EQUITY

A magazine from ASA – The voice of retail shareholders

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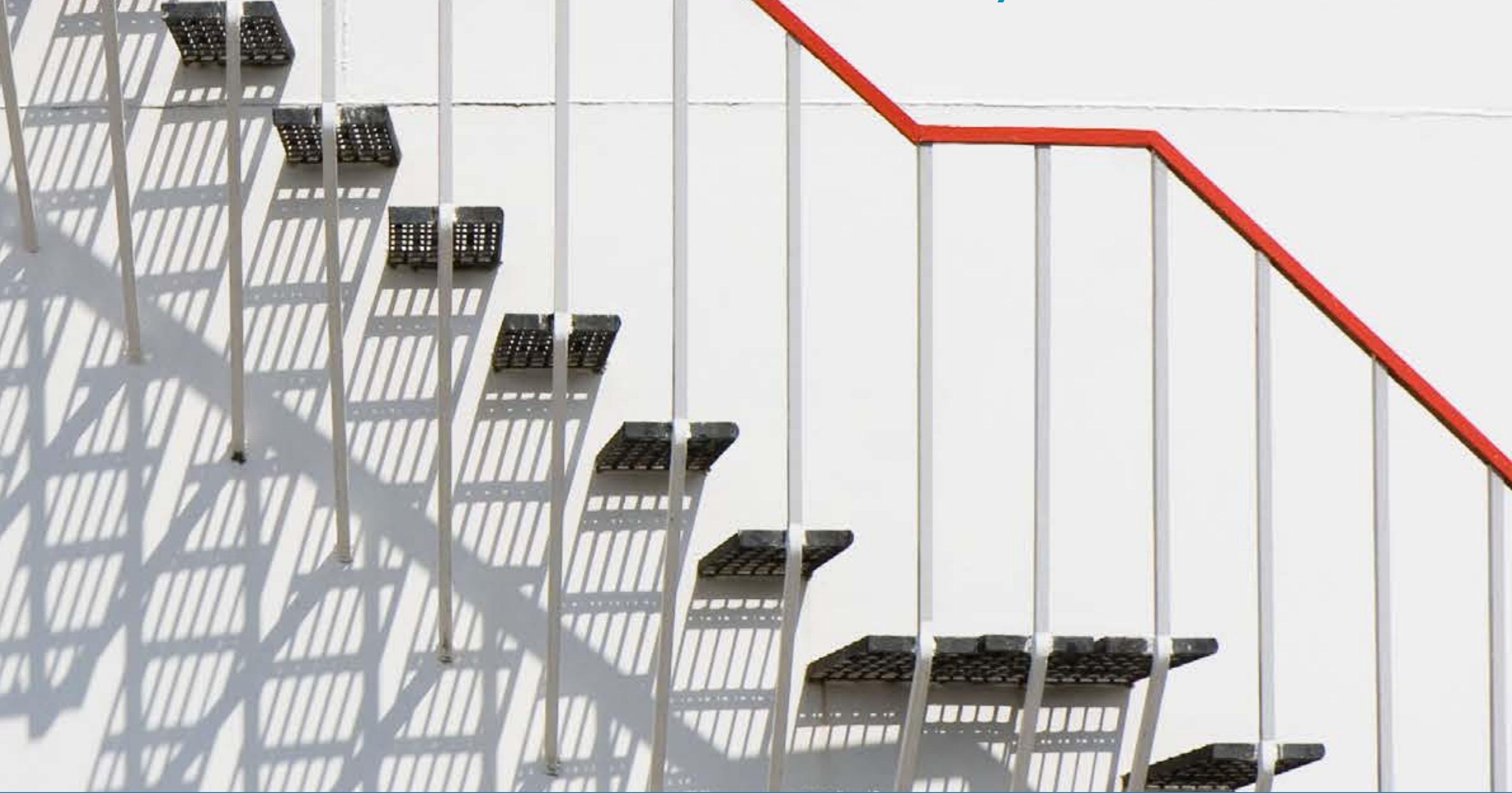

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If you have an idea for an EQUITY article, please contact the Editor.

From the CEO Designate

By Rachel Waterhouse

Sixty one people joined ASA in June, making it our biggest month for membership this year.

As a recent arrival to the ASA team myself, I'd like to welcome every one of our new members to their first *EQUITY* magazine.

This takes us to almost 5,000 members in total, and I thank you all for your support to, and engagement with, your Association.

We're in challenging times – while I write this, three states are in lockdown and a fourth has just recorded a case that had potentially been in the community for some time.

It seems like everybody is keeping a close eye on newsbreaks and radio announcements to find out what is going to happen.

I hope that all of our readers are keeping safe in the current climate, and that the restrictions are lifted soon, once it's safe to do so.

ASA online

In the meantime, our members and volunteers have been highly adaptive to the changing conditions, shifting meetings and discussion groups online where needed, and rethinking how best to engage with our members.

I recently attended a member meeting conducted over Zoom and found it really informative, so I encourage everyone to continue to meet online when in-person meetings are not possible in the current climate.

ASA has also converted the Sydney and Melbourne Investor Forums into national webinars, allowing us to get a strong turnout in a time when people can't leave home.

I encourage everybody to keep thinking how they can meet in similar ways, so that one of our key goals – sharing knowledge about investments – can continue unabated.

A big thank you goes to the ASA team which works closely with meeting convenors to schedule (or reschedule) these meetings, book the Zoom sessions, and facilitate each event. Everyone has now been working at home for four weeks, but they have still managed to answer all phone calls, respond to emails, and support our members.

Tell us what you think

This month I have been working with Zilla Efrat to finalise the magazine, and I hope you enjoy what we've put together, along with our contributors.

The team here is busy planning and mapping content for the magazine, webinars, and an event for later in the year. We are always keen to know if we're providing you with the information you need, so I encourage you to provide feedback about all of our activities and any topics you'd like us to cover.

You can email me with your thoughts at rachel.waterhouse@asa.asn.au or call me on 0402 336 352.

If you're on social media, please consider following us on YouTube, LinkedIn, Facebook, or Instagram, where we regularly post content designed for the retail investor community. Tell your friends and family, so that they don't miss out.

ASA presents to the Senate Coronavirus Funding Inquiry

ASA's Policy and Advocacy Manager, Fiona Balzer, was invited recently to address the Senate Economics Legislation Committee Inquiry into the *Coronavirus Economic Response Package Amendment (Ending JobKeeper Profiteering) Bill 2021.*

She spoke about our position on JobKeeper, which is that companies should consider repaying government-funded COVID-19 payments before they approve any executive bonuses or dividends.

If you'd like to know more, you can find the submission on our website.

Market volatility

With the pandemic restrictions in place, Chartered Accountants Australia and New Zealand recently released early research looking at retail investor attitudes.

The 2021 Investor Confidence Survey found that confidence in capital markets and listed companies was the highest it has been since before the pandemic and despite the research being carried out in the early days of the Sydney lockdown.

The S&P ASX 200 is holding steady, while market sectors have had varying results, but on average have remained relatively constant over the past month. My own stock portfolio has taken a little tumble over the last couple of weeks, but this is in part because I hold stock in a travel-based company that is impacted by the lockdowns. But I'm not going to panic yet...

I need to remind myself to stick to my investment strategy and "hold". At some point in the future, when more people are vaccinated, the economy will bounce back, and travel will start again.

Inspired by recent member meetings and an excellent presentation by Graham Hand, I am researching the ETF market and hope to add an ETF to our portfolio, again to buy and hold. Hopefully those of you who have risk associated to sectors impacted by the market can wait it out too.

Make ASA your proxy

This month's *EQUITY* contains an article about proxy voting and accountability.

We encourage ASA's members to appoint the Association as your proxy so that there is strength in numbers.

You can find an online form and instructions on our website about how to give your proxy for an individual listed company meeting and how to give a standing order for ASA to vote on your behalf.

We can prepare your proxy forms for you once you give us the relevant information and the approval to proceed.

We then email the completed forms to you to sign and send them to the different share registries. This approach allows you to nominate ASA without needing to complete multiple forms.

You can go to the website for further information or call us and speak to an ASA team member.

A super balancing act

By Darin Tyson-Chan, Publisher and Editor of smstrustee news

No doubt you would have seen in the news that some superannuation-related legislation was recently passed in Canberra. Since receiving royal assent, most of the attention was given to the headline aspects of the Treasury Laws Amendment (Your Future, Your Super) Bill 2021 which involved the mandatory performance review of MySuper products and the ability for individuals to "staple" one superannuation fund to themselves for the entirety of their working lives.

The discussions about these aspects of the bill have centred on what they mean for public offer super funds and this may have led participants in the SMSF sector to believe the new laws didn't really have any implications for them.

That's understandable, but incorrect. One aspect of the Your Future, Your Super legislation that has not generated much dialogue is the duty it has now imposed on super fund trustees to act in the best financial interest of fund members. I can confirm that SMSF trustees are definitely bound by this obligation.

Now you might think that logically this would go without saying in an SMSF, given that more often than not the trustees of the fund are also the members. As such, how could it be possible the trustees wouldn't act in their own best financial interests?

The ATO certainly agrees with this sentiment, stating that this should not translate into a huge imposition for SMSFs.

But the problem is I don't believe most people have taken a close enough look at how the definition of "best financial interest" will be applied and the timeframe that could be involved.

As an example, let's take an investment in Google in the mid-1990s when the worldwide web was born. Back then, Google was but one search engine available to internet users and was interspersed among other providers that didn't become household names, such as Alta Vista and Ask Jeeves.

If an SMSF trustee had bought shares in Google back then, it would have been a speculative bet at best. And let's not forget it took a while for founders Larry Page and Sergey Brin's brainchild to establish its dominance.

However, if we apply the Your Future, Your Super obligation to the trustees who hypothetically bought Google shares back then, we must ask at what point in time could this investment be considered in the best financial interest of fund members. After one year? After five years? Or would it be after 20-plus years when the company had evolved into the behemoth it is now?

More importantly, it is too early to know how auditors will measure this duty. They too will be cognisant of having to police this obligation during the annual fund audit. So how patient will they be in allowing a speculative stock to come good and how much leeway will the ATO allow them in policing this responsibility? And, will the ATO's stance change over time?

We know many SMSF trustees employ a core/satellite approach to constructing the share component of the fund's investment portfolio. What implications will this new legislated duty have on satellite stocks, which can be speculative in nature?

