EQUITY

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From the CEO
- The importance of planning for your retirement

By Rachel Waterhouse, CEO

A large proportion of ASA members are retired and are hopefully living well off their nest eggs. Even if you have successfully negotiated this difficult task, you need to stay alert not just for yourself, but also for family members who may still be in the wealth building stage. Here are some tips to help you with this.

Start with a plan

Life after work is not something we always think about. But reliance solely on your employer's contribution to build your superannuation may not be the most sensible approach. So, how should you prepare a retirement plan and determine what you'll need to save to retire comfortably?

Retirement planning isn't a one-off, "set and forget" activity, but a multistep process that evolves over your working life and into retirement.

If you desire to live a comfortable, secure, and fun retirement (who doesn't?) – going to fancy restaurants, taking the occasional overseas cruise, and buying something you like rather than you need – you'll want to build a financial cushion that will fund it all.

In other words, you'll need to get serious and do the planning now, so that you can enjoy it later.

You need to think about your retirement goals, work out how long it will take you to meet them, and develop an investment strategy designed to get you there.

Here are the five steps everyone should take, no matter their age, to build and maintain a solid retirement plan:

1. Ensure your super is performing well.

Super is likely to be one of your biggest assets by the time you retire, so it's vital this investment is thriving.

Don't believe the advertising or stay with a fund because it's too much hassle to move – consider the returns you receive compared with the fees you pay, look at the types of investments the fund has, determine how successful the investment strategy has been, and see how it stacks up against the competition.

To make this analysis easier, the Federal Government's Your Future, Your Super reforms include a MySuper tool which enables you to understand how your fund is performing.

You don't have to stay with the fund you first joined. If you decide to move, consider whether a self-managed super fund, retail fund, or industry fund is best for you. Then, keep a close eye on its performance (at least twice a year).

2. Understand your time horizon.

How long do you have before you plan to retire? If you are 50 and plan to work until you are 65, you've only got 15 years left to maximise your nest egg.

This means possibly having to spend less and save more, using salary sacrificing or direct contributions to build up your super. Or, you might have to stay working for longer. The more you save and invest now, the more comfortable your retirement will be.

3. Determine retirement spending needs.

Consider your ongoing living expenses when you retire and ensure you have set aside enough for them.

The Federal Government's Moneysmart website has some great tools to help you plan. It suggests: *"If you own your own home, a rule of thumb is that you'll need two-thirds (67%) of your pre-retirement income to maintain the same standard of living in retirement."*

Plan a budget which identifies the types of expenses you may have in retirement. Don't think of how you live now, but how you are likely to live then (more medical expenses, regular overseas travel and even grandchildren's school fees).

As a guide, the Association of Superannuation Funds of Australia provides an industry retirement standard of how much you might need:

ASFA Retirement Standard	Comfortable Lifestyle	Modest Lifestyle
Single	$44,412 a year $850 a week	$28,254 a year $541 a week
Couple	$62,828 a year $1,203 a week	$40,829 a year $782 a week

4. Calculate your investment returns and risks.

Consider the investment portfolio you will have in retirement and the rate of returns you will get. This will be your annual income and remember, you may still need to pay tax on that income. The goal is to have enough money coming in to fund your lifestyle.

You'll find that your investment strategy, and the risks you are prepared to take, will change as you age. Younger people tend to take more risks to get quick wins but, as we investors get closer to retirement, we tend to get more conservative.

At 30, you may be keen to invest in a tech industry IPO in the hunt for "10 baggers", but you're probably going to be more cautious at 60.

Your strategy should be designed to adapt as you get older, so that you reduce your risks and protect your portfolio. This will help you sleep at night too!

5. Stay on top of estate planning.

You've worked hard to build your investment portfolio. Ensure you protect it, especially if something unfortunate were to happen to you or your partner.

Write a will, develop an estate plan, and, as with any financial plan, seek professional advice.

Check out our 20-part video series for help in this area. As we explain, retirement planning isn't a quick process and needs careful consideration. But if you invest the time now, the only thing you'll have to decide later is whether it will be Mai Tais or Mojitos on the quarter deck.

Help the rest of your family

As ASA members, you are clearly engaged with building and protecting your wealth. I hope you can help family members think about and plan their retirement too.

Investments to consider for your retirement portfolio include ETFs and LICs. Our Virtual Investment Forum on **23 and 25 November** will explore the opportunities and challenges of these investments. You can watch this live online. Recordings will also be made available.

At only $60 for the two days, this will be one of the best investment decisions you make all year.

I hope to see you virtually there! E

The big crypto rush – are you prepared?

By Dr Laura Rusu, Founder, LENSELL

Cryptocurrencies have taken the world by storm and as of today Bitcoin makes up for 45% of the total value of cryptocurrencies in terms of market capitalisation.

Almost everyone has heard about Bitcoin, Ethereum or Dogecoin from the news. They are just three examples of digital currencies, also known as cryptocurrencies.

A cryptocurrency is a virtual currency that is created and traded exclusively online. There are more than 2,000 of cryptocurrencies currently on the market, with more being created daily.

Cryptocurrencies are safely guarded with cryptographic algorithms, which makes them secure enough to be trade in the online environment by millions of people.

Formally, cryptocurrency uses a peer-to-peer technology called blockchain, that is based on a decentralized network to transact without any legal binding of governments or other central authorities.

Who is getting into crypto, and why?

Around 106 million people around the world have invested in cryptocurrencies so far, and the numbers are increasing daily. Cryptocurrencies have attracted and continue to attract people from all walks of life and all generations.

"Smart money" has tapped into cryptocurrencies, and investments are beginning to flow.

Citibank, Morgan Stanley, Goldman Sachs, and JP Morgan Chase now recognise cryptocurrencies as suitable assets for diversification and offer investors the option.

Tesla has invested US$1.5 billion in bitcoin and is interested in accepting bitcoin payments in the future. Micro-Strategy, a business analytics platform software company purchased US$1 billion in Bitcoin.

Are the Aussies left behind or have they picked up on this exciting asset class? A Finder survey of 1,004 Australians conducted in January 2021 revealed that one in four people invest in or plan to invest in cryptocurrency. That's equivalent to 5 million digital currency investors.

Why would you get into crypto?

Cryptocurrencies are volatile investments. So, people often see them as great or terrible. But what if you saw them as a diversification asset?

Just like the "big players", whether you include cryptocurrency in your portfolio depends on the risk you're prepared to take. The first step is to know how risky your portfolio is now and how much risk other potential investments, including crypto, carry. If you know that, boosting your portfolio's return potential with cryptocurrencies could be a great way to diversify your investments.

A few words about risk

To put it simply, risk is how much money you could lose when markets fluctuate.

Investments are usually trade-offs between risk and return. When you invest in any assets you expect them to appreciate in value. At the same time, several factors may affect your portfolio. These can be market risks, liquidity risks, political risks and others. They all contribute to how the asset prices behave (increase or decrease) as a response to those risk factors.

Volatility shows how much the price of a specific security deviates from its average return. As the prices go up and down, the risk refers to how much the price can go down (since that is when you could lose money).

If the price deviates a lot from the average day after day, the security is said to be more volatile (riskier) compared with a security for which the daily price deviates just slightly from the average return.

It is therefore very important that investors know the volatility of their portfolios, so they are not anxious about the normal daily price fluctuations.

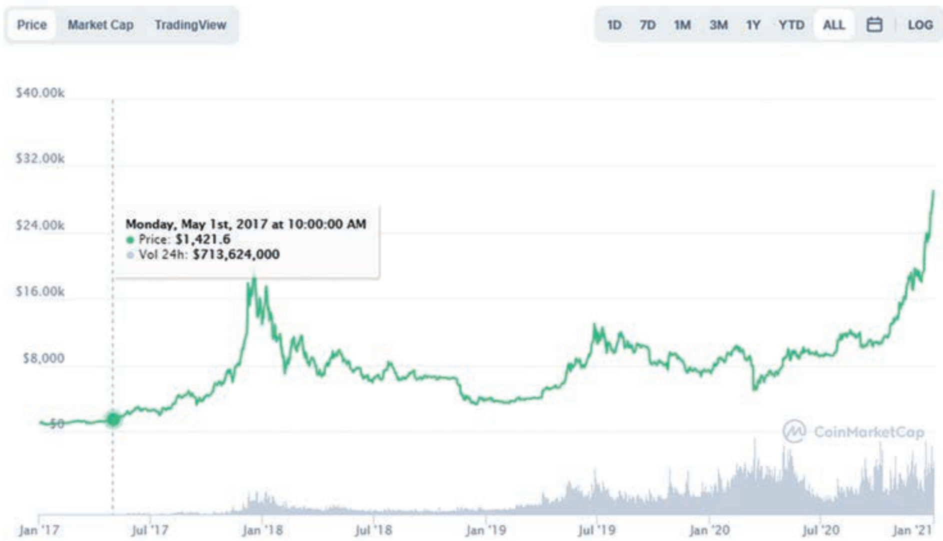
What about cryptocurrencies risk?

Digital currencies behave in the same way as other securities. Their prices will go up and down based on daily investors demand, which in turn may be influenced by many risk factors as described above.

However, cryptocurrencies are much more volatile (therefore riskier) as they respond much faster to various external events, for example, announcements from companies that start using cryptocurrencies or regulatory impediments to crypto uptake in different countries.

Let's take the example of Bitcoin. The popularity of Bitcoin kicked in during 2017 when the price went from $1,000 to almost $20,000 by the end of the year. That was a 1900% increase in only one year.

Any reasonable investor would have understandably argued that that was a



Bitcoin price chart from Jan 2017 to December 2020. Source: CoinMarketCap singular behaviour that could not be repeated. However, in 2020 the price of Bitcoin went from $7,500 to $27,500 - a change of about 267% in a calendar year.

By now, you are probably calculating the return you could have made - but wait, return is not everything you should consider.

