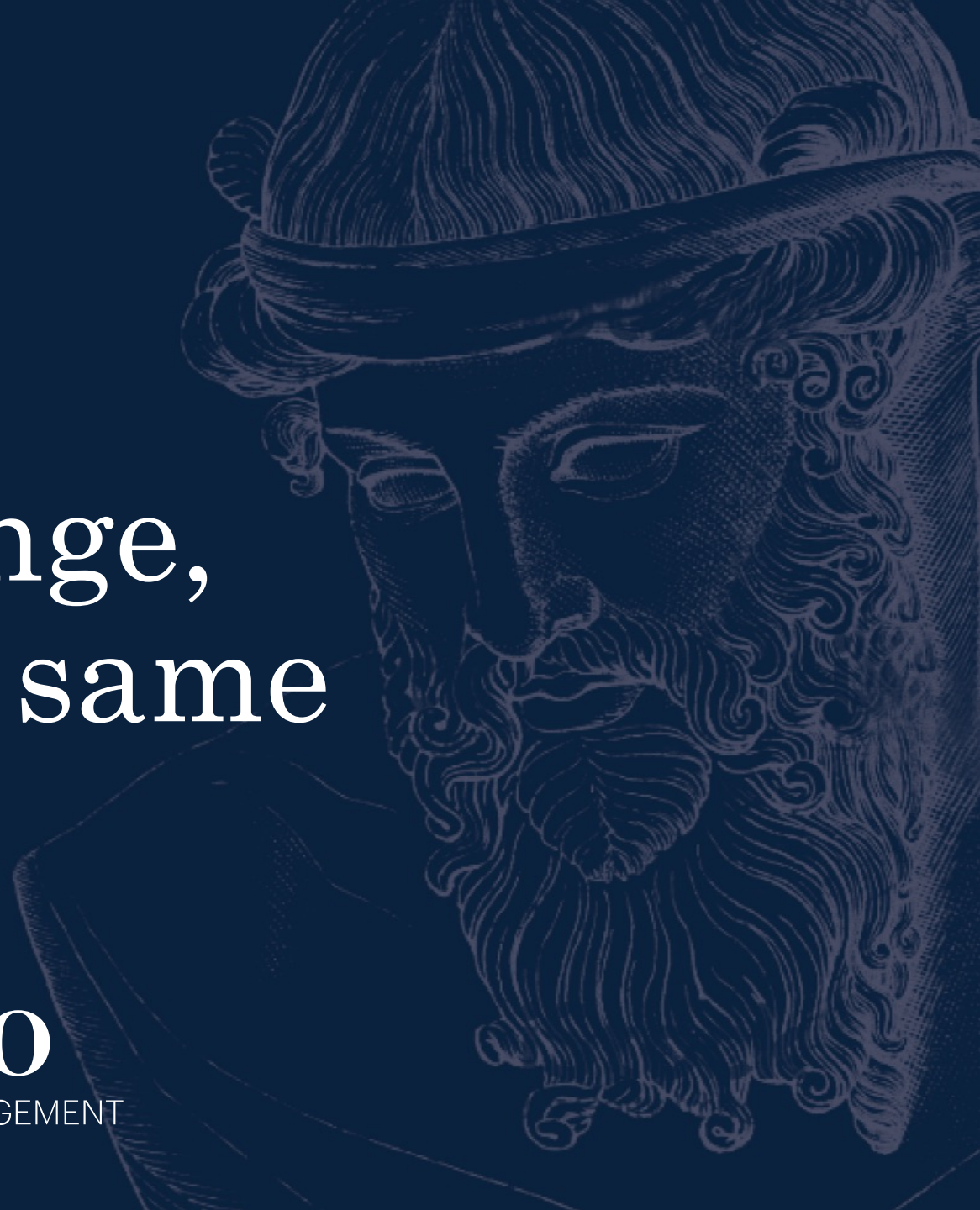


THE GREAT RESHAPE:

Some things change,
some remain the same

Plato

INVESTMENT MANAGEMENT



Disclaimer

Note: Past performance is not a reliable indicator of future performance.

