID-related mismatches between supply and demand. Either way, with global policymakers likely to continue to encourage strong economic growth for some time, it's quite possible that many commodity and consumer prices may enjoy stronger gains over the next few years than evident prior to COVID.

Here are several investment exposures that may stand to benefit – each in their own way – from stronger pricing pressure:

Food producers (ASX: FOOD)

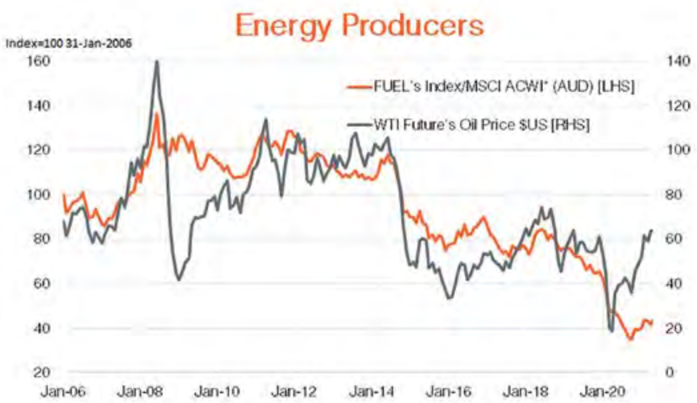
Global food prices have lifted strongly in recent months, reflecting solid demand (especially with more people eating at home during the pandemic), along with supply bottlenecks and poor growing conditions in major countries such as the US.

The relative share price performance of the world's top food producers (excluding Australia, and as captured by the index which the FOOD ETF aims to track), has tended to be positively correlated with food price trends. Indeed, the FOOD ETF has delivered relatively strong gains since the bottoming in global equity prices early last year, and further relatively strong gains seem possible if food prices continue to rise.



Energy producers (ASX: FUEL)

The FUEL ETF provides exposure to the top energy producers (ex-Australia) around the world. The relative performance of FUEL compared to global markets has tended to be positively correlated with trends in global oil prices. As might therefore be expected, the sharp lift in oil prices since their COVID lows early last year has been associated with relatively strong performance by FUEL since late-2020. Should oil prices continue to rise due to recovering global demand, FUEL may be well positioned to continue to outperform.



Gold producers (ASX: MNRS)

Gold is another commodity which history suggests tends to benefit from a rising inflationary environment.

Gold has experienced several price cycles over recent years, which in turn have tended to be positively correlated with the relative share price performance of the world's top gold mining companies (excluding Australia) as measured by the index which the MNRS ETF aims to track. Indeed, gold recently enjoyed solid price gains in the two years from late-2018 to late-2020, a period in which the MNRS ETF also performed relatively strongly.

Australian miners (ASX: QRE)

Closer to home, another option that could offer good exposure to a rising inflationary environment, especially through commodities like iron-ore, is Australian mining companies. The relative performance of Australian miners (as represented by the index which the QRE ETF aims to track) within the local market has tended to be correlated with trends in iron-ore prices. Indeed, relative performance was generally negative with the downtrend in iron-ore prices from 2011 to 2016 but has tended to be positive with the uptrend in iron-ore prices in recent years.

In fact, given the explosive rise in iron-ore prices in the past year – reflecting Chinese policy stimulus and Australian/Brazilian supply constraints – local mining companies have arguably not outperformed by as much as one might have expected from historical relationships. This suggests there may be somewhat more relative upside performance even if iron-ore prices pull back somewhat in coming months, but nonetheless remain at relatively high historic levels.

For investors concerned about a potential sustained lift in inflation and/or interest rates, BetaShares offers a range of commodity and financial related equity exposures that may provide useful hedges in one's portfolio. E

How to build a portfolio of founder-led companies

By Lawrence Lam, Managing Director & Founder, Lumenary Investment Management

Founders have changed the world and will continue to as long as capitalism exists. The system motivates bright individuals to pursue dreams and build companies that improve human lives, just as trees in a canopy compete vertically for sunlight. Investors need not miss out on these game changers. We can participate in the rise of these companies alongside their founders and if analytical judgement is cast correctly, we can benefit immensely from their journey.

Are all founder-led companies start-ups?

Investing in founder-led companies does not mean venture capital investing. There are over 2,000 listed founder-led companies globally, varying in age, size and industry. Not all founders work on new and shiny products. Only a small proportion are start-ups. In fact, there are many blue-chip founder-led companies that are not in the technology sector and these global household giants' names should resonate with many of us: Marriott, Morningstar, Hermes, Walmart and Nike.

The risks of founder-led companies

The pros of investing in founder-led companies are well documented by academics and practitioners alike. Credit Suisse and Bain have quantified a +7% outperformance since 2006. Other studies show multi-decade alpha. In business, skin in the game matters and that's why founders make great business owners and operators.

But not all founders are great and not all their companies turn out to be the next Amazon. Hence, everything in moderation and why diversification is needed to dampen the volatility of owning just one company. This is where a clear portfolio construction recipe comes in.

I have previously likened portfolios to making a cake. We select our best ingredients and apply them in the right proportions before baking them at the right temperature. What generates returns is not what has happened, but what will happen. And proportions are crucial.

Instead of baking one cake with all our cake mix and hoping it turns out well, we should divide the cake mix to make many cakes. With each cake we make, risk is reduced. That's the key to a well-balanced portfolio of founder-led companies. The sum of the parts is always greater than the whole, especially when it comes to risk management.

Diversifying a portfolio of founder-led companies

The least volatile founder-led companies are also usually the oldest. Think Walmart, Hermes and Nike, which have each existed for decades. The advantage of these generational companies is their stability of growth and predictability of dividends. They move like ocean liners, but their brands carry an inertia that spins off free cash flow consistently. You can rely on these companies to deliver slow and steady growth to your portfolio. The advantages are not without risk though. Older generational companies can become complacent. Their founders may have already reaped the rewards of their lifetime of efforts and become content with sitting back and relaxing. Their succession planning may not be smooth. And, the companies themselves may not be built the right way to adapt to changing environments. Ocean liners have a huge turning circle; it becomes impossible to navigate fast-changing conditions when they have only been built to travel in straight lines.

That's why portfolios should be built to capture the full spectrum of founders from different vintages. You want both ocean liners and speedboats. Younger founders are hungry, motivated and free of the shackles imposed by legacy constraints. In this day and age, issues caused by the use of outdated technology can prove significant for incumbents – observe how difficult it is for banks to transform their systems. It's easier and faster to build from scratch than it is to modify, much like how building a new house is faster than renovating an old building. When the pace of change increases, newcomers have the advantage.

Take, for example, a company my fund is invested in. It's a Dutch company called Adyen in the global payments market. It's been built with technology from the ground up that allows it to outcompete incumbents. As a result, it has been able to win significant market share in a very short period and capture the accelerating change in consumer payment behaviour.

With founder-led companies, there are pros and cons to both old and young. Having all your eggs in either one would be unwise. Spread your portfolio across founders from all vintages. You want to build a fleet that encompasses the ocean liners, giving stability and reliability, and mix these with speedboats which can navigate changing environments and adapt with the times. That's what can truly mitigate risk.

Skin in the game: when theory meets practice.

Here's a question. Which of these investment opportunities is inherently riskier over the long-term: a multinational blue chip where the board has employed a salaried CEO on a five-year contract; or a mid-cap where the founder retains majority ownership, is the CEO and chair?

The multinational blue chip has existed for much longer, so its share price is more predictable and less volatile. The mid cap company has a much more volatile share price and analysts' opinions of its prospects vary widely.

But which one is riskier over the long-term? The answer depends on your understanding of the difference between risk and volatility. One investment is more volatile but is actually less risky over the long-term. Happy compounding. E

How volatility can add fizz to your portfolio

By Steve Johnson, CIO, Forager Funds

Investors tend to be wary of markets during volatile times. Should they be welcoming it?

It is no surprise that investors were fearful in March 2020. COVID-19 was spreading rapidly around the world and consumers were locked inside their homes. No one knew what impact that would have on the economy. Why wouldn't one pull out of the stock market until there was more certainty?

Well, the problem with certainty is that it comes with higher prices. The real opportunities arise during these volatile times, precisely because there is so much uncertainty.

Good opportunities get caught up in the wash and that's where there's value for investors. Share price movement doesn't necessarily mean anything has changed at the underlying business.

During 2020 and into 2021, our strategy was to take advantage of this volatility and because of that, we saw incredible success in both our international and Australian funds.

Even where the business value had changed, the panic was causing an enormous overreaction. Good businesses with strong balance sheets were trading at half the price they were the month prior. So, even if you assumed they were going to lose two whole years of profit, you were still getting a bargain.

One of these stocks was Celsius in the Forager International Shares Fund. After overcoming distribution issues, sales of this energy drink for the health conscious were growing rapidly. Rather than shrinking as the market was anticipating, Celsius saw its sales growth accelerate throughout 2020 by more than 100%.

Its shares rose roughly eight-fold over the year. Once Celsius's share price moved above its valuation of the company, Forager took the opportunity to sell our position.

In the domestic market, Forager's focus is also on buying companies that are significantly undervalued and unloved. Mainstream is a funds administration business that has been growing in the US, Asia and Australia. It has up to 300 different funds on its platform with Australian giant Magellan its largest client.

