PROFILE'S CORNER

WINTER 2021

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FACTUAL INFORMATION AND GENERAL ADVICE WARNING

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*Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 300 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: Bloomberg Composite All Maturities Index. Cash: Bloomberg Ausbond bank bill Index. Gold: Spot Gold Bullion (USD).

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Profile CEO Update

Welcome to Volume 40 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Peter Coleman, CEO

Well, winter is certainly upon us and Sydney is having its fair share of cold and wet weather. As if that wasn't enough the lockdown in Sydney is providing a sense of déjà vu as residents and businesses suffer emotionally and financially from extended restrictions.

Profile in response to government restrictions closed its Sydney and Parramatta offices in late June and all staff have been working from home since then. Client meetings that were to be face-to-face are now over the phone or via videoconferencing and we apologise for any inconvenience that this has or will cause.

Your health, the health of our people and being compliant were key drivers of our swift action. We hope that you are reading this newsletter in good health and that you are coping well with the stay at home orders.

Our teams are well-positioned to continue supporting your needs, despite the restrictions, and our funds continue to perform well and will finish the financial year with extremely positive outcomes. Please see our website for the most recent monthly performance comparisons.

The year ahead is certainly filled with challenges and is likely to be a little more volatile than the past 12 months. COVID-19 vaccination rates are rising (albeit super slowly in Australia) and with that hopes that economies will continue to perform strongly. The questions are what will the new variants do to health risk levels in terms of higher levels of infection and what will be the community, social and economic consequences.

What we are also seeing is that supply chain interruptions are beginning to impact economic output, putting at risk monetary policy liquidity programs designed to stimulate growth. Pressure on State and Federal Government budgets and their willingness or otherwise to continue subsidising lockdown victims (businesses and individuals) have unknown consequences which will at some point impact economic performance and potential investment returns.

We have been managing the Profile business since COVID-19 in a manner that ensures sustainability in any economic environment and we are confident that we can survive if there is an economic downturn. Our Advisers are working closely with you to ensure we are meeting your needs, keeping you informed and protecting and growing your wealth.

Please reach out to your Adviser if you have any questions or concerns. All in our advice team are highly skilled and well supported with financial reports and updated market and economic analysis.

Our professional focus is on your well-being and the protection and growth of your investments. If we can help you or anyone in your family or circle of friends please just reach out.

These are challenging times but we are here for you and will work closely with you despite the additional challenges that lockdowns create.

We, like you, are hoping that these lockdowns have a positive health impact and reduce the level of pain and suffering in the community and the impact of financial disruption.

I hope you enjoy the articles within this newsletter and I am always more than happy to take any calls and field any questions that you may have.

Thank you for your support over the past 18 very difficult months and we look forward to looking after your interests in the future.

My very best regards, Peter Coleman.

Outlook on Investment Markets and Economy

By Jerome Bodisco, Head of Investments

Happy New Financial Year!

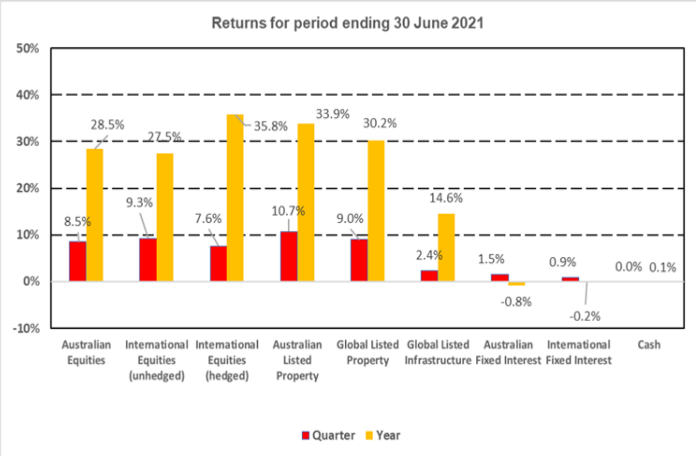
What an amazing 12 months for investors! In a year that was littered with lockdowns, fresh viral outbreaks, mismanagement of quarantine and a very slow vaccine roll out here in Australia, financial markets' saw through the noise and went on to hit historical highs. It was a happy financial year for those that didn't panic through the worst of 2020 and stayed invested.