The problem comes with analysing and accepting the risk, or the downside involved while aiming for those incredible returns. After Bitcoin hit a high of $20,000 in 2017, it saw a low of $3,600 by the end of 2018 which was a fall of over 80% - imagine the psychological impact of that change!

How is risk calculated?

For any given security, price volatility (that is risk) is calculated mathematically as the standard deviation of the returns from the average return.

You will find that different securities have very different levels of volatility, for example: the volatility of a cash ETF would be the lowest at around 0.7-1%; a well-known retail stock like WOW (Woolworths) has a volatility of 9.5%, a newer, very popular stock like APT (Afterpay) has a volatility of around 100%, while Bitcoin has a volatility of over 430% a year.

Most often people invest in several securities not just in one, including (or not) in cryptocurrencies.

In all cases, the overall portfolio risk is a matter of:

- Individual risks for each security in the portfolio.
- The weight of the securities in the portfolio (that is, how much has been invested in each).
- The correlations between pairs of securities, that is the degree to which the prices of two securities move in the same direction or in opposite directions in response to market risk factors.

As it can be inferred from the above points, it is very important to know not only how much you invest in each security, but also how risky (volatile) each security is, and how correlated the securities are.

How much to invest in crypto?

What many crypto investors want to know is, what percentage of their investment portfolio should be invested in crypto?

The equivalent question to that is: How much can you tolerate to lose?

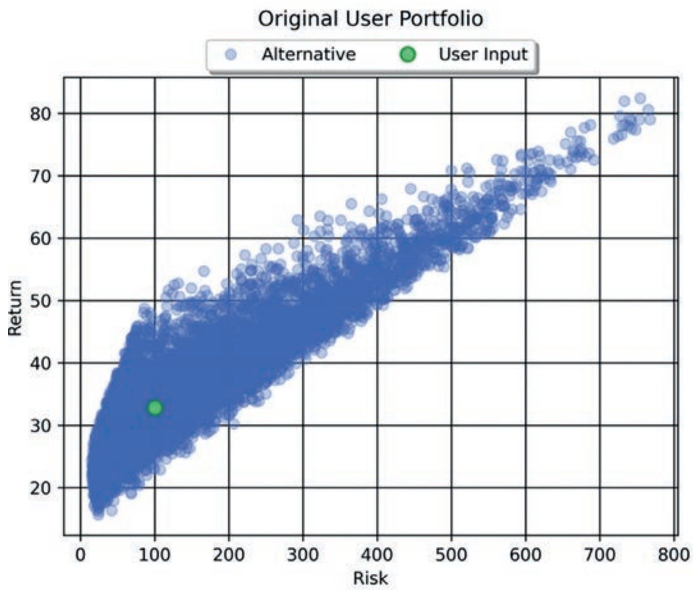
Advisors from around the globe suggest different percentages of investments in cryptocurrency to investors. We argue that there is no percentage that works for everyone, because each investor is different and so is their portfolio.

Let's look at a mixed portfolio example. We created a sample portfolio of six investments (five ASX stocks making up 90% of the portfolio and one cryptocurrency for the remaining 10%) as follows: CBA 20%, MAQ 20%, COL 20%, BHP 20%, WES 10% and BTC 10%.

For this portfolio, the expected portfolio return based on the past three years of historical returns is approximately 32% and the portfolio risk is around 100%. This means that this example portfolio is very risky - if an investor selected this particular composition, they could get as much as 130% return if prices went up, but they could also lose as much as 70% if the prices went down.

If we visualise this portfolio allocation in Diversiview, it places it somewhere in the middle of over 5,000 other potential possibilities for the same set of securities (see figure top right).

Portfolio's Position in relation to the Efficient Frontier



Portfolio position for the example asset allocation

As it can be noticed, for a risk (volatility) of 100%, there are other, better positions that would give an expected return higher than 32%. Also, there are positions on the Efficient Frontier that can achieve an expected return higher than 32% for a risk less than 100% - even better.

Can we reduce the risk while holding on the crypto?

The actual question is, how can we find the percentage of Bitcoin in this example that can give us the lowest risk?

If we employ Diversiview Balancer targeting the Minimum Risk Portfolio we obtain the following new allocation: CBA 10.81%, MAQ 1%, COL 3.88%, BHP 77.05%, WES 6.26% and BTC 1%.

It shows that by reducing the Bitcoin allocation to 1% and adjusting the other securities as well, we can obtain an expected return of 23% and a volatility of around 14%. While the return is reduced by 9%, the risk is also reduced dramatically by 86%.

The point of this example is to show that the actual percentage (allocation) that someone may want to invest in a particular security, including in crypto, is not at all static and generic. It will very much depend on the outcome you try to achieve. In this example, 1% Bitcoin was required in order to find a portfolio position that has the minimum possible risk for the set of securities selected. Other selections of securities or other risk/return targets will render different results.

Note: this is an example only and it should not be relied upon to make any investment decisions. Please consult with your financial advisor before making any changes to your portfolio.

To sum it all up, we would like to ask investors three simple questions:

- Do you know the risk and expected return of your current portfolio?
- Where do you stand compared to many other possible potential risk and return positions for the same set of securities?
- Are you happy with the position you've got, or do you need to minimise your risk, maximise your return, or both?

Based on the above answers, you can easily adjust your portfolio and reassess it. The most important thing is that you are happy with the level of risk you take, for the return you expect.

Understanding listed investment companies and trusts

By Ian Irvine, CEO, Listed Investment Companies and Trusts Association

Listed investment companies or LICs have been a part of the investment fabric of Australia for 98 years.

As companies listed on ASX, they have provided investors with a convenient and transparent method of accessing professionally managed portfolios of investments.

In recent years, the ASX listed market has expanded with new entities coming to market and existing ones growing in scale. The sector now covers a growing number of asset classes, including LICs and listed investment trusts (LITs).

It's important to understand the structural differences between these listed investments and other investment products such as unlisted managed funds or exchange traded funds (ETFs).

Structure matters

LICs and LITs are closed end structures. This means they raise capital in blocks, rather than continuously. This fixed capital is then invested in the company or trust. Income and profits may be distributed to investors as dividends or distributions. The underlying value of the assets may also change over time, and this will be reflected in the asset backing and market value of each share or unit.

Investors wishing to invest further or exit their investments can do so on-market by buying or selling the LIC/LIT shares/units through the ASX, at the price agreed on, in the open market.

On occasion, if capital is no longer needed, that excess capital can be returned to investors via a capital return or buy-back. Importantly, as with all ASX listed entities, the raising and periodic return of capital by LICs and LITs occur in a structured and orderly way.

This structure can be compared with open-ended funds like ETFs and managed funds, which accept new deposits and pay withdrawals on a continuous daily basis. Each deposit into an open-end fund results in the fund expanding and requires the investment manager to buy additional investments. Similarly, each withdrawal requires the fund to sell its underlying investments to meet that redemption.

Because the capital in an open-end fund continuously changes and may shrink materially when many investors withdraw at the same time, this may make it difficult to invest and hold longer duration assets or to implement longer term investment strategies.

In contrast, the fixed capital of closed-end LICs or LITs can minimise unnecessary buying and selling of assets and may provide a more stable platform for long-term investments and may also encourage a longer-term approach to investing.

Diversification

When investors buy into a LIC or LIT, that one purchase will provide them with immediate exposure to the diversity of assets – one of the most important ways to control risk.

For example, Australian share LICs or LITs will generally hold portfolios containing between 20 and 200 individual Australian shares. They can also provide investors with diversity across investment managers, investment management styles and asset classes.

This market currently contains over 100 different funds spread across Australian shares, global shares, private equity, long-short strategies, credit, and infrastructure asset classes.

Differences between LICs and LITs

LICs are companies. As such they operate under the same tax and governance rules as all other publicly listed companies.

The important characteristics of the company structure are:

- As tax-paying entities, LICs pays company tax on their income and may then pass on a franking credit for that tax to shareholders when they pay a franked dividend.
- LICs may choose to retain profits from one year to reinvest or to distribute to investors in future years. This gives LICs the ability to smooth or improve the consistency of their dividends to shareholders.
- Shareholders play an important role in corporate governance. They may vote at company meetings and vote to appoint the company's board.

LITs are trusts and operate under the tax and governance rules applicable to registered managed investment schemes. LITs are pass-through entities for tax purposes. LITs pay no tax at the trust level and pass their income directly through to the investor each financial year.

Compounding

Many LICs and LITs offer dividend and distribution reinvestment plans. These provide investors with a convenient means of reinvesting their distributions back into the LIC or LIT, should they want to.

In a rising market, the benefits of a compounding investment can be substantial when aggregated over multiple years. Compounding was particularly important in the higher inflation period between 1970 and 1990. With inflation once again starting to rise, the importance of compounding may soon be a growing topic of conversation.

Dividend/distribution reinvestment plans make compounding easy to achieve. Alternatively, an investor may take the payments as cash and reinvest into other assets in their portfolio.

Some long-term examples

The LIC or LIT structure is frequently aligned to long term investment.

Examples of the benefits of long termism and the closed-end structure can be seen in the operating expense ratios of some of the largest LICs and LITs. The largest LIC, Australian Foundation Investment Company [ASX: AFI], has a market capitalisation of nearly $10 billion. Its focus on steady long-term investments and careful management has seen it grow in size and shareholders over many decades. Its total costs of operation are less than 0.15% of assets, making it one of the most cost efficient actively managed investment funds in Australia.

In another example of the potential benefits of steady long-term investment, Australia's oldest LIC Whitefield Ltd [ASX: WHF] was founded in 1923 and provides exposure to a highly diversified portfolio of listed Australian shares. It has maintained or increased its ordinary share dividend in every year since the introduction of the imputation system in the 1980s. An investment of $10,000 in Whitefield in 1970 would be worth over $3,000,000 today, assuming dividends were reinvested, and without taking account of the benefits of franking credits.