The illustration I used involves shares, but it could just as well apply to a speculative property investment in a suburb the SMSF trustees are confident will experience the gentrification that will, in turn, drive its value up significantly.

It is too early to know the answers to all of the questions I have posed here, but it is definitely an area you as trustees need to keep a close eye on.

Don't miss the SMSF Trustee Empowerment Day 2021!

It will give you the knowledge you need to navigate your way through these challenging times as your own superannuation fund manager. To find out more, visit:

https://smstrusteenews.com.au/events/

The first 20 ASA members get 10% off and use this code **ASA2021**

To subscribe to the latest SMSF trustee news from smstrusteenews, visit: **https://smstrusteenews.com.au/subscribe/**

What does your pre-retirement checklist look like?

By Robin Bowerman, Principal, Head of Corporate Affairs, Vanguard

You are so close to your retirement date. Your farewell drinks have been organised and you're dreaming of more days at the beach, with zero work commitments. It can be tempting to simply farewell your colleagues and ride off into the sunset without a care in the world. But before you turn into a grey nomad (COVID-willing), here are four things to check off your pre-retirement checklist.

Life expectancy

According to the Australian Bureau of Statistics, an average Australian male aged 50 years can expect to live another 32.9 years and a female another 36.3 years. So, assuming that you're an average Australian and your ultimate goal is to retire comfortably, knowing that your investment portfolio needs to last upwards of 16 years from retirement (assuming you retire at 67), should top your checklist.

Spending needs

Next is to get specific with what retiring comfortably looks like to you, and whether it is achievable in your current circumstances. Will your non-discretionary spending – which includes essentials such as groceries, utilities, mortgage payments, insurance etc – increase or decrease? What does your discretionary spending look like? Will you continue to holiday around Australia annually or take that big overseas trip? Will you buy a new car every five years or are you happy to stretch it out to eight or 10 years now that you no longer have a regular pay check?

The key here is to ensure that without a salary coming in, your investment portfolio, whether it is through your regular dividends or drawdown of capital, is able to meet your spending needs.

Reassess your asset allocation

The other aspect to consider is your asset allocation. Without a regular pay check to contribute to an investment portfolio, the focus of your investment portfolio may need to pivot towards generating an income stream through regular withdrawals, to meet your spending needs. Now is the time to revaluate your risk tolerance and consider a tilt towards more defensive products such as fixed income funds to find the appropriate balance between growth and defensive assets, with the 16 years (and upwards) timeframe in mind.

Knowing your investment strategy

For many retirees, "income-oriented" investing has been an extremely popular. It allows you to only spend the income generated through dividends to meet spending needs, leaving the underlying capital or assets untouched.

However, this involves constructing portfolios of investments that have high income returns that either meet or exceed one's spending needs. And, in today's low-yield environment, the risks of depending on such a concentrated, high income portfolio have never been greater.

This can be emotional. Spending interest or dividends earned from our investments is akin to spending our regular pay check. Drawing down capital to pay some of life's bills often invokes a quite different reaction

Recent Vanguard research found that investors would have to be 100% allocated to equities to produce the dividends needed to support most income requirements, given historically low interest rates and bond yields. This significantly elevates a portfolio's risk, well beyond what would be appropriate for the average retiree's portfolio.

Total returns, not just income

So how do you choose a retirement income strategy that will support your needs yet not be overly reliant on income such as dividends?

Vanguard suggests the "total-return" approach, alongside being flexible in your spending. It sets the asset allocation at a level that can sustainably support the spending required to meet an investor's goals and risk tolerance but encourages the use of capital returns where necessary or appropriate. This means the capital value of the portfolio can be spent (i.e. a portion of assets can be sold) to make up the shortfall during periods where the income yield of the portfolio falls below the required spending needs.

It can help smooth out spending during volatile periods for markets as long as the total amount drawn from the portfolio doesn't exceed the sustainable spending rate over the long-term. This strategy also requires the discipline to reinvest a portion of the income yield during periods where the income generated by the portfolio is higher than what is required for living expenses.

This will allow you to separate your spending strategy from your portfolio strategy. In addition to the benefit of smoothing out the source of drawdowns between income and capital growth throughout retirement, it can allow for the better diversification of risk across countries, sectors and securities.

This is an alternative to skewing the portfolio to a segment of the market with higher income yields or worse, taking excessive risk by reaching for the desired yield. The income focused investment approach is also often a far less reliable response to achieving retirement goals compared to other levers, such as saving more. E

FOUR RISKS TO THINK ABOUT IN RETIREMENT

- **Market risk:** Market volatility affects you more without a regular income to make up for capital losses. But maintaining a disciplined spending strategy and ensuring you're fully diversified across a range of assets can help.
- **Inflation risk:** A 3% yearly rise in the cost of living would result in doubling of expenses in 30 years. So it is important to take into account inflation and look at 'real returns' rather than 'nominal returns' when looking at an investment's return.
- **Longevity risk:** Your retirement savings may need to last up to 30 years and beyond. At the front end of your retirement, more money is likely to be spent on discretionary expenses like hobbies and travelling but that will change as you age and spend more on health costs.
- **Emotional risk:** The best course of action during periods of market volatility is to stay the course and not give in to the noise. The lesson from last year's market crash was that people who exited to cash then missed the market rebound.

Why ETFs are growing rapidly

By Martin Dinh, Senior Product Manager - ETFs and Managed Funds, ASX

More investors are using exchange traded funds (ETFs) on the ASX to build and maintain their portfolios – or capitalise on shorter-term opportunities.

Bought and sold like a share, ETFs aim to match the total return of an underlying index. For example, an ETF over the S&P/ASX 200 index should deliver a similar return to that index, before fees.

ETFs have become a global investment phenomenon. ETF assets surpassed US$7 trillion in 2020 as billions of dollars flowed into index funds.

The ASX ETF market is also growing quickly. The combined value of ETFs rose 73% to $113 billion over the year to end-June 2021.

It took over 18 years for the ASX ETF market to reach $50 billion of assets – and just under two years to go from $50 billion to over $100 billion.

State Street Global Advisors launched the first ETFs in 2001 and the ASX ETF market celebrates its 20th anniversary this year. ETFs are now the fast-growing investment product on the ASX.

ETF benefits

Several factors explain this growth. The first is simplicity. Unlike unlisted managed funds, ETFs are transacted on an exchange, making them easier and faster to buy or sell.

Transparency is another benefit. Investors know exactly what their ETF holds and its latest price. Unlisted funds often only disclose their largest stock holdings. Also, their unit entry and exit prices can fluctuate as an investor's order is processed.

Diversification is another feature. An investor in an ETF over the S&P/ASX 200 has exposure to all stocks in that index and is thus far more diversified than someone owning a few stocks.

Known as "index funds", ETFs typically charge lower fees than active funds that try to outperform their benchmark index. Fees, of course, can make a big difference to returns over time.

Performance is another issue. Studies show most actively managed funds underperform their benchmark index over long periods. Almost 80% of Australian equity general funds underperformed the S&P/ASX 200 over 10 years.

That is not to downplay the importance of active funds – a fifth of Australian equity funds delivered a higher return than the S&P/ASX 200 over a decade. However, identifying active funds that consistently outperform is challenging.

Portfolio construction

The role of ETFs in portfolio construction is also driving growth. Investors can construct their portfolio entirely with ETFs on the ASX. Having determined target asset allocations, investors can use ETFs over Australian and global and equities, fixed interest and cash, property and infrastructure, commodities and alternate assets, such as private equity or debt.

Investors who rebalance their portfolios annually to return it to target asset allocations can easily – and cheaply - add to or reduce their ETF holdings.

ETF choice is another factor. There are 223 ETF on the ASX, covering a range of asset classes, sectors, themes and investing styles.

This variety is helping investors use ETFs in core and satellite portfolio-construction strategies. For example, investors might hold ETFs over Australian and global equities in their portfolio core to achieve the market return. Then, hold Australian shares or active funds, which they believe can outperform the market, as portfolio satellites.

In this way, investors are blending index and active investment styles through a mix of ETFs, shares and active funds, including listed investment companies or LICs. Done well, this strategy can improve diversification, reduce fees and enhance returns.

Using ETFs tactically

ETFs are also proving popular with active investors. As open-ended funds, ETFs trade at or near their net asset value – market makers provide ETF liquidity as required. ETF liquidity is important for investors who use ETFs to time markets.

There was strong interest in technology ETFs after global equities markets fell in March 2020. Some investors believed technology would be among the first sectors to recover and wanted exposure through a tech ETF.

Increasingly, too, investors are using thematic ETFs for exposure to trends such as cybersecurity, climate change, artificial intelligence, video games and cloud-computing. Or as a tool to improve their portfolio's environmental, social and governance (ESG) performance.

Younger investors are also embracing ETFs. In the *ASX Australian Investor Study 2020*, 45% of Next Gen respondents said they intended to invest in ETFs over 12 months.

ETF risks

Like all investment products, ETFs have pros and cons. Always understand what an ETF invests in and its methodology, before buying it. Know the difference between ETFs that replicate an index based on its market capitalisation and those that use rules (smart-beta ETFs) to enhance returns – and have higher risk.

Also, consider concentration and currency risks. Some ETFs invest in relatively concentrated indices, reducing diversification. Many global ETFs are unhedged for currency movements, meaning investors need a view on the Australian dollar's direction.

Tracking error – the difference between an ETF's return and its index – is another risk. ETFs are designed to replicate an index return, but that is not always the case. Moreover, the underlying liquidity of securities can affect an ETF's liquidity, causing a wider bid-ask spread.

ETFs do not suit all investors. For many, it's not about using ETFs or active funds, or shares, but rather about how they can combine these tools in their portfolios for the best risk/return outcome?

Shareholder class actions – considerations for investors

By Ryan Eather, Associate, Piper Alderman

In all financial markets, there is an unavoidable information asymmetry between listed entities and investors and no amount of research, analysis or professional advice can protect investors from the risks associated with undisclosed information.

Under Australia's continuous disclosure rules listed entities are required to disclose price sensitive information to the market. The Australian Securities and Investments Commission (ASIC) is tasked with enforcing compliance with those rules and can impose pecuniary penalties and, in the most serious of cases, bring criminal proceedings against those culpable. The imposition of pecuniary penalties and criminal prosecutions may deter future misconduct, but they offer little comfort to those investors who suffer losses as a result of investment decisions made on the back of inaccurate, incomplete or otherwise misleading market disclosures.

