FM Financial Investment Update

2021 – September Quarter

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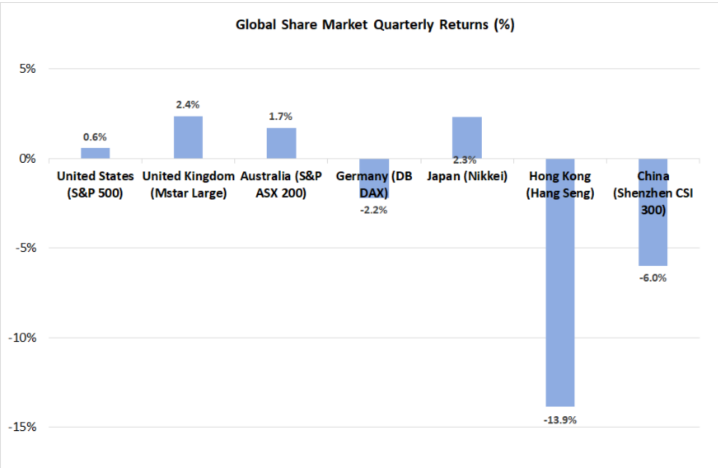
Share Markets Pull-back from Record Highs

- Share markets finished the quarter higher despite large declines in China and a broader correction in the month of September.
- Higher inflation fears were renewed as energy costs in Europe surge.
- Bond yields rose late in the quarter in response to inflation and expectations of a tapering of monetary policy in the United States.

Asset Class Return	3 Months	Annual
Australian Equities	1.7%	30.6%
Global Equities - Unhedged	4.0%	27.8%
Global Equities - Hedged	0.6%	28.3%
Australian Listed Property	4.8%	30.7%
Global Listed Property	-0.2%	30.3%
Global Listed Infrastructure	2.7%	21.1%
Australian Fixed Interest	0.3%	-1.5%
Global Fixed Interest	0.1%	-1.0%
Cash	0.0%	0.0%

International Equities

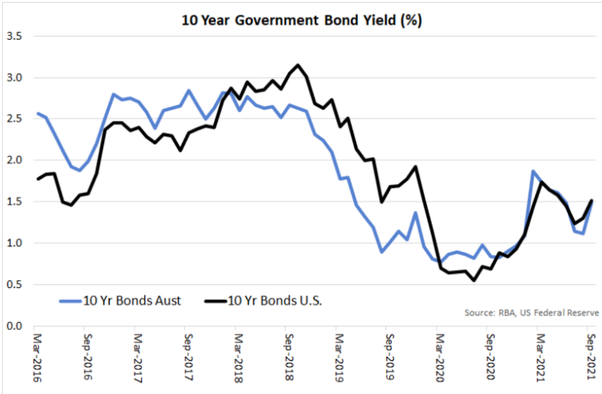
Large falls in the Chinese and Hong Kong share markets headlined global equity markets last quarter. Although there was a small recovery in the month of September, the Chinese market finished the quarter 6.0% lower, with Hong Kong down 13.9%. A combination of factors contributed to this weakness. In July, returns were significantly impacted by renewed government regulatory action. Chinese authorities announced major reforms to the education sector, effectively banning profit making enterprises from school curriculum related education. This was followed by news that China's second largest property development group, Evergrande, was at risk of defaulting on its debts, which was potentially triggered by new and more stringent borrowing regulations on property developers. In addition, signs of weaker economic data were also apparent in China, with manufacturing and retail sales indicators falling short of expectations. The significant losses on Chinese equity markets were a significant drag on the overall performance of the MSCI Emerging Market Index, which declined 4.5% over the quarter.



Despite a fall in the month of September, most developed global equity markets finished the quarter in positive territory. The quarter commenced with an optimistic mood, with a better-than-expected earnings reporting season in the United States providing a renewed source of confidence. Overall quarterly gains were modest, though, with the United States S&P 500 Index rising just 0.6% after pushing through new record highs earlier in the quarter. Relatively small net movements were also recorded across Europe and the U.K., with concerns over higher daily COVID case numbers being tempered by rising rates of full vaccination. Japan was one of the stronger performers, with the Nikkei Index advancing 2.3% after a period of relative under performance in the previous quarter. In addition to the nervousness around events in China, the weaker performance on global equity markets towards the end of the quarter reflected a combination of concerns stemming from higher energy prices in Europe, some weakening in economic growth data, as well as rising bond yields. Also adding to general uncertainty was doubt over whether the U.S. government would pass a $550 billion infrastructure spending package, with the vote on legislation delayed due to concerns of insufficient support for the bill at a time when the U.S. government debt ceiling requires lifting.