Whilst there was plenty of things to worry about over the year, there were many positive developments that defied popular expectations at the time. Economic data released in the June quarter saw the Australian economy advancing further, with quarter-on-quarter economic growth of 1.8%. This was the third straight quarter of expansion, driven by continued monetary and fiscal stimulus, and resulted in annual growth of 1.1%, the first positive annual growth rate since the first quarter of 2020.

With the Federal Government's Job Keeper program concluding in March, there was also great uncertainty whether this would cause a steep rise in the unemployment rate. This proved not to be the case. Economic data for May revealed the unemployment rate fell further to 5.1%, marking the seventh consecutive month of a fall in the jobless rate, and the lowest reading since February 2020.

The Australian share market finished the fiscal year with its best performance since its inception, with the market gaining a staggering 28.5% over the past 12 months. The best performing sectors for the year were Consumer Discretionary (+48.6%), Financials (+41.1%), and Information Technology (+39.6%). Utilities were the only sector to finish in the red (-18.6%).

It is difficult to pinpoint a single factor that has driven equity markets to such dizzy heights. This is what you seemingly get when the economy is allowed to re-open and governments throw massive amounts of borrowed money at households and businesses to spend and invest. Add record low interest rates, the end of the drought, vaccine breakthroughs, strong prices for iron ore and you have all the ingredients you need for record-breaking equity returns.



Can the good times continue?

In our opinion, equities could continue to rise over the short term provided there are no further setbacks or surprises. We note that the case for further economic growth is strong and consumer confidence is improving and consumers are opening up the purse strings and spending again. Government support is still in play and is likely to continue for some time yet. These are all positives. However as is always the case, several things could potentially derail the gravy train. For starters, there is always the risk of new viral variants (such as Delta) evolving that are resistant to vaccines. The other issue we face is that the virus gets to people before they even have the opportunity to get a vaccine to protect them from the worst symptoms of this serious illness. COVID-19 aside, the other issue for equity markets is the fact that it is starting to look expensive in both absolute terms and compared to history. Inflation risks are also on the rise and if it continues, it has the potential to be very disruptive and will have important implications for bond markets in the near term. We note that any increases in yields since the start of the year have only been a modest drag on equity returns, though further evidence of building inflationary pressures is likely to see equity market volatility pick up further.

On balance, we feel that the most sensible course of action right now is to err on the side of caution and to reduce our equity and listed real asset (property, infrastructure) positions. These are the actions we are taking in our successful diversified portfolios in the interests of minimising risk whilst simultaneously maximising return. Note our return outlook is still positive for equities and listed real assets but now less positive than we were at the beginning of the year. We expect returns to moderate from here and continue to subscribe to the view that we are in a 'lower for longer' environment over the long term. We are not suggesting that markets will crash but as the year has taught us, always expect the unexpected!

As always, we encourage our clients to seek a portfolio review and/or fresh advice from your Profile Adviser if you have any concerns about how you are invested currently. In the meantime, enjoy the fruits of your investment labour! Let's hope that the next 12 months is also something to celebrate and more importantly that you and your families are keeping safe and well during these strange times.

The humble SMSF

By Andrew Squires, Associate Financial Adviser

The humble Self-Managed Super Fund or SMSF has wavered in popularity since the original legislation passed the House of Representatives back in 1999. There are features that an SMSF offers that make it stand apart from an APRA-regulated superannuation fund and this article is going to look at some of the reasons you would look at commencing a SMSF, what's involved in running one, and some of the limitations you may face.

When can an SMSF be a good idea?

Larger balances – The Australian Securities Investment Commission (ASIC) information sheet (INFO 206) provides guidance that on average, SMSFs with balances below $500,000 have lower returns after expenses and tax than funds regulated by the Australian Prudential Regulation Authority (APRA). This mainly has to do with the fees and expenses related to operating a SMSF - the lower the balance, the higher the overall percentage of fees. If you are considering taking on some of the administration tasks yourself, starting a SMSF with a balance below $500,000 may still be cost-effective.