Despite its revenue proving resilient, Mainstream's share price more than halved in March 2020, falling to a low of less than $0.30.

Mainstream was also well positioned as a strategic acquisition option for a larger global player to increase its exposure into Asia and Australia. Indeed, it recently received a lucrative takeover bid from SS&C Technologies at $2.00 per share. Bermuda-based financial services provider Apex Group followed with a higher offer.

This has led to strong performance for Forager Funds, with 86.88% returns in the past 12 months for the International Shares Fund, and 125.82% returns in the past 12 months for the Australian Shares Fund, as at 31 March 2021.

The stocks that people love are trading at extraordinarily high prices, but there's plenty of value to be had for people who are willing to stomach a little bit of volatility.

Key considerations for investors during these volatile markets is firstly understanding your time horizon. Those investors looking at longer investment periods, say five to 10 years, don't suffer the risk of market volatility as much as short-term shareholder. In fact, your average return over that longer period becomes far more important than variability along the way.

For investors looking to sell, volatility is very much a concern. But for those looking to buy, volatility can be an appealing feature as long as the investor has that long time horizon in mind.

Ample opportunities still exist. Large companies tend to bounce back first, leaving opportunities in the small- to mid-cap space. While markets continue to slowly recover, there are still good opportunities out there. Valuation differentials between popular and unpopular stocks have never been wider. E

Pro Medicus: a good opportunity or overvalued?

By Lexi Nguyen, ASA Financial Analyst Intern

In CEO John Cowling's watchlist (in the Equity February address), a small Australian company called Pro Medicus (ASX: PME) piqued my curiosity, not only because of its niche product but also because of its notable price to earnings ratio of 119*, which is double its industry average of 56.3*. After careful research and analysis of what's behind this momentum, I am excited to share what Pro Medicus has to offer and give you some ideas as to whether this interesting business can be considered a valuable long-term investment.

Founded in 1983, Pro Medicus is now a leading health imaging IT provider with a market capital of $4.58 billion*. The company was trading at around 50c a share when it got its first US major client in 2013. Since then, it has steadily won new clients and expanded rapidly. Pro Medicus is now trading at almost $44 a share, a gain of over 8,000% (See Figure 1). This aligns with the company's revenue growth, which rose from only $11 million* in 2013 to $56 million* in 2020.

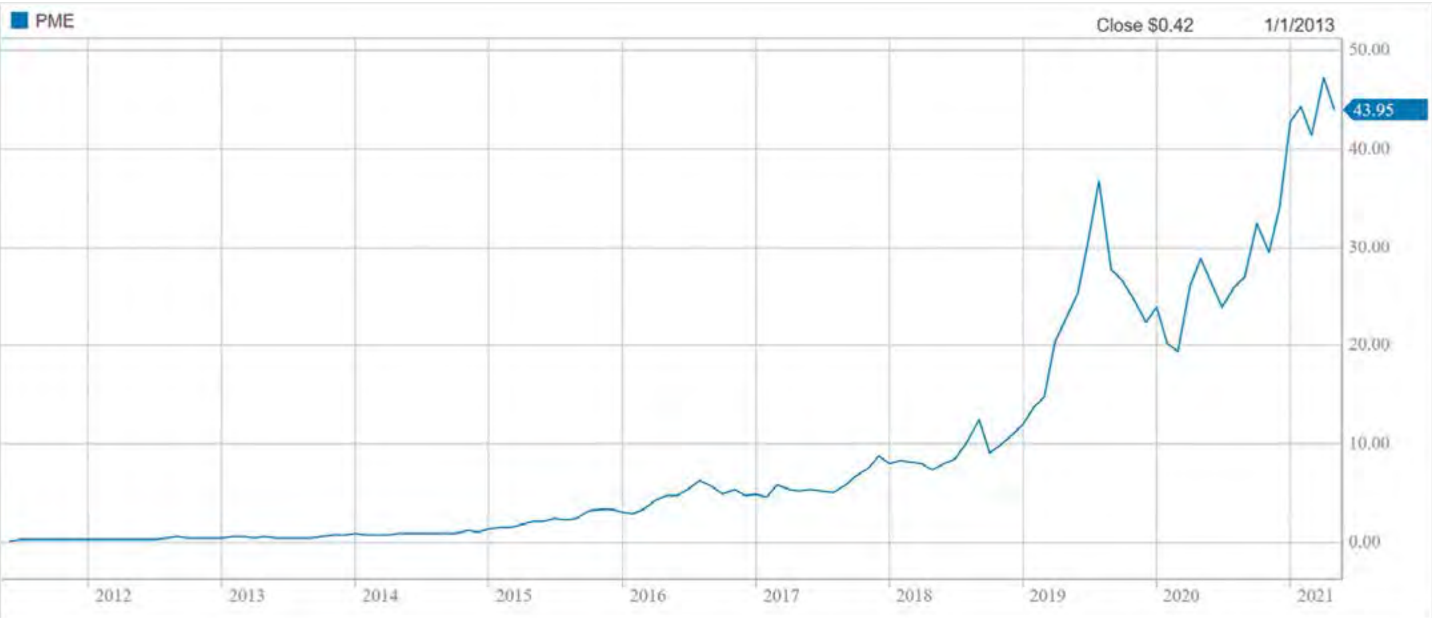


*Figure 1: Pro Medicus Share Price***

Pro Medicus offers a range of medical imaging software along with installation and support services to hospitals, imaging centres and healthcare groups. Its Visage software allows radiologists and clinicians to archive images and reports, communicate and share information internally and externally at an outstandingly fast speed. In medical imaging, speed is critical to get access to patients' data, reduce errors and save costs.

Pro Medicus also provides a system to optimise workflow, design network, configure hardware and train staff and management. Its customisable, rules-driven system can improve efficiency for hospital administrators. This is much needed in order to provide imaging customers with the most attentive and responsive care. As a leading imaging provider, Pro Medicus' competitive advantage is the viewing speed offered by its Visage product, which compress and send technology cannot match. Its value proposition lies in the productivity increase for radiologists delivered by a smooth system operation and management.

*Figure 2: Pro Medicus' Visage product****

The Past

Pro Medicus has been a star performer on the market in recent years. The company's success is demonstrated by its rapid annual sales growth over the past five years, at 26.6%* on average. With almost 65%* of revenue generated in the US, Pro Medicus has consistently won two to four big long-term contracts each year. Contracts are measured in years, and some are with major US healthcare systems and academic centres.

Operating in a niche healthcare service market that has a very competitive tender process and sophisticated customers, Pro Medicus continues to offer the best radiology image viewing product. This was again confirmed when all five hospitals in a University of California, Los Angeles, contract (February 2021) agreed that Visage was their preferred viewing system. The company has also started to address the growing trend towards cloud infrastructure by offering the industry's first cloud-based platform for complete picture archiving and communication system (PACS) operations to three major clients.

With an outstanding track record on high profile contract wins and a sticky customer base, it is not difficult to see why investors are enamoured with this business, especially given its five-year total return to shareholders of 61%*.

The Present

Pro Medicus earns its main revenues through the minimum scans guaranteed in each contract and charges per scan above those minimums. The restricted hospital access during the COVID-19 pandemic caused a temporary drop in scans from March to July 2020. However, scan rates recovered and began to exceed normal levels for some clients as they realised the inevitable, time-sensitive need for a mammogram and CT scan. Meanwhile, the lost revenue was compensated by the increase in margins since remote work and an online Radiological Society of North America (RSNA) conference reduced expenditure. As a result, COVID-19 did not affect the company's performance and its rate to acquire new contracts.

Regarding technical innovation, Pro Medicus continues to make significant investments in R&D to differentiate its viewing software and cloud solution. Besides, the recent US Food and Drug Administration (FDA) approval for its artificial intelligence (AI) algorithm for breast density has enabled the start of a new business in its product portfolio for the early detection of breast cancer.

The Future

Despite the outstanding rewards for shareholders in the past, Pro Medicus' PE multiple shows that a significant component of its valuation is still in the future.

Pro Medicus' future depends on its ability to penetrate the global market. Despite its rapid expansion, the company is currently estimated to have only a 2% share of the $2 billion**** US market for image viewing, which offers an attractive pipeline for new contracts. Pro Medicus' advanced products place it in a good position against its competitors to gain a bigger slice of this large untapped market. Its cutting-edge cloud-based solution also enhances the certainty of revenue growth since an increasing number of healthcare providers in the US are looking to reduce business costs.

Being ahead of competitors, Pro Medicus needs to retain its competitive edge in technology innovation to continue its high growth. To do this, it has maintained its significant investment in the flagship Visage products, including its cloud solution, while harnessing AI potential in radiology. Its FDA-approved AI algorithm for breast density also creates more opportunities for new demand.

Nonetheless, the company's future depends on its ability to continue to differentiate its current technology and satisfy new demand. It should also be noted that Pro Medicus relies heavily on a small group of core technology developers based in Germany, who would be difficult to replace.

Provided that Pro Medicus continues to innovate its technology and expand into new markets, I believe that this business has great potential and may be worth watching for a long-term investment. However, the price momentum of the company is also a key factor to keep in mind before making any investment decision. E

**figures estimated by Factset.*

***figure obtained from Commsec.*

****figure obtained from Pro Medicus' website.*

*****figures estimated by Bell Potter.*

Lexi is an accomplished student at the University of Technology Sydney, where she majors in Finance and Data Analytics. With a passion for finance and a natural affinity with numbers, she is committed to a career of becoming a fund manager.