The annual test that could save you thousands

By Eleanor Barz, Policy and Communications Adviser, Super Consumers Australia

For most people, super will be one of their biggest assets by the time they retire. It can also be a source of confusion. Not only is the system complex, but up until now there hasn't been a reliable way to figure out which funds are good. That's a concern, as the 2018 Productivity Commission Inquiry found that typical full-time workers who wind up in a dud fund, rather than a top performer, could lose as much as $660,000 or around 13 years' worth of pay.

This year, things are changing. The Government recently heeded calls for significant reform by introducing an annual performance test that compares super funds' long term net returns to a passive benchmark based on the asset classes they invest in. The benchmark is made up of a prescribed set of indexes determined by the regulator. The test only covers the default super products (called MySuper) but will be expanded to include "choice" (now called Trustee Directed Products) next year.

Naturally, the performance test results made a huge splash when they came out in September. A total of 13 super funds were shamed for lacklustre performance. The fail list includes the "big four" banks Commonwealth Bank Group Super and Westpac's BT (Retirement Wrap), as well as industry funds like Maritime Super and LUCRF Super. The funds have to inform their members of their failure in writing, using a template provided by the Government. And, any fund that fails two years in a row will have to stop accepting new members until it improves.

So, can these underperformers turn things around? Net returns include fees, so dropping fees is the quickest way up. One way to do this is by switching to a more passive investment style, which reduces management costs. This may benefit members in cases where active "hands on" management hasn't paid off. Recent SPIVA (S&P Indices vs Active) scorecards show that outside of super, few actively managed funds beat the market.

For funds that failed by a large margin, the best option may be to merge with another fund. Typically funds with scale can find efficiencies which make them cheaper to run. Our analysis of super fund mergers in 2019 and 2020 showed that on average, fees of merging funds dropped by 13.4%, saving members a projected $15,000 over their working lives. This was compared to just a 2.76% drop for the rest of the market. Funds with significant scale can also access investment options that might not be available to smaller competitors, allowing them to take advantage of different opportunities.

The Your Future, Your Super reforms package is designed to do more than drive consolidation and lift fund investments to clear the performance test. It also dramatically lowers the barriers for individual consumers to engage in the superannuation market. The Productivity Commission found that consumers have long lacked a single place to easily compare quality information about super funds. The main way the reforms did this is via the new YourSuper tool on the ATO's website. The tool allows people to compare MySuper products by net performance and fees. By default, the tool shows fees for accounts with a $50,000 balance. People can go a step further and add their age and super balance size. This takes a lot of the hard work out of comparing multiple funds and provides information that is tailored to the individual, something static information sources like product disclosure statements cannot do.

For those who don't happen to be in a MySuper product, these results can provide useful anchoring information on fees and performance. The good news is "choice" products will be added to the tool and performance test in the coming year. To maximise the positive impacts of the reforms, it's critical that the test and tool be expanded to include all relevant super products. At the moment, retirement products aren't covered, meaning many retirees may be unwittingly invested in super products that are failing to outperform market benchmarks. This hole needs to be plugged, given retirees could greatly benefit from fee reductions and better performance on their lifetime savings.

One weakness of the reforms is they don't adequately address the complexity of insurance that is bundled with super. Most people are automatically paying for insurance that provides an income if they can't work anymore due to disability or death. However, the insurance policies lack consistent terms and definitions, making them difficult to compare and in some cases, fail to cover people for the basics. People switching to a new super fund also need to be aware that this may lead to them losing default cover which they may not find elsewhere. We're really encouraging people to read the insurance guides and talk to their super funds about what protection they offer. Our analysis of insurance policies has found a large number inappropriately discriminate against older people, and people who are unemployed, working part time or in dangerous jobs. Super Consumers Australia is urging super funds to drop these clauses as they leave some members paying for insurance that is poor value.

Overall, the new reforms empower people to make more informed decisions. Savvy consumers will drive competition between super funds, ultimately leading to a healthier market that delivers high quality super products. Once all investment options face the same regulatory scrutiny, consumers can look forward to an era where their interests come first.

New SMSF strategies in a low interest rate environment

By **Nick Raphaely,** Co-CEO and Co-Founder, AltX

While equities and cash still make up a sizeable proportion of the typical self-managed super fund (SMSF) portfolio, there's growing interest in alternative investments, including in private debt.

With interest rates still at historic lows and ongoing share market volatility, some SMSF trustees are thinking outside the box in search of yield supported by capital protection.

Anecdotally, SMSFs may be perceived as being concentrated in direct property investments. But the reality is a little different. ATO data for June 2021 suggests non-residential real property makes up 10% of SMSF assets, and residential property 5%. Listed shares still lead the way at 29%, and cash 19%.

That still leaves 37% to allocate to an ever-growing number of investment options, including listed and unlisted trusts, managed investments, and debt securities.

Expanding investment horizons

Peter Burgess, deputy CEO and director of policy and education at the SMSF Association, says auditors are now paying closer attention to investment strategies. "There's certainly been a stronger focus on diversification over the last few years, as well as ensuring the strategy properly considers the fund's liquidity and cash flow requirements."

Traditional defensive strategies like term deposits and bonds currently offer little in the way of cash flow returns. Australian 10-year government bonds were yielding just 1.7% in May 2021, down from around 5.5% through the early 2000s.

Volatile equity markets make franked dividends less dependable for a reliable income. And, with high entry costs, direct property investments require a concentration of funds, reducing opportunities to diversify in line with ATO recommendations.

This is where growing awareness of "left field" alternatives can pay off. SMSFs have more flexibility to diversify than APRA-regulated super funds – and private debt is one alternative advisors are suggesting for larger SMSFs that can deploy capital into less liquid or unlisted assets.

For SMSF members close to retirement, protecting the wealth they've worked so hard for is the number one priority. As one of our investors told us: "My only goal for managing my own super is to preserve my capital and establish enough income to enjoy life. I'm not here to get rich quick."

He derives his retirement income from a combination of property, shares and first mortgage investments. Using AltX's alternative investment platform to invest directly in private debt deals, he receives monthly returns in the form of interest payments.

Freedom of choice

"People choose to set up SMSFs to have more choice and flexibility over their superannuation investments, and the past 12 months has seen the strongest net growth in the number of SMSFs for many years," says Michael Lorimer, Managing Director of the Self-managed Independent Superannuation Funds Association (SISFA).

He is seeing a younger cohort entering the SMSF space. "Couples in their 30s and 40s have amassed significant super, and with administrative costs coming down, an SMSF can be competitive to run from around $200,000 in assets."

Following the ATO's communication targeting SMSFs it perceives to be poorly diversified, primarily those in a single property asset, trustees have focused attention on ensuring investment strategies are properly documented.

"For SMSFs, passive property exposure is not complicated, but whether it stacks up financially is another consideration," says Lorimer.

If an SMSF needs to borrow under limited recourse borrowing arrangements to fund a property purchase, it will be subject to higher interest rates. There are also compliance challenges if the fund decides to develop or improve that property investment, as well as grey areas around non-arm's length income. For example, any income derived from a property purchased from a related party for less than market value would be taxed at the top marginal rate.

There is, however, another way SMSFs can benefit from Australia's property boom without buying directly into the asset. And, that is to "be the bank" to fund the private lending deal that underpins as a specific asset.

SMSFs can tap into direct deals, via platforms like AltX, or invest via managed funds. At AltX, we are working with advisors to simplify access through bespoke funds, as well as democratising access for wholesale investors to invest in individual deals they feel comfortable with.

From an investment strategy perspective, a first mortgage investment can deliver three key benefits:

- **Liquidity:** For SMSF members nearing retirement, the relatively short-term position (six to 12 months) of a private debt deal is comparable to a term deposit.
- **Income:** Once you're in the retirement phase, it can be reassuring to have interest income paid monthly, rather than waiting for annual dividends and franking credits.
- **Capital preservation:** Our SMSF investors say they feel comfortable knowing there is a "bricks and mortar asset" as the underlying security. And, as a first mortgage holder, they rank ahead of other creditors for repayment of capital.

As with any investment, it's important to weigh up the relative risk and return. When you can access all the details on a private debt deal, you can weigh up the opportunity on its own merits.

The cookie cutter can't be applied

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

The self-managed super fund (SMSF) sector received some good news recently when the Federal Government released the explanatory materials for the exposure draft of the legislation that will introduce a retirement income covenant for superannuation fund trustees.

Contained in the materials was the stipulation that the retirement income covenant "does not apply to trustees of SMSFs".

When you think about what this measure aims to achieve, it really made no sense for SMSF trustees to be bound by it.

Basically, more initiatives are being introduced to the superannuation industry to accelerate the development of better income solutions for Australians who are in their retirement years. For a long time it has been recognised the country is experiencing a generational shift, with the majority of the baby boomer generation moving into their retirement over the past decade without an accompanied shift in focus from super funds.

In many ways this situation has led to the growth in the number of SMSFs as retirees look to find and manufacture a retirement income solution they couldn't get from their existing super funds.

And, if we accept this is the motivation for many individuals to set up an SMSF to control how they fund their retirement, then the application of the retirement income covenant to these people makes absolutely no sense.

It would be tantamount to the Government imposing the need for this cohort to formally document their strategy as to how they will meet the fund members', effectively themselves, retirement income needs. If the motivation of SMSF establishment I've outlined rings true, the fund's investment strategy, if properly drafted, should take care of that and any additional compliance requirement would be an unnecessary double up.

This anomaly had already been pointed out to Canberra by bodies such as the SMSF Association, which also expressed its concerns about the measure leading to an increase in administration costs. This would have come about from the need to extend the scope of the annual fund audit to take into account whether adherence to the retirement income covenant had been satisfied.

Further, other sector stakeholders raised concerns as to the role financial advice would have to play in the process when a question mark still hangs over the extent to which accountants, still the advisors SMSF trustees trust the most, can actually provide this service.