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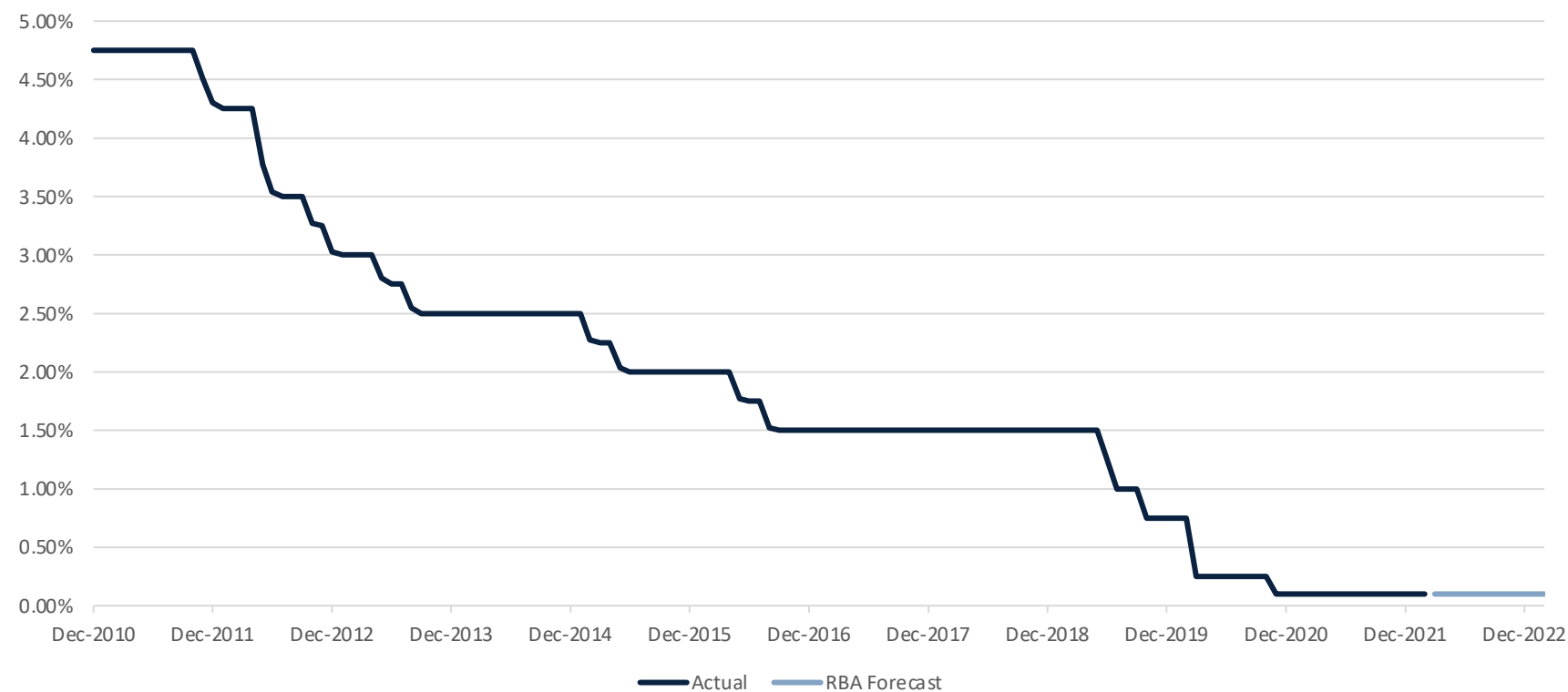
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RBA thought interest rates would stay low out to 2023

OFFICIAL RBA CASH RATE EXPECTATIONS – AS LATE AS EARLY 2022



“Given the outlook, the Board is not expecting to increase the cash rate for at least three years.”