The importance of deep diversification

By Dr Laura Rusu, Founder and CEO, Lensell

Deep diversification is critical in building efficient portfolios and giving investors the flexibility to tailor their portfolios to their own risk and return preferences.

"A rule of behaviour (i.e. investment) which does not imply the superiority of diversification must be rejected."

"Not only does the 'Expected Return – Variation of Return' rule of investment imply diversification, it implies 'the right kind' of diversification for the 'right reason'."

(Markowitz, 1952).

These statements, made almost 70 years ago by the Nobel Prize laureate Harry M. Markowitz in his journal paper, Portfolio Selection, were based on complex mathematical models. Markowitz proved the superiority of the "expected return - variance of return" rule in choosing a portfolio, showing that both "expected return" and "variance of returns" must be considered, and that one should reject any rule that considers only one of them. Markowitz introduced the concept of "efficient E-V combinations" showing that multiple securities, each with their own risk and return, can be combined in many ways to create portfolio scenarios. But only some of them could be "efficient" and placed on what is now known as the "Efficient Frontier" (see Figure 1).

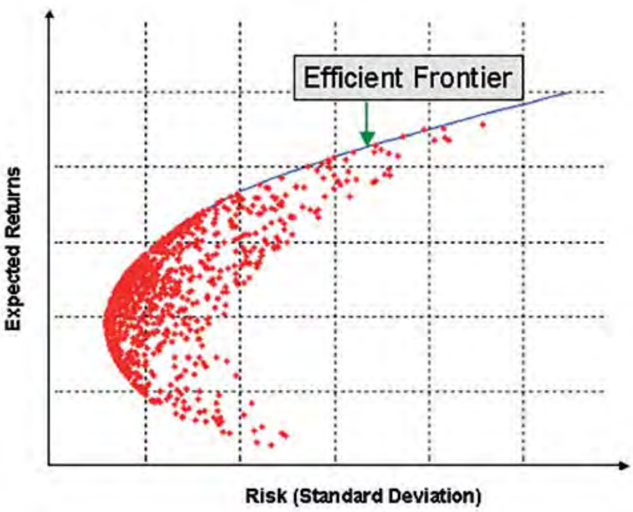


Figure 1 Efficient Frontier in portfolio selection

Taken individually, each security in a portfolio has an expected return and a risk (volatility of returns). By combining securities, investors can control the level of risk they are prepared to take, for the return they expect to obtain from the portfolio.

As you probably know, portfolio return is the weighted average of securities' returns and hence not impacted by the correlations between pairs of securities. However, portfolio risk is greatly affected by those correlations. The higher the correlations, the higher the portfolio risk. Therefore, by selecting securities with lower correlations, one can reduce the total portfolio risk.

The search for the portfolio combinations on the Efficient Frontier cannot be done without the "right kind" of diversification.

"In trying to make variance small, it is not enough to invest in many securities. It is necessary to avoid investing in securities with high covariance among themselves." (Markowitz, 1952).

In other words, the way to find the "efficient E-V combinations" is to juggle the securities of interest: first select those securities that have the expected return and are not strongly correlated, and then find the combination of weights for those securities that give an accepted level of risk. The level of diversification recommended by Markowitz is deep, at granular security level, as opposed to high level diversification at security type or industry group level that has been predominantly used in practice.

Historically, money managers have employed various methods to introduce a degree of diversification and find "efficient portfolios". At least two schools of thought can be identified:

The 60/40 rule

Traditionally, a 60/40 portfolio strategy has been applied to bring in some diversification – that is, investing 60% of money in equities and 40% in bonds, despite of lack of evidence to support this exact split.

The strategy, known as the "allocation of capital" rule, was based on the premise that the 60/40 "balanced portfolios" allowed for growth through stocks and minimised volatility through bonds.

In choosing the 60/40 structure, only a coarse level of diversification was considered (i.e. the simple divide between two types of instruments), and the selection and combination of individual securities within each group relied on the skills and talent of money managers.

The Risk parity rule

Fast forward to year 2000, novel investing instruments have emerged, and the attention turned to the variance of returns. Risk parity is an approach where the focus is on allocation of risk rather than allocation of capital, in such way that each security group (stocks, bonds, mutual funds and so on) contributes equally to the portfolio overall volatility. It asserts that when allocations are adjusted to the same risk level, the risk parity portfolio can achieve a higher Sharpe ratio (a measure of risk adjusted returns).

The risk parity strategy and the 60/40 approach share the same problem. That is, it implies normalised correlations between securities in each group and across groups, which makes it vulnerable to significant shifts in real world correlations.

Neither the 60/40 strategy nor the risk parity approach fully consider the deep, granular diversification recommended by Markowitz – that is, the need to "avoid investing in securities with high covariance among themselves". Indeed, they only look at correlations between securities classes or other type of securities groups. In doing that, they can only achieve a level of diversification that is not the most detailed one and miss the opportunity of calculating and detecting other portfolio combinations that may be located on the Efficient Frontier and may be outside the pre-set risk and return attainable in each approach.

The reason for this is computational in nature. Calculating correlations between all pairs of individual securities and then calculating the risk for potentially thousands of portfolio combinations using those individual correlations is not a humanly feasible task.

Technology makes things possible, and Diversiview® is the first tool that allows investors to employ Markowitz's theory to the point. Investors can visualise the deep, granular diversification at security level and see how that impacts on the expected return and variance of returns for the portfolio. They can test various scenarios to find the combinations that suit their risk and return expectations, or they can use the Balancer – a unique feature that applies advanced optimisation techniques to help investors find the combination (weights) that may achieve a target for their portfolio – that is, max(E), min(V), or max(E) with min(V). See Figure 2 for an example of combinations considered by the balancer. E

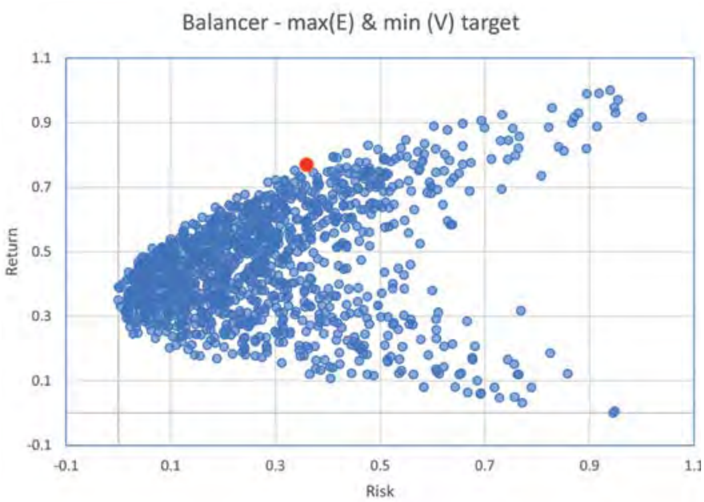


Figure 2 Example of Diversiview Balancer search space

Diversiview is at https://diversiview.online and we welcome questions at info@lensell.online.

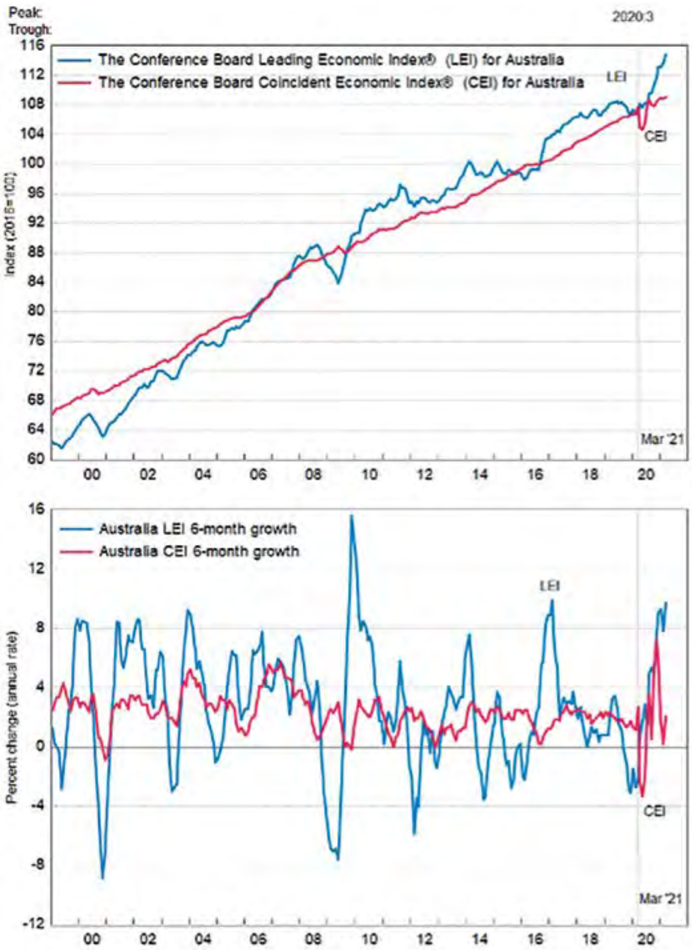
We also invite you to a **members-only webinar on 22 July 2021** where we will walk through and analyse several portfolio scenarios. Register here: https://attendee.gotowebinar.com/register/4211396032227380748

Forecasting booms and recessions

By Karthik Murthy, ASA Finance Intern

In the October 2020 issue of Equity, we introduced The Conference Board (TCB), a non-profit organisation based in the United States and its Leading Economic Index (LEI) ("An overly optimistic market: Contextualising macroeconomic forecasts," pg. 11; Vol. 34 #08). As mentioned in that article, the LEI uses seven leading indicators, such as yield spread, share prices, M3 money supply, building approvals, rural goods exports, sales to inventory ratio, and gross operating surplus, to indicate how the business cycle in Australia would unfold in the future.