This is not to say the retirement income covenant is not a good idea for public offer funds. The diversity of their membership bases, with so many individuals still in accumulation phase, means measures like this will go some way to ensuring their members in retirement are not largely ignored. You might call it an initiative to confirm that these trustees have the ability to walk and chew gum at the same time.

However, the implementation of the retirement income covenant has illustrated very well why a cookie-cutter, or one-size-fits-all, approach to legislation simply cannot work in certain circumstances for the super industry.

It is then very encouraging that our politicians and government agencies seem to have got this message.

Three simple indicators to tell when to buy and sell a stock

By Rijad Ahmic, ASA Finance Intern

When the average shareholder or investor thinks of technical analysis, they tend to think of it as an array of complex graphs, carrying out difficult calculations and showing complicated values. While this is the case for certain technical indicators, there are a few you don't have to be a quantitative trader to understand, as they are relatively easily understood and can be utilised for a better investment strategy.

Now, why should we use technical analysis? If you are in the stock market for the medium to long term, does technical analysis still apply? Yes, it does, as technical analysis is a great tool to complement a better entry or exit point of a stock, ensuring you investment returns are higher.

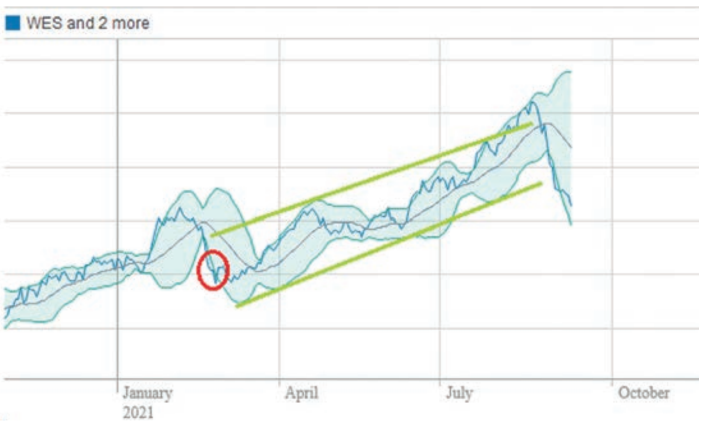
The three indicators that will be explored are:

- Bollinger Bands
- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MCAD)

The first indicator, Bollinger Bands, is a technical tool with multiple functionalities. Its underlying function is to indicate whether a stock is overbought or oversold. It does this by plotting an upper and lower band, each two standard deviations away from the moving average (usually the 20-day moving average). The movement contained within these bands represents 95% of a security's historical price movement, thus allowing investors to see whether the price is over-extended or not.

Now for an example:

Table 1



In Table 1, we have a chart of Wesfarmers (ASX:WES) from January 2021 to September. Looking at the red circle, here the stock price drops out of the lower Bollinger Band. A common strategy is to wait for the price to re-enter the Bollinger Band and head towards moving average, acting as a form of confirmation that the stock will be reverting back to the average price trend. Another thing to note is the slope of the bands. Here we have the bands sloping up, indicating an uptrend (run). This is an important factor, as although the price may move outside of the Bollinger Band and back in, if the stock is in a downtrend, it may not necessarily revert to the average but continue in a long-term decline.

This is all based on probability theory, which assumes that the share price will likely "revert back to the mean" (the moving average shown as the greyline). However, perhaps true in the theoretical world, in practice, this is not always the case, as there are many factors which can influence how the price moves. And that's where the Bollinger Bands' biggest fault lies. Bollinger Bands are useful to see how a stock's price is moving but they shouldn't be used as a standalone analysis, but rather in conjunction with other technical tools and forms of analysis like fundamental analysis.

The next indicator, Relative Strength Index (RSI), is similar to Bollinger Bands, in the sense that it helps evaluate overbought or oversold conditions. RSI achieves this by measuring the speed and change of price movements.

RSI has two reference levels regarding the share price. Traditionally, these levels are 30 for oversold and 70 for overbought. However, these can be modified to better represent a specific stock, for example, where a stock consistently trades above the 70 level, you may want to adjust the upper RSI limit to 80. When the RSI reaches the value of 70 (or what you have programmed it to be), it is considered to be overbought, indicating a possible downside turning point. Conversely, when the RSI is at the 30 level or below, it can be oversold, indicating a potential upside turning point.

Table 2

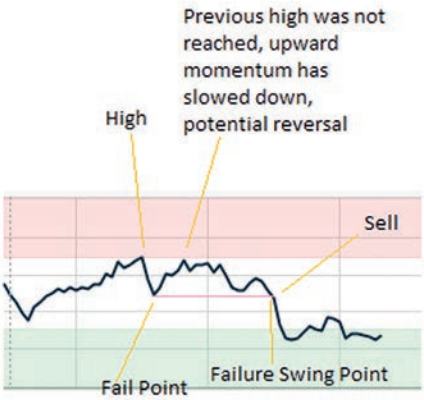
Now an example and how RSI can be utilised:

Table 2 contains a price chart for BHP (ASX:BHP) from January 2021 to September. We can utilise this indicator by looking for a pattern of divergence. We can see that BHP's share price is reaching higher highs, while down below, the RSI is reaching lower highs, indicating a divergence (maroon lines). BHP's price vs RSI movement is representative of a bearish divergence, where upward momentum has slowed down and a reversal may occur (which it does).

Alternatively, a bullish divergence is where the price makes lower lows and RSI makes higher lows, indicating a possible uptrend.

Continuing with BHP's RSI indicator, another method investors may use is failure swing points. However, it should be noted that this type of strategy is more so for traders, and that there are other elements to consider with failure swings.

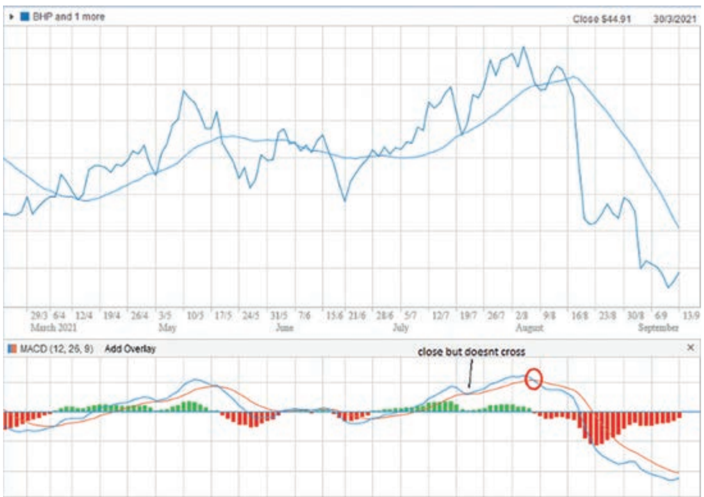
Table 3



Just like other forms of technical analysis, RSI doesn't factor in events that influence a stock's price like economic news, earnings, and other fundamental aspects. When using RSI, we need subjectivity. RSI works best when combined with volume, moving average convergence divergence (MACD) and moving average.

MACD is a great tool to measure a stock's momentum and determine a trend. There's a fair bit of technical jargon behind how the MACD operates and is calculated. However simply put, it plots two moving averages, one fast and one slow (their durations can be changed), and subtracts them from each other, creating the MACD. The MACD is plotted with a signal line, which is an even faster moving average. A crossover between the MACD and signal line indicates potential buy or sell signals, as a crossover represents a shift in the market trend.

Table 4

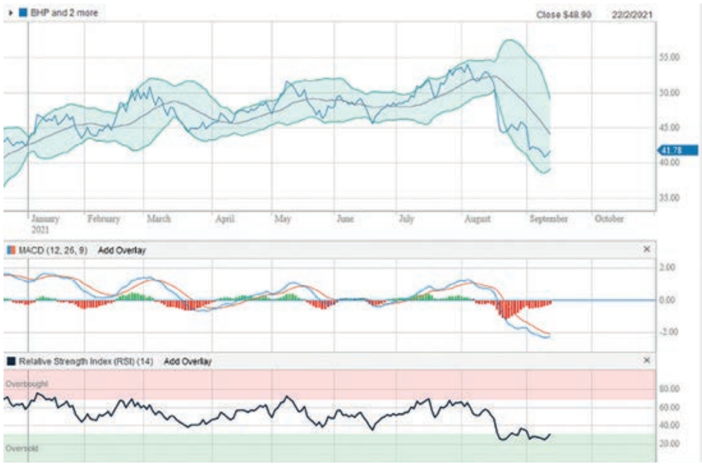


Using a similar BHP chart (Table 4), March 2021 to September, we can compare MACD with the RSI indicator. Where the RSI was showing bearish divergence and indicating a reversal of share price, the MACD has crossed below the signal line. The MACD crossing below the signal line is a bearish crossover. Investors may use this crossover as signal to sell, as it is indicating that the market is headed in a downtrend.

If the MACD were to cross above the signal line, investors may use this as a buy signal, as a signal the market may be trending up. However, MACD isn't fool-proof, and you shouldn't go out trying to find crossing lines. Just like the other two indicators, MACD is technical based indicator which doesn't account for outside factors.

The strength of these indicators is enhanced when utilised together, as it's much easier to get a false signal when only prescribing to one. Combining MACD and RSI is the best strategy to confirm price momentum, whether the stock is headed in an uptrend or down trend. If the RSI and MACD are both signalling the same momentum shift, there is much more confidence than when they indicate opposite momentum to each other.

Now when we are confident in the market's momentum and trend, we can use the Bollinger Bands to determine whether there may be a reversal to mean. If the RSI and MACD are both indicating a bullish trend, while simultaneously the stock price has dropped out of the bottom Bollinger Band, many traders or investors would see a strong potential for a price reversal.



By utilising these three indicators, investors can be more confident when either taking a buy or sell position in their stocks of choice. And, although these indicators have their shortcomings individually, when used in conjunction with one another and incorporated with other forms of analyses, such as fundamental analysis, they can significantly help investors make the right decisions.