Monetary Policy Decision 3 November 2020

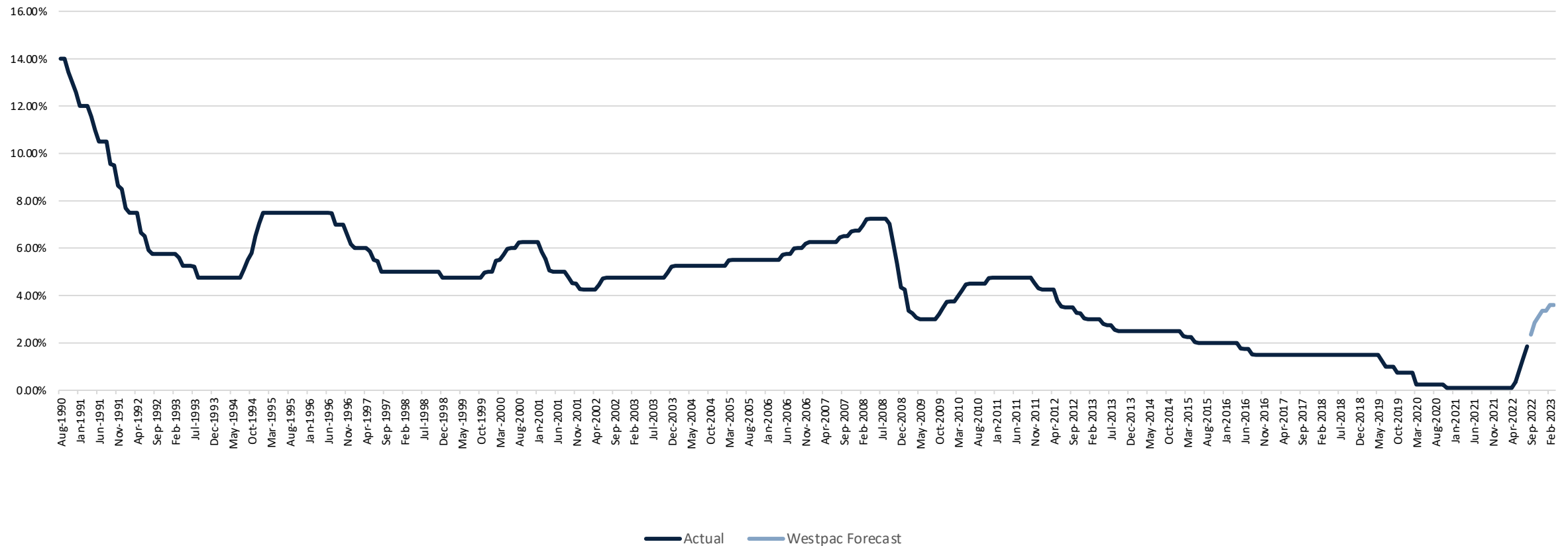
Source: RBA, Plato

Some things
have changed



So much for 0.10% until 2023 – the cycle is back!

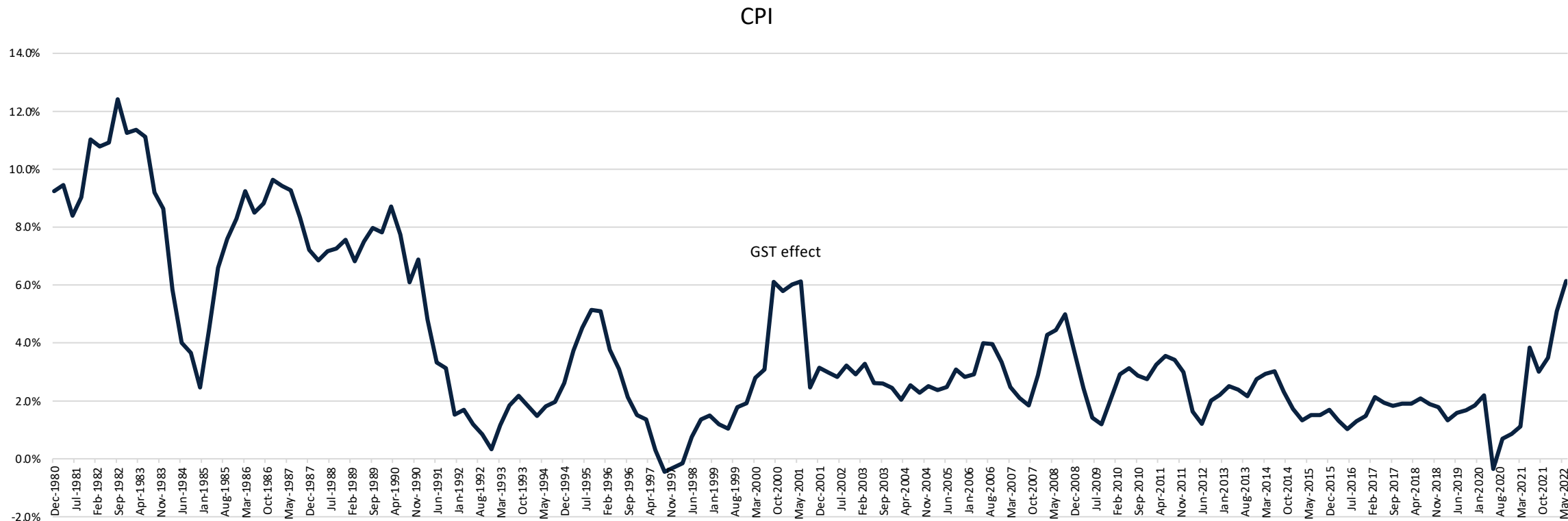
OFFICIAL RBA CASH RATE + WESTPAC FORECAST