TCB also produces the Coincidental Economic Index (CEI), which represents the current macroeconomic state by measuring lagging indicators such as persons employed, household disposable income, industrial production, and retail trade.



Note: Shaded areas represent business cycle recessions. The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.
Source: The Conference Board

While lagging indicators paint a picture of the past macroeconomic conditions, the leading indicators foretell the future.

In the October 2020 issue, we showed that the LEI had grown by 0.6% in a period that saw a decline of 2.2% in the CEI, showing that the prediction was much more upbeat given the present conditions.

Fast forward eight months and we are seeing that the CEI is catching up with the trend predicted by the LEI. The latest data release on TCB's website reveals that the LEI for Australia increased 1.0% in March 2021 to 114.8 and for the same period, the CEI has increased 0.3% to 109.1.

For readers who are concerned about the uncertainty and volatility in the future business cycle, the LEI data released by TCB should come in handy.

Granted, it is an extremely tricky thing to formulate an index that not only encapsulates the leading indicators into a single number but also to do that in a way that consistently predicts the macroeconomic swings.

In April 2000, the economic research department of the Reserve Bank of Australia (RBA) compared three leading indicator-based forecasting tools, of which the Australian Bureau of Statistics' (ABS) Composite Leading Indicator was one.

However, in September 2003, the ABS decided to halt the publication of the Composite Leading Indicator after reviewing its performance and finding its predictive powers were not so valuable.

Westpac-MI Leading Index

On the other hand, the Westpac-Melbourne Institute (MI) Leading

Index, another leading indicator featured in the RBA's 2000 paper, has been doing well and is still churning out economic reports based on leading indicators. This index has predicted that the six-month annualised growth over the next three to nine months will be a healthy 1.47%.

Coming back to TCB's LEI and diving a bit deeper into its prediction mechanism, let us look at the indicators that are predicting an upbeat economy. In the October 2020 article, it was explained how increasing share prices could be contributing to the LEI showing an optimistic forecast. This trend continues, in addition to a consistent M3 money supply and a growing gross operating surplus (GOS is used to measure the GDP using the income method). These indicators augur well for an economy that is recovering, allaying any fears of a recession.

TCB's LEI graph shows a thin grey line at the start of 2020 to represent a recessionary phase, a period that does not reflect the impact of COVID-19. With the federal government gearing up for budget deficits and increased spending to combat the economic ramifications of COVID-19, the near-future prospect of a recession looks more and more remote.

Chairs in the hot seat

By Kerrie Bible, Patricia Beal and Zilla Efrat

Kerrie Bible | Patricia Beal | Zilla Efrat

The two- day ASA Investor Conference finished with a session titled Grill the Chairs, which placed three chairs in the hot seat. Using a "fireside chat" approach, ASA chair Allan Goldin was able to get them to open up about their personal lives and business challenges.

Gordon Cairns (ASX: WOW)

Gordon received a wakeup call in 1997 when he was CEO of global beverage company Lion Nathan. A 360-degree performance review of his leadership produced the worst results the company had ever seen globally.

"I had to reverse my leadership very drastically," he informed a packed room. "I went home and told my wife. She asked me how much we were paying for this survey. I said: 'Half a million dollars; something like that.' She said: 'Well the kids and I have been telling you this for free.'"

Gordon turned to the late Tony Grant, a professor of Coaching Psychology at the University of Sydney, for help, describing the process as "brutal".

"But when I did my final review of my leadership style, the company published it because it had been the largest transformation in the shortest space of time they had seen. There is a life after death experience. Mine was psychological."

Gordon, whose personal transformation also included becoming a Buddhist, discussed Woolworth's divestment of its booze and hotel business by creating the Endeavour Group.

"If you look at corporate restructuring in Australia, companies that are divested tend to do better than when they are together. BHP is a great example," he said.

"Secondly, it's fair to say that we have underinvested in our gaming and hotels business because we had to overinvest in our supermarkets business. This is an opportunity for Endeavour to invest the appropriate capital in the business.

"Thirdly, we looked at the opportunities available to us as a pure play supermarket business and they are enormous. Plus, we have a $600 million a year service agreement with Endeavour. So that's why we are retaining a 15% stake."

Gordon's first job was for Nestlé in London, tasting pet food. "You had to take the cans off the line, open them up, put the contents on the plate and taste them because the dogs couldn't tell you," he said.

Fortunately, he ended up tasting beer at Lion Nathan as part of his over 30 years at well-known food and retail companies, including PepsiCo and Cadbury. He's also been chair of Origin Energy, David Jones and Rebel Group and a director of Macquarie Group, Macquarie Bank, Origin Energy and Westpac Banking Corporation.

Continued over page.

Continued - Forecasting booms and recessions

To sum it up, the LEI offers a reliable and time-tested prediction of future macroeconomic conditions. Being updated monthly, this could be an early warning system for any looming recessions in future. For the time being, though, the future seems set for a slow but steady boom.

Continued - Chairs in the hot seat

Catherine Livingstone (ASX: CBA)

Catherine was born in Kenya and came to Australia at an early age. Her father, seeing Australia as the land of opportunity, got a job in a bank in NSW. With regards to careers, he advised against two options. She took half his advice. He told her not to be a nun or an accountant.

“There were a lot of nuns in my family and my father felt the family had already made enough of a contribution to the convent,” she said.

Catherine’s successful business career speaks for itself. She’s been CEO of Cochlear, chair of CSIRO and Telstra, Chancellor of the University of Technology Sydney, and president of the Business Council of Australia, to name a few.

When she was about 30 years old, Catherine went on a trekking holiday in Nepal with her husband, accompanied by just a Sherpa and porter. “It was incredibly arduous to begin with. Every day, up thousands of feet, down thousands of feet,” she told the conference, noting how one gets that rush of oxygen by doing this.

“You can’t believe how good it feels. Ever since then, all the holidays I’ve taken have been in the natural world, in mountains, hiking... What I found is that it just rebases you. You get your perspective and energy back and the power of the natural world in a healing sense, mental and physical, is quite extraordinary.

“When you have a very intense time in a work sense, and you go away and have intense physical exercise, somehow everything falls back into place. You come back to work with more perspective and can actually see the solutions to the problem. And you are not caught up in the detail. You feel so much better and hopefully you are a better person for the people you are working with.”

Catherine said the Australian Prudential Regulation Authority inquiry was the best thing to happen to CBA. “It was a very intense examination of the whole organisation. It was based on surveys of thousands of staff and customers and done by a very well qualified small panel, led by John Laker. It came up with some very confronting conclusions. But because it was external and very deep, there was no argument from the board and management.”

Within a space of eight weeks, the board and management had devised a program. Instead of taking all the recommendations one by one, they identified eight key things and created work programs to address them.

“We wanted something totally sustainable and to completely reengineer processes, policies and general practices. It was a three-year program. We are now at the end of the third year and are on track to finish pretty well as originally devised,” said Catherine.

John Mullen (ASX: TLS)

John spends his spare time diving for colonial shipwrecks and maintains a private museum dedicated to historical material from early maritime voyages to the Pacific. But this hobby nearly proved fatal.

While diving in 2012, John was stung by a stingray barb and had a nasty health scare from that. “I had two cardiac arrests and was brought back both times by amazing medical care,” he said.

“It left me with an absolute deep and undying admiration for our health system and for the individuals, the doctors and nurses, we run into. They basically saved my life twice. And the upside was I lost 30 kilos in eight weeks, which was quite good.”

John said the experience changed his thinking and reminded him every day about how lucky he is to live in Australia, with all the freedoms and services it offers.

“The other lesson was that when you are running or managing a large company with tens of thousands of employees, every one of those employees is not a number on a switch,” he said.

“They are an individual with a family. Their kids that look up to them and their spouses. They have their own hopes and dreams. I think in business, the day you lose that and just see everybody as a number on a spreadsheet, you lose your connection with humanity, which ultimately is what we’re all here for.”

John detailed how huge technology advancements and disruption had challenged Telstra in the past. This was exacerbated by the government deciding to build the National Broadband Network, changing Telstra in the process.

But he described Telstra’s T22 program “as the most ambitious transformation of any legacy telco in the world today”. “It is nearly finished now and Telstra will certainly come out at the other end of it completely different,” he said.

John believed Telstra had the best set of infrastructure assets in Australia. But how to monetise these into different pillars was a problem, as all assets are used by every part of the business, so independent control of these was not desirable. The plan was to separate the infrastructure assets into clearly visible pillars and then potentially bring in external investors to demonstrate the value there.