Those seeking diversification into direct property – Investing into direct property is allowed within superannuation by using a SMSF structure. If the Trustees have sufficient liquidty, they can invest with the SMSF portfolio assets. Alternately, the Trustees can borrow through a 'limited recourse borrowing agreement' which is effectively a mortgage for the SMSF. Limitations include higher interest rates and deposits (to reflect the higher risk to the lender). A valuable feature of a SMSF is that it can be used to borrow and invest in residential and commercial property. Then, the Trustee can benefit from rental income taxed at superannuation tax rates of up to

15% and capital gains at just 10% (if the asset is held for greater than 12 months). Notably, with residential property, you cannot rent the property to a fund member or any person associated with a fund member such as a relative.

Business owners with commercial property needs – A SMSF Trustee can lease commercial property to their own business subject to certain conditions. A well-run SMSF featuring commercial property can help with business cash flow and overheads while benefiting the Trustee with lower tax rates that apply to the superannuation environment. Furthermore, a SMSF can provide a level of asset protection from future claims or liabilities resulting from business operations.

Pooling your investment assets – A SMSF is currently allowed four members, and this is expected to increase to six once the recent Treasury Laws Amendment Bill is passed. The members can pool their assets and effectively increase their purchasing power which can be useful when looking at a large asset such as property.

What does it take to run an SMSF?

You must establish the fund - To open a SMSF there are administration responsibilities that results in costs. To establish the fund, you will need a Trust Deed. If you're using a corporate trustee structure you will need to establish the company as well.

Ongoing fees and costs –Most of the costs involve engaging an industry professional to assist in meeting your obligations. You (or an outsourced professional) will be required to prepare annual asset valuations, regular reviews of your investment strategy, and lodgement of your annual tax return. As a Trustee, you will also be responsible to keep an up-to-date Trust Deed and pay the ATO supervisory levy and audit costs. Other costs can include a corporate trustee fee as well as actuarial costs to determine eligible member pension payments (if applicable).

Responsibility - As a Trustee, you are responsible for running the fund. You are bound by the Superannuation Industry (Supervision) Act 1993 (Cth) and you must understand your compliance obligations. The ATO regulates SMSFs and non-compliance can lead to penalties. You cannot outsource your responsibility as a Trustee to a third party such as your accountant or financial adviser, however, they can be useful for guidance.

What do you need to look out for?

Considerations with direct property – Many SMSFs have been established so the members can invest in direct property. The diversification implications of this can be a double-edged sword; larger balances can benefit from the additional assets class of direct property, but smaller balances may find that all your eggs are in one basket, providing the opposite effect.

Aligning the investments with the member's interests – If the fund is made up of a lumpy asset such as property, they may need to be sold down to allow a member to begin drawing their member balance as a pension. The fund will need to provide sufficient liquidity which could be difficult if it's not a good time to sell the property. By forward-thinking and strategic planning, this can be mitigated but it takes active management and typically professional planning to achieve. Getting the right advice is important.

Limitations on your SMSF investments:

- Borrowing restrictions – A property loan must be undertaken through a Limited Recourse Borrowing Agreement (LRBA). These loans warrant higher interest rates, stricter terms, and larger deposits.
- Investments must be at arm's length – the investments must be made and maintained on a strictly commercial basis. For example, you cannot purchase a commercial premise with the SMSF and rent it out to your business at below-market rates.
- Sole purpose test – The fund must be maintained for the sole purpose of providing retirement assets to the members.
- You must create, maintain, and always adhere to a written investment strategy. This should consider the risk appetite of the members and explain how the investments will meet each member's retirement objectives.

A SMSF does not provide a one-size-fits-all approach to building a retirement nest egg; what's good for the goose may not be good for the gander. There are many considerations in establishing, maintaining, and even winding up a Self-Managed Super Fund structure and like all financial decisions, they should be made carefully.

If you, or anyone you care about, would like to discuss this further, please contact your Adviser.

Editors Note: Since the time of writing the following story, COVID lock-downs have thrown a spanner in the works for this trip. While the start date is going to need to be moved the riders are committed to completing the ride once the boarders re-open.

Travel Hot Spot – The Long Way Around Down Under - 50 Years of Living, 50 Days of Riding, 15,000kms to raise $15,000

Three motorcycle riders and one support vehicle will attempt to circumnavigate Australia on National Highway 1 this year to both celebrate one rider's 50th birthday and raise money for The Smith Family charity.