Source: RBA, Plato, Westpac

But inflation is rising even faster

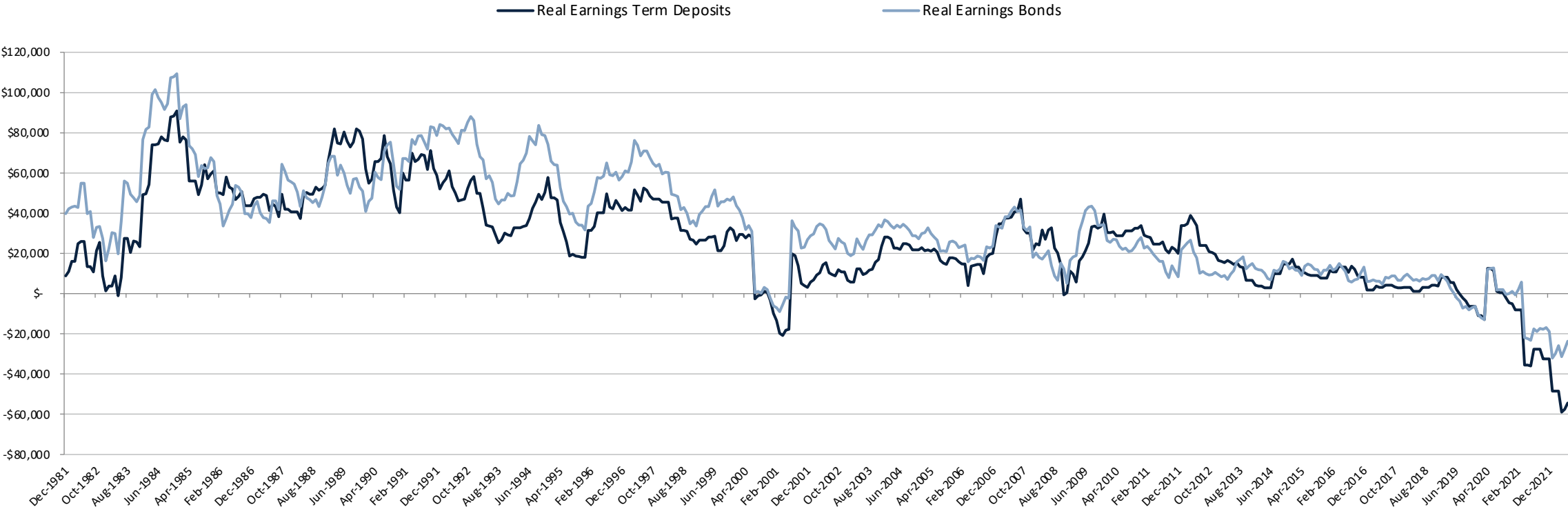
HIGHEST SINCE DEC 1990.



