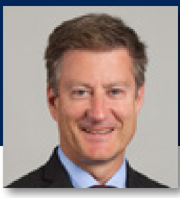
Annual Update 2020/21



Mark Smith

Group Executive,
Perpetual Private

Select Super, Pension, Investments – July 2021

I'm pleased to provide your annual statement for 2020/21. In your statement you'll find details of your account balance, returns and transactions for the year to 30 June 2021.

As I reflect on the year that's been, once again the narrative has been written by the COVID-19 crisis. Across Australia and much of Asia, the economic recovery focused on suppression and elimination of the virus. In the US and Europe, the story has been about vaccination rates.

As vaccine availability increases and these two approaches merge, the outlook is bright for continued global economic growth over the next 12 months.

A resurgent sharemarket

The past financial year was particularly strong for Australian equities, with the benchmark ASX/200 index touching a record high in June 2021, on the way to its best annual gain since 1987.

The rally off March 2020 lows continued throughout the year, helped by ongoing government fiscal support and the Reserve Bank of Australia (RBA) cutting interest rates to an all-time low of 0.1% in November 2020.

Over the coming year we expect the economic recovery to continue, with the vaccine roll-out gathering pace and international borders set to reopen, boosting important sectors of our economy including tourism and education.

With a rapid recovery from the COVID-19 economic downturn, markets are now facing the prospect of higher inflation and, for the first time in over a decade, rising interest rates.

For our clients, this can present opportunities and potential risks. To make sure your portfolio is positioned appropriately for your investment objectives and changes in the investing landscape, please speak to your financial adviser or contact one of our experienced advisers here at Perpetual.

Helping members manage their super

From 1 October 2020, we made some changes to the fees on Select Super Plan and Pension Plan as part of our ongoing commitment to help you manage your super.

Changes to fees include a reduction in the dollar-based Administration Fee from $127.68 to $84 per year, and reduced Investment Fees across nearly all the investment options.

Additionally, normal operating expenses incurred in the day-to-day running of the Select Superannuation Fund, such as audit and custody fees, are no longer recovered from the Fund.

Your global investment firm

Finally, over the year we continued to expand our international presence with the acquisition of Barrow Hanley Global Investors in the US. Perpetual's growing international division now covers Singapore, Hong Kong, the UK and the US as we continue our move to become a truly global investment firm.

Thank you for trusting Perpetual to manage your money this year. It is not a role we take lightly – we know that trust needs to be earned every day. I wish you all the best for the year ahead.

Trust is earned.

Perpetual

Financial Year 2020/21 – At a glance

Australian Sharemarket

Following the impact of the COVID-19 pandemic on markets during the March 2020 quarter, financial year 2020/21 saw a broad and dramatic recovery in equity markets around the world, rallying strongly across all four quarters. Including dividends, the Australian market, as measured by the S&P/ASX 300 index, returned 28.49% for the year, slightly outperforming global markets on an unhedged basis as the Australian dollar also recovered approximately 9% relative to global currencies.

A turning point of significance in markets occurred when vaccines against COVID-19 were approved for use in October 2020. A 'great rotation' between sectors commenced as markets looked through the current reality of the lockdowns and malaise in economic activity, to the potential of economies returning to some level of normality. Previously unloved sectors, such as Financials and Consumer Discretionary stocks, which includes travel and leisure companies, rallied strongly, as did mining and resources companies off the back of strong commodity markets. Previous 'COVID winners', such as Consumer Staples and Health Care stocks, had positive returns but lagged other sectors.

Despite rolling lockdowns continuing across various states, along with associated border closures, by the end of June 2021, the Australian market had recovered and exceeded pre-COVID-19 crisis levels to close at an all-time high. While risks remain on the horizon and the recovery trade appears to be slowing down, we expect accommodative policy will continue to support the Australian market as we head into the new financial year.

Global Sharemarkets

Global markets finished the year at all-time highs, returning 27.72% for the 12 months to June 2021, as represented by the MSCI All Country World Index, unhedged to the Australian dollar. Despite the sector rotation during the December 2020 quarter, Technology stocks outperformed their industrial counterparts over the whole financial year, however financial, energy and other cyclical sectors outpaced the broader market during the second half as the reflation trade dominated.

Broadly, the US outperformed their developed ex-US and emerging market counterparts. The strength of the recovery of the US economy has vindicated the multi-trillion dollar stimulus packages from the federal government, with three rounds of payments to individuals and enormous support given to business and banks via the Fed's asset purchasing programs. As vaccination programs around the world accelerate, markets have rebounded strongly on the optimism that life will return to normal at some point in time.