Rijad Ahmic is a third-year civil engineering student at UTS. He has a strong passion and interest for finance, particularly the trading quantitative side.

Sustainability's effect on a company's share price

By Zane Alexander, ASA Finance Intern

Often when people think of a company's investment and transition towards sustainable practices, they think of the environmental and social benefits. But what tends to be overlooked are the underlying economic benefits. Due to increased government regulation, societal pressure, and the reduction in long-term costs due to the adoption of renewable energy, companies taking meaningful steps to reach sustainable practices have become increasingly favoured by the stock market. And companies failing to take such steps are increasingly falling out of favour.

The adverse effects on a company's share price from not putting into place reasonable sustainability practices are exemplified in the case of AGL Energy. AGL Energy is Australia's largest fully integrated energy, telecommunications, and utilities company. It possesses a rich history, being the second company listed on the Sydney Stock Exchange.

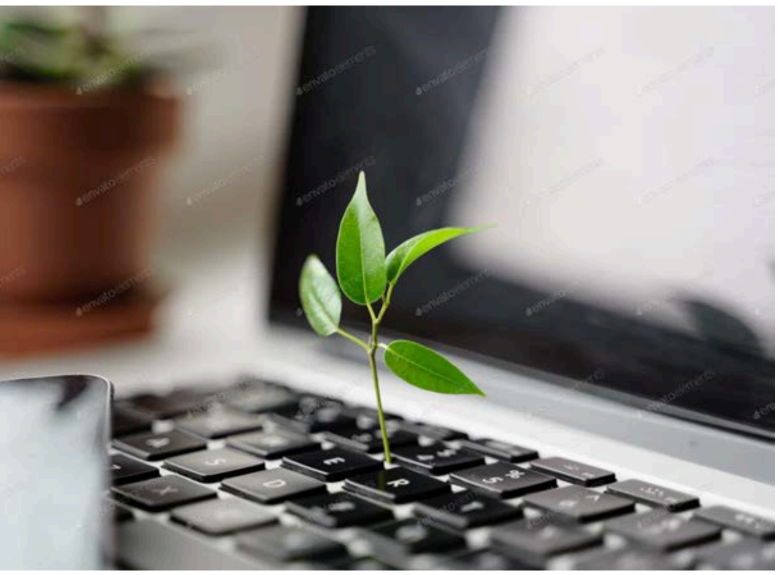
In April 2017, the AGL share price peaked at over $28. However, it recently hit a 20-year low and was sitting at $5.46 at the time of writing this article. This is a loss of shareholder value of 80%.

It begs the question, what happened to AGL? How did the AGL board let this once dominant force in corporate Australia fall to such lows?

The answer to this question lies primarily in its environmental policy.

In a damming report, the Government's Clean Energy Regulator voted AGL as Australia's largest emitter of greenhouse gases. It emits more than 42 million tonnes and can regretfully claim responsibility for producing 8% of Australia's total emissions. The rapidly changing governmental position towards clean energy coinciding with AGL's snail pace change in its emissions policy is fundamental to its downfall.

AGL did not expect the scale and shift towards renewables, with its chair Peter Botten admitting in early 2021 that he "didn't see quite the level of change and the acceleration of change in my thinking 12 months ago". AGL is currently in dire straits, with a demerger on the horizon, dividends being scrapped up to 2022, and now facing a frantic shift towards the decarbonisation of its energy production and a revamp to its public image.



The Government has had two major targets governing its climate policies. The previous Kyoto Protocol required Australia to reduce greenhouse gas emissions by 5% from their 2000 levels by 2020. The Government replaced this policy with the Paris Agreement, where 2005 emission levels are to be reduced by 26-28% by 2030. It is reported that Australia is not on track to meet this target by the 2030 deadline.

Additionally, increasing global pressure to increase emissions reduction targets could potentially lead to further acceleration of regulation on emissions and thus, heighten the necessity for companies to accelerate their clean energy approaches.

It's not only political pressure but also societal pressure towards reducing emissions affecting the value of companies. The behaviour contagion within investment markets can have direct effects on the price of a stock. Companies with investments in cleaner energy possess an intangible value compared to other companies not making an adequate transition. The value of a company's share price is determined by the demand for shares in a company. Hence, a greater societal demand for "greener" companies should in turn lead to higher share prices of those companies.

Aluminium is the second most used metal globally. It is essential in production and transport industries, with an expected increase in demand of 34% over the next two decades. Extracting aluminium initially requires the extraction of bauxite ore which is then smelted to create alumina. Alumina is then refined to create aluminium. Due to the recyclability and relative lightweight of aluminium, demand for aluminium is expected to increase as global economies transition towards greener policies.

However, issues do arise from the required energy expenditure in the smelting process of aluminium. As of 2015, smelting contributed to 8% of all worldwide energy use. The long-term sustainability of producing aluminium in a decarbonized world depends highly on the ability to reduce emissions in the smelting and refining stages.

But regulatory changes of aluminium mandates in the make-up of European-made cars demonstrate how aluminium can find its place greener economy. In 2019, the aluminium make-up of European cars reached 179 kgs due to its light weight, relative to steel. Fuel economy increased, inadvertently saving 50 million tonnes of CO_2. Although 17 million tonnes of CO_2 were used to produce aluminium, a 3:1 ratio of CO_2 saved to expended was observed.

By 2025, European cars will be mandated to have 200kgs of aluminium in each car, with the global adoption of this policy expected to follow suit. This example puts into perspective the potential increased adoption of aluminium for a wide range of future production.

Alumina (AWC) is an ASX-listed company in a joint venture with Alcoa. It owns 40% of the global alumina business Alcoa World Alumina and Chemicals (AWAC). AWAC is a market leader with 10% of global alumina production. AWAC partakes in all aspects of the aluminium extraction process with a key focus on bauxite ore mining and alumina refining. AWAC's operations are mostly centred in Australia and Brazil with these two countries making up 64% and 28% respectively of its consolidated net assets.

Having such a strong presence in Australia is extremely beneficial for AWAC. Political stability within the materials market is a driving factor for the company's growth, as uncertainty in supply relationships can have significant adverse effects on production. Businesses would prefer to deal with countries where they expect no disruptions in production.

Recently, Guinea, the world's second-largest producer of bauxite, experienced a military coup, leading to curfews being imposed nationwide, severely disrupting production. This shock to supply caused aluminium prices to reach a decade high.

The Guinea military coup and resulting political unrest potentially benefits AWAC due to the "safe" geological locations of its mines and refineries. Not only this, but a notorious global polluter, China, has imposed electricity tariffs on the Chinese material production sector with no preferential treatment approved for the aluminium industry. This will probably lead to a further increase in the price of aluminium and drive production away from China and towards AWAC.

In the rapidly changing energy landscape, AWAC has adopted a proactive strategy towards the reduction of emissions. It has closed its high emitting sites and reallocated assets from highly polluting practices. It has also invested in renewable technology, such as Mechanical Vapor Recompression (MVR), and is capitalising on the greening of the Victorian electricity grid.

In 2019/20, Alumina's partner company, Alcoa, was awarded a Gold Supplier Classification from EcoVadis, a sustainability ratings company, placing it in the top 5% most eco-friendly companies in its sector. AWAC has committed to a reduction of greenhouse gas emissions intensity by 30% in 2025 and 50% by 2030. These practices are testament to AWAC's proactive transition towards sustainability, establishing a solid foundation for long-term success in this growing industry.

AWC is in a prime position to capitalise on the development of renewable energy due to the location of its Australian mines, refineries, and smelters. Western Australia is considered to be one of the most optimal geographic locations for renewable energy, particularly solar and wind. And AWAC operates five out of six of its operations in this region. Several renewable projects have been proposed, including the Asian Renewable Energy Hub generating 26 gigawatts of energy, and the Western Green Energy Hub, producing a staggering 50 gigawatts. To put this into context, 50 gigawatts could power over two million households.

AWAC's long-term prospects look promising, given its proactive steps towards sustainability, its prime geographical location for the adoption of renewable energy and its heavy investments in reducing its carbon footprint. Improved investor sentiment for these sustainable practices has seen the AWC share price recently increasing from $1.76 to over $2.00.

Overall, sustainable practices and the transition towards renewable energy will be essential factors affecting the share prices for materials companies. AGL Energy is a prime example of what can happen if boards do not act proactively on greening their activities while Alumina is a prime example of a board proactively adopting sustainable change.

Further thoughts on alumina and the aluminium market

By Zane Alexander, ASA Finance Intern

Supply Side

Pressure on Chinese production

China is the world leader in aluminium production and demand, producing 60% globally. The two major issues of future production in China arise from geopolitical tensions and the effects of a stricter emissions policy.

A reduction in Chinese aluminium production has been the driving factor in the recent increases in aluminium prices, reaching a 13 year high. Guinea is the second-largest producer of bauxite. Its exports account for 55% of China's imported bauxite. Guinea's low reactive silica makes the refining process of aluminium cheaper relative to other global bauxite sources. Although Guinea's military leaders have pledged that mining will resume to pre-coup levels, tensions between China and the newly installed military government can potentially impact exports of Guinea's bauxite to China. China was a staunch supporter of the previous Conde rule and released a statement condemning the recent coup in an uncharacteristic move of meddling in another country's internal affairs. Thus, strains to relationships are expected to increase, leading to further pressure on aluminium production in China and upwards pressure on the price of aluminium.

A breakdown in relations with Guinea's government will require China to look towards its second and third largest suppliers of Bauxite – Australia and Indonesia. Indonesia's restriction on bauxite exports will lead to increased reliance on Australia. Tensions between China and Australia rose earlier this year when the Australian Government called for an enquiry into the potential source of the coronavirus outbreak, causing the Chinese Government to impose restrictions on imports from Australia.