Source: RBA

Safe assets now losing you money big time

REAL AFTER INFLATION EARNINGS ON \$1M

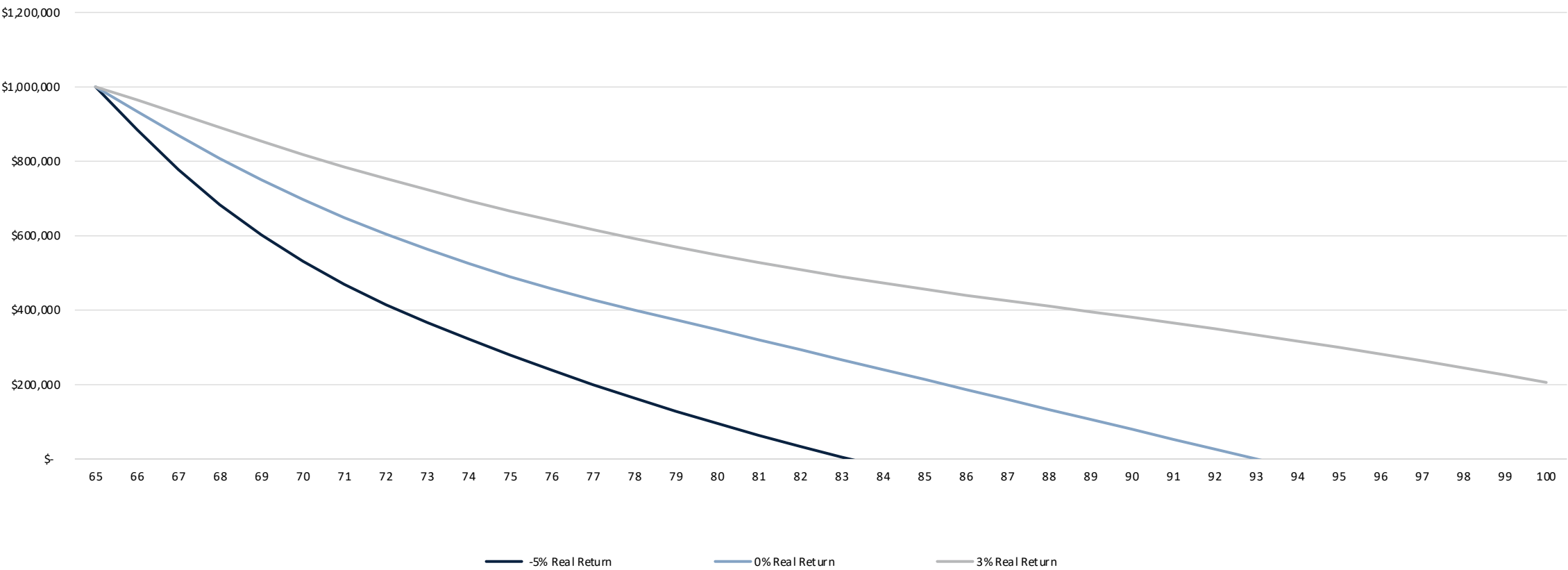


Inflation hit 6.1% in June 2022

Source : Plato, RBA updated to 30/6/2021

Negative real returns are a killer for retirement balances

-5% REAL RETURN MEANS YOU'LL BE ON THE FULL PENSION AT 72



Source: ASFA, Plato, Services Australia

Assumptions: Homeowner couple, \$1m starting assets, ASFA comfortable lifestyle, eligible for pension subject to assets test.

Significant uncertainty?

IT WAS THE WORST OF TIMES

- Rapidly rising inflation – highest in 30 years ex GST introduction
- Now rapidly rising interest rates - 1.75% rise in 4 mths
- War in Ukraine
- Supply chain issues due to COVID
- House prices falling
- Bonds and equities selling off together – worst since 1994
- 3rd worst financial year return for super funds in 21/22*

* Source: Investor Daily 7/7/22

Significant uncertainty?