There may also be cases where ASIC declines to proceed with regulatory action – for any number of reasons – but shareholders still have questions. A recent example is the demise of Blue Sky Alternative Investments (formerly ASX: BLA). Blue Sky was a former ASX darling that faced difficulties after short-seller Glaucus reported on several practices that it argued inflated the value of BLA's reported fee-earning assets under management, its key revenue driver as an asset manager.

In the fall-out of the Glaucus report, BLA reviewed its asset valuations and deal pipeline. As a result of that review, BLA significantly reduced its reported fee earning assets under management and saw its share price drop from around \$12.50 to 18.5c before entering external administration, being suspended from quotation and later de-listed, taking hundreds of millions in shareholder's funds with it.

Civil penalty provisions available to shareholders

Under the *Corporations Act* 2001 (Cth), any investor who suffers loss or damage as a result of breaches of the continuous disclosure laws, or the prohibitions on misleading and deceptive conduct, can bring court proceedings to recover those losses using the civil penalty provisions.

Historically, Australia's civil penalty provisions have been "no fault" provisions, meaning the existence of a breach was a question of objective fact and there was no element of knowledge, recklessness or negligence required on behalf of the contravener. Temporary changes to the civil penalty provisions were introduced in response to the COVID-19 pandemic, introducing an element of fault to the civil penalty provisions. Under these temporary changes, there is no breach of the civil penalty provisions unless the contravener acted with knowledge, recklessness or negligence.

Claiming that it will make it easier for listed companies to release reliable forward-looking guidance to the market, the federal parliament is presently considering a bill to make the temporary changes permanent.

Regulatory gaps and class actions

For most investors, the costs of conducting proceedings against a well-resourced ASX listed entity means that it is simply uneconomical, even before factoring in other risks such as adverse costs. With the proposed introduction of fault elements to the civil penalty provisions, proving contraventions of the civil penalty provisions is only going to become more difficult and further increase the costs of conducting proceedings.

Australia has a well-developed class action regime which allows investors to aggregate their (often relatively modest) losses and run proceedings through a single representative known as a lead applicant, against common respondents, for example, an ASX listed entity and its directors.

In a shareholder class action, the lead applicant generally takes all responsibility for conducting the proceedings on behalf of the group members, who place themselves in a position to receive a distribution from any proceeds recovered in the action, be it through a settlement or favourable judgment.

Many shareholder class actions are backed by third party litigation funders who pay all the costs associated with the action – including any costs payable to the respondent if the action is unsuccessful – in exchange for an interest in the proceeds of the action. Third party funding is typically no recourse, enabling shareholders to participate in class actions with no out of pocket costs or financial risk.

Shareholders can take comfort in the fact that the courts also have an oversight role in approving the settlement of class actions and the distribution of the proceeds of a successful action.

Shareholder class actions are becoming an important tool for lifting the standards of corporate behaviour and enforcement of the *Corporations Act* 2001. Again, the demise of Blue Sky is a key example of this. Despite ASIC's disinclination to take further steps against Blue Sky, an interested shareholder, with the support of external funding, has recently obtained orders to inspect the company's books and records for the purposes of investigating a prospective class action against the company and its officers.

Good returns start with quality, independent information

By Doug Morris, CEO, Sharesight

Convincing investors of all experience levels of the merits of a dedicated portfolio tracking solution is a fundamental challenge for us at Sharesight. We chat with many investors with decades of experience who can't quite press delete on their macro-intensive spreadsheets. Yet, we are also faced with a staggering amount of new DIY investors who aren't fully aware of the work required to properly record and track their investments.

Regardless of experience level, all investors face the same problem: they need to know how their portfolio is actually performing – not just price movements and basic capital gains information. And, without the right portfolio tracking solution, they end up wasting their precious time on tedious portfolio admin, leaving them less time to spend on their actual investments.

Why is it so hard to find high quality portfolio solutions?

Firstly, let's discuss some of the most common "portfolio tracking" solutions available to investors and how they fall short.

It should be noted that building a portfolio "management solution" as opposed to a mere "tracker" is hard, expensive and requires a fundamental dedication to independent investing. Nearly every solution out there is designed as a strategy to monetise your personal data, to grab your email to sell you investment products, or as a stock price widget. Most solutions can't help but tell you what stock to buy next.

Unfortunately for us self-directed investors, real-time access to objective, factual and personalised performance data is sometimes at odds with the financial providers we depend on, even if they can provide something that looks and feels similar. For example, the brokers we rely on have done well to build slick interfaces and mobile apps to encourage us to trade more. This is their revenue model and they have little incentive to aggregate financial data from their competitors, let alone put their name on top of a comprehensive tax report.

Even if we do turn some of our portfolio over to professionals at an institution, the platforms or wrap account reports we receive are only as good as the investments they've put you in. And, those investments were picked from a narrow menu of approved products based on an agreement with the advice firm and the investment manager without your needs in mind. The irony here is that these platforms could provide great reporting but that might put their own services at risk.

It's about you, the independent investor, and your money

The best solutions tend to be built by the people who "live the problem". After all, Sharesight was originally a family business, built by an accountant-turned-investor and his son. Twelve years later, our business is backed by customers who loved the solution so much, they invested in the company. Their feedback, and the feedback from our users, help shape our product roadmap.

Fundamentally, one of our core deliverables is distilling a lot of information from multiple sources down into actionable, standardised insights. Data sets on companies and share prices are a commodity these days, but a personalised rate of return is elusive.

A good example of this is our money-weighted, annualised return methodology. The financial headlines may be awash with eye-popping stats about tech company share prices, and index "returns", but all of this is obtuse and merely directional. What matters is your financial experience with your investments – when you entered, exited and the fees you paid to do so. As human beings, we live our lives in annual chunks, creating yearly budgets and paying our taxes and school fees annually. It only makes sense that we think of our portfolios in the same way. After all, a 10% return over 10 years and a 10% return over one year are two very different outcomes.

You can also put these returns into context with our benchmarking feature, which lets you compare your portfolio to the broader market by tracking it against a realistic investment alternative (such as an ETF or index fund). This is especially relevant in volatile markets where you need to know if your lacklustre performance is simply due to the prevailing market conditions, or your own investment choices, for example. Ideally, you will discover that you are outperforming, or at least matching, the market on an annual basis, inclusive of capital gains, dividends, brokerage fees and foreign currency. But if you find yourself underperforming compared to the benchmark, you can make an informed decision to change your investment strategy or even re-allocate your money into the ETF or fund in question.

These are just some examples of how investors can benefit from using a portfolio tracking solution built for the needs of independent investors, such as Sharesight. There is a lot of noise in the investment industry and it can be hard to decide where to turn or who to trust. But one thing you can always trust is a solution that provides access to quality, independent information and actionable insights – not the latest investing craze or vague, generalised stock data. And, if it automates your portfolio admin for you, that's even better.

More Money, More Problems

By Sam Morris, CFA, Senior Investment Specialist, Fidante Partners

When the rapper Notorious B.I.G wrote his seminal hit, *Mo Money, Mo Problems*, I bet he never thought he'd be referenced in an investment article about asset allocation.

But the chorus of his lyrics "I don't know what they want from me. It's like the more money we come across, the more problems we see" just about sums up the core problem facing investors looking to put their money to work today. Let me explain.

The price of money, being interest rates, quite simply is at near-record lows because the supply of capital is enormous relative to the demand for it.

Five years before the GFC and the onset of quantitative easing in 2004, economist William J. Bernstein wrote: "Make no mistake about it: over the past several thousand years, the cost of capital, and with it, investment returns, have been falling." He goes on to explain that this has been caused by two key factors.

Firstly, investment frictions have been "ruthlessly decreased" – money can be moved around the world in a few mouse clicks.

But the bigger driver is that there is simply too much money in the world. Bernstein said: "As societies grow their per capita GDPs beyond the subsistence level, the supply/demand equation shifts in favour of capital's consumers."

The Amsterdam Stock Exchange, founded in 1602 to facilitate trading the shares of the Dutch East India Company, frequently delivered investors dividend yields of 40% or more – a sensible risk premium when the assets of the company could be sunk or stolen by pirates and capital to finance risky endeavours was scarce.

Contrast this to today, where interest rates are still negative in some parts of the world and investors pile into "meme" stocks and obscure cryptocurrencies and one might conclude we are in uncharted waters, much like those early Dutch sailors.

Today, enormous levels of government stimulus spending continue while central banks continue to print money and buy bonds through quantitative easing programs in the hope that higher bond and stock prices will help create more jobs in the real world. Over 40% of all US dollars in existence were printed by the US Federal Reserve in the past 12 months and US government spending is higher than at any point since WWII.

Could this combination of high fiscal and monetary stimulus occurring at the same time create the potential for a high medium to long term inflation? Who knows, but markets viciously vacillate on the smallest turns of phrase from central bankers about the pace at which this stimulus might be withdrawn or maintained.

Despite this, central banks all over the world, including the US Federal Reserve and our own Reserve Bank of Australia, still have aspirational goals of 2-3% inflation. If you are in your 30s to 40s, that means that central banks want every dollar you save today to lose around half its value by the time you need it for retirement. Remember, central banks can literally print money with the click of a button and governments can tax or regulate alternate means of exchange that threaten this monopoly with the stroke of a pen. So, ignore their objectives at your peril.

But back to the "mouse clicks" problem for a moment.

When Jack Bogle, founder of Vanguard, was offered the opportunity to list the first US exchange traded fund (ETF) with his then revolutionary passive index fund approach, he turned this down, believing that ETFs would encourage excessive trading at the expense of sound long-term investing principles.

Yet ETFs have exploded in popularity with investors by leveraging the clearing and settlement infrastructure of stock exchanges to allow fast and hassle-free investing into diversified, long-term, high quality investment strategies in just a few seconds.

Stock exchanges not only facilitate trading, but they democratise data, which is facilitating the development of a rich ecosystem of fintechs to empower investors with more transparency and control than ever before at lower costs.

Never has active investment management been more important in the search for attractive returns relative to the paltry cash rates with strong downside protection.

Why not take advantage of the asset price distortions that the "mouse clicks" create? For example, government bond markets offer repeatable opportunities to undertake sophisticated relative value strategies that can deliver attractive returns that are independent of the level or direction of global interest rates. Or perhaps invest in a non-benchmark constrained manner in sourcing the most compelling global fixed income investment opportunities across both government and corporate bond markets using sophisticated macro-economic analysis and bottom-up security selection.

