The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 74 Winter 2020

MESSAGE FROM MANAGER

Have you ever had the feeling of things going dreadfully wrong, and walking outside to a beautifully sunny day, in Melbourne, trams bustling by, or in Rockhampton boats lazily trolling on the river for Barramundi? It's an observation made by the journalist in Jeff Wayne's musical version of War of The Worlds:

"People clawed their way off the common, and I ran too. I felt I was being toyed with, that when I was on the very verge of safety this mysterious death would leap after me and strike me down. At last I reached Maybury Hill, and in the dim coolness of my home I wrote an account for my newspaper before I sank into a restless, haunted sleep.

I awoke to alien sounds of hammering from the pit and hurried to the railway station to buy the paper. Around me, the daily routine of life, working, eating, sleeping, was continuing serenely as it had for countless years. On Horsell Common, the Martians continued hammering and stirring, sleepless, indefatigable, at work on the machines they were making."

Ironically, in this story, it is disease that turns out to be humanity's greatest ally.

And as I write today, it is indeed a beautiful day outside - the stereotypical winter's day in Queensland - "Beautiful One day, Perfect the Next". Nature, seemingly oblivious to the viral emergency, stubbornly adheres to its fickle ways. The contrast is enough to do your head in!

And it is doing heads in. It pops up via the aggressive tone of the voice on the phone, the frustration of not being able to get things signed, the constant flip-flopping on policy as politicians defer to science that is about as robust as jelly - catch the plane, don't catch the plane. Book a holiday, don't book a holiday. Don't wear masks, wear masks urgently. Feel free to fish in NSW, but not in Victoria - and don't play golf either. Hang on, it's OK to do both now.

Viral particles are not transmitted in the air – oh, wait, yes they are! The talk of lock-downs, protesters being granted leniency, differing treatment of different community segments, the sense of unfairness, of being put upon.

> "The constant flip-flopping on policy as politicians defer to science that is about as robust as jelly"

Readers, this nonsense is causing untold damage and even deaths. Three weeks ago, in my middle class, family-oriented street, a woman was murdered by her estranged husband. He allegedly turned up very drunk, early in the evening. She had only just moved to the house. Ten days ago, my son's boss was killed in a helicopter crash in WA. Doctors' Health Queensland, an organisation of which I am treasurer, is experiencing a huge spike in calls from stressed health professionals, as are Beyond Blue, and family support agencies. Within our business, staff have had to contend with working from home and, in common with many consulting-type and market based businesses, changed working conditions.

Now you might say that protecting people from COVID-19 is paramount, and of course in a country like Australia it's relatively easy to count the resulting deaths. What's much more difficult is counting the financial and human cost of the measures we put in place to pretend we can eliminate the virus. My view is that these costs are too high. Not all people who work

from home spend their days diligently – some resort to drinking heavily, ruminating on past wrongs before deciding to lash out. Others try and do something productive, like inviting friends for a once in a lifetime get-together, only to have their helicopter crash on take-off. Staff, clients, health care workers, airline staff – in fact pretty much everyone – are facing significantly increased stress levels. Increased levels of background stress make bad things more likely.

There's no use crying over spilt milk, as they say. What is required right now is not more lockdowns, but direct targeted action, a clear nationwide strategy, and a well enunciated plan for a way out. I think such a plan would include:

• Mandatory formal quarantine for anyone testing positive. Not home quarantine, where your family will almost certainly become ill, virtually ensuring exponential spread of the disease

• Removal of the expectation that Government is going to "fix" this. Absent a vaccine, the only thing that is going to slow the spread of COVID is individual responsibility. Vast sections of the community are taking no responsibility at all, and are indeed thumbing their noses at any suggestion of guidance, resisting changes to ideals or cultural norms, however temporary

• The implementation of a guaranteed income of say $40,000 for anyone between 23 and 60, in exchange for disbandment of a wide range of ineffective welfare measures, the essential disbandment of the Fair Work Commission, and the ability of employers to insist on vaccinations and adherence to other social norms

• Spending time right up front to get some basic facts rather than relying on second-hand information which is often pedalled by vested interests.

Folks, it is simply not right to rob people of their jobs, to create mass uncertainty and visit great harm upon the general population; to relieve people of their freedoms in the face of a disease which even where it is supposedly running rampant, is infecting less than 1 per cent of the population.