China's lack of development in renewable energy has led to continued reliance on thermal coal in the energy-intensive smelting process. Thermal coal makes up 68% of China's total energy demand. The tensions with Australia are exacerbated as it is China's largest supplier of thermal coal. If tensions continue to exist, there will be further upward price pressure. The geopolitical tensions can significantly impact the costs of smelting, leading to a spot price increase and a diversion of production away from China.

China has cracked down on its emissions policy due to failing to meet its consumption targets for the first half of 2021. It estimates that emissions will peak in 2030 before net carbonisation occurs by 2060. Several Chinese provinces accounting for 16mt of production in 2021 have been given first-level warnings due to their energy consumption and will face further pressure to reduce consumption for the rest of the year. No preferential treatment has been granted to the smelting industry. Due to coal shortages and difficulties in power rationing, power shortages have led to a further reduction in bauxite smelting.

Low-cost energy provinces in the south of China, with favourable conditions for renewable energy, are facing competition from materials markets such as silicon and magnesium, limiting China's aluminium smelting capabilities.

Overall, aluminium production in China is expected to decrease, with the nation diverting its focus towards recycling plants and other materials. This will be countered by increased production levels of countries possessing more favourable low-cost energy conditions.

Freight Costs

Following the world reopening of business after the COVID-19 lockdowns, there is expected to be heightened competition for freight space, leading to higher supply costs for all commodities across the board. Seasonal demand for freight space due to Christmas approaching, remaining lockdowns, the transition towards online purchasing and labour shortages are the major factors driving freight costs.

Freight prices have increased 570% in the last 12 months, and spot rates for container ships to move manufactured products have increased for 20 straight weeks to reach more than 8x above their seasonal average over the prior five years. Several major freight companies, such as CMA and CGM, have pledged to halt any hikes in spot rates until February 2022. However, with nations across the world facing premiums on freight prices, upwards price pressure is forecast to continue all year.

Demand Side

Demand for aluminium is expected to increase over the next few years due to its lightweight which makes it suitable for the construction, automotive and aircraft industries. With the increased production of electric cars, aluminium is perceived as a viable material for manufacturing structural parts and batteries. Seasonal demand for aluminium is expected to maintain an upwards pressure on prices. Fiscal stimulus from governments across the globe to combat the economic consequences of COVID-19 will continue to support aluminium demand due to the requirements for construction and production.

Aluminium recycling continues to develop globally as it requires 95% less energy and emits just 5% of the greenhouse gases required to produce aluminium from bauxite ore. Aluminium's properties allow it to be 100% recyclable with minimal degrading of the metal. Several companies, including Apple, have pledged to use 100% recycled aluminium in their products. That sets a precedence for other companies to follow suit. The cost incentives of the secondary aluminium market (recycled) could have downward pressure on the demand for primary sourced aluminium. However, the International Aluminium Institute expects demand for primary aluminium to increase by 34% over the next two decades.

Global cooperation will be required to invest in aluminium recycling facilities in developed nations and to prioritise environmental concerns. Companies with sticky supply contracts with the primary aluminium sector will also affect the pace and feasibility of the transition to a prominent secondary sector. Therefore, the demand for recycled aluminium should not be a major concern for the primary aluminium market in the foreseeable future.

Overall, it is of long-term importance to the primary aluminium sector that it reduces its energy costs and replaces conventional carbon-based sources for renewable energy to compete with the secondary market to maintain long-term environmental and economic sustainability.

ESG reporting standards improve

By Kate Griffiths, Executive Manager, Public Policy and Advocacy, Australian Council of Superannuation Investors

Comprehensive company disclosure of environmental, social and governance (ESG) risks and opportunities gives investors greater insight into whether the companies they invest in are delivering over the long-term.

While ESG reporting has strengthened in recent times, there is room to further improve the quality of the information disclosed and how it relates to company strategy and performance. High-quality ESG disclosures help super funds with their investment decisions and valuations and supports them to act in the best financial interest of their beneficiaries.

Recent high-profile examples, such as the destruction of the Juukan Gorge by Rio Tinto and AMP's approach to sexual harassment, have had profound reputational and financial consequences for the companies involved and triggered structural changes across their organisations.

Company disclosures on ESG issues help investors understand these issues.

Since 2008, the Australian Council of Superannuation Investors (ACSI) has assessed the quality of ESG reporting trends by ASX200 companies across a broad range of financially material ESG risks and opportunities. The study tracks how well companies identify, monitor, and manage material ESG risks and opportunities and has helped strengthen reporting standards.

In the 12 months up to 31 March 2021, the latest report assessed 120 companies as being detailed or leading in the quality of their ESG disclosures. This was a gain of more than 10% on 2019 and a three-fold increase compared to 2008 when ACSI first measured ESG reporting trends.

ESG reporting was assessed according to a scale – "detailed", "leading", "basic", "moderate" and "no reporting".

"Leading" reporting provides a comprehensive disclosure of material ESG risks and mitigation strategies that demonstrates performance against several material risk areas.

Detailed reporting of material ESG risks includes performance data for multiple risks and at least one target for a material risk, such as diversity, zero harm, greenhouse gas (GHG) emissions reduction or other climate-related activity.

More than 70% of companies in sectors exposed to greater ESG risks – such as mining, transportation and energy – provided reporting classified as leading or detailed. The results show that companies increasingly understand the benefits of communicating their ESG performance to investors.

Investors expect greater oversight and disclosure of ESG issues that are potentially material. Companies that effectively manage and disclose their environmental and social impacts are more sustainable over the long-term.

The number of companies assessed as providing no meaningful disclosure on ESG management or performance fell from 31 in 2008 to 13 in 2020, while the number providing lower levels of reporting classified as basic or moderate nearly halved from 130 to 67 over the same timeframe.

To move beyond "no reporting", a company must report on ESG risk management processes and performance. Basic reporting means the company might provide basic information and statistics on safety and diversity, but not on other ESG risks or qualitative or quantitative performance metrics.

ESG reporting standards continued to strengthen despite the challenges of the COVID-19 pandemic, with 32 companies in the ASX200 significantly improving their reporting. Company recognition of ESG value drivers combined with investor engagement underpinned improvements in ESG reporting.

In other findings:

- For the first time in the study, the biggest group in the ASX101-200 had a leading rating compared to just one in 2008.
- The number of companies classified as providing detailed disclosures jumped from 12 to 15 and those classified as leading rose from 24 to 30 from 2019 to 2020.
- More than half of the index mapped their risk against the Sustainable Development Goals (SDGs) or used the framework to guide their reporting.
- Climate Action (Goal 13) and Decent Work & Economic Growth (Goal 8) continue to be the top two most cited ESG issues.
- The number of companies that did not report any ESG information tumbled to just 6.5% of the ASX200 – down two-thirds since 2008.
- There are now 86 companies considered "leading", up from 79 in 2019.
- The ASX101-200 continues to house the weakest reporters (78%), with more than three out of every four of the companies rated as "no reporting" and "basic".
- 76 cents of every $1 invested in the ASX200 is invested in companies rated as detailed or leading.

ACSI shared the rating scores with companies and encouraged improvement where required.

ESG performance was measured via a desktop analysis of annual reports, ASX announcements, and sustainability and other corporate reports. Reporting of ESG governance and management practices, performance data and target-setting for material risks were assessed.

An overview of the indigenous investment principles

By Ryan Cook and Sanaya Khisty, Team Altoriem

In 2015, Indigenous Business Australia (IBA) launched the Indigenous Investment Principles (IIP) with the aim to provide a voluntary investment framework for Aboriginal and Torres Strait Islander Peoples. Preceding the launch was two years of consultations with 40 traditional owner groups and indigenous organisations across Australia, along with investors, advisors, and the resource sector.

Many indigenous organisations hold substantial financial capital, with a majority held in trusts. Funds held in trust generally derive from the "conversion of interests" of indigenous Australian land rights and native title (for example, land-use agreements). This process recognises the rights and interests of indigenous custodianship, traditions, and cultural practices linked to lands and waters.

Before British colonisation, more than 500 different "nations" thrived with distinctive cultures, beliefs, and languages across Australia, highlighting the diversity and rich cultural heritage of indigenous Australians.

The Drafting Group recognised that each indigenous nation across Australia and the Torres Strait Islands with funds held in trust is a sovereign actor in decisions about its investments. Drafting Group members included Robynne Quiggin, Bruce Martin, Gavin Brown, Nolan Hunter, Donella Raye, David Murray, Nigel Renton, and Brad Scott.

The voluntary framework aims to establish strong, enduring economic foundations, build intergenerational wealth, and contribute to maintaining the cultural, linguistic, and environmental resilience of indigenous nations. The guiding objectives of the principles include:

- Cultural heritage
- Economic independence
- Capacity building
- Build respect in markets
- Risk management

The principles intend to provide guidance to indigenous communities with varying levels of financial knowledge and social and financial infrastructure. They support investment decisions that factor in unique circumstances and are made free from undue influence. The framework can be separated into three distinct stages, each with underlying criteria and considerations:

1) IIP A – Community Circumstances and Purpose (red)
2) IIP B – Mandate, Governance and Legal Form (yellow)
3) IIP C – Investment and Risk Management Framework (blue)

A conceptual overview of the voluntary IIP investment process is represented below.

Investment challenges for indigenous Australians

Indigenous business start-up accelerator Barayamal has highlighted that visibility is a key challenge for indigenous-owned businesses seeking investment. It noted that in 2020, venture capital (VC) companies within Australia collectively raised $1.6 billion from investors. Of this total over the same period, Barayamal reported median funding invested in indigenous ventures was $0. This challenge has resulted in Barayamal establishing the "3% Aussie VC Pledge", aimed at addressing this imbalance by seeking pledges from VC investors to commit 3% of their allocation to indigenous-founder ventures. This commitment is in line with the 3% indigenous employment target of government organisations.