Such strategies aim to generate consistent, defensive returns above cash rates and diversify equity risk in portfolios, essential in a world where global interest rates are close to their lowest levels in centuries and equity markets are at record highs.

A "set and forget" approach on asset allocation is not enough in this environment. The judgment and risk control of active management and the ease and flexibility of exchange trading co-exist in Australia with active ETFs.

For the investor looking to navigate a world of low yields, and seeking a better, more convenient investing experience, they are well worth a close look.

One solution to a world awash with too much money and many problems may indeed be active ETFs.

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Understanding different valuation tools

By James Carlisle, Analyst, Intelligent Investor

The value of any investment is defined by the net future cash flows it can generate for you, discounted to their current value at the return you hope to make (typically the returns you could make elsewhere, taking similar risks, and would make on the cash flows if you didn't have to wait for them).

With government bonds you can predict the cash flows with a high degree of accuracy, although you must still try and decide on the return you wish to make (which will come down to predictions about inflation and interest rates).

With shares, though, it's often hard to have much confidence in the size of the future cash flows, or even the returns you should be aiming for. So, building complex valuation models based on multiple assumptions can produce wildly misleading results. Worst of all, though, when a model spits out a number, there's an unhelpful human tendency to imbue it with more respect than it deserves.

It can make sense to look at "discounted cash flow" valuation models, but if you do, then it's essential to run a range of scenarios with different assumptions, so you understand the sensitivity of your model and the range of answers it provides.

Though, as the economist John Maynard Keynes once said: "It's better to be vaguely right than precisely wrong", and in practice it's often better to use simple valuation yardsticks to point you in the right direction.

To use these yardsticks correctly, it's important to understand how they work. We'll split them into four distinct groups based on assets, earnings, cash flow and enterprise value.

Asset-based tools

Theory

The simplest approach is to look at the assets a company is using to make its money. The theory here is that whatever the short-term conditions, assets should be able to earn a particular return over the long term.

Where that return is the same as what a company's shareholders expect to make themselves, then the assets will be worth the same to the company as they are to the shareholders. If the assets produce returns that are higher than shareholders might otherwise expect to make, then they'll be worth a premium. And, if the assets produce returns that are less than shareholders might otherwise expect to make, then they'll attract a discount.

Practice

So, you just have to tot up a company's assets, deduct its liabilities and reach a figure for net assets (often known as net asset value or NAV). If you want to be conservative, then you might exclude intangible assets, giving a figure for "net tangible assets" or NTA.

Divide these by the number of shares on issue and you have a figure for NAV per share or NTA per share. Divide the current share price by that and you'll have the "price to book ratio" or the "price to tangible book ratio".

If the price to book ratio is more than one, then you're paying a premium to book value and if it's less than one, you're getting a discount. Bear in mind that most companies have corporate costs that detract from the returns from their assets so, all things being equal, a discount will be warranted.

Limitations and when to use

Asset-based valuations work best where the assets (and liabilities) are easily valued and can be put to alternative uses. Cash, investments and property, for example, should be worth the same even if a company is wound up, but the value of a highly specialised factory or brand might be intimately tied to its current use and profitability. Some companies have built large businesses with relatively few assets recorded on the balance sheet and these obviously don't lend themselves to this kind of valuation.

You also need to be careful of double-counting. You can't assume a value for working capital (such as receivables and inventory) and then also put a value on the profits the company produces; it has to be either one or the other.

Listed investment companies (LICs) and property trusts are obvious candidates to be valued by reference to their net assets. Bear in mind, though, that you'll be working off someone else's valuation.

With LICs, which measure their asset value by reference to market prices, that might not be much of a problem. But listed property trusts value their assets themselves, perhaps with the help of an external valuer, and they do so by making assumptions about the income they can produce and the return they think certain assets should provide. So, rather than avoiding complicated cash-flow based calculations, you'll merely be relying on those made by someone else.

Earnings-based tools

Theory

One way to improve matters is to focus not on the assets themselves, but on the earnings they are producing.

Like asset-based valuations, earnings-based valuations are grounded in an assumption that a company can make the same returns as its shareholders. It therefore makes no difference whether the profits the company makes are invested to increase future profits or paid out as cash (for shareholders then to invest themselves).

This means that we don't have to allow anything for growth, and we also don't need to make deductions for the investment that needs to be made to generate that growth. All we need to do is to calculate the current earnings a company is making – after deducting any "maintenance" expenditure that is necessary to preserve its earning power (for which depreciation is generally a reasonable proxy, at least in times of low inflation).

Practice

Happily, this is the number that accountants are driving towards with their net profit figure, although adjustments may be necessary to smooth out any lumps.

That net profit figure can then be divided by the number of shares on issue to give a figure for "earnings per share" (EPS). That, in turn, can be used to provide an "earnings yield", at a given price, from which you can infer the return you'll be getting. Note that you shouldn't add any growth to your earnings yield to reach your total return, because you haven't allowed anything for the investment needed to achieve that growth.

Alternatively, you can divide the EPS by the return you're hoping to make, in order to place a value on those earnings, according to the perpetuity formula.

If you aim to make a return of 10%, for example, then you'd divide your earnings by 0.1 to get your value (equivalent to multiplying by a price-earnings ratio of 10). If you aim to make a return of 7%, then you'd divide by 0.07 (equivalent to multiplying by a price-earnings ratio of about 14).

In reality, though, some companies make returns on capital that are lower than a shareholder can make themselves and these will be worth a lower price-earnings ratio. Such companies, of course, would be better wound up, if it was possible to reallocate their assets elsewhere. And if the assets can't be reallocated, then they should be run as cash cows, rather than re-investing capital at sub-par rates of return.

Thanks in large part to a form of survival of the fittest, many of the companies listed on the ASX have at least some form of competitive moat which enables them to make higher rates of return than shareholders could earn themselves, and these will be worth higher price-earnings ratios.

This is how come the price-earnings ratios tend to be higher across the market, particularly when the returns available on other investments (such as bonds) are so low – but look out if those returns increase.

Limitations and when to use

Earnings-based valuations have limitations. How much more valuable is a company producing a return on equity of 15% than one producing a return on equity of 12%? The answer comes down to the sustainability of the return on equity, how much capital can be deployed at that rate, and the return you're aiming to make.

Earnings-based tools are also, of course, limited by their focus on earnings, which are an accounting construct and don't always reflect reality. Earnings may be severely understated, for example, where large amounts of investment are put through the profit and loss account, such as with research and development and marketing expenses. Some of this may be to protect a business's current earning power, but much of it is likely to be for growth. This is particularly likely with companies that rely heavily on brands or know-how, such as those making software or healthcare products.

Some companies, of course, are currently making minimal earnings, but nevertheless have a bright future –for example, Audinate or Frontier Digital Ventures. In these cases, you'll have to look forward a few years to get any price-earnings ratio at all – and even then it's unlikely to be much use.

So, in the congested middle ground of the market, where most companies make decent if unspectacular returns and invest steadily, earnings-based valuations can point you in the right direction, and help make quick and dirty comparisons between stocks and sectors. At the top end of the market, though, where high-quality companies are making extreme returns, investing hard and growing quickly, earnings-based valuations are of limited use.

Cash-flow-based tools

Theory

This brings us back to the hard truth of cash-flow-based valuations.

One way to make these simpler is to think not about the value of something according to the return you'd like to make, but about the return you might expect to make given a particular price. These are the two sides to the valuation coin, but the latter approach at least avoids making one arbitrary assumption.

Practice

The starting point of cash-flow-based valuations is the "free cash flow" (FCF). The FCF is the cash a company produces, after making any investments, and which is therefore available to be distributed to shareholders.

In practice you get it by taking the operating cash flow (after tax and the interest on and repayment of lease liabilities (thanks AASB16)), and deducting anything spent on investments. This will include normal capital expenditure (typically described as "payments for property, plant and equipment" and "payments for intangibles"), but also anything else you're going to allow for in your growth (which we'll come to in a moment). So, if you're going to include something for acquisitions in your growth assumptions, then you should also deduct the expenditure on acquisitions from your FCF.

If you divide this number for FCF into your share price, then you have a "FCF yield". And to this you can simply add the average long-term growth you expect in FCF to give you a figure for the total return you expect an investment to provide, given the current share price, or any other price you care to assume, such as your targeted buy or sell prices.

Limitations and when to use

The first problem with this is that cash flows can be lumpy, so you need to come up with "normalised" figures for everything, which the company would make and spend in a typical year.

Often people will try to get around this by using the dividend as a proxy for FCF and the dividend yield as a proxy for FCF yield, adding the growth to that to come up with a prospective total return. The trouble with this is that it means relying on the directors' view of what's sustainable and, given the demands of investors, they can often be too aggressive in their assessment.

There are further problems with estimating the growth. The number to use is the long-term average expected growth, and rapid rates of growth in the short term can make it easy to overestimate. Few companies can grow at rapid rates for very long periods of time. Indeed, no company can grow forever at a greater than average rate, otherwise it will eventually end up owning the world, when it will be the average.

Cash-flow-based valuations therefore work best in situations where the cash flows and investments are relatively smooth, and where growth is relatively low and predictable, such as with infrastructure assets like a toll road or an airport.

They might also be useful for very high-quality companies earning high rates of return, but that's less because it's likely to yield accurate results and more because the other approaches are even worse.

Enterprise value-based tools

Theory and practice

The final type of valuation tools to consider are those based on enterprise value (EV). EV is the entire value of a business, assuming it was debt (and cash) free. So, a company with a market value of $5 billion and net debt of $1 billion would have an enterprise value of $6 billion, while a company with a market value of $5 billion and net cash of $1 billion would have an enterprise value of $4 billion.

The aim is to get an idea of the value of an underlying business, irrespective of how it is financed.

Limitations and when to use

Its primary use is to compare with measures that are intrinsic to a business, rather than how it is financed. In practice that means anything that comes above interest in the profit and loss account. So, if you want to value a business by reference to its sales or earnings before interest and tax (EBIT) or earnings before interest, tax, depreciation and amortisation (EBITDA), then you need to use the enterprise value.

By taking you so far from a company's assets and profits, these EV-based measures tell you little by themselves about actual value. They're useful, though, when you want to distance a valuation from how a business is currently being financed and even in the case of EV to sales, from how it is currently being managed.

For this reason, these measures are often used by private equity, which will typically expect to change both the financing and the management of any business it buys. They can also be useful for making comparisons between different businesses.