THE LONG WAY AROUND
1971 2021
DOWN UNDER

For the past 12 years, Profile client, 49-year-old **Robert Barnes** has been talking about this ride he wanted to do for his 40th. With a renewed enthusiasm for riding motorcycles and a supportive family, Barnes decided 15,000kms over 50 days was realistic and achievable in 2021 – of course well before the full extent of COVID19 was being experienced.

“This has been a goal of mine for so long now, I can’t let the chance of doing it before my 50th birthday get away from me”, said Barnes ever hopeful current restrictions and his vaccination will allow the tour to proceed.

“Both my parents passed in their early 50s and as I approach my 50th, I increasingly feel I need to stop talking about this trip and simply make it happen.”

Three motorcycle riders - David Drury, Joseph Ryan and Robert Barnes - will be supported by Barnes’ 19-year-old son Lockyer Barnes on the 50-day tour of the country. It took less than a minute for Barnes’ childhood friend from Darwin, Joseph Ryan; and, his current training partner and fellow bike rider David Drury to answer the call to action.

The Long Way Around Down Under departs Sydney on August 4 and returns to Sydney on September 23 - pending all COVID-19 restrictions of course. It could end up being the longest trip around NSW ever!

The tour is named in honour of the inspiration from Charlie Boorman and Ewan McGregor’s The Long Way Down series. Barnes’ wife was watching it earlier this year and reminded him he still had not done anything to make the trip happen. That was all it took to get started.

“Robert planned the tour with stops at places meaningful to us all in our lives and so it was natural to stop in Port to see my Mum and Dad, my sister’s family and Robert’s aunt, Rebecca,” said Drury.

“Robert has been volunteering with The Smith Family for a few years plus my work with the homeless in Sydney continues to drive our passion for using opportunities like this to make a difference in the lives of young Australians.”

Barnes mapped out the schedule for the 15,000kms meaning an average of 300kms a day on the road. There will be some much longer days up north and there are some days set aside to account for weather, breakdowns or being distracted by some of the epic places they will visit.

All three riders will ride Husqvarna Svartpilen 401s - a 400cc hybrid road bike with some off-road capability followed by Barnes’ trusty Toyota Hilux. They will head north first and anti-clockwise around Australia making the most of the Dry Season through the NT and Kimberley region before bracing themselves for the cold, wet and windy conditions predicted around the Bight and into Victoria and Tasmania.

It will be an amazing experience to look back on and particularly to reflect on the value of doing it with my son,” says Barnes.

“I hope he sees parts of the country he would never have otherwise seen, and it opens his eyes up to the opportunities living in this country offers a young person.”

The entire tour will be captured on film thanks to rider Joseph Ryan who is an award-winning filmmaker and professional photographer on top of being one of Barnes’ childhood friends from their hometown of Darwin.

The Long Way Around Down Under is dedicated to helping break the cycle of disadvantage for young Australians. At the time of writing the intrepid travelers have raised $3500 towards their goal of $15,000 for The Smith Family. The target is equivalent to the distance the crew will ride over the 50 days. $35 will provide access to The Smith Family’s on-line mentoring program which Barnes has been volunteering with for the last four years. $210 provides a child with a Learning Essentials Pack so they have everything they need to participate fully in their school life.

Donations:
https://events.thesmithfamily.com.au/fundraisers/thelongwayarounddownunder

PROUDLY fundraising in support of The Smith Family

Website: https://thelongwayarounddownunder.com

Around Down Under is sponsored by:

UNIT Garage https://www.unitgarage.com/husqvarna

Akin Moto h ttps://akinmoto.com

Quadlock https://www.quadlockcase.com.au

Dyns Jeans https://au.dynsjeans.com

Third Gear https://www.thirdgear.com.au

Staff profile – Kurt Ohlsen

Senior Financial Adviser

In the early years of the Profile newsletter, we used to introduce a different staff member in each issue as a way of helping our clients know more about Profile's dedicated work-family…after all, we know a lot about you! We hope you enjoy getting to know us all a little more again.

What are you reading right now?

I am a bit boring in this space, as I am not much of a fiction reader. I love reading technical articles and case law but also enjoy reading random research papers (the last one was on battery technology).

Favourite recipe and where can we find it?

Crumbed blacklip abalone –Thick cross-cut and pounded strips of abalone are covered in flour, egg wash and panko breadcrumbs before dipping into hot oil for 30 seconds. Some salt and a squeeze of lemon to finish. Not certain if I would love it as much if I had to pay for the abalone but thankfully, I love freediving so can get them for free.