IT WAS THE BEST OF TIMES

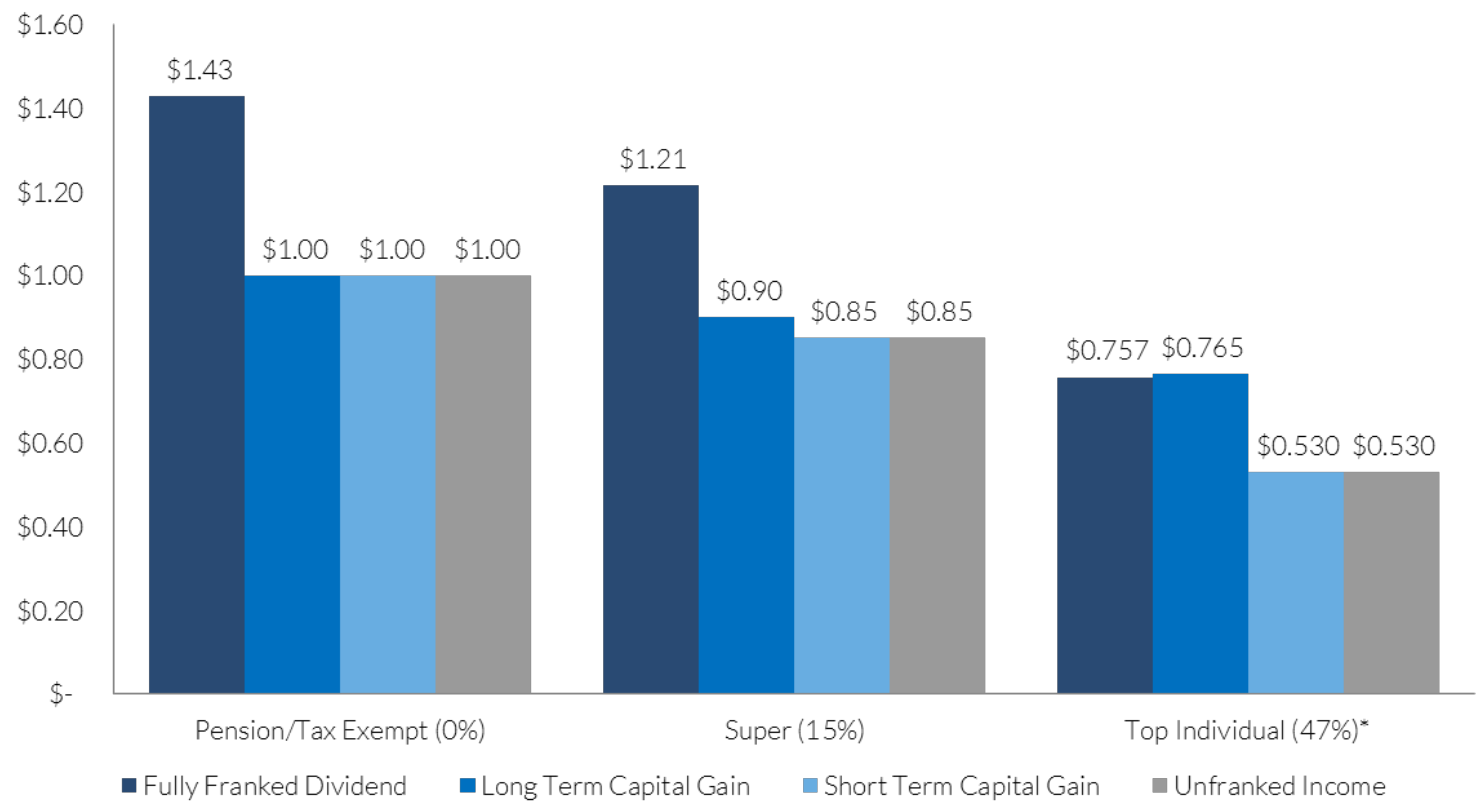
- Economy is at full employment
- Official overnight cash rate is still close to “normal” lows
- Corporate balance sheets are strong, debt levels low
- Some Australian companies well placed to benefit from war in Ukraine
- House prices still well above pre-COVID levels
- Many borrowers are well ahead on repayments, offset accounts at record levels
- 2nd best financial year return for super funds in 20/21*

* Source: Investor Daily 7/7/22

Some things
remain the same



Franking credits are very valuable for retirees!



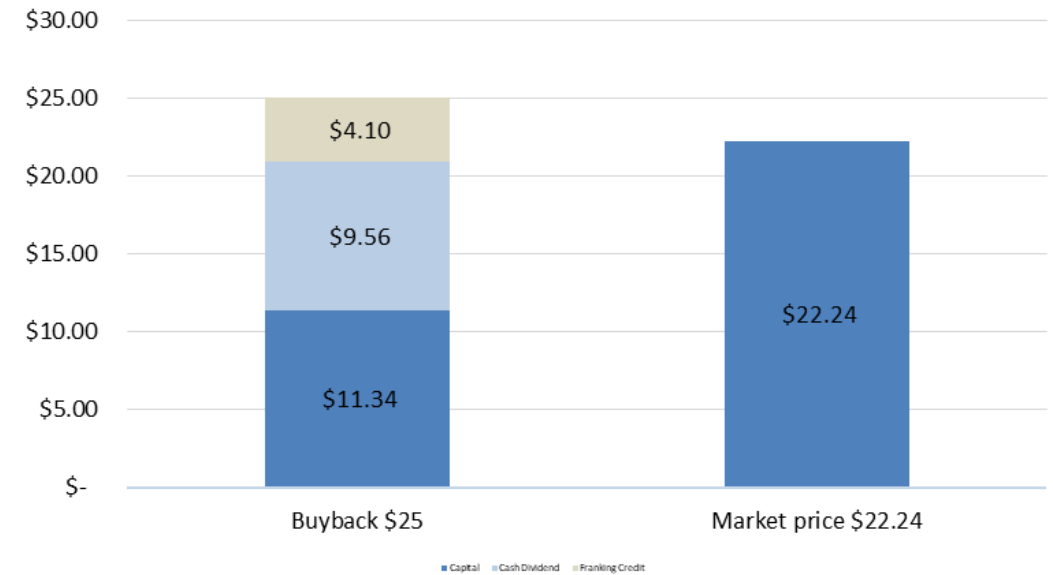
Tax effectiveness depends on your tax status!