Investment landscape, opportunities, and impact

The principles focus on capability development and increasing indigenous Australians' independence and engagement with the broader economy. IBA's investment portfolio currently consists of direct investments, asset, and funds management (including the indigenous Real Estate Investment Trust and Indigenous Prosperity Funds) and leasing and finance solutions.

As of 30 June 2020, the total IBA investment portfolio was valued at $430.7 million, with Aboriginal and Torres Strait Islander investors owning, in aggregate, equity interests of $169 million, with distributions of $4.8 million in the 2020 financial year. IBA's direct investments in indigenous organisations are across an array of sectors including, tourism and hospitality, retail, renewables, and industrial. As of June 2020, IBA had invested in 22 direct investments.

Eligible wholesale investors can find further information at: https://www.ibafunds.com.au/

Investments are intended to produce benefits alongside financial returns – for example, supporting indigenous economic development through employment and training; seeding social enterprises to scale; and creating shared community infrastructure that may benefit education, health, and wellbeing outcomes for indigenous communities. Many of these benefits can have long-term positive intergenerational outcomes for indigenous Australians.

Retail investment context

From a retail shareholder's perspective, the links to relevant listed equities become apparent when looking at the principles' guiding objectives. The resources sector is a significant contributor to the Australian economy. Mining companies are among the largest listed equities on the ASX, by market capitalisation. From an environmental, social and governance (ESG) perspective, shareholders with investments in mining companies operating in Australia may well heed the guiding objectives of the principles – for instance, respecting cultural heritage when considering mining developments. Mining companies may also consider capacity building opportunities to engage with indigenous-owned and led businesses.

In 2020, a coalition of investors with $14 trillion in assets under management put miners on notice over indigenous rights. This action followed Rio Tinto's destruction of indigenous cultural heritage at Juukan Gorge in Western Australia. Superannuation sector organisations that contributed to this action included Australian Council of Superannuation Investors and some of Australia's largest superannuation funds.

Retail investors may seek to engage with indigenous businesses via sites such as Supply Nation, (https://supplynation.org.au/). In addition to IBA, First Australians Capital is funded by social impact investors and philanthropic donations, aimed at helping indigenous business to start-up and scale, https://firstaustralianscapital.org/investors/.

The authors acknowledge the indigenous nations of Australia and Torres Strait islands, their rich history, resilience, and ingenuity; further acknowledging sovereignty was never ceded.

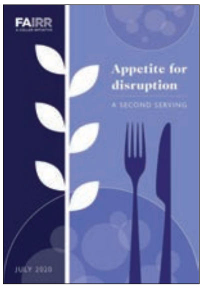
Research update: ESG issues impacting your investments

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 environment, social and governance (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 from Altiorem



Appetite for disruption: A second serving by *Farm Animal Investment Risk and Return*

This report explores the growth of the alternative protein market, particularly in the face of supply chain disruptions, food safety concerns from COVID-19, and global emissions. This is published alongside FAIRR's Sustainable Proteins Hub, an interactive tool which allows investors to assess how companies are diversifying toward alternative, climate-positive portfolios.

Final report: Independent assessment of social and economic conditions in the Murray–Darling Basin

Commonly known as the "Sefton report", it provides recommendations to the Australian Government on the social and economic conditions of the Murray Darling Basin. The report provides an independent assessment in regional and rural communities while highlighting the positive and negative effects of water reform.

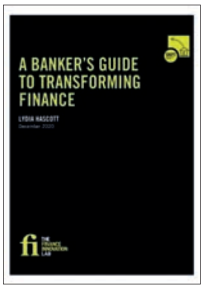
Inclusive business: What it is and why it matters by *HEC Paris Society and Organizations Institute*

This report examines the concept of inclusive business as a means of enabling disadvantaged populations to participate in economic activity and share economic value. The report provides a comprehensive discussion of what inclusive business initiatives comprise and contains examples showing how they address social challenges.

Trending Research from Altiorem

The emergence of foreseeable biodiversity-related liability risks for financial institutions: A gathering storm? by *Commonwealth Climate and Law Initiative*

This report proposes a framework for financial institutions to consider biodiversity-related liability risks in their broader assessment of financial risks associated with biodiversity. Understanding the potential of liability risks will help financial institutions identify, price and mitigate the direct and indirect impacts of biodiversity-related risks.



A banker's guide to transforming finance by *The Finance Innovation Lab*

This report focuses on the perceived purpose-gap in the banking sector wherein banks are not fulfilling their role to create positive economic, social and environmental outcomes. Filling this gap requires leveraging "systemic intrapreneurs" within organisations to holistically shift banking strategy.

Gas and liquefied natural gas price volatility to increase in 2021 by *IEEFA*

Gas and liquefied natural gas prices are expected to experience greater volatility and higher spikes in 2021. This IEEFA research recommends that consumers and businesses worldwide consider reducing their consumption of gas energy as a means of cost-saving and look into cheaper, renewable sources of energy instead.

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.

Letters to the Editor

Hi Rachel,

I enjoyed reading the September EQUITY magazine. Most informative! A wide range of topics was covered. I now know what a "blow-off top" means.

The article "Gross profit as a value measure for technology companies" by Sophie Plumridge, assisted by Steven Mabb, was enlightening. As stated, the approach seemed to be a useful measure for other companies as well.

The collaboration between the interns and ASA directors is an excellent idea. Who knows, it may result in increased student membership to the ASA.

Kind regards,
Kerrie Bible

Dear Kerrie,

Thank you for sharing your thoughts on the September issue of EQUITY.

Throughout this year, Steven Mabb has been working closely with our Queensland-based interns on company monitoring and on creating interesting content for our members.

ASA's intern strategy seeks to develop student investment knowledge and experience, by exposing them to the breadth of the organisation's activities.

Our interns receive a student membership of ASA, in what we hope will result in a life-long relationship with us, and their contributions to EQUITY help to improve their own understanding of retail investment.

Board members like Steven play an important mentoring role for these interns, and we value their participation.

Kind regards,

Rachel

Dear Rachel and John,

I would like to share an approach I made to my local member of parliament to support ASA's position on hard copy communications and hybrid annual general meetings (AGM) meetings.

I emailed my local Federal Member, Dr Fiona Martin, with concern over public companies not sending any or adequate hard copies of AGM details, such as voting, to those who wish. This is especially when no explanation as to voting, such as CV of proposed new directors, are sent. I raised a strong objection to virtual meetings only, along similar lines to the formal ASA position. Also, my strong recommendation was that if virtual meetings were allowed, then they must be hybrid and access for reasonable questions by shareholders must not be neglected or gagged.

Dr Martin's office rang me and offered a sit-down discussion. I accepted of course.

The meeting lasted about 20 minutes. Others were also waiting for meetings.

Dr Martin listened and asked objective questions. She was not across all the issues but wished to be informed. She openly dictated sensible punch points to her PA for a letter from her to Treasury or wherever.

I have just received the response which is self-explanatory and addresses the issues.

I am aware that ASA made direct contact regarding the issue and would have been heard. However, my fortunate hearing and response proves the squeaky wheel is listened to.

I put this forward as evidence that consumer complaints can have an influence. The very fact Dr Martin became fully aware of the issue and may have had discussions with the Treasurer or whoever is a rewarding outcome.

One moral is that ASA as an association representative or spokesperson is heard at higher levels, but all members should not solely depend on its submissions. If one feels strongly, then act on it.

Regards,

Rod Jeffrey

Dear Rod,

Thank you for your letter.

We agree with your views that hybrid meetings are the preferable option for retail shareholders because it gives them the opportunity to participate in person, while still allowing remotely located shareholders or those who are not physically able to attend to take part.

Physical documentation should also continue to be an option, because not everybody has an online presence.

We appreciate your efforts to reinforce that message, and your call for other members to speak up on issues that impact retail shareholders.

On 20 October the Government introduced a bill to allow companies to change their constitutions to introduce virtual only AGMs. This will require 75% approval from shareholders and ASA will fight any such resolutions.

Our preferred approach is hybrid AGMs. See the ASA media release on this issue which is posted in the media section of the ASA website.

Kind regards,

Rachel

Brickbats

Brickbat for companies that close share purchase plans (SPPs) early or without adequate notice.

ASIC has flagged concern that some SPPs are being closed without warning and much earlier than the closing date in the offer documentation. Shareholders rightly expect to be given enough time to subscribe for SPP shares and rely on the timeframes given by the company.

In relation to SPPs, ASIC recommends:

- the offer document clearly explains the terms of the scale-back in the case of oversubscription.
- when offers are going to close early, shareholders should be given adequate notice prior to the new closing date.

We will continue to monitor this issue closely and may intervene where we believe shareholders are not being treated equally and fairly. We do not consider it appropriate to close offers early as a method of scale-back. Companies take note: A pro-rata raising is much easier and fairer!

Bouquets

Bouquet to Transurban for fairness in equity raisings – yet another PAITREO (pro-rata accelerated institutional, tradeable retail entitlement offer structure). That's a speedy method of capital raising with trading of retail entitlements. Retail shareholders who don't participate will receive proceeds of sale of their rights.

Bouquet to Mr Browne who called out unfairness on behalf of other retail investors in relation to Gryphon's capital raising from sophisticated and professional investors. He told the investor relations team: "There are ways and means of giving unit holders a better deal." Gryphon (ASX:GCI) followed up on his communique by announcing a Unit Purchase Plan (UPP). While it would have been better to raise capital pro rata, a placement followed by a UPP ($30,000 potential acquisition of units) is a step in that direction.

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

How your membership supports you

We help you on your investment journey

ASA offers you regular learning and education opportunities, so you can hone your financial knowledge. You can attend our monthly member meetings, discussion groups, webinars, conferences, and read the monthly EQUITY magazine.

We connect you to a community of investors

As an ASA member and part of our community, you can connect with other like-minded investors and gain valuable insights and resources to build your financial knowledge and investment skills.