Australian Equities

Sector	3 Months	Annual
Resources	-9.3%	17.7%
Energy	9.3%	39.1%
Utilities	5.1%	-6.8%
Healthcare	2.7%	8.2%
Property Trusts	4.2%	29.9%
Financials	4.9%	57.1%
Consumer Staples	4.6%	17.6%
Consumer Discretionary	2.6%	37.9%
Industrials	6.6%	17.7%
Information Technology	4.7%	30.0%
Telecomunications	5.1%	42.0%



Australian equity returns were slightly above global averages over the quarter, with the S&P ASX 200 Index rising 1.7%, bringing the annual gain to 30.6%. Energy shortages in Europe triggered a sharp rise in the prices of energy related commodities such as oil, coal and gas. This resulted in a 9.3% rise in the energy sector share prices. In contrast, falling iron ore prices, which reflected weaker outlooks for the Chinese economy and Chinese housing construction sector, resulted in the Australian resource sector posting a 9.3% decline over the quarter. Corporate actions were also significant in the resources and energy sectors, with the announcement that BHP's oil and gas business planned to merge with Woodside. Should the merger proceed, the new expanded Woodside business would be owned 52% by existing Woodside shareholders and 48% by existing BHP shareholders. In addition, BHP announced that they would be cancelling their secondary listing on the London exchange, effectively consolidating this into their Australian listing.

Some of the more domestically focussed cyclical stocks were impacted by COVID related lockdowns, with the consumer discretionary sector being one of the weaker areas, rising by 2.6%. Conversely, defensive sectors performed better, with property trusts, insurance companies and consumer staples posting above average increases. It was also a positive quarter for utilities, with some merger and acquisition activity suggesting that lagging listed valuations were becoming attractive to private and institutional buyers (e.g., Sydney Airports).

Fixed Interest & Currencies

Bond yields returned to an upward late last quarter. With signs that inflation may be a little more persistent than previously thought, expectations have firmed that the U.S. Federal Reserve will commence tapering its bond buying program this year, which could place upward pressure on yields. Over the quarter, the U.S. 10-year Treasury bond yield rose from 1.45% to 1.52%. The Australian equivalent yield finished the quarter unchanged at 1.49%, after a 0.37% rise in September reversed earlier falls.

The Australian dollar drifted lower over the 3 months to September, with weaker iron prices and broader concerns over Chinese economic growth being the key contributors. Against the $US, the $A dropped from US 75.2 cents to 72.1 cents. This depreciation boosted the returns from unhedged global equity investments by some 3.4% on average. Notwithstanding the lower iron ore prices, Australia's trade surplus has continued to expand to new record highs, which provides some fundamental support for the $A at current levels.

Outlook and Portfolio Positioning

Over much of calendar 2021, bond markets and equity markets have been playing to a different tune, with bond yields falling from a February peak and equity markets continuing to advance at a steady pace. This pattern was reversed in the month of September, with bond yields rising and equity markets falling. Prior to September, bond markets appeared to be more attuned to the prospect that the economic recovery would moderate; whereas equity markets found enough promise in rising earnings to push valuations to new record highs. The economic data released over recent weeks has tended to vindicate the bond market view, with clear signs that the recovery cycle is maturing. Whether this also means that the inflation uplift will be temporary remains uncertain and the prospect of a weakening economic cycle combined with inflation persistency could be challenging for both bond markets and equity markets in the months ahead, with September's results providing a possible prelude to this challenge.

In light of the moderation of economic growth data, the reorientation of equity market focus towards more defensive stocks and sectors over the past quarter appears logical. In the initial period following the onset of the COVID crisis in February 2020, falling interest rates triggered a strong rally in “growth” styled equities. The Information Technology sector was at the heart of this price surge and also benefited from the structural business changes associated with lockdowns. On news of a vaccine last November, the pattern of market growth switched to “cyclical value” stocks positioned to benefit from reopening and an improving economic outlook. Banks and resources performed particularly well through this period. However, through these 2 phases of market growth, the more defensively positioned equities were left behind somewhat - until the last few months when sectors such as property trusts, insurance companies and consumer staples have risen materially. In an environment where interest rates have no further to fall and the economic growth trajectory has peaked, the completion of the third phase of the post COVID equity market adjustment, as described above, is likely to leave very few growth assets undervalued or attractively priced. Infrastructure, potentially positioned to benefit from increased inflation linked cash flows, still appears cheap relative to other growth assets. In addition, emerging market equity valuations have not kept pace with developed markets, possibly due to the additional uncertainties and risks of the COVID crisis; as well as the greater challenges associated with executing stimulatory economic policy in emerging economies. However, whilst emerging market equity valuations may be attractive on a relative basis, recent developments in China present a concern and should be considered closely in any emerging market investment decision.