Picking the right tool for the job

So, there are the four main groups of valuation tool. They each tell you different things and are useful for different situations. The important thing is to use the right tool for the job, understand the limitations and where possible, cross compare between different methods. E

Different types of valuation tool

Tool type	Pros	Cons	When to use
Assets	Simple; looks past current earnings and cash flow	Relying on someone else's valuation	Where assets and liabilities are easily valued and can be put to alternative uses; LICs, AREITs
Earnings	Considers actual earnings; no direct need to consider growth	Appropriate PER depends heavily on ROE, its sustainability and how much capital can be deployed; current earnings may be distorted or non-existent	Middle of the road companies making decent if unspectacular returns and investing steadily
Cash flow	Fewest assumptions about returns; closest to the 'truth' of the discounted cash flow valuation	Free cash flow can be lumpy; long-term growth is hard to estimate	Cash flow and investment are relatively smooth and growth is low and predictable – eg infrastructure; also where all else fails
Enterprise value	Removes a valuation from how a business is financed or even managed	Says little about actual value	You expect financing and/or management to change; Making comparisons between different businesses

How to calculate the risk of a stock? And your portfolio?

By Karthik Murthy, ASA Finance Intern and **Lexi Nguyen**, ASA Finance Intern

What is risk?

The most famous investor in the world, Warren Buffett, once said: "Risk comes from not knowing what you're doing." Knowing the risks associated with a company's stock, and every stock in your portfolio, is crucial for making investment decisions that suit your risk appetite.

Rule Breaker Investing, a podcast hosted by The Motley Fool co-founder David Gardner, has an episode focusing on calculating this risk. This episode not only discusses risks for investors, but also provides an immensely useful tool to quantify risk. Stressing the importance of quantifying risks, the host David asks: "Medium risk? What does that even mean?"

It's a very useful question. What exactly is meant by low risk, medium risk, and high risk? Moreover, how are these risks related to rewards and volatility? It's not always true that a higher risk equates to higher rewards and higher volatility. "Some stocks can be low risk and still produce high rewards," says David.

This article provides an overview of the method discussed in the episode to calculate risk.

25 questions.

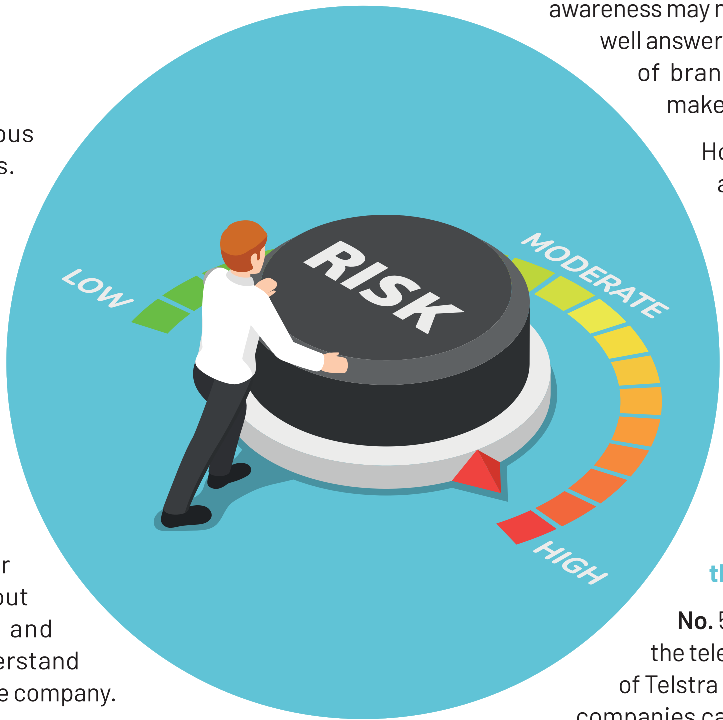
The method has 25 dichotomous questions, with Yes/No answers. Each time the answer to a question is "No", you increase the risk rating by a count of one. At the end of the 25 questions, you will have a risk score out of 25 for your stock. As you go through the questions, you will understand why a "No" response means a higher risk.

These questions are devised in such a way that the investor is motivated to know more about the company, its financials and competitors, as well as to understand his or her own attitude towards the company.

The questions are a mix of both objective and subjective types. The subjective questions allow the investor to bring his or her own subjectivity into the analysis.

To better explain this method, we will be asking these 25 questions about the company Service Stream (ASX: SSM). For each question, a brief explanation of why it contributes to the company's risk is also provided.

SSM is an ASX 300 listed company providing integration services to telecommunications operators, energy companies and utility providers. Its customers include companies such as Telstra and the National Broadband Network (NBN).



Risk related to the company:

Q1. Was the company profitable over the last reported six- and 12-month period?

Yes. Net income (2020) = $49.3 million, first half of 2021 = $16.2 million.

Q2. Did the company have a positive cashflow over the last reported six- and 12-month period?

Yes. Net CF (2020) = $8.66 million, first half of 2021 = $10.5 million. Needless to mention, if a company was not profitable in recent times and/or did not have positive cash flows, it naturally makes the stock riskier. For SSM, that has not been the case on both occasions and therefore, our Risk Rating at this stage is 0/25.

Q3. Does the company rely on recognisable branding that is valued by its buyer base?

Yes. This is a tricky question to ask of SSM as the company operates in a B2B (business-to-business) space. As such, brand awareness may not be applicable to it. You might as well answer "No", recognising that an absence of brand awareness among end users makes it risky.

However, we felt that its familiarity among its buyer base within the industry that it operates in makes it less risky as time and again, SSM bags contracts from Telstra and NBN. This trust among its clients accounts for a positive brand image. Risk Rating: 0/25.

Q4. Does the company have a diversified buyer base with no single user accounting for more than 20% of its revenue?

No. 58% of SSM's revenue comes from the telecommunication sector consisting of Telstra and NBN. Any volatility from these companies can detrimentally affect SSM and it is not easy to diversify in this market. Being reliant on a single buyer's account adds to the risk of a company's stock. Risk Rating: 1/25.

Q5. Is there a positive word-of-mouth from its customers?

Yes. This is another question which is tricky due the B2B nature of its business. However, we are giving it a "Yes" for the same reason mentioned for Q3. For a B2C business, it is easier to answer this based on online reviews of its products, dedicated reddit groups and so on. Risk Rating: 1/25.

Risk related to its financials:

Q6. Was the company's sales growth between 10% and 40% in the past three years?

No. Although SSM's sales growth in 2018 and 2019 were 25.7% and 35.2% respectively, its growth in 2020 was 9%, thereby narrowly missing the criteria. According to David from The Motley Fool, sales growth is a sign of innovation, an absence of which makes the company risk prone. Conversely, sales growth upwards of 40% translates into higher market expectations, which again makes the stock risky. Risk Rating: 2/25.

Q7. Will the company be independent of external funding over the next three years?

Yes. SSM has had a low and stable debt over the years, and it is forecasted to remain the same, making it less risky. Risk Rating: 2/25.

Q8. Does the company maintain a high standard of financial disclosure? Is it easy to sift through its financial statements for an intermediate-level investor?

Yes. Being another subjective question, it measures the openness and transparency of the company, which again indicates the risks involved. We felt that SSM's annual reports are clear and transparent. This will be revisited in further questions related to the company's management too. Risk Rating: 2/25.

Q9. Is the return on shareholder's equity (ROE) bigger than 15%?

Yes. SSM had an ROE of 19.4% in 2020. ROE shows how well the company is managed. Not being a well-managed company is a sign of high-risk. Risk Rating: 2/25.

Risk related to competitors:

Q10. Is the company free of any direct competitors with substantially greater financial resources?

No. SSM's main competitor, Downer, has total assets worth $8,672.5 million, which is 14 times the total assets of SSM. Facing up to a "Goliath", is always risky for a company. Risk Rating: 3/25.

Q11. Is the company free of any disruptive start-ups that could threaten the company's marketspace?

Yes. On the other hand, facing up to a "David", can also pose a risk for a company due to the possibility of being disrupted and being forced to make structural changes to the business. We do not foresee any disruptive start-ups in the network services industry in the near future. Risk Rating: 3/25.

Q12. Are there high entry barriers for potential new entrants?

Yes. Somewhat linked to the previous question, this addresses the risk posed by losing the market share to new entrants as a result of low barriers of entry. Risk Rating: 3/25.

Risk related to company's stocks:

Q13. Is the market capitalisation more than $1 billion?

No. SSM has a market cap of less than $370 million. Bigger companies are less risky as they can withstand market shocks with relative ease whereas small cap companies are more volatile and thus, riskier. Risk Rating: 4/25.

Q14. Is the ß (Beta) of the company lower than 1.3?

Yes. SSM has a five-year monthly Beta of 0.68. But first, what does Beta mean? It is a measure of the volatility of a stock, representing the movement of the company's stock relative to the market. For instance, if a company's Beta is 0.60, then its stocks are only 60% as volatile as the market. Having a Beta of 0.68, SSM is less volatile than the ASX market.

In this Motley Fool method, volatility is rightly used as just one of the indicators of risk and not the only indicator of risk. The risk is capped at 30% more volatile relative to the market. Any more volatile than this will increase the risk rating. Risk Rating: 4/25.

Q15. Does the company have positive price-to-earnings (PE) ratio, but below 30x?

Yes. SSM had a PE ratio of 9.6 over the last 12 months. A positive PE ratio is a good thing as it means that there are earnings coming in. Similar to sales growth though, a very high PE ratio increases the market expectations and hence, makes the stock riskier. Risk Rating: 4/25.

Risk related to company's management:

Q16. Do any of the founders/key insiders still have at least 5% shares in the company?

Yes. Tom Coen, one of the non-executive directors of SSM, holds 9.42% of the shares in the company. He has extensive management experience with Comdain Infrastructure, which was acquired by SSM in 2019. It is well known that founder-managed companies perform well in the long run as such company's decisions are usually focused more towards the long-term. Risk Rating: 4/25.

Q17. Do the top three officers have more than 15 years' of combined leadership at the company?

Yes. At SSM, the chair, Brett Gallagher, and the managing director, Leigh Mackender, have combined experience of more than 15 years. Stable leadership is a sign of a stable, well-managed company. Risk Rating: 4/25.

Q18. Is the company fraud-free and fault-free in all its functions?