And while our leaders get their heads around that, at The Investment Collective, we will continue to diligently assist in managing your financial affairs, respond to your queries and requests for assistance, professionally manage your portfolios and keep in contact through our written communications, review meetings, email and phone calls. So much so that like the journalist in the story, or the lucky people sitting outside in today's lovely sunshine, you might be forgiven for thinking that nothing was up at all.

David French
Managing Director

Around the Office

In recent months we have continued to adapt to changing restrictions with a goal of bringing staff back into the office while maintaining the ability for all staff to be able to work from home if or when required. While operationally it is "business as usual" the logistics have presented some challenges leading us to several advancements in the way we communicate with clients and other staff.

Recently Victoria announced a further tightening of restrictions for at least six weeks forcing our Melbourne team to continue with their work from home, while in Rockhampton, the office is starting to resemble pre-pandemic times. At this stage most of our client meetings in Rockhampton have continued via telephone or Zoom but the office is open to clients that would prefer a face to face meeting as long as social distancing practices are maintained.

We would like to thank all of our valued clients for the continued support and look forward to meeting again when we can.

Diane Booth
Operations Manager

The 'bring-forward' rule

The Australian Superannuation system is a tax haven that can significantly reduce the tax paid on investment earnings, and once you've retired, transitioning into an account based pension can reduce tax to 0%.

Knowing that it can be highly advantageous from a tax point of view, the basis of many retirement plans we construct at The Investment Collective (TIC) involves transitioning as much wealth as possible into the superannuation environment for clients. However, a common problem which can inhibit one's plan are the contribution caps imposed which limit the amount of funds you can contribute into super. For the Financial year (FY) 2020/21 these are:

- $100,000 Non-concessional (after-tax contribution)
- $25,000 Concessional (pre-tax contribution)

To address this, the bring forward rule can be of excellent strategic benefit, enabling those under the age of 65 at any time in a financial year, to consolidate a greater amount of funds into their retirement nest egg.

> "To address this, the bring forward rule can be of excellent strategic benefit"

What is the Bring Forward rule?

In any given financial year, an individual is eligible to contribute to super non-concessionally (after-tax) which is capped at $100,000 p.a. The bring-forward rule allows those under the age of 65 at any time in a financial year to "bring forward" two future years' worth of non-concessional cap. This means that they can contribute up to $300,000 in one financial year without exceeding their non-concessional cap.

The bring forward rule is triggered once an individual exceeds their annual non-concessional cap, such that if you were to contribute $175,000 non-concessionally to super during FY20-21, you would breach your non-concessional cap by $75,000 and assuming you're eligible would trigger the bring-forward rule during FY20-21. From then, you would be entitled to make further contributions of up to $125,000 during the year it was triggered and the proceeding two financial years.

Who is eligible?

In order to be eligible to trigger the bring forward rule you need to meet the following criteria:

- Have a total combined superannuation balance of less than $1,500,000 at the end of 30 June of the previous financial year;
- You must be under 65 years of age during the financial year in which the bring forward rule would be triggered; and
- Must contribute more than the annual allowable non-concessional cap which is $100,000 during FY20-21.

One exception to the eligibility criteria requiring one to be under 65 years of age during the financial year in which the bring forward rule is triggered is through the use of the Work Test Exemption (WTE). This would allow anybody who was both 64 years of age and met the required work test in the previous financial year and had a combined super balance less than $300,000, to utilise the bring forward rule in the proceeding financial year even if they were aged 65.

Limitation based on super balance

A limitation placed on the bring-forward rule by the ATO is limiting an individual's entitlement to bring forward future non-concessional contributions based on their total superannuation balance at the end of the previous financial year.

Should your balance be less than $1.4m, an eligible person is entitled to bring forward the standard two proceeding years. If between $1.4m and $1.5m, they can only bring forward one proceeding year, between $1.5m to $1.6m they can only contribute the standard non-concessional cap amount of $100,000 and if above $1.6m the individual is no longer entitled to make non-concessional contributions under both the bring forward rule and standard contribution rules.

Total super balance as of 30/06/2020	Non-concessional cap for FY 20-21	Allowable NCC's to bring forward for FY 20-21	Max NCC's for FY 20-21
< $1.4m	$100k	$200k	$300k
$1.4m - $1.5m	$100k	$100k	$200k
$1.5m to $1.6m	$100k	-	$100k
$1.6m +	-	-	-

These limitations are summarized in the table above:

When might this be useful?