Certain parts of the market look expensive and overbought. Technology vs more economically sensitive sectors, as well as developed vs emerging markets, still trade at historically wide differences in terms of valuation. As economies get back on track, it is arguable that the divergence between these sectors and markets will continue to narrow, resulting in a 'change in the leader board' of past winners vs stocks that have previously underperformed.

Inflation, Interest Rates and Credit Spreads

Inflation on a global basis has been benign ever since central banks started to explicitly target inflation during the 1990s. This, combined with disinflationary pressures such as the emergence of China, the growth in global trade and new technologies such as the internet, have kept inflation well in check – even to the point where certain economies and regions, such as Japan and Europe, have struggled to achieve a high enough level of inflation vs target, with deflation representing the largest threat and headwind to growth.

The need to provide unprecedented support through the COVID-19 induced crisis saw central banks globally reduce cash rates to zero or even negative rates, further reinforced by central banks buying up a range of assets on a broader and larger scale than similar programs implemented during the Global Financial Crisis.

The crisis has also released governments from an expectation of fiscal conservatism, allowing them to go deeply into deficit in order to maintain economic activity and keep companies afloat as economies came to a standstill.

Potential inflation concerns emerged over the first 6 months of 2021, as worries on the pandemic faded and attention turned to the amount of stimulus being pumped into economies. Fears of banks being forced to raise rates in response to overheating economies and potential inflation saw bond yields rise. Australian and Global bond benchmarks delivered negative returns during the March 2021 quarter, to the extent that bonds delivered negative returns for the whole financial year.

Despite the increase in bond yields, corporate bonds (or 'credit') benefited from buoyant equity markets and a continued narrowing of 'spreads', which is the difference in interest rates between company bonds and sovereign bonds. This resulted in strong returns for credit, bringing long-term returns back into line with expectations for the asset class.

Some inflationary indicators, particularly in the US, have resulted in historically high inflation numbers however, by the end of the financial year, the argument that inflationary pockets are 'transitory' in nature appears to be dominating the conversation in markets. While economies remain fragile and unemployment has still yet to recover to pre-COVID-19 levels in many major economies, central banks and governments have little appetite to withdraw stimulus, which will continue to keep cash rates and bond yields at historic lows.

Property

After suffering significant declines in value during the COVID-19 crisis, listed Real Estate Investment Trusts (REITs) continued to recover to deliver strong double digit returns over financial year 2020/21. Australian REITs, which are dominated by Retail and Commercial properties, rallied 33.91% as measured by the S&P/ ASX 300 A-REIT Index, while the FTSE/ EPRA NAREIT index of global REITs rallied 19.63%.

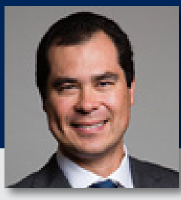
Sector classification of REITs had the greatest influence on returns from a 'top-down' perspective, with less cyclical sectors, such as logistics assets (warehouses), data centres and multi-family/residential properties underperforming sectors with stronger links to economic activity, such as retail shopfronts and office buildings.

Similar to equities, accommodative monetary policy will continue to support real estate valuations, however questions remain over parts of the market. Will changes in work patterns have a broad effect on office building rents and valuations? How long will borders remain closed, affecting the revenue of hotel and leisure assets? How much more will retail assets suffer from a movement to online and delivery models? These all present challenges for valuations and potential volatility, highlighting the value of an active approach when investing in this asset class.

Alternative Assets

Alternative assets include a variety of different, 'non-traditional' asset classes which are generally private or unlisted in nature, as well as strategies that generate returns largely through manager skill. Examples include infrastructure, unlisted property, private loans to businesses or secured against property,

From the Select Manager



Kyle Lidbury

Head of Investment Research,
Perpetual Private

Looking back on the letter that I wrote last year, it's hard to believe the progress that has been made compared to the significant challenges faced by investors during the last financial year. We cannot understate the magnitude of the scientific triumph that rapidly developed, new technology vaccines represent. Emergency approvals by regulatory authorities and widespread vaccination programs implemented in many developed economies has led to unbridled optimism and the hope for a rapid return to normalcy across countries and economies around the world.

Nowhere is this optimism better observed than in equity markets, where the change in outlook for corporates has resulted in record sharemarket returns over the last 12 months. The economic recovery has been well supported by continued fiscal and monetary support from governments and central banks. The necessary economic cure to the pandemic has now become a concern – will the continued stimulus lead to sustained inflation or is this just a blip as prices overshoot before returning to a more normal level?