Yes. In the podcast, David says Questions 18 and 19 are designed to be always answered with a "No". The reason, he says, is that there is no way for an investor to know if this is true, invariably adding an element of risk to any company's stock. However, we feel that this information is something that can be gleaned from a company's annual reports and, specifically, the auditor's remarks. Risk Rating: 4/25.

Q19. Is the company free of global influences and macroeconomic changes?

No. Operating in the industry of network services, SSM is always up against global influences and macroeconomic changes. For instance, the COVID-19 pandemic, 5G technology rollout, retail demand and the post-pandemic recovery will all play a big role in the market performance and SSM is not immune to this. Risk Rating: 5/25.

Other risks.

Q20. Does the company meet the majority of the "rule breakers" attributes?

Yes. Rule Breakers is a stock picking service provided by The Motley Fool based on the following attributes:

- First to market or "best in class" in an emerging industry. **No.**
- Sustainable advantage from momentum, patents, leadership or lacking competitors. **Yes.**
- Strong historical price appreciation. **Yes.**
- Strong management team with "smart backing". **Yes.**
- Brand with strong consumer appeal. **Not applicable**.
- Company believed to be overvalued by the mainstream. **No.**

(Source for the attributes: https://traderhq.com/)

With three "Yes", two "No", and one "Not Applicable" ratings, SSM meets the majority of the Rule Breakers attributes. Risk Rating: 5/25.

Q21. Does the company meet the "stock advisor" way: Solid business, with proven management and balance sheet?

Yes. The Stock Advisor is another stock picking service offered by The Motley Fool based on the criteria of having a solid business with proven management team and balance sheet. Risk Rating: 5/25.

Q22. Can the company easily withstand any binary outcomes in future (approvals, legislations etc.)?

No. Binary outcomes in the form of obtaining contracts has the potential to affect the financial health of SSM. If the outcomes of these binary events do not go SSM's way, then it adds to the risk of the company's stocks. Risk Rating: 6/25.

Risk and you:

The final three questions are entirely related to how you, the investor, feel about the company. Moreover, the final two questions are to be framed by you for each company. The purpose of these final two questions is to encourage you to be more insightful during your analysis of a company.

For SSM, we decided to ask these questions stated below as Q24 and Q25 as we found them to be insightful for assessing its risk.

Q23. Do you want to know more about this company to actively try to understand it?

Yes. If you are not interested in the company then it is more likely to be risky to you, specifically. If you are not interested in a company and its products, and its business does not excite you, then the company adds unnecessary risk to your portfolio. Risk Rating: 6/25.

Q24. What is the most insightful question that you can ask about the company?

Does the company have a sustainable human resource composition? Yes. Most of SSM's business is undertaken on a contractual basis. Having a pool of talented contractors reduces the company's risks. Contractors can be hired and de-hired, based on the size of SSM's orderbook, a situation which we felt was less risky. Risk Rating: 6/25.

Q25. What is the second most insightful question that you can ask about the company?

Will the customers miss the company if it is suddenly shut down? Yes. This is a question that we borrowed from the podcast as we found it to be universally applicable. Network services is a vital part of the infrastructure developments happening in Australia. The absence of SSM from the industry would be a big miss to both its buyer base and the end users of the infrastructure it builds and maintains. If a company won't be missed by its customers, then it is probably skating on thin ice on various fronts and can easily sink into obscurity. Risk Rating: 6/25.

So, here we have it. The final risk rating of SSM is six out of 25. You would have noticed that some questions are straightforward whereas others are wildly subjective. This must be seen as a good thing as investors can bring their own subjectivity, analysis and risk appetites into the risk calculation of their stocks.

It is also entirely up to investors to define their own risk categorisation as low, medium, and high based on these values. It is easier to compare the risks of different companies – for instance, a company with a risk rating of four is going to be much less risky than one with a rating of 22.

Portfolio risk

Now that you know how to calculate the risk of a particular company's stock, you can apply it to the risk of your entire portfolio. This is done by multiplying the risk score of each company with the weightage of your stocks.

For example, if your portfolio has Stock A, Stock B, and Stock C with an allocation of 10%, 30%, and 60% respectively and risk ratings of 10, 12, and 20 respectively, the portfolio risk can then be calculated as follows:

Stock	Allocation (%)	Risk rating, R (out of 25)	Weighted risk rating
Stock A	10	10	0.1 x 10 = 1
Stock B	30	12	0.3 x 12 = 3.6
Stock C	60	20	0.6 x 20 = 12
			16.6 (out of 25)

So, the above portfolio has a weighted risk of 16.6, which can be defined as "high" for someone with a low risk appetite.

Are green financial instruments safe-haven assets?

By Madhumita Mukherjee, Research Contributor, and **Pablo Berrutti**, founder and managing director, Altiorem

Rapidly transitioning to a low-carbon economy is the most urgent priority in reducing risks from climate change. As pledged in the 2015 Paris Agreement, countries are preparing to enhance their emissions reduction targets. Most countries have included sustainable finance mechanisms in their plans to fund clean energy projects and other green projects. The Sustainable Development Goals (SDGs) also offers a framework for understanding and prioritising of the changes needed to deliver a sustainable future for people and the planet . The United Nations estimates the annual funding gap to deliver these goals is US$2.5 trillion in emerging markets alone.

Green bonds are fixed income securities that have been created to identify and prioritise investments which contribute to addressing climate change. Green bonds have become popular among institutional investors because of their attractive set of features that support green projects like renewable energy and biodiversity conservation while offering similar risk and return profiles to vanilla bonds from the same issuer. Externally reviewed green bonds provide additional assurance over the self-labelled green bonds as, like equities, some issuers have been accused of making false claims (commonly known as greenwashing). While relatively new, the global green bond market is poised for growth with US$1.23 trillion in cumulative issuances and US$171.6 billion so far in 2021.

In contrast to global markets, the Australian landscape has had a slower start, but issuance has been increasing with US$15.6 billion in issuance to the end of 2019. Australia has seen accelerated growth in the green bond market since labelled green products were first issued in 2014.

With increasing local market understanding and demand, corporates, state governments and banks are looking to tap into this growing pool of capital, providing greater diversification and depth to the market. While mostly bought by institutional investors, retail investors can also access this emerging asset class, most easily through managed funds, although direct investment is also possible in both primary (direct from the issuer) and secondary (via a broker) markets.

Australia's first green bond fund is run by Australian Unity owned Altius Asset Management and has the Clean Energy Finance Corporation – the Government's green bank – as a cornerstone investor. While not focused solely on green bonds, Australian investors can access ETFs like BetaShares Sustainability Leaders Diversified Bond (Hedged) ETF (ASX:GBND), of which at least half comprises international green bonds, or the Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF (ASX:VEFI).

The nation's debt markets are evolving. Green bonds and loans, and sustainability linked bonds and loans are important tools for accelerating towards sustainability-related goals. However, the mantra of buyer beware still holds with investors and lenders needing to gain assurance that claims are real.

Competitive pricing and strong credentials are required if these new investment opportunities are to achieve their potential and drive real changes in capital allocation. Regulators have a role to play in ensuring that, whether being accessed via managed funds or directly, green financial products offered to retail investors have integrity.

In addition to green bonds, an emerging trend is banks supporting green projects directly via green loans and more sustainable business practices through sustainability-linked loans. Unlike green bonds which offer limited access to the transport and agriculture sectors, green loans and sustainability-linked loans allow banks to access a broader range of sustainable lending opportunities. These characteristics of green loans have captured the attention of Australia's banking giants who are boosting supply of credit for lending to meet their sustainability ambitions.

Green loans are also increasingly being made available to retail bank customers, with products by Bank Australia, the big four banks and some credit unions, providing discounted loans for solar energy and other green home retrofits. The Commonwealth Bank's Green Loan allows existing customers to borrow up to $20,000 on a fixed rate of 0.99%. Bank Australia offers a mortgage product with 0.2% p.a. discount for homes rated seven stars or higher and for upgrades.

For borrowers, the opportunity to make homes more energy and water efficient at discounted rates can improve both capital value and operating expenses. For investment properties, these features can also command higher rents and reduce the risks of tenants experiencing financial difficulties.

After years of being the exclusive domain of large banks, corporate and institutional investors, there are positive early signs that green finance is being made available to retail investors and borrowers, offering them the opportunity to achieve both sustainability and financial objectives in a targeted way. E

Table A: RIAA* certified products actively investing in green bonds

No	Fund name	Link
1.	Affirmative Global Bond Fund	https://www.responsiblereturns.com.au/investment-options/affirmative-global-bond-fund/profile
2.	Pendal Sustainable Australian Fixed Interest Fund	https://www.responsiblereturns.com.au/investment-options/pendal-sustainable-australian-fixed-interest-fund/profile
3.	BetaShares Sustainability Leaders Diversified Bond ETF - Currency Hedged (ASX: GBND)	https://www.responsiblereturns.com.au/investment-options/betashares-sustainability-leaders-diversified-bond-etf-currency-hedged-asx-gbnd/profile

Table B: RIAA* certified funds that are investing in ethical and responsible initiatives

No	Fund name	Link
1.	Altius Sustainable Bond Fund	https://www.responsiblereturns.com.au/investment-options/affirmative-global-bond-fund/profile
2.	Australian Ethical Income Fund	https://www.responsiblereturns.com.au/investment-options/australian-ethical-income-fund/profile
3.	Australian Ethical Superannuation Defensive option	https://www.responsiblereturns.com.au/investment-options/australian-ethical-superannuation-defensive-option/profile
4.	Perpetual Ethical SRI Credit Fund	https://www.responsiblereturns.com.au/investment-options/perpetual-ethical-sri-credit-fund/profile
5.	Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF	https://www.responsiblereturns.com.au/investment-options/vanguard-ethically-conscious-global-aggregate-bond-index-hedged-etf/profile

*Responsible Investment Association Australasia**

Research update: ESG issues impacting your investments

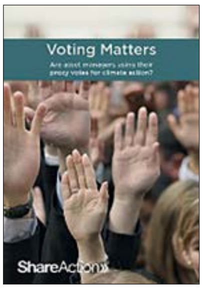
By Team Altiorem

Each month, Altiorem shares its newest and most popular research pieces with ASA members, keeping you up-to-date and hopefully, sparking your interest in some of the pressing ESG issues that are affecting your investments. Its research summaries make it simple to understand key concepts (without being an expert) and thus, make informed decisions and smarter investment choices.