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/about-us

AGL ENERGY LIMITED AGM

1 year chart

MONITORS: Helen Manning, assisted by Ramaswamy Rajagopal and David Jackson

Date	22 September 2021
Venue	Online
Attendees	256 shareholders, 2 3rd party proxy holders and 681 guests - total 939
ASA proxies	1.7m shares from 466 shareholders
Value of proxies	$9.4m
Proxies voted	Yes, on a poll
Market cap	$3.4. billion
Pre-AGM meeting	Yes, with AGL chair Peter Botten and Diane Smith-Gander, chair of AGL's people and performance committee

More information needed on AGL's upcoming demerger

A headline from the *Australian Financial Review* stated: "AGL board avoids spill but lashed on climate".

The "spill" refers to the remuneration report, which attracted a greater than 25% vote against it in 2020. The same vote in 2021 would trigger a spill of all board positions. "Climate" infers that more than 50% of shareholders, including ASA, supported the Paris Agreement disclosures in the upcoming demerger documents.

This support was never taken to a vote. It had been conditional on a change of the constitution, which at around 5%, was overwhelmingly voted down. However, the over 50% vote was a clear message: shareholders want to know AGL's path to transition.

The need to know is happening against a backdrop of community, media, and financial pressure to accelerate the decarbonisation process, both internationally and domestically. It's also coupled with poor financial performance and the extraordinary share price collapse.

Peter Botten, AGL's new chair, said the current financial performance was unacceptable to directors and shareholders.

ASA asked what benefits there are to owning AGL shares and why AGL is asking to be split. Botten acknowledged the vertically integrated model no longer suited changing conditions. AGL's biggest earner has been its electricity production, generated by coal-powered stations.

At its current levels, the wholesale price of electricity of between $35-$40 megawatts an hour, was deemed unprofitable. A new model must address the changing circumstances, including a rapid transition away from carbon-producing coalfired power stations.

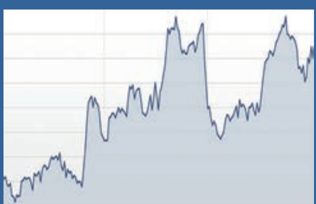
Access to capital alluded to how carbon-intensive industries will pay more for capital in the future. Botten mentioned that the new AGL would have better access to capital. The two demerged companies would have differing strategic focuses to allow for different capital investors.

He outlined the following positives:

- AGL has the biggest renewables portfolio on the ASX.
- In the medium- to long-term, wholesale electricity prices will rise.
- AGL can leverage off its considerable real estate through energy hubs and leverage off its "talented" workforce.
- The separated retail business has an "unprecedented" customer base of 4.5 million.

The demerger documents must outline reasons for and against the demerger and AGL's actions regarding its current situation. Given the strong vote for climate-related disclosure, we expect AGL to address this in the documentation. Shareholders need to make informed decisions from the information provided. We look forward to the demerger documents assisting us.

COLLINS FOODS LIMITED AGM



1 year chart

MONITOR: Steven Mabb

Date	27 August 2021
Venue	Online
Attendees	38 online attendees (shareholders, third party proxies and guests combined)
ASA proxies	0.2m shares from 41 shareholders
Value of proxies	$1.9m
Proxies voted	Yes, on a poll
Market cap	$1.4 billion
Pre-AGM meeting	Chair Robert Kaye and director Russell Tate

Collins Foods delivering tasty chicken, tacos, and results for shareholders

The chair Robert Kaye opened by explaining how to vote and ask questions. Online attendees also had the option to ask a live question with a voice platform. Furthermore, Kaye gave a detailed review of the year and thanked the Collins Foods team for contributing to solid results despite COVID-19 restrictions.

Kaye addressed the addition of a sustainability report this year, which included governance, its efforts to reduce environmental impacts, and how it is giving back to staff and the community. While there is room for improvement in this area, ASA was still pleased to see the company pro-actively reporting initiatives. We look forward to future progress being made and reported.

CEO Drew O'Malley addressed the meeting and provided an overview of the strong financial results for the past year. Good growth was recorded again in the online business, which grew to 14% of total sales.

He also provided an update on the Taco Bell division, which saw a 57.4% growth in revenue year-on-year with four new restaurants opened and a 3.9% increase in same store sales. The division made $1.4 million earnings before interest, tax, depreciation, and amortisation profit before administration and start-up costs or a $1.6 million loss with those costs included.

While Collins Foods is confident in Taco Bell's prospects, there were several questions from shareholders on the financials and budgets. This area will need to be monitored. A growing and successful Taco Bell business will be positive for shareholders given the ongoing strength of the more mature KFC business. If it is not profitable, this will depreciate the overall business.

ASA asked for clarification regarding the company's JobKeeper support. It received $1.8 million, but after recording good overall growth it voluntarily repaid all funds. We applaud the company for this decision. All resolutions were passed with at least 96% in favour and over 99% in favour of the remuneration report.

Collins Foods is a well-run, well governed business with a solid operational plan for ongoing success that shareholders support. Through the growth of online and delivery over the past year, it has successfully pushed through restrictions on in-house dining. The business' near-term prospects look promising.

We thank the board for encouraging and supporting retail shareholder engagement throughout the process and look forward to monitoring the company's progress.

A good meeting caps a good year for Metcash

METCASH LIMITED AGM

Online or virtual AGMs can be frustrating, but the Metcash AGM was well handled. The addresses by the chair, Rob Murray, and CEO, Jeff Adams, were clear and the questions were gracefully answered.

The chair and CEO spoke about strategy, governance, and performance. The CEO also gave a trading update for FY2022. The chair's speech and the CEO's presentation are available on the Metcash website: https://www.metcash.com/investor-centre/

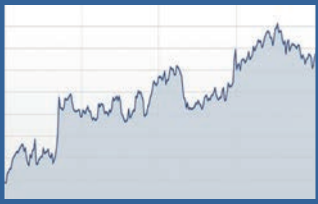
The Total Tools investment (now at 85%) are outstanding. ASA commented that Metcash faces strong competition in groceries, liquor, and hardware. We asked about other market opportunities, such as pharmacies, food services, and international. Murray said Metcash will be more competitive in these pillars using tools such as MFutures, Project Horizon, and store refurbishments. He downplayed applying marketing and logistics skills to a new industry but was not definitive.

There were no negative recommendations against the motions from proxy advisors. Two new directors were up for election – Christine Holman and Margaret Haseltine – and Murray Jordan was up for re-election. They spoke about the skills and experience they would bring to the board. We were impressed by the two new directors.

ASA repeated a comment made in the Voting Intentions: despite problems with the remuneration report, we would vote for it, as opposed to last year. Murray said he didn't understand ASA's problems with the remuneration policy when all proxy advisors supported it. In a physical meeting, ASA could have described problems with the remuneration policy and the report's style.

The motions to grant long-term incentives performance rights to the CEO were put to the meeting. ASA noted that our policy is short-term incentives performance rights to the CEO should be approved by shareholders. All motions passed comfortably with over 98% of votes for each.

A shareholder asked if the report on the meeting could include the number of holders and the number of shares voted for each motion. The company complied. The results provided proof that smaller shareholders are more likely to vote against motions. For example, the "against" vote on the remuneration report was only 1.38% in shares, but was 32.7% of shareholders. The full voting report is available online.



1 year chart

MONITORS: Don Adams, assisted by Gary Barton

Date	1 September 2021
Venue	Online
ASA proxies	0.5m shares from 60 shareholders
Value of proxies	$2.1m
Proxies voted	Yes, on a poll
Market cap	$3.5. billion
Pre-AGM meeting	Yes, online meeting with chair Rob Murray, NED and chair of People and Culture Committee Helen Nash, and head of corporate affairs and investor relations, Steven Ashe.

A successful financial outcome and surviving 23 natural disasters

SUNCORP GROUP LIMITED AGM

A welcome by the Yuggera People, the land's original owners around greater Brisbane, was presented by Shannon Ruska. The AGM was a well-planned virtual meeting and the chair, Christine McLoughlin, introduced all directors, who were in their own locations.

McLoughlin referred to Suncorp's strong financial performance of $1.03 billion NPAT, up 13.1%. Shareholders had a 66 cents dividend and a $250 million share buy-back. Despite COVID-19, the chair visited Springfield's storm devastation and the board met in Cairns. References were made to 23 natural disasters, the regular ESG materiality assessments, and how climate change is "front of centre". The CEO explained the progress made in his Four Pillars approach.

Questions covered a range of issues. They were answered by the chair or referred to the CEO or a relevant director. ASA asked how an increasingly technology-enabled Suncorp protects its large consumer base from cyber risks. The response was cyber security is taken very seriously. Suncorp actively monitors internal systems and does contingency planning. Testing mitigates risks and maintains resilient technology. Satisfactory answers were given for two other ASA questions regarding post-COVID workforce structure and the incoming directors workload.

Other questions referred to reinvigorating branding and market strategies and why Suncorp divested its smash repair business to SMART. Another questioner asked if a demerger of banking from the insurance business is possible. This is not feasible because there is a three-year plan for growth and banking to increase with a significant improvement in digital banking. All questions were given clear, informative, and respectful answers.

Either in person or by pre-recorded video, the five directors standing for election or re-election addressed the meeting on their contribution to the board. ASA voted for all resolutions, which passed with a large majority. The chair welcomes a return to a face-to-face meetings. However, the 496 at this digital meeting is similar to previous meetings. Suncorp will open a new headquarters in early 2022, a workplace of the future.

1 year chart

MONITORS: Shirley Watson, assisted by ASA Intern, Ben Lee

Date	23 September 2021
Venue	Online
Attendees	496
ASA proxies	1.15m shares from 259 shareholders (equivalent to 18th largest holder in the Top 20 list)
Value of proxies	$14.1m
Proxies voted	Yes, on a poll
Market cap	$18.5 billion
Pre-AGM meeting	Yes, with chair Christine McLoughlin, director Sylvia Falzon and staff member Andrew Dempster