John was born in the United Kingdom, but when he was seven years old, his family took a holiday in Portugal and stayed there.

After university, he thought he wouldn’t mind becoming the CEO of Shell. Shell, however, didn’t reply to his application. So, his first job was making hamburgers at Gatwick Airport. He ended up in logistics for most of his working life and has lived or worked in 13 countries on all continents.

John retired twice but was tempted out each time. He is also chair of Brambles, Toll Holdings, and the Australian National Maritime Museum. E

Kerrie Bible

ASA member since 2012. Joined after hearing an ASA monitor speak at a company AGM. In a previous life, high school teacher - English, History, Debating and Public Speaking.

Patricia Beal

My acqaintance with shares began after inheriting a mixed bag of shares from my parents. Slowly my knowledge increased, accelerating after I joined the ASA around 15 years ago. I’ve enjoyed increasing my knowledge, and discussing investing with ASA friends. More involvement lead to the NSW Committee of ASA, and also doing some Monitoring in the last few years.

Origin's challenges and opportunities

By Lewis Gomes

ASA was fortunate to have Frank Calabria, CEO of Origin Energy, speaking at its recent conference about the challenges facing suppliers to the energy market and to Origin in particular. Origin runs two essentially separate businesses, namely Integrated Gas which supplies LNG to domestic and overseas markets through APLNG based near Gladstone in Queensland, and Energy Markets, which distributes gas and electricity to some 4.2 million mainly East Coast customers.

While AGL Energy has announced its intention to demerge and separate its electricity generation business from its retail business, Origin has stated that it has no intention of following suit. Both companies have suffered significant falls in their share prices in recent years as investors became concerned about falling wholesale electricity prices and the broader challenges facing carbon-intensive power generation companies.

Origin is responding proactively to climate change concerns and the impacts of renewable energy sources on its traditional markets. It plans to halve its Scope 1 and 2 emissions by 2032 and achieve net zero emissions by 2050. It is targeting a 10% reduction in average Scope 1 emissions over FY21 to FY23 with links to executive remuneration. It has also committed to updating targets for a 1.5 degree Celsius global warming scenario.

Calabria spoke of four trends presenting a mix of challenges and opportunities:

- Growth in renewables (wind and solar), green fuels (hydrogen) and battery storage (including pumped hydro).
- "Electrification of everything" leading to substantial increases in electricity usage.
- Convergence of data and energy.
- Changing investment environment.

Calabria sees dramatic increases in the need for electricity as a partial replacement for carbon fuels which, in turn, will require substantial increases in investment. However, the investment market is constrained by government-mandated energy market regulations and policies which, to date, only allow payment for electricity supplied and not for stand-by generation capacity, such a gas peaking plants or so-called firming capacity available from traditional coal-fired power stations.

In addition, traditional lenders to the power generation sector have become wary of carbon-based plants to the point where new investment in such plants is almost impossible in most developed countries.

The dramatic increase in renewable energy supplies from wind and solar has led to very low and even negative wholesale tariffs during times of low demand during the middle of the day but are not reliably capable of meeting demand during peak periods in the morning and evening. Origin sees opportunities in linking residential roof-top solar generation via smart metering to creating virtual power plants with combined capacities of 150 MW.

It also sees substantial reductions in the cost of storage batteries due to technological and manufacturing improvements which will make the combination of renewable power generation and short-term storage more viable. Origin has committed to building a 700MW battery at its Eraring Power Station in NSW as well as further developing solar, wind and hydro capacity to eventually replace its coal-fired power stations.

Origin sees opportunities in more personalised services to customers seeking to reduce their emissions while providing additional data-based services beyond traditional gas and electricity supplies. Origin has taken a 20% ownership of UK-based Octopus Energy which has developed leading customer service technology and considerable savings in customer management.

Origin has committed to being at the forefront of Australia's hydrogen industry to meet both domestic and overseas demand. Significant customer demand is envisaged in Asia for both green hydrogen (from electrolysis of water using solar power generation) and ammonia from the mid-2020s.

In summary, Calabria told the conference that Origin is well placed to play an active role in the transition to lower carbon energy generation. However, in the present market "the transition has the potential to get messy, as we are likely to see coal-fired generation leaving the market in a planned and potentially unplanned way, which either leads to a shock of reliability or affordability". Government policies that encourage investment in firming capacity to complement renewables are vital to driving investment capability, said Calabria. E

Lewis is a consulting civil engineer by profession and has been investing in the share market for over 20 years. On retirement several years ago, he joined the ASA after noting the valuable input to listed public company AGM's from ASA members. He became an ASA company monitor three years ago and enjoys the opportunities to meet with company and board representatives and to prepare AGM voting intentions for ASA members. He is an active member of the Sydney North Shore (Killara) Discussion Group for which he is a co-convenor.

Some wise words from conference presenters

By Patricia Beal, ASA Company Monitor

Emma Fisher: Uncertainty and risk

An experienced fund manager, now with Airlie (under the Magellan umbrella), Emma spoke confidently about minimising risks while investing. Her major points were:

1. Focus on financial strength, especially during downturns.
2. Don't overpay.
3. Buy quality businesses, favouring return of capital (ROC) companies with high ROC, and certainly not capital-hungry ones.
4. Management quality matters. Emma looks favourably on companies where the founders still control or influence the company. They are much more likely to work for its long-term good.

Examples were given of both good and bad companies. Emma also stressed the need for patience and to wait for more opportune times if the share price is excessive, or until an undesirable section of the business is separated out (for example, Wesfarmers after divesting from Coles). Turnaround situations such as Healius, under new management, were also mentioned.

It was interesting that one instance quoted regarding management "skin in the game" was Sonic Healthcare and Colin Goldschmidt. Later in the conference, we were fortunate to hear him say that he started as the third pathologist of a single pathology lab, became its medical director and when it listed, and he became CEO. From those beginnings, it became apparent to him that medical leadership was the optimum strategy. It is what has distinguished SHL from the majority of other pathology businesses and made it attractive to similarly run pathology businesses when founders are ready to retire.

Tim Montague-Jones: Taking advantage of animal spirits.

With experience analysing companies and as a fund manager, Tim now heads Equity Research at the Australian Stock Report.

Taking a psychological viewpoint, Tim examined the emotions which may cause investors to make unprofitable decisions, such as fear (a stock you own has gone down very significantly) or greed (another may have gone up hugely). The cure for both can be to sell a company which is provoking either of these emotions, thus regaining control of the situation.

It's important to try to understand how the situation arose – that is, why the price of a company changed a lot – and then hopefully manage such a situation earlier, before it becomes so dramatic. Was it clever to pick such a winner (and so are all the other picks also brilliant)? Maybe the situation should be trimmed on the way up?

Understanding what the company should or might be worth is obviously important. Tim favours discounted cash flow analysis, especially for tech companies. Earnings multiples or yield are also important, providing profits are being made. How has the situation, or the company itself, changed since the company was bought? Is the change likely to be transitory or longer lasting?

Tim said some companies are more likely to weather downturns better than others, and so might be more worthy of faith. Overreacting by buying and selling more quickly can end up worse. It's usually unwise to get out of the market completely, especially if it's gone down a lot, and a rebound to the upside might be expected.

Nick Raphaely: The need for first mortgage investments in your portfolio

Nick is the co-founder and co-CEO of AltX, a firm which provides a variety of real estate debt types, to individuals who wish to invest in the sector to diversify and achieve better returns.

It can be difficult for investors to diversify into real estate individually, as it is illiquid, with high transaction costs. It is also time-intensive to manage, and the time horizon is usually long.

This presentation discussed how first mortgage investing overcomes some of the difficulties involved, as it acts as an intermediary between the investor and the property.

Towards the end of the presentation, Nick spoke about the differing ways in which AltX could help those wishing to invest in the sector, with amounts ranging from $50,000 upwards.

They could invest in a single property, although most customers with more to invest would spread their investments between a number of different properties. AltX's website usually shows a number of different offers open at the time. The time for the usual investment seems limited to two years, rather than the much longer term usually needed to pay off a residential mortgage. But on the other hand, it could be difficult to get out before the contract ends so you have to be content to "lock up" your money invested for the full term. E

My acqaintance with shares began after inheriting a mixed bag of shares from my parents. Slowly my knowledge increased, accelerating after I joined the ASA around 15 years ago. I've enjoyed increasing my knowledge, and discussing investing with ASA friends. More involvement lead to the NSW Committee of ASA, and also doing some Monitoring in the last few years.

An update on Fortescue Metals Group's operations and future plans

By Richard McDonald, NSW State Chair, ASA

Elizabeth Gaines, CEO of Fortescue Metals Group, gave us an impressive presentation from her base in Perth. She provided an update on FMG's operations and future plans.

FMG employs many indigenous people in its mining operations and has programs for them and especially the children. It also has mentoring programs as well as family programs for their workers.

Its mining and transport are very sophisticated and quite impressive. The pure size of its trucks and rail carriages is amazing.

FMG is very environmentally conscious and has put a lot of effort into reducing carbon. It intends to be carbon neutral by 2030 as it makes money while looking after the environment. It is also looking at green energy transition with much research and money being spent on the potential.