New research on Altiorem

Unlocking Australia's sustainable finance potential
by University of Technology Sydney

This report provides recommendations for unlocking the potential of sustainable finance in Australia. The basis of these recommendations is the European Union's Action Plan on sustainable finance which was adopted by the European Commission in March 2018.



Voting matters: Are asset managers using their proxy votes for climate action?
by ShareAction

Climate change is one of the most important concerns facing investors and they can play a key role in mitigation efforts by using their proxy voting rights. This research assessed how asset managers vote on shareholder resolutions to climate change.

Global investor study: The rise of the sustainable investor
by Schroders

The report provides an insight into global investor attitudes towards sustainable investing and the obstacles preventing widespread adoption of sustainable investing.

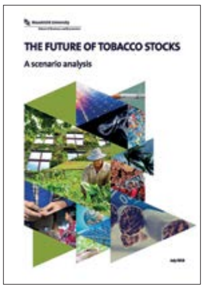
Trending Research on Altiorem

Responsible investing and financial performance
by Responsible Investment Association Australasia

The body of evidence continues to stack up – nationally and globally – showing that responsible investments typically achieve stronger risk-adjusted financial performance than their peers, consistently outperforming against benchmarks over short-term and long-term time frames. This fact sheet details the performance of Australian and New Zealand investment products, superannuation and impact investments.

The case for sustainable bond investing strengthens
by Barclays

This report provides deep insight into the relationship between ESG factors and their influence on credit portfolio performance.



The future of tobacco stocks: a scenario analysis
by Maastricht University School of Business and Economics

This report identifies drivers of change within the tobacco industry and the potential risk factors that may arise as a result. The report conducts a scenario analysis that maps out three potential outcomes for the industry and the relative impact on the share price of the world's largest tobacco companies.

Altiorem is the world's first community-built sustainable finance library. Its free online library supports investors interested in long-term performance and the allocation of capital towards a flourishing economy, society and environment.

We believe Altiorem can help ASA members better incorporate sustainability issues when investing and voting. Head over to Altiorem and become a member at **www.altiorem.org**. Membership is free and includes access to all research, and soon we will be offering webinars, e-books and more benefits for members.

Proxy voting and accountability: make your vote count!

By Fiona Balzer, ASA Policy & Advocacy Manager

Are you happy with how the companies in which you own shares are performing? Are you happy with how the company manages its affairs and treats its retail shareholders?

Shareholders were angry and disappointed when Westpac failed to report and address the risks associated with international fund transfers where there were fears that some payments supported the exploitation of children. They were incredulous when Rio Tinto demolished the sacred rock shelters at Juukan Gorge in Western Australia, and the former CEO departed with a very large remuneration package while being held accountable for the disaster.

What can be done to make companies and others aware of retail shareholders opinions on various matters? What can we do to hold directors to account?

The annual general meeting is a good place to start. Voting either directly or via proxy and taking the opportunity to ask questions whether in writing or at the meeting lets the directors and executives know you care enough to put in some effort.

ASA encourages voter participation. We also have our volunteer company monitors who participate in raising matters with the company and participating in the AGM and other shareholder meetings.

Shareholders are required to vote on a director's election or re-election to the board for them to continue to hold the seat.

There is also the vote on the remuneration report, where at Rio Tinto's AGM, held in 2021, more than 60% of the shares voted were AGAINST.

You can attend and vote at the meeting yourself, lodge a direct vote or have someone vote on your behalf (a proxy).

On ASA's website you can find instructions on how to give a proxy for an individual listed company meeting as well as on how to give a standing order for ASA or another corporate entity or individual to vote on your behalf. This standing order is known as a standing proxy and identifies your holding and who you want the proxy to go to.

Go to **www.australianshareholders.com.au/your-proxy-counts** to find out more.

We even have an online form, where we can prepare your proxy forms for you once you give us the data and the go ahead to do so. We then email the completed forms to you for signing and sending to the different share registries.

ASA's chair Allan Goldin underlines the organisation's strength by stating, "when you vote or appoint ASA as your proxy, you ensure ASA is your strong, collective voice".

It is necessary to complete the appropriate standing proxy form once for each of shareholdings and return the form to the relevant share registry.

If you buy more shares in a company under the same HIN/SRN, you do not need to complete a new form.

ASA encourages members and shareholders to make their vote count by nominating ASA as their proxy. ASA also supports voting through different forms. Paper-based forms ask for the name of one's proxy (ASA) and marking "for" or "against" on the page. Leaving the boxes blank means ASA will vote in accordance with its voting intentions. Voting online is also possible using the online voting portal via the Link, Computershare, or Boardroom website, or via a direct email link. Voters are encouraged to insert "Australian Shareholders Association" on the page where it asks for the name of their proxy (please write our name in full and do not write "ASA" or else the share registry will not accept your proxy as valid).

We encourage young ASA members to involve themselves in the voting process, too.

Listed companies review the votes and questions received at AGMs. If there's a low number of shares voted or almost all shares are voted in favour of resolutions, they can believe shareholders are happy with the board decisions and company performance.

We know you're busy. That's why we have a streamlined process to make voting easier until you have more time to do it yourself. And, we report on the meetings so when you do have time, you might consider joining our company monitors and representing other shareholders like you.

Photo by Mikhail Nilov

Setting High Standards

By **Damien Straker,** Advocacy Coordinator, ASA

As many ASA members know, our company monitors review the annual reports and notices of meeting of ASX200 companies before attending the AGM and asking questions of directors and voting on resolutions put to shareholder vote.

A specific area of focus for ASA's monitors is review of ESG (environment, social, corporate governance) reporting, where companies disclose risks in these three areas and communicate how these risks are managed, and how they affect the company's strategies and potential long-term sustainability and performance. This attention forms part of our 2021 Focus Issue on risk management.

Big four accounting firm, PwC, describes ESG reporting as "the disclosure of performance in relation to material ESG risks and opportunities, both qualitatively and quantitatively, to explain how these material topics inform a company's strategy and overall performance". ESG reporting increases a company's transparency regarding environmental outcomes and describes to investors how it will affect profitability and performance. It is also why ESG is now labelled "a key indicator of business health and long-term financial viability".

At this time, mid-2021, there are a number of reporting frameworks available for use across many countries and jurisdictions. These include but are not limited to Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD), United Nations Global Compact (UNGC) core values, UN 2030 Sustainable Development Goals and the Climate Bonds Initiative (CBI) standard. Companies select the most appropriate standards and formats for their own circumstances and priorities.

This makes the review task more difficult for ASA company monitors and retail shareholders, due to the huge variation in report structures, statistics, assurance and disclosures and sheer volume of information. Comparison across companies is complex and time-consuming, and better suited for investors whose working role is analysing companies, rather than the time-poor retail investor. For this reason, the monitors' review will remain at high level for 2021 and will develop with corporate practice over time.

We can look to external validation of the quality of company ESG reporting from available sources. The Australasian Reporting Awards (ARA) offers awards for high-quality reporting and standards. The organisation has expanded its criteria when reviewing ESG and sustainability reporting and is avoiding a "checklist approach". Instead, it favours outlining the characteristics of strong sustainability reports.

The ARA groups its criteria into three standards: completeness, credibility and communication.

Completeness refers to an operation's overview, including what a company does, its extent and the report's scope.

In ASA's review of Woolworths' 2020 sustainability report, we found a comprehensive overview, which outlines a number of areas of focus. Its standards include reducing emissions and waste to shrink its environmental footprint, which is backed up with disclosure, and includes reduced greenhouse gas emissions by 24%. Given the number and importance of staff to the operations, and the benefit of customers seeing a reflection of themselves in the stores, the goal to develop a more inclusive environment should benefit the company and ultimately its shareholders.

The ARA argues internal and external credibility is vital for ESG reports. A strong example of internal credibility is accurately reporting evidence of an organisation's structure and processes. External credibility includes evidence external parties were consulted to validate a report's findings.

For example, BHP's climate change report includes a letter of assurance from the accounting firm Ernst & Young, which validates the company's conclusions. Another strong example of external reporting was apparent in CBA's climate change plan. The bank advised it conducted an independent external evaluation of its board and committees every three years. These reports are examples of corporations complying with standards established by the ARA and offering examples of credibility.

ASA will urge directors and boards consider retail shareholders' needs when deciding how sustainability risks are communicated.

While there is a move to define global reporting frameworks and standards or suites of standards, any agreement is expected to take a year or more.

Relevant entities are positioning to deliver what is needed. The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) merged to form the Value Reporting Foundation. The SASB standards will continue within the merged entity. The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), the accounting standard setter for US public companies, are also considering the role they should play, and whether another board should be set up to issue global standards for sustainability accounting and reporting.

We will monitor and report progress on an agreed standard. ASA will support and provide comment on the development of reporting frameworks and standards which will provide useful information to shareholders about sustainability risks which will impact their investments, particularly over the coming decades. We expect agreement on what is required to reduce costs for companies in producing the necessary reports. Agreed standards will also make comparison between companies' risks easier to establish.

We also wish to strengthen investors' financial education and literacy and will refer to elements of ESG reporting and sources of information in monitor reports and other publications where appropriate.

The Responsible Investment Association Australasia's initiative, ESG Research Australia, also looks to lift the standard of reporting. It hosts an awards ceremony to honour the best research on Australian equities. The names of the winning reports are listed on its website and may already be available to you from your stockbroker. E

Letters to the Editor

In his AGM address, Allan Goldin referred to some proposed legislation to lessen director's liability by allowing for the "dumb director" defence. I applaud ASA for taking up the fight to ensure directors responsibly carry out their duties for the benefit of shareholders.

One current issue needs some attention. Professional indemnity insurance for directors is routinely paid for by shareholders. By looking at a few annual reports, details of the insurance costs, and what is actually being insured, is shrouded in secrecy because of "confidentially obligations". A website of an insurance provider says it will pay for a legal defence to protect a director's financial assets and reputation in the face of any claim of negligence or breach of duty.

One risk for any insurance product is moral hazard. In basic terms, this means if you insure someone's property, they may not take proper care of that property, thereby increasing the pay-out risk for the insurer. Therefore, professional indemnity insurance may be to the detriment of shareholders (even though they are footing the bill) because it runs the risk of director complacency in the way they discharge their responsibilities.

In its advocacy efforts for retail shareholders, ASA might start lobbying for an independent body like the Productivity Commission to examine whether shareholders derive any benefit from the big dollars they spend on an annual basis for professional indemnity insurance for directors. This investigation will be even more relevant if the "dumb director" legislation gets passed.