The overused disclaimer of 'past returns being no guarantee of future performance' has proven out this year, as we've seen a reversal across and within asset classes while market conditions have flipped. A long-awaited resurgence in 'value' stocks, as cyclically sensitive stocks have outperformed, alongside higher volatility in bond markets as inflation expectations reverse and central banks appear willing to let economies 'run hot' before taking action. The median active Australian equity and global equity manager outperformed their respective benchmarks this year.

We cannot ignore the risks that remain on the horizon. The new Delta variant is proving to be a huge challenge not just in Australia, but in other Asian economies that had previously managed outbreaks well and in highly vaccinated populations such as the UK and the US. Tensions and tightening on trade continue between China and the US . And the enormous global challenge that climate change represents is once again coming to the fore, with record temperatures, floods and fires around the world.

Over financial year 2020/21, we maintained conviction in quality, proven fund managers which were well positioned to outperform when market conditions reversed last year. In line with a change in the inflation and interest rate outlook, we have been increasing exposure to real assets in our alternatives programs combined with other strategies that will hedge against inflation. Despite the rebound in markets, we continue to find opportunities to put investor capital to work in pockets of the market that still represent good value where we have confidence that prices will recover.

We continue to advocate for an active approach to investing across a broad range of asset classes and management styles, taking advantage of the benefits of diversification to deliver a smoother and more reliable outcome for clients – this is ultimately what we're aiming to achieve.

Thank you for your continued investment in Select.

leveraged loans and high-yield securities, shares or interests in private companies as well as absolute return, hedge funds and trading based strategies

Whilst presenting a different array of risks compared to traditional assets, there is an attraction of being able to diversify away from the risks present in traditional markets in order to build more resilient portfolios. The benefit of these investments could not have been more pronounced than during the market gyrations that we have seen over the last 18 months.

During the financial year 2020/21, increased volatility in markets presented opportunities for certain managers to put capital to work in oversold securities or allow traders to execute on strategies where wide dispersions presented opportunities. On the other hand, certain assets, such as airports and toll roads were marked down as numbers of travellers and vehicle traffic remain exceptionally low.

Certain regulated alternative assets, where income streams or rents are directly linked to inflation, have seen a renaissance, providing protection against the possibility of higher inflation in the future. These assets, both here in Australia and abroad, have become targets for large global investors and we expect that corporate activity combined with low interest rates will provide strong support for valuations in certain sectors.

Superannuation Legislative Update

To ensure you get the right advice for your situation, please consider speaking to a financial adviser.

Changes to superannuation

The Federal Budget on 11 May 2021 announced measures that provide greater access to voluntary superannuation contributions under the Government's First Home Super Saver Scheme and also changes to encourage retirees to contribute more to their superannuation.

Despite some pressure to again pause the superannuation guarantee (SG) rate, no changes were announced in the Budget. As a result, the prescribed SG rate increased from 9.5% to 10% on 1 July 2021.

Following is a summary of the Federal Budget proposals. The summary covers proposals that have not yet been legislated and may not proceed or may be amended. The material should be viewed within this context.

Increase in First Home Superannuation Saver Scheme (FHSSS) maximum releasable amount

The maximum releasable amount for the FHSSS will be increased from 1 July 2022 from $30,000 to $50,000. Both voluntary concessional and non-concessional contributions can be contributed and utilised as part of the FHSSS.

Downsizer contributions – access from age 60

The downsizer contribution allows individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per individual from the proceeds of selling a home without it counting towards their non-concessional contribution cap.

From 1 July 2022, it is anticipated that the eligibility age to make downsizer contributions into superannuation will be lowered from 65 to 60 years of age.

Removal of the work test for those aged between 67 and 74 years

The current work test requires an individual to be gainfully employed for gain or reward for at least 40 hours within 30 consecutive days, during the financial year before any concessional or non-concessional contributions can be accepted.

From 1 July 2022, individuals aged 67 to 74 years (inclusive) will be able to make or receive non-concessional contributions (including the use of the bring-forward rule) or salary sacrifice superannuation contributions without meeting the work test.

Note, a work test must still be met to make personal concessional contributions and contribution caps continue to apply.

Find out more

Speak to your Adviser or contact us:
Phone 1800 003 001
Email investments@perpetual.com.au
www.perpetual.com.au

Perpetual