A whole array of differing circumstances can warrant utilising the bring forward rule. However, the most common intention is to consolidate as much funds into the superannuation environment as possible. Examples of when it could be useful, but are not limited to, include; the contribution of funds into super where it is taxed more concessionally, implementing a downsizer contribution to consolidate surplus property sale proceeds into super or even as part of a re-contribution strategy to assist a healthy estate plan by making super funds more tax effective for non-tax dependents.

If you are interested in knowing more about the bring forward rule and whether it is a worthwhile strategy to adopt, please speak to your financial adviser for more information.

Joshua Scipione
Financial Adviser

The ONLY real value of money

Over the years I've had hundreds of conversations with clients about a wide array of subjects, and have been able to reasonably ask of people their views on subjects, which in the normal course of events would be 'no go' areas of conversation.

This simply reflects my need, as a financial adviser, to know a great deal about my clients such as to be in a position to formulate recommendations that are likely to benefit them.

One of the more interesting subjects of conversation is how different people think about money. For example, an answer to my question 'what would you really like financially', one young woman once told me that she'd 'really like $1,000,000 dollars'. I found that a curious answer because what I think she really wanted was not simply 'a pile of money', but in fact the goods and services that amount of money could command.

In other words, what I think she really wanted were options. And that's the curious thing about money, its only real value (in my opinion), is that money gives you options – more money, more options, less money, fewer options.

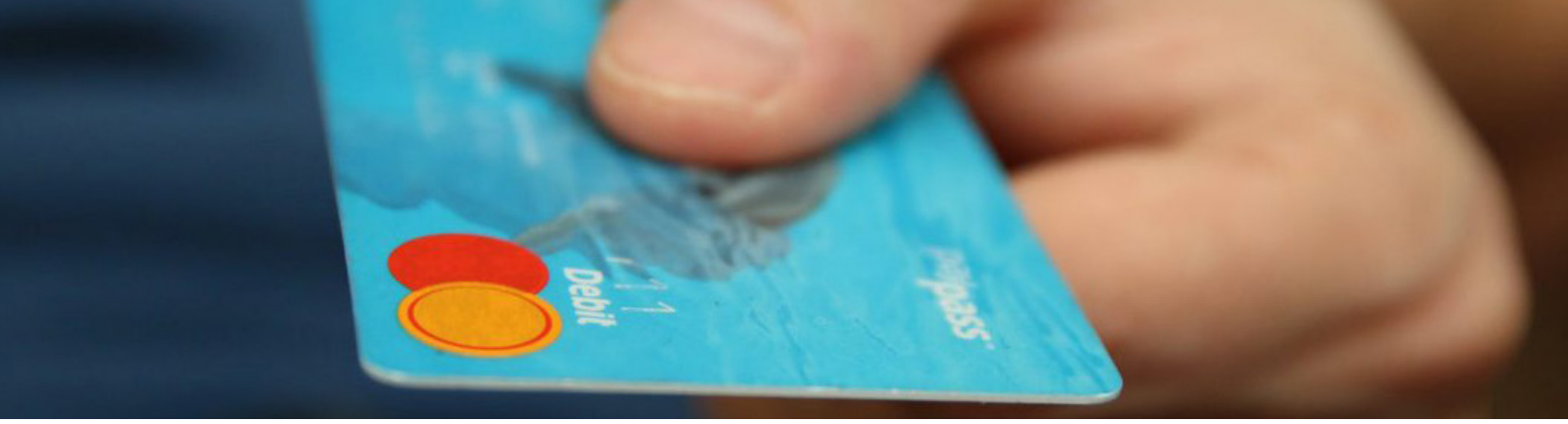
Moreover, while more money may give you more options, it really doesn't seem to mean a whole lot else. It doesn't appear to me to make anyone smarter, funnier, or even happier (sometimes the opposite). Although I take Spike Milligan's point when he said 'money can't buy you friends, but you do get a better class of enemy'.

> "Its only real value (in my opinion), is that money gives you options"

Our role as your adviser is to help work you through what options the money you have available now, and prospectively, may provide you with.

There's no right or wrong in any of this; we're all different, and different options mean different things to different people. What's important is that we help you clarify and quantify what your options are such that you can make an informed decision with regard to the choices you make. Once we've confirmed and clarified your (reasonable) options we can progress the financial planning process.