John Ferguson
Australind, WA

Can anyone explain to me in layman's terms what is happening with Link and PEXA or, more precisely, the effect the PEXA IPO will have on Link shares?

Thanks,
Jillian Thomas

Hi Jillian,

Thank you for your question. I can explain what is happening from the company announcements.

Link's ASX announcements say the IPO will provide a transparent valuation of PEXA and the flexibility to monetise its interest in PEXA over time, and is in the best interests of shareholders.

Link has two main elements to its business: its traditional share registry business and its investment in PEXA, a digital property settlements business.

The company statement indicates that the share price PEXA trades at on the ASX will be used to price the holding Link keeps in PEXA, when looking at the value of Link.

Previously PEXA was valued by a valuer in determining its value as part of Link, but many people had different opinions of what Link's holding in PEXA was and is worth.

PEXA's market capitalisation on ASX is an independent and public value and not just a valuer's opinion. It is tested by genuine buyers and sellers in the market.

On 31 May 2021, Link said the value of PEXA was too low in the October 2020 bid for its shares. "This has been now demonstrated through the book build undertaken on Friday valuing PEXA at $3.3 billion, representing an increase of approximately 70% on the consortium's implied valuation of PEXA at $1.95 billion," it said.

And, as you would know, Link's share price is much higher than it was in October 2020.

PEXA's shares are more easily sold (monetised) when they are separately listed on ASX and Link can now more easily sell down or keep its holding, depending on its need for capital.

Link's final shareholding percentage was determined through the IPO – and it dropped slightly from 47% to 45%, but PEXA will remain an important asset within the Link Group portfolio.

By separately listing PEXA, the directors of Link were able to discover what the stock market really valued PEXA at and "discovered" the market valued it 70% more than the consortium's bid.

I hope that helps your understanding of the effect the PEXA IPO will have on Link shares.

Addendum: Pexa (ASX:PXA) listed on 1 July 2021. The shares have traded in a price range of $16.40 to $18.50. Link retained a 44.66% holding in PEXA. Its shares have traded between $4.89 and $5.18 since 1 July 2021.

Regards,

Fiona Balzer
ASA Policy & Advocacy Manager

Brickbats

Brickbat to Dr Roger Munro

Dr Roger Munro pleaded guilty in the District Court of Queensland to three counts of fraud after he was charged following an investigation by the Australian Securities and Investments Commission (ASIC) and was due to face a three-week criminal trial.

Dr Munro received funds from investors for a trading fund which he referred to as the TradeStation Futures Trading Fund (TradeStation). Dr Munro did not invest these funds into TradeStation as promised. Instead, he dishonestly applied those funds to his own use or the use of another. Investors were not aware that their money was being used by Dr Munro is this way and Dr Munro continued to make representations to investors that their money was being invested in TradeStation by falsely reporting on the profits and losses being made by TradeStation.

Dr Munro will be sentenced on 30 July 2021. He was released on bail and is required to report to police daily. His passport remains surrendered to the court.

Back in 2015, ASIC brought civil proceedings against Dr Munro in relation to its investigation into TradeStation, alleging that he had breached the Corporations Act by carrying on a financial services business in Australia without an Australian Financial Services licence. In February 2016, the Supreme Court of Queensland found that Dr Munro had breached s911A of the Corporations Act and permanently restrained him from carrying on a financial services business in Australia without holding an Australian Financial Services Licence.

Bouquets

Bouquet to ASX for the ongoing offering and administration of the Stock Market Game **https://game.asx.com.au/game/info/public/how-to-play**.

The game runs for 15 weeks from mid-August and ties in educational resources and links to help game players learn about fundamental and/or technical analysis and investing on ASX.

Players buy and sell shares in 200+ nominated companies listed on ASX using live prices and are charged brokerage on each trade, simulating real sharemarket conditions. The game now also provides exposure to 45 ETFs and five LICs to diversify your portfolio.

The ASX also offers the School Sharemarket game which gives students an opportunity to learn about the sharemarket and become financially literate.

https://game.asx.com.au/game/info/school/about-the-game

Both versions of the game provide an opportunity to win relatively modest cash prizes, and priceless education.

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

Continued - Final approval for spin-off of Endeavour Group

Also, Woolworths has issued a detailed response to the Gilbert Report and the chair and CEO of Woolworths plan to travel to Darwin too.

The meeting was told, as far as Woolworths knows, that all the proxy advisors favoured the resolutions presented at the meeting.

After the meeting ended, news broke that the Fair Work Ombudsman (FWO) was taking Woolworths to court over the underpayment issue. The FWO had taken a sample of 70 managerial employees from March 2018 to March 2019. It found this group had been paid restitution of only about 40% of what was required.

"We welcome the opportunity for further clarity from the court process on the correct interpretations of the relevant provisions," Woolworths responded. If the FWO's interpretation is correct, Woolworths could be up for costs far higher than the $500 million it has provided to date. Woolworths shares fell 1.6% on the news but have since recovered.

A good meeting for a well-run company.

A successful meeting was held online via Lumi. The chair and the board were located across the country due to Sydney's COVID-19 lockdown. The CEO and company secretary were positioned at the North Ryde office. All preliminaries to the meeting and its overall management were clear and efficient.

The chair and CEO's addresses can be accessed here: www.csr.com.au/AGM2021. ASA voting intentions report can be viewed on ASA's website.

Both executives discussed the company's bright future, including good returns for shareholders and protection of its staff. While revenue was down 4% last year, EBIT was up 8%.

The directors aiming to be elected or re-elected discussed their potential appointments. All directors were elected with over 97% majority. Mike Ihlein retired from the board after 10 years' service.

ASA asked five of six questions from the floor, including how the directors know their staff and customers are treated fairly. The chair's answer was clear and succinct. ASA also asked about the Tomago Aluminium smelter's future. The executives were confident in Tomago's future and indicated it is in a good position.

The CEO answered ASA's question about a slight increase in injuries and underlined efforts to lower this figure. The way CSR handles its asbestos liabilities in the US, including being unable to operate in the country, was also brought to the fore. The chair stressed there was no intention of expanding into the US in the next 10 years. When a shareholder asked if CSR was committed to in-person meetings after COVID-19, the chair said the company was devoted.

All resolutions passed except for Resolution 5, the adoption of a new constitution. It was defeated with a 25.27% vote against it. A proxy advisor voted against it on the basis it did not like that it allowed technology to assist with a meeting.

CSR LIMITED (CSR) AGM

1 year chart

MONITORS: Richard McDonald, assisted by Roger Ashley

Date	25 June 2021
Venue	Online
Attendees	36 shareholders plus 19 visitors
ASA proxies	697,904 shares from 143 shareholders
Value of proxies	$4.1m
Proxies voted	Yes, on a poll
Market cap	$2.854b – on day of meeting
Pre-AGM meeting	Yes, with chair John Gillam

Final approval for spin-off of Endeavour Group

This general meeting's intention was to approve the final structure for the demerger of Endeavour Group from Woolworths. Voting intentions are available on the ASA website.

The separation had been approved at an EGM in 2019. The meeting's simplicity was apparent with all three resolutions approved with over 99% favourable votes.

The first resolution was to demerge Endeavour by allocating 70.8% of Endeavour shares to Woolworths' shareholders on a one-for-one basis. Woolworths retains 14.6% of Endeavour and Bruce Mathieson Group retains its existing 14.6% share of Endeavour.

ASA supported this motion since it is fair to shareholders. However, ASA queried to what extent Woolworths explored other structures, such as a trade sale or an IPO.

Chair Gordon Cairns blandly answered that the board considered alternatives and decided a demerger structure was in shareholders' best interests.

The second resolution involved reducing the level of Woolworths' capital, thereby reflecting how a portion of the Endeavour shares issued will be a reduction in capital for accounting and tax purposes. The third resolution adopted for Endeavour was the same termination benefits approved for Woolworths' executives at the 2020 AGM. The resolution also converted long-term incentive benefits in Woolworths' shares to Endeavour shares for executives moving to the new company. The level of benefits remained the same.

Few questions asked involved substantive issues. The largest number of questions were online. Activist Stephen Mayne dominated with questions about poker machines. He asked so many questions the chair eventually cut him off, but not before confirming annual revenue from poker machines was about $700 million.

One interesting point to emerge was that Woolworths has a substantial pool of franking credits and is considering a capital management action of up to $1.6 billion.

The new Endeavour chair and CEO responded to charges Endeavour was failing to respond fully to the Gilbert Report (on Woolworths' failure to consult adequately about the Darwin Dan Murphy's) by highlighting that the Endeavour board did not exist yet and would respond in due course.

The chair and CEO will travel to Darwin shortly to talk to interested parties.

Continued at the bottom of page 22.

WOOLWORTHS GROUP LIMITED (WOW) AGM

1 year chart

MONITORS: Don Adams, assisted by Julieanne Mills

Date	18 June 2021
Venue	ICC Sydney and online
Attendees	46 shareholders and proxyholders live and 86 online, plus 233 guests live and online.
ASA proxies	1.583m shares from 580 shareholders, equivalent to 16th in Top 20 list
Value of proxies	$67.5m
Number of shares represented by ASA	1.583m, equivalent to 16th largest shareholder in Top 20 list
Proxies voted	Yes, on a poll
Market cap	$53, 892m – on day of meeting
Pre-AGM meeting	No

ASA educates investors and stands up for shareholder rights

Expand on your investor knowledge, meet like-minded people, and get protection for your rights as a shareholder.

We help you on your investment journey

ASA offers regular learning and education opportunities, so you can hone your financial knowledge and investment skills. You can attend member meetings, discussion groups, webinars, conferences, workshops, and read Equity magazine.

We connect you to a community of investors

ASA provides a thriving investment community where you can build relationships, engage with new ideas and learn with like-minded investors.

We protect your rights and make your vote count

We champion your rights and amplify your voice on shareholder matters and make your vote count.

www.australianshareholders.com.au/join-asa

Leaving a gift to ASA

Leaving a gift in your Will is a personal decision. A bequest to ASA is a legacy for future generations of retail investors and makes a difference to shareholder education and our advocacy on behalf of individual investors to protect their rights.

You can assist retail investors to connect with a community of shareholders, become more informed as investors and support ASA in advocating for the protection of shareholder rights.

For a confidential discussion, contact
1300 368 448 or ceo@asa.asn.au

australianshareholders.com.au/bequests