Gaines used slides and videos to give an outline of the company's operations, from mine to market infrastructure. Costs are about $14 per tonne which is amongst the lowest in the world. With the impressive returns to shareholders this last year, FMG is a favourite among ASA members with an interim dividend of $1.47, on an 80% payout ratio.

FMG has close relations to China as you would expect, it being its main customer. Its second largest shareholder is a Chinese company, and it has two Chinese directors, with marketing people based in Shanghai.

The presentation was well executed electronically from Perth, allowing questions to be put to Gaines from conference attendees both in Sydney and other states. The obvious question is how long iron ore will continue at its very high price. The CEO, without actually giving an answer, explained why the high price came about and what is happening with other world producers.

Elizabeth Gaines provides an update FMG's operations and future plans.

Letters to ASA CEO John Cowling

I would like to express my sincere gratitude to you and the ASA team for giving UTS students the opportunity to attend the ASA conference to learn about investing. The students found the sessions practical and informative, giving them real insights into the concepts they have learnt at university and provided tools for them to build their personal wealth. I have included letters of appreciation from two attendees, the latter of which I have mentored since she was high school student based in a low SES area where education on financial literacy is limited. Looking forward to continuing working with you to run events and workshops on financial literacy for UTS students.

Dr. Nelson Ma
Senior lecturer in Accounting at the UTS Business School

Thanks for hosting us at the recent ASA Investor Conference. I found the two days packed with so many learnings, but for me personally, it was great to be able to see the connection that my classes had with what the panellists and other attendees were talking about, and I found immense value from being able to actually apply what I was taught into these real world scenarios. I also want to say thanks for taking the time to come over and give us advice during the first day. That was very kind and your advice on being a disciplined and consistent investor is something I know I'll put to good use in the future.

Patrick
3rd year BBus student

Thank you for the opportunity to attend the ASA Investors Conference. Entering the conference, I came in with little to no knowledge of investing and was extremely keen to find out more. Over the two days, I developed my understanding over the different types of equities and the importance of having a diversified portfolio. The standout for me was the Fidelity session where I learnt more about the behavioural influences and how they affect our investment decisions. Once again, I am extremely grateful for this event and hope to use some of the newly learnt knowledge to become more financially aware with my investing decisions.

Charita
5th year BBus BEng student

Caption: UTS interns Karthik Murthy, Derick Frimpong, April Tran, Olivia Brennan, Joly Batac and Stephanie Backhouse meet their university chancellor Catherine Livingstone AO (3rd from Right).

THANK YOU

ASA would like to thank our dedicated members for their articles on some of the conference sessions and speakers.

BRICKBATS & BOUQUETS

Brickbats

To RIO, Scentre Group, Appen and Technology One for strikes against their remuneration reports.

The 2021 mini-AGM season has been similar to 2020 with a limited number of strikes. AMP had the highest against vote in 2020 with 67% against, and Rio Tinto looks like it will hold the record for the current year, at least until the main AGM season.

Votes against:

Rio Tinto 61%

Scentre Group 51%

Appen 48%

Technology One 38%

To Arafura Resources for raising $40m from a placement and $5m via share purchase plan with no scope to expand the share purchase plan.

Many of the more than 10,000 shareholders will be diluted with an offer price of 12c, almost a 30% discount to the price prior to the raising.

Bouquets

To Intern Ella Smith's for her article

A Bouquet to Ella Smith for her ASA 60th Anniversary article.

It has gone into my archives to show to anyone who queries why I belong to the ASA.

Well done, Ella.

Regards,
Oliver Raymond

Traralgon, VIC, 3844

To Perpetual Equity Investment Company's SPP

Well done to Perpetual Equity Investment Company (PIC) for engaging Orient Capital to conduct an outbound campaign to eligible shareholders to ensure that they are aware of the recently announced share purchase plan (SPP) offer.

It is easy to miss SPP offers or miss the deadline to apply for shares and this proactive reminder approach is to be applauded.

To Catherine Livingstone AO, John Mullin, and Gordan Cairns who each opened up at the ASA Investor Conference and revealed life-changing events in their lives that moulded the way they are as people and leaders today.

Members are welcome to send in their suggestions to equity@asa.asn.au. Comments included here do not necessarily reflect those of all members.

ASA NEWS

Ins and Outs

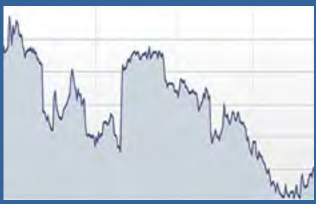
Francesca Muscatello: In charge of webinars, replacing Stephanie Backhouse.

Damien Straker: Monitoring coordinator. The role was previously held by Vishad Sharma.

April Tran: Marketing executive. The role was formerly held by Yazzy McGuid.

Rachel Waterhouse: CEO Designate.

AMP AGM



1 year chart

MONITORS: Ian Graves, assisted by Julieanne Mills

Date	30 April 2021
Venue	Online
Attendees	231 Shareholders 8 Proxy Holders 1,050 Visitors
ASA proxies	3.25m (equivalent to 18th largest holding in Top 20 list)
Value of proxies	$3.6m
Proxies voted	Yes, on a poll
Market cap	$3.73 billion
Pre-AGM meeting	Yes, with chair Debra Hazelton, NED remuneration chair Michael Sammells, Michael Vercoe, Rebecca Nash, and Alex Boyle

Ian Graves, assisted by Julieanne Mills

The chair's address attempted to answer many questions sent prior to the AGM. While acknowledging this was "a day for shareholders", the new chair, Debra Hazelton, attempted to justify the board's decisions regarding strategy and leadership changes. She explained the efforts to create cultural change within AMP. However, it is premature to judge the transformation's success. Shareholders' frustration was evident in the questions. The anxiety is justified given the company's downward trajectory over the past three years and this year's brand damage, including outflows of funds and its falling share price.

Hazelton highlighted AMP's difficulties since the banking royal commission. She conceded regulatory and legislative changes have necessitated a reinvention and a different business model moving forward. The COVID-19 pandemic further compounded an already difficult year. The chair thanked CEO Francesco De Ferrari for his efforts in the transformation and reinforced the board's support for his future strategy. She also highlighted De Ferrari's achievements, including selling AMP Life, product simplification, and the North platform's success. The outgoing CEO's address showed his support for the company, the transformation strategy, and incoming CEO. The two hours of questions reflected shareholders' dismay at the share price, loss of dividends, and brand damage.

Many questions were directed at the AMP Capital demerger, and the 20-year slide in the share price. ASA monitors raised questions around the mediocre employee engagement score, the rapid increase in whistleblower complaints, and De Ferrari's exit and retention payments. The shareholders asked why they should trust this board. However, another board change would delay progress. Subsequent reporting in The Australian Financial Review suggested Ares was still interested in purchasing AMP Capital's private markets. However, the board decided the transaction would leave shareholders unsatisfied. Item 3, approving the remuneration report, which ASA voted against, nearly received a second strike with 23.64% against. As a result, resolution 5, the contingency resolution for a board spill was not required.

EAGERS AUTOMOTIVE AGM

1 year chart

MONITOR: Peter McInally

Date	19 May 2021
Venue	Online
Attendees	NA
ASA proxies	443,818 shares from 33 shareholders
Value of proxies	$6.7m
Proxies voted	Yes, on a poll
Market cap	$3,880m
Pre-AGM meeting	Requested but company declined

Eagers benefits from COVID-19 creating demand for cars

Eagers has a proud record of always paying a dividend and increasing earnings from acquisitions.

The recent replacement of Eagers Automotive's CEO Martin Ward and the company's retention of its JobKeeper payments, despite a successful year, created an interesting background for this year's AGM. Chair Tim Crommelin and new CEO Keith Thornton gave presentations. Voting formalities were completed with all items receiving shareholder approval.

ASA asked why Eagers refused to repay the JobKeeper assistance it received. The company argued comparing 2020 to 2019 was irrelevant because of the recent merger with Automotive Holdings Group, and when compared to 2018, the 2020 results were not outstanding. It also stressed JobKeeper was vital for retaining experienced staff and had only been received for three months.

ASA also queried the sudden departure of Ward on the day the results were released. The response was that Ward would continue supplying expertise while managing the company's property holdings. More specifically, the company will reduce its property holdings by using the Auto Mall in Brisbane and moving sales and servicing to the Indooroopilly Shopping Centre.

ASA's third question related to board independence, which could be improved. We were told a new board member is likely to be appointed in the coming year. Consequently, ASA noted that the new member should be independent.

Last year's remuneration report was not as clear as we would like and it received a "first strike" against it. That meant that had this year's report attracted an against vote of 25% or more, a "second strike" and spill motion would have ensued.

This year's report is clearer with the remuneration procedure better explained. Short-term incentives are measured over four years, clearly showing both non-financial hurdles as well as financial hurdles. Long-term incentives are measured over four years and there is no holding lock. This year's remuneration report clearly shows the contractual arrangements with executive staff which was previously lacking. All key management personnel and board members agreed to a remuneration reduction during COVID-19. Many shareholders agreed that the remuneration report had improved and the resolution attracted a for vote of 97.2%.

Computershare's virtual meeting technology did not mesh well with this monitor's software systems, which made attendance difficult. We look forward to a future where the richness of in-person meetings is enjoyable again, and to a time when online attendees can do so with ease.