Robert Syben
Head of Financial Planning



Credit Card 101

Credit cards have long been helping people pay for things they need or want. You may be very familiar with them or you may be a newbie in the world of credit who is contemplating applying for your first card. Effective utilisation or misuse of credit cards can make or break your financial well-being.

Before we go through the complexities of credit cards, you must first understand what credit is. Credit is the means to borrow money/access goods or services with the mutual understanding that you'll pay later. Have you ever borrowed money from a friend for lunch or a colleague paid for your coffee because you left your wallet at home? That effectively is them giving your credit! Of course, with the intention and trust that you'll pay them back later. We use credit all the time and credit cards are just one of many financial tools used to attain a set amount of credit, commonly via a licensed financial institution such as a bank.

One of the defining benefits of credit cards is the fees, charges and interest associated with using the card. Commonly there would be a fee to set up the card which is generally charged annually, there are late payment and overdraw fees and also varying levels of interest depending on how you've spent the credit. There are often substantial fees associated with taking cash out using a credit card and in general, if you don't pay off your card in full at the end of each month interest will be charged and backdated too!

Pros of credit cards

• Easy to carry and use – Easily fit in your wallet, pocket or phone case!

• Safer than cash – With the exception of contactless payments, it's generally quite limited before you have to enter a pin for the purchase.

• Buy now, pay later (BNPL) – Which is the one crucial benefit of a credit card. As of late, there have been a series of different options in the BNPL space but we'll touch on that in a different session.

• You're protected – Fraud protection and monitoring is generally facilitated by the card provider and you're generally not held liable if your card is stolen or misused.

• Freebies!- Which to some is the one major benefit of using a credit card. Rewards and frequent flyer points are commonly associated with mid-top tier credit cards and the benefits can easily outweigh the associated fees if used correctly.

Cons of credit cards

• High-interest payments – Credit card interest rates are applicable if you don't clear the outstanding balance at the end of each month. These rates are generally much higher than a standard home loan or personal loan and it would be wise for any financially minded individual/family to avoid these payments at all costs.

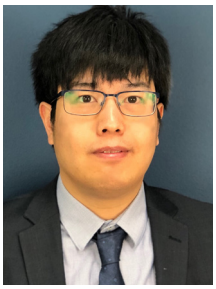
• The associated debt spiral – A common trap of the credit card is that you only have to miss one payment and interest will start to add up. Unless you pay off the FULL amount each month, interest will be charged on the FULL amount owing regardless if you've paid off half of the balance, 80% of the balance of 99% of the balance. If you get into the habit of not paying it off in full, your debt situation will quickly spiral out of control.

• Additional fees – As well as interest there is generally annual fees, overdrawn fees or late payment fees. These can sting quite a bit and more importantly, you may have to pay interest on it!

• Expensive to use abroad – Some cards are a bit friendlier and designed for travellers but most cards will charge excess fees when used in a different country than its origin. Often an additional 1-3% of fees on each purchase which can add up whenever you decide to go on a nice holiday!

To conclude, there are a number of benefits in owning a credit card, such as flexibility with managing your cash flows and access to additional free benefits. But this can come at a substantial cost if not managed correctly and you can easily fall into financial stress if you spend on things that you cannot afford!

Cheng Qian
Financial Adviser



Chorus (ASX:CNU)

We have a new addition to our stable of infrastructure investments, Chorus (CNU.ASX). Chorus was formed in 2011 via a spin off from Telecom NZ and is the owner and operator of the high speed fibre optic network covering 75% of the New Zealand (NZ) population.

Business Operations

CNU is only allowed to operate in the wholesale market. It owns the old TNZ copper network, which is progressively being closed down, and has nearly completed construction of an NZ$5b national fibre optic telco network.

It is a Monopoly

Construction of the network will be completed in 2022 and a natural monopoly utility model will govern Chorus. The NZ Commerce Commission will determine a RAB (regulated asset base), an appropriate debt/equity mix, and an allowable after tax and funding rate of return. This is almost exactly the methodology used in Australia to regulate electricity and gas transmission and distribution, airports, rail and port assets.

Funding Structure

CNU receives a total of $1.33b for building the $5.00b network. These funds are distributed as premises are connected. Urban premises are paid at $1,118 per unit while in rural areas the rate is $1,828 per unit. For every dollar that Chorus receives from the government, Chorus will issue the government debt and equity on a basically 50/50 split. These show up as Crown Funding on the annual reports. The debt is issued at an attractive rate of 0% and repayment does not start until 2025.