Any pets/kids/spouses?

I have 3 kids with my partner Rachel - Scarlett (6), Isabelle (4) and Mitchell (1). I am not certain that the 4 chickens we have qualified as pets…but the eggs are enjoyed.

The one movie you just keep coming back to...

Constantine.

Why do you work in financial planning?

Why wouldn't I? It's in my genetics, you get to help people achieve their goals…and protect them from some disasters, it's ever-changing and interesting. I like solving problems and invariably there are plenty presented in this space. And it is a lot safer and not as hard on the body than the work I used to do on a cattle station.

What are your top 5 key values?

Loyalty, curiosity, respect, quality, self-sufficiency.

Who has influenced you most in life and how?

My Dad – He helped inspire my love of the ocean, outdoors/camping and financial planning while also showing me what commitment and persistence can achieve.

What makes you smile?

My kids showing me something new they have learnt, doing something someone has told me can't be done, sitting around a campfire with good friends and family, going freediving….and all the little things in between.

Client Profile – David Britt

By Karla Jones, Insurance Specialist

We all begrudge having to pay our insurance premiums. That is until you need to make a claim. Great advice is priceless.

David has been a loyal client for 19 years. He is extremely fit and healthy and regularly competes in Triathlon events. Five years ago, aged 58, David received a worrying cancer diagnosis. Having cheated death in 2008, after being declared dead from drowning during a triathlon and then being brought back to life, he was not about to let this beat him either.

David explains it best…

"I have always been delighted with the service that I have received since I transferred my insurance business to you in 2002. Nevermore so than when I was recently diagnosed with prostate cancer. I have always been impressed with the big picture approach you take to helping clients identify their insurance needs, forcing me to look beyond the obvious things like paying off the mortgage and ensuring that I had enough cover to ensure that my family could live comfortably going forward in the event of my death or disability.

Karla has been the main person looking after my portfolio since around 2010 and I have always found her extremely helpful, knowledgeable and thorough. Being self-employed, my income levels can fluctuate significantly from year to year, so Karla guided me towards taking out a suitable IP policy that allowed me to lock in the benefit levels based on a period where I was earning higher levels of income. There have been times during the leaner years when the premiums were a bit of a stretch, but in light of my current situation going for this kind of policy proved to be the best decision that I could have made. Had I been on one of those standard IP policies that they advertise on the telly, the benefit that I have just received would undoubtedly have been less substantial.

When I was diagnosed with cancer I immediately contacted Karla to get an idea of where I stood concerning my existing policies. She commenced preliminary discussions with my insurers and within 24 hours she came back with preliminary advice as to the likely benefits I could receive. That advice alone immediately removed one whole layer of stress from the process I was about to undergo. Karla then continued her dialogue with the insurer to determine what needed to be done and gave me clear and concise instructions on exactly what I needed to do. She even urged the insurer to process my IP Crisis Care claim based on my Trauma Claim, saving me the stress of having to fill out additional and essentially redundant paperwork. Would I have been happy trying to deal with the call centre of a car insurer or supermarket chain in such a delicate and complex matter? I don't think so.

Careful selection of insurers has always been an important part of what Profile does. You have always chosen to recommend insurers who have products with superior benefits and a good claims history, rather than simply price-shopping as many brokers do when recommending products to clients. I have to say I am delighted with my current insurer. To have had a six-figure claim settled in 7 - 10 days with a minimum of fuss was just so refreshing. I have had some reasonable insurance experiences in the past, but nothing like the level of service that has been provided this time around.

I have had my surgery and the initial prognosis is that the cancer has been completely removed. The recovery is going extremely well so far. So now rather than just providing some compensation for the trauma I have experienced, it has now placed me in a much sounder financial position to enjoy an even brighter future and simplify my eventual transition into retirement.

So thank you once again for taking such a holistic and caring approach to my life insurance needs. I look forward to continuing my association with Profile well into the future. I am not going anywhere anytime soon."

We're so pleased to report that 5 years down the track, David is still extremely well and working as hard as ever and has just finished off another triathlon season! He was able to decrease some of his debt and boost his super, which has been important to him as he considers his retirement in the coming years.

David (right) and his family.

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