A focus on the environment

The 2020 year saw a softening alumina market leading to a steady decline in the Alumina Price Index (API).

Prices for both aluminium and alumina have recovered from COVID-19 induced lows and have stabilised.

Notable at the AGM was the airtime given to environmental, social and climate change issues. For example, the chair showed a video of the rehabilitation work being undertaken by Alcoa at the decommissioned Anglesea coal mine.

He then went on to specifically discuss climate change and carbon emissions from the company's operations.

The CEO said: "AWAC is the largest consumer of natural gas in Western Australia and the Portland smelter is the largest consumer of electricity in Victoria."

In the formal part of the meeting, the only questions from the floor were from ASA. In response to our question about releasing the franking credits trapped in Alumina's balance sheet, the chair gave a glimmer of hope, saying the CFO was on the case looking at potential options.

On remuneration, ASA questioned the large number of board committees and the level of director fees for a non-operating company like Alumina. ASA calculated that the director fees were in the second highest quartile, contrasting with the board view that the lowest quartile was appropriate for the CEO and CFO. The chair defended the board's fees, saying that a different skill set was required. ASA voted against the remuneration report, even though it received a comfortable "for" vote from shareholders.

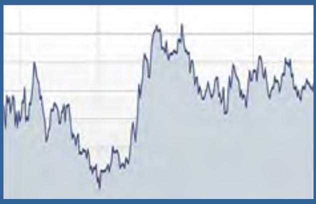
All items of business were passed with more than 90% support.

The CEO made these projections:

"We see more potential upside than downside in the alumina price for the rest of this year, including an increase in smelting production outside China, and we remain optimistic.

"Whilst at the moment two significant growth studies in Western Australia are currently shelved, we hope at the right time to revisit and complete the feasibility work to fully assess those projects."

ALUMINA AGM



1 year chart

MONITORS: Michael Muntisov, assisted by Christine Haydon

Date	25 May 2021
Venue	Melbourne Convention and Exhibition Centre and webcast
Attendees	27 shareholders, 24 visitors, 23 online
ASA proxies	2.76m shares from 224 shareholders
Value of proxies	$4.7m
Proxies voted	Yes, on a poll
Market cap	$4,900m
Pre-AGM meeting	Yes, with chair Peter Day and CEO Mike Ferraro

Under pressure from investors to achieve better returns

In 2020, COVID-19 presented mixed outcomes for leading technology company Iress. Client service and staff welfare were prioritised and presented new challenges for the company.

Iress experienced continued board renewal with two board members plus the chair resigning at the end of the AGM. Two new directors joined the board last year and a new chair elect was voted in at the meeting.

Evidently, Iress has received significant negative feedback from shareholders regarding its returns.

ASA firmly stated that it was time we saw tangible evidence that the board was focused on important metrics, such as ROIC, ROE and TSR. The chair's response to our question was: "It's our number one issue."

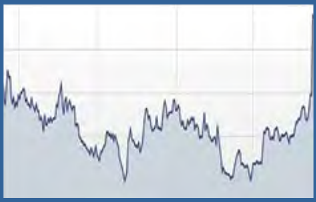
Controversy also surrounded the election of Roger Sharp as a director and the company's ambition to appoint him chair immediately following his election. ASA rated Sharp too busy for the role and our guidelines suggest that directors should sit on a board for 12 months before assuming the role of chair.

Sharp announced he has resigned from two of his other most senior roles. He gave an undertaking to spend 40% of his time on Iress (and 40% on his other major chairmanship, Webjet). He had been headhunted because of his extensive experience with technology companies. If Sharp failed in his bid to join the board, it would have left Iress in a precarious position with its incumbent chair resigning at the end of the meeting. After discussions between the three ASA representatives present, we decided on balance to vote for Sharp's election.

ASA was unhappy with the remuneration report because the CEO did not have enough of his potential pay at risk (only 35%) and the hurdles for receiving that at risk portion were soft. ASA voted against the remuneration report and the company almost received a first strike with only 77.11% of the vote in favour. However, there was evidence others voted against the remuneration report in protest over the poor earnings per share figures realised in 2020.

The CEO is confident that as it integrates its many acquisitions, Iress' offer to its customers is being increasingly enhanced and, he believes, will produce improved margins in the future.

IRESS AGM



1 year chart

MONITORS: Eric Pascoe, assisted by Paul Fanning and Norm West

Date	6 May 2021
Venue	RACV City Club Melbourne and online
Attendees	14 shareholders plus 55 visitors
ASA proxies	0.3m shares
Value of proxies	$2.92m
Proxies voted	Yes, on a poll
Market cap	$2,025m
Pre-AGM meeting	Yes, with CEO Andrew Walsh and CFO John Harris

INVOCARE AGM

1 year chart

MONITORS: Roger Ashley, assisted by Sue Howes

Date	28 May 2021
Venue	The Mint, 10 Macquarie Street, Sydney
Attendees	Shareholders 24, non-voting shareholders 3, proxyholders 3, visitors and staff 77
ASA proxies	0.7m shares from 131 shareholders (equivalent to 16th largest holder in the Top 20 list)
Value of proxies	$7.0m
Proxies voted	Yes, on a poll
Market cap	$1.51 billion
Pre-AGM meeting	Yes, with Chairman Bart Vogel

Investment in transition continues

ASA applauds funeral operator InvoCare's decision to hold a hybrid AGM. It devoted significant time to questions. A "reset" of the company's strategic direction formed a major part of CEO Olivier Chretien's presentation.

While ASA indicated the new direction would continue the previous "Protect and Grow" strategy, there were additional objectives. These included training frontline employees to optimise customer satisfaction, expanding services offered, and improved digital interfaces to enhance interaction with customers.

Despite no FY21 guidance, the first quarter showed signs of returning to pre-COVID levels.

Questions and observations included:

- Why were no acquisitions made when potential targets may have been acquired at lower prices? COVID induced caution, combined with InvoCare's acquisition standards, precluded movement in this area.
- Were there obstacles to implementing the strategic direction? The questioner was referred to the risks outlined in the annual report and importance of staff training.
- A graph in the annual report showed initial refurbishment upgrades offered no sales improvements. This was attributed to a lower death rate and longer close down times than expected.
- Poor return on investment of prepaid funeral funds was observed. This was attributed to pursuing a conservative investment policy in equities, property, and cash. Trustee is a third party, the CEO is a member of the Board of Trustees, and the InvoCare Board receives regular updates.
- Poor share performance was credited to the dilution effect of a share issue and independent analysts' views of future projections.
- What is InvoCare doing to accommodate racial and cultural differences in funeral practices? Staff training and refurbished facilities to offer greater inclusion.

ASA asked the chair to comment on a "Choice" article critical of opaque and profit maximising pricing. The response identified updated pricing information online was incomplete at the time of the article.

RESOLUTE MINING AGM

1 year chart

MONITOR: Bob Kelliher

Date	27 May 2021
Venue	L2, 15-17 William Street, Perth
Attendees	25 shareholders and visitors
ASA proxies	96,657 from 10 shareholders
Value of proxies	$55,577
Proxies voted	Yes, on a poll
Market cap	$660m
Pre-AGM meeting	Yes, with new CEO Stuart Gale

Sombre mood, chair in London

The sombre mood of the small meeting, conducted by the chair via phone from London, was attributed to another coup in Mali. The coup has seen the government of Ghana halt the sale of the Bibiani mine to a Chinese company and has contributed to reduced gold production, the sale of Resolute Mining's only Australian mine in Queensland and the perpetually falling share price.

CEO John Welborn departed in October 2020. CFO Stuart Gale was appointed interim CEO and the search for a new CEO continues. We are advised that an announcement is due shortly.

Resolute produced 395,136 oz of gold in the year to 31 December 2020, compared to 384,731 oz in the previous year.

For a mid-tier gold miner, with a newly automated mine in Mali and the gold price staying at relative high levels, the small profit of US$5 million was only achieved due to initial proceeds from the sale of the Queensland mine (after a loss last year). ASA, the only questioner, outlined the items above and asked when there would be a return to profitable production and to paying a dividend.

The response was that the Syama mine in Mali and the Mako mine in Senegal will both exceed last year's production and at lower costs of production. Further proceeds from the sale of the Queensland mine will be received and debt repayment will proceed ahead of any dividend payment.

ASA again questioned the item in the remuneration report, where 50% of the award for replacement of reserves was paid when reserves were just maintained. This was referred to the remuneration committee chair Mark Potts. After the meeting, he outlined the company's new long-term incentive process and said this item would be removed from future calculations.

We voted for the reappointment of director Yasmin Broughton but noted that her recent acquisition of shares in the February 2020 share purchase plan was still well below her level of director's fees. While we voted against the remuneration report, which had 98% support, the other two resolutions were passed with 99% support.

An incoming chair and a "new normal" on the horizon

Chair Trevor Gerber opened the meeting by recognising the traditional custodians of the land at Sydney Airport. He then highlighted how the AGM would take place via a virtual forum and expressed his desire for next year's meeting to be face-to-face.

In addition to the company's financial results, Gerber detailed the mechanics of the $2 billion equity raising that took place in Q3 2020 with 80% of the raising taken up by existing investors. This raising was critical for balance sheet strength and has provided Sydney Airport with a strong liquidity position.