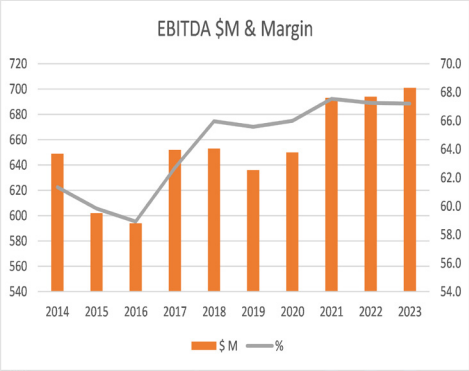
Business Performance

The progressive rollout of the fibre network has seen substantial erosion in copper driven revenues. In effect, CNU has experienced the National Broadband Network (NBN) new business sales growth and the TLS erosion of copper revenues. We do expect that there will be residual copper network revenues after completion of the fibre optic network.

Running costs have come down as a result of reduced maintenance. New stuff doesn't break as easily. Curiously all other costs have fallen by 16% since 2014, with substantial reductions since 2017 when the network reached critical mass. We have modelled static costs going forward. This may prove overly cautious.

The combination of flat revenues and declining costs results in modest growth in earnings before tax, interest payments and depreciation (EBITDA). After being below 60% for a number of years margins are now above 65% and we expect further improvements as network utilisation increases.

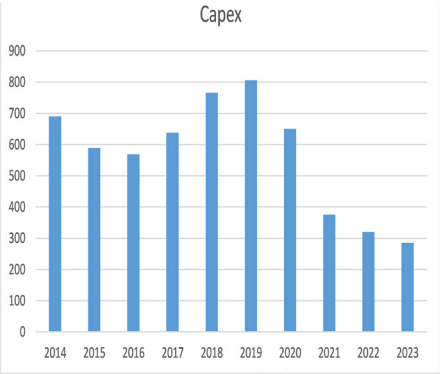
EBITDA $M (lhs) & Margin % (rhs)



Capital Expenditure is falling

Building new networks is extremely capital intensive. With the network close to completion a substantial and sustainable decline in capital expenditure seems inevitable. The company has indicated that "stay in business" expenditure will be around $300m pa by 2022 or 2023. Based on an average of $715m from 2017 through 2020 this is a reduction of around $400m.

Thus we can easily envisage circumstances in which capital expenditure falls by $0.80-1.00 per share. Not all of this will accrue to shareholders. There will be no Crown Funding inflows (roughly $145m pa) and some modest debt repayments. But it would be fair to envisage the dividend growing by $0.20-0.40 per share over the next few years.



We see the business with the potential for capital growth and we suspect that the dividend could rise sharply from present levels of around A$0.22 per share, which represents a 3.1% unfranked yield.

Ian Maloney
Manager - Share Trading

Warren Buffet's letter to new investors

For this edition of the quarterly newsletter, I've tapped into a recent article on Firstlinks, which I thought was appropriate for the current times. Price is what you pay...value is what you get.

Stock markets are facing a new paradigm with millions of inexperienced investors participating for the first time, facilitated by free trading apps and social media making it look like a fun game. Since the low of 23 March 2020, many have made a lot of money and made it look easy.

So, let's take a look at what Warren Buffett said in his annual letter to the Berkshire Hathaway shareholders in 2000 near the height of what became the 'tech wreck'. It was another time of massive speculation ignoring company fundamentals. This extract comes from his collection of letters.

Now, speculation - in which the focus is not on what an asset will produce but rather on what the next fellow will pay for it - is neither illegal, immoral nor un-American. But it is not a game in which Charlie and I wish to play. We bring nothing to the party, so why should we expect to take anything home?

The line separating investment and speculation, which is never bright and clear, becomes blurred further still when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities - that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future - will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants

all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.

Last year, we commented on the exuberance- and, yes, it was irrational - that prevailed, noting that investor expectations had grown to be several multiples of probable returns. One piece of evidence came from a Paine Webber-Gallup survey of investors conducted in December 1999, in which the participants were asked their opinion about the annual returns investors could expect to realise over the decade ahead. Their answers averaged 19%. That, for sure, was an irrational expectation: For American business as a whole, there couldn't possibly be enough birds in the 2009 bush to deliver such a return.

