

## KENRICK FAMILY SUPER FUND

### INVESTMENT STRATEGY

#### Investment Objectives

The Investment objectives of the Fund are to ensure that the Fund provides a reasonable degree of security of capital through diversification of investments, while producing long-term growth and sufficient liquidity to meet the trustees' obligations for termination and retirement payments as they fall due. The fund was in Pension Mode from 1 July 2013 until 30 June 2017 when, as a result of changes to Tax legislation, both members elected to return all of their funds to Accumulation Mode. The Fund aims to obtain a long run real annual return of 4%.

#### Investment Criteria

To achieve the outlined objectives the Trustees will invest in a diversified portfolio of assets having regard to the applicable Superannuation Industry (Supervision) Act 1993. The Trustees will have regard to all the circumstances relevant to any decision, including, but not limited to:

- the risk involved in making, holding and realising the investment
- likely return from the investment
- the liquidity of the investment having regard to expected future cash flow requirements
- the ability of the trustees to discharge existing and prospective liabilities
- the disposition of the Fund's investments as a whole, including the level of diversity.

In respect of equity investments, specific criteria for initial investment are:

- Published net tangible assets should be positive
- Prospective price/earnings ratio should be less than 20

However the above criteria will not oblige the Trustees to dispose of an existing investment merely because the investee ceases to meet the criteria subsequent to purchase. In addition where the majority of a company's assets consist of land and the shares are trading at a significant discount to published net tangible assets, the trustees may waive the P/E criterion.

Other than in respect of bank deposits and Real Estate Investment Trusts (REITs), exposure to a single entity shall not exceed \$400,000. Exposure to individual REITs shall not exceed \$500,000.

#### Investment allocation

Having regard to the above criteria, the investments for the Fund may comprise:

- Bank Accounts, including Term Deposits and Cash Management Accounts
- Debt obligations of Australian state and federal governments
- Securities listed on the Australian Stock Exchange, including REITs, other investment trusts, preference shares, hybrid securities, FRNs and Exchange Traded Funds

In view of the administrative burden and lack of liquidity involved in direct real estate investment, the Trustees prefer to gain exposure to the real estate market through listed vehicles rather than through direct investment.

When the fund was established in 2007, the stock market was in the final stage of a bull market funded by a huge expansion of global liquidity. The trustees had thought it wiser at the time to retain most of the assets in cash, term deposits and hybrid securities. In June 2008 the trustees adopted a range of 30-50% for equities.

In view of the collapse of the stock market in late 2008 and subsequent reductions in the RBA cash rate, the Trustees adopted a 75% target for equities in May 2009. In November 2011 the RBA started a series of reductions in the cash rate which reached 0.1% in November 2020. The CPI rose by 3.5% during the year to December 2021 but inflation in tradables was higher at 4.9%. Since that date there has been a large increase in fuel prices due to Russia's invasion of Ukraine and the EU and USA response. The cash rate is therefore punishingly negative in real terms. The likely reaction of the RBA to increasing inflation will be an increase in the cash rate resulting in a fall in the Australian Stock Market (ASX). Although the ASX fell significantly in the run up to the invasion, the ASX 200 has since recovered to around the 7400 mark where it was for the last six months of 2021. The trustees believe that due to geopolitical uncertainties combined with high oil prices, GDP growth will remain negative or subdued in the near future. Notwithstanding the poor outlook for shares, negative real interest rates make interest bearing investments equally unattractive.

High inflation and falling GDP (or "stagflation" as it was dubbed by the Economist in the 1970s) give the RBA nowhere to turn. In these circumstances experience of the 1970s and 1980s suggests that equities may fall but those companies who remain solvent will eventually recover whereas cash and interest bearing securities will not. FRNs would be attractive but there are no longer many on offer.

In view of the uncertainties, the trustees have maintained the target range for equities (including REITS) at 65% to 80%, with the balance of the fund in hybrids, term deposits and cash. This was designed to reduce exposure to equities temporarily before an increase in global interest rates and also reflects the reduced requirement for pension payments. Although members requested a return to accumulation mode as a result of the introduction of the \$1.6 million cap of pension mode assets starting on 1 July 2017, \$3.2 million of the fund will likely return to pension mode in the medium term. Following the retirement of Robert Kenrick from the board of Fubon Bank (Hong Kong) Ltd in August 2020, both members are fully retired. The minimum distribution required of the funds in pension mode will be 5% of \$3.2 million for the next five years or around 3% of total funds annually. The range around 70% equities proved effective during the recent volatility in the stock market and the trustees expect further volatility as a result of global political and economic developments outlined above.

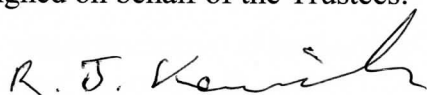
#### Life Insurance

In view of the age of the members, the sufficiency of assets in the fund, and the fact that no other assets of the members (including their residence) are encumbered, the trustees do not consider that life insurance is appropriate. While there is a place for annuities in some funds in pension mode, the members' accounts are sufficient to provide a reasonable income to age 100 for both members. The fund will not therefore be buying an annuity.

#### Review of the Investment objectives/strategies:

The Trustees will formally review the Investment Strategy at least once per year with the presentation of end of financial year statements. The Trustees may amend or revise the Investment Strategy at other times as required by changing circumstances.

Signed on behalf of the Trustees:



28 March 2022