CEO Geoff Culbert detailed how Sydney Airport has worked in partnership with NSW Health to assist with the COVID-19 vaccination rollout and its advocacy for the vaccine to help return life to normal.

There were several mentions to revenue being dependant on vaccine rollout programs in both Australia and international destinations, and how this is outside of Sydney Airport's control. It was also reaffirmed that Sydney Airport is aiming to reach net zero emissions by 2030.

Culbert explained how the start of the New Zealand travel bubble had provided proof of concept for future bubbles. However, it was acknowledged that the federal government had stated in its budget address that international travel would not return entirely until mid-2022.

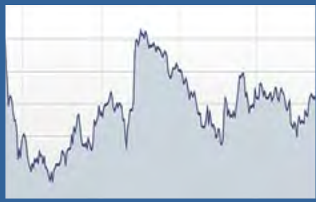
ASA voted in favour of resolution four, the payment of CEO retention rights. However, it asked for clarity regarding the resolution's appropriateness due to employee redundancies. Although the company feels these were integral to maintaining leadership continuity, ASA would like to see long-term performance criteria attached in the future. Similarly, ASA voted for resolution five, CEO long-term incentive payments. Although ASA did comment, we would like to see a longer term of this measurement of four years.

ASA also questioned CEO remuneration transparency. We would like remuneration to be listed as opposed to statutory remuneration. The chair dismissed the question, arguing there was no issue with the current report layout. ASA stands by its question and feels the report could be more transparent and less confusing for shareholders if the CEO remuneration is reported.

All resolutions were carried.

Considering the difficulties and uncertainty surrounding COVID-19, Sydney Airport has performed well. A new normal is taking shape and over the coming years, one hopes the company will return to pre-pandemic levels of profitability and recommence shareholder distributions. David Gonski succeeds Trevor Gerber as chair and will be responsible for leading Sydney Airport out of this turbulent period.

SYDNEY AIRPORT AGM



1 year chart

MONITORS: Julieanne Mills and Benjamin Ferry

Date	21 May 2021
Venue	Online Lumi AGM
Attendees	40 shareholders plus 139 visitors
ASA proxies	2.8m (below 0.2%) from 365 shareholders
Value of proxies	$16.1m
Proxies voted	Yes, on a poll
Market cap	$15.79 billion
Pre-AGM meeting	Yes, with chair Trevor Gerber and others

New chair to deliver new opportunities

TPG Telecom's newly appointed chair, Canning Fok, opened the AGM by recognising the previous chair, David Teoh, for his leadership. Since the company's merger with Vodafone Australia in July 2020, TPG Telecom has cemented its position as the second-largest listed telecommunications company. It serves over five million mobile customers and two million fixed line customers.

Fok outlined the company's strategic priorities to deliver shareholder value. The continued rollout of the 5G network and the modernisation of the mobile and fixed networks are of paramount importance. Meanwhile, there are operational synergies to be realised and greater opportunities to leverage the use of TPG's infrastructure. It was also noted that TPG aims to power its Australian operation with 100% renewable energy by 2025.

CEO and MD Iñaki Berroeta expanded on the operational details of the strategic priorities and announced the resignation of CFO Stephen Banfield, who will leave the company in November 2021.

Berroeta also detailed the high-level company financial results for 2020, which due to the merger with Vodafone were a combination of the pre-merger and post-merger companies. This resulted in performance that is difficult to benchmark against previous years.

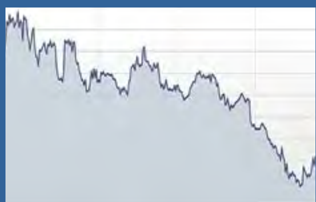
In addition to the resignation and appointment of a new chair, there were two board members up for election (and one for re-election). Antony Moffat was elected, and Frank Sixt was re-elected. No questions were asked regarding their ability to execute their roles. Regarding Jack Teoh's election, ASA posed questions relating to the skills he would bring to the board.

Several investors questioned if Teoh was qualified for the role. Teoh suggested he would bring a younger viewpoint to the board. In the pre-AGM meeting, non-executive director Dr Helen Nugent AO saw Teoh's youth as beneficial as well as his commercial and business experience. ASA voted against the election of Teoh and for the election of Moffat and re-election of Sixt.

The last item to be voted on was the issue of performance rights for Berroeta. This item combined both short-term incentive (STI) and long-term incentive performance rights. Taking issue with the STI component of this item, ASA voted against it. When asked to clarify why this was appropriate in the pre-AGM meeting, Nugent recognised the challenge of operating two remuneration structures as the merger was being completed.

The meeting closed with all items up for vote passing and both the chair and CEO expressing optimism about the company's 2021 performance and its future.

TPG TELECOM AGM



1 year chart

MONITORS: Estelle Renard, assisted by Benjamin Ferry

Date	6 May 2021
Venue	Online
Attendees	NA
ASA proxies	340,557 shares from 68 shareholders
Value of proxies	$1.78M
Proxies voted	Yes, on a poll
Market cap	$9.6 billion
Pre-AGM meeting	Yes, with non-executive director Helen Nugent AO and Vanessa Hicks, group executive people experience

COSTA GROUP AGM

1 year chart

MONITORS: Henry Stephens, assisted by Mike Muntisov

Date	27 May 2021
Venue	Virtual
Attendees	137
ASA proxies	472,000 open proxies from 81 shareholders
Value of proxies	$2.1 million
Proxies voted	Yes, on a poll
Market cap	$1.77 billion
Pre-AGM meeting	Yes, with chair Neil Chatfield

Trialling a new form of AGM report

What the company does

Costa is the largest grower, packer and marketer of premium quality fresh fruit and vegetables in Australia. The company has farms located in 30 regions across all Australian states plus majority-owned ventures covering six blueberry farms in Morocco and four berry farms in China. The company's main products are mushrooms, citrus, blueberries, table grapes, tomatoes and most recently, avocadoes.

Developments during the 2020 calendar year

Financial results for 2020 were much improved over the extremely difficult 2019 year when the company issued four profit downgrades due to the drought, fruit fly, crumbly raspberry fruit and low yields. Net profit after tax before SGARA (a particular accounting standard for agricultural products, self-generating and renewable assets, to deal with assets which increase in value over time) and the effects of the new leasing regulation more than doubled to $59.4 million on an 11.2% increase in sales revenues to $1.1 billion. The annual dividend increased strongly from 5.5 cents in 2019 to 9 cents per share fully franked.

As of the 31st of March 2021, Costa's COO Sean Hallahan has been promoted to the role of CEO. Hallahan brings over 20 years senior management experience in fast-moving consumer goods and has a background in growth-oriented organisations. He replaces Harry Debney who has done an outstanding job as CEO over the past 10 years. The company also appointed a new CFO in 2020, Wayne Johnston, who has several decades of commercial experience across corporate Australia in senior financial management and reporting roles.

Summary of ASA's historical issues with Costa

ASA has voted against the remuneration report in the past two years. This was primarily because of the use of options in the long-term incentive plan. This year, we looked more closely at the details of the plan and decided to support it. A major positive is the quantum of remuneration the CEO receives is very reasonable for a large and complex company operating in a difficult industry and across both domestic and international markets.

Debate and voting at the AGM

The highlight of the AGM was that earnings for the first half of 2021 are expected to be only "marginally ahead" of the year earlier period. The new CEO said the group's large mushroom operation at Monarto in South Australia was suffering from labour shortages that could also extend into 2022. There were additional concerns about the outbreak of fruit fly in the Riverland region and the negative impact of the Australian dollar on earnings. As a result of these disappointing disclosures, the stock price tumbled 23% on the day.

Apart from these disclosures, the AGM was largely uneventful. There were questions on plastics, cyber threats, dividends, frozen foods and China. Costa is committed to sustainable packaging and will phase out all plastic labels by 2025. All labels after 2025 will be 100% recyclable and compostable.

ASA asked three questions. The first was on the remuneration report and addressed the issue of why there is no "take home" pay or realised pay table in the annual report. We do not accept the chair's inadequate answer that it is difficult to assess the equity risk component of an executive's compensation and that it is inappropriate to make estimates. We believe such a table would tell shareholders if any options or performance rights were exercised during the period and that they are an important part of an executive's total remuneration.

We asked whether the company withdrew dividends from China given the country's increased tensions with Australia. The answer to the question was no because they retain the cash flow in the business.

Our third question concerned cyber threats. The company has a detailed, robust plan to combat cyberattacks and there is a formal process of escalating any such issue from senior management to the board if necessary.

As explained in the ASA Voting Intentions document, ASA voted for all the resolutions, which all passed by substantial margins.

Outlook statements from the company

The first half performance is expected to be marginally ahead of the previous corresponding period in calendar year 2020, with strong international operations offset by challengers in the domestic side of the business.

Both China and Morocco harvests for the calendar year to date are progressing well. While volumes in China were initially slightly down due to some late flowering, the yield is expected to finish in line with expectations and there has been strong pricing and demand over the season.

In Morocco, early season plantings, higher volumes and generally strong pricing have seen the business perform well. However, ongoing supply chain and COVID-related costs have had an impact. Additionally, reported results will be affected by the strong Australian dollar.

The domestic produce sector performance has been mixed.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