Far more irrational still were the huge valuations that market participants were then putting on businesses almost certain to end up being of modest or no value. Yet investors, mesmerised by soaring stock prices and ignoring all else, piled into these enterprises. It was as if some virus, racing wildly among investment professionals as well as amateurs, induced hallucinations in which the values of stocks in certain sectors became decoupled from the values of the businesses that underlay them.

This surreal scene was accompanied by much loose talk about 'value creation'. We readily acknowledge that there has been a huge amount of true value created in the past decade by new or young businesses, and that there is much more to come. But value is destroyed, not created, by any business that loses money over its lifetime, no matter how high its interim valuation may get.

What actually occurs in these cases is wealth transfer, often on a massive scale. By shamelessly merchandising birdless bushes, promoters have in recent years moved billions of dollars from the pockets of the public to their own purses (and to those of their friends and associates). The fact is that a bubble market has allowed the creation of bubble companies, entities designed more with an eye to making money off investors rather than for them. Too often, an IPO, not profits, was the primary goal of a company's promoters. At bottom, the 'business model' for these companies has been the old-fashioned chain letter, for which many fee-hungry investment bankers acted as eager postmen.

But a pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learns some very old lessons: First, many in Wall Street - a community in which quality control is not prized- will sell investors anything they will buy. Second, speculation is most dangerous when it looks easiest.

Dean Tipping
Financial Adviser

Centrelink Update

July will see the second round of Economic Support Payments coming through. The payment is part of the government's financial support package for those affected by COVID-19.

Anyone who receives a pension or a Commonwealth Seniors Health Care Card is eligible for a one off payment of $750. It is estimated that you will see the funds in your bank account by the end of July.

If you have a Commonwealth Seniors Health Care Card and are unsure if your bank account details are up to date then please log in to check or let us know at your earliest convenience to ensure that you receive this payment.

Pension changes from 1 July 2020

Pension income and asset test limits were updated as of 1 July to reflect the changes in the Consumer Price Index. As a result you may have seen an increase to your pension payments.

In the next column are the updated asset limits for full or part age pension. If you think that you may now be eligible to receive a part Age Pension, please contact your adviser.

If you have any questions about the Economic Stimulus Package, the changes to asset test limits or anything Centrelink related please feel free to contact us.

Malcolm Smith
Business Assistant

Asset limits to receive the full Age Pension

		Limit (1 July 2020 to 30 June 2021)	Previous Limit
Single	Homeowner	$268,000	$263,250
Single	Non-homeowner	$482,500	$473,750
Couple (combined)	Homeowner	$401,500	$394,500
Couple (combined)	Non-homeowner	$616,000	$605,000

Asset limits for a part Age Pension

		Limit (1 July 2020 to 19 September 2020)	Previous Limit
Single	Homeowner	$583,000	$578,250
Single	Non-homeowner	$797,500	$788,750
Couple (combined)	Homeowner	$876,500	$869,500
Couple (combined)	Homeowner	$1,091,000	$1,080,000

Managed Discretionary Accounts

At The Investment Collective, many of our clients' portfolios are managed under a legal instrument called a managed discretionary account (MDA), which clients agree to in writing when first joining us.

The MDA, as it is known, allows us the discretion to manage your portfolio without first getting approval from you. This is very much the same as the superannuation funds manage accounts, using discretion to invest your money wisely and in line with your risk profile, to achieve the best returns for you.

We rarely use this discretion and when we do it is typically for opportunities that arise with a very short time window of opportunity. One of the changes that we have just made is that during the meeting with your adviser you will be asked to confirm that the MDA remains suitable to your circumstances.

I'd encourage all clients to engage with their adviser to ensure that you understand the discretions and responsibilities that we have under the MDA arrangement.

John Phelan
Compliance Manager

Client Webinar

Due to restrictions surrounding the COVID-19 pandemic, The Investment Collective held its first Zoom client webinar on Thursday 28 May 2020.

We'd like to thank Ian Maloney, Owen Evans and Diane Booth for attending, presenting and hosting the webinar. The topic of the webinar was 'The impact of COVID-19'. Ian provided a comparison to the SARS pandemic and discussed vaccine time frames, industries impacted and what the road out may look like. The webinar was finished off with a client Q&A hosted by Owen.

Thank you to the clients who were in attendance. Those who missed it can watch the presentations through the client portal or via our Vimeo account. The next client seminar will be held in October 2020.

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Lisa Norris	General Manager - Clients & Insights

Please note that the content in this newsletter is general in nature and has not taken your personal or financial circumstances into consideration. If you have any questions please contact your adviser.

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