Source : ATO, Plato using 1 July 2022 tax rates including Medicare levy. After tax value of \$1 of pre-tax return)

Tax effective buy-backs are very advantageous

WESTPAC BUYBACK – WORTH 12% AFTER TAX FOR ZERO TAX INVESTORS

- A\$3.5bn off market buyback - 4.6% of shares on issue
- Worth 12.4% for pensioners for every share successfully tendered
- Zero scale back for those investors tendering at >6% discounts

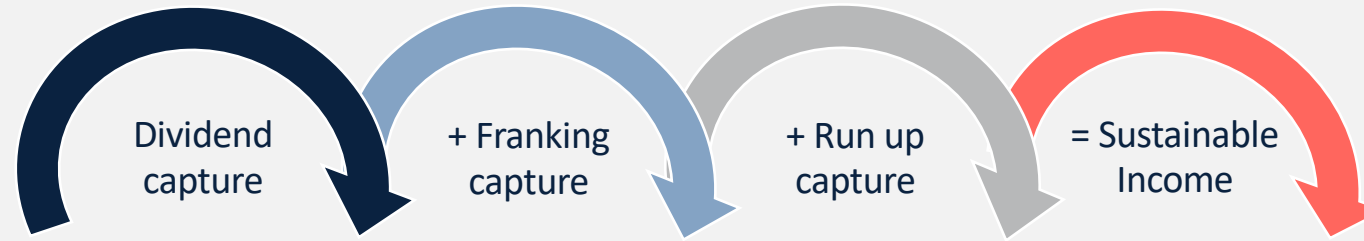


Source: Plato, WBC announcement 14/2/2022.

*based on average vwap price from 7/2/2022 - 11/2/2022.

Highlights value of franking credits

Dividend rotation combined with good value quality long term holdings provides income plus growth



Good value, quality long term holdings:

Good Value – Earnings, cash flow, EBITDA

High Quality – cash and profitability, avoid red flags

Good business momentum – EPS revisions

Predict and avoid dividend traps

Reporting Season Highlight

BHP GROUP

- FY22 NPAT of US\$22.4b up 64% vs FY21's US\$13.7B, above market expectations.
- Record EBITDA US\$40.6B – coal the standout, from US\$288m to US\$9.5B!
- Dividend declared was US\$1.75, 12.5% lower than last year's final, but largest full year dividend at US\$3.25.
- Results do not include BHP Assets “sold” to Woodside – otherwise would have been a record profit. Net debt at US\$0.3bn

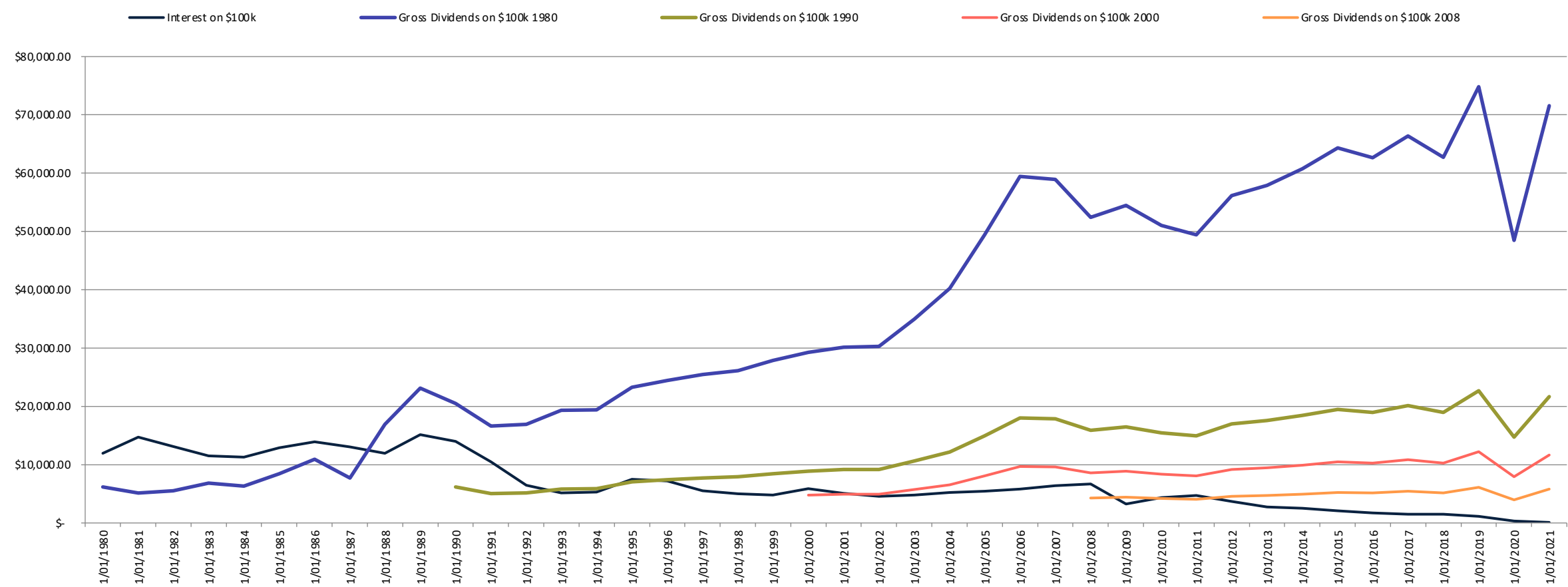
BHP



Source: Plato

Comparing the income from \$100k investment

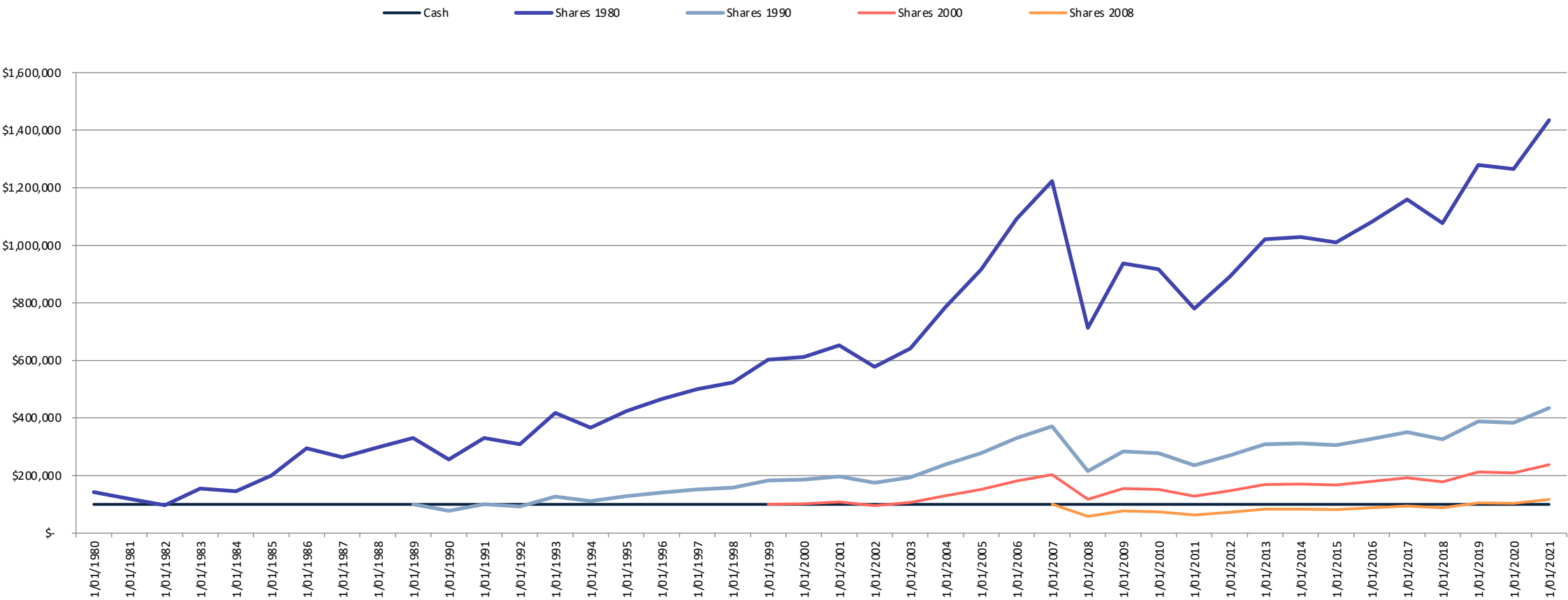
CASH VERSUS ALL ORDINARIES/S&P ASX 300 GROSS DIVIDENDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year, spend all income All Ords to June 2005, S&P300 thereafter

Comparing the capital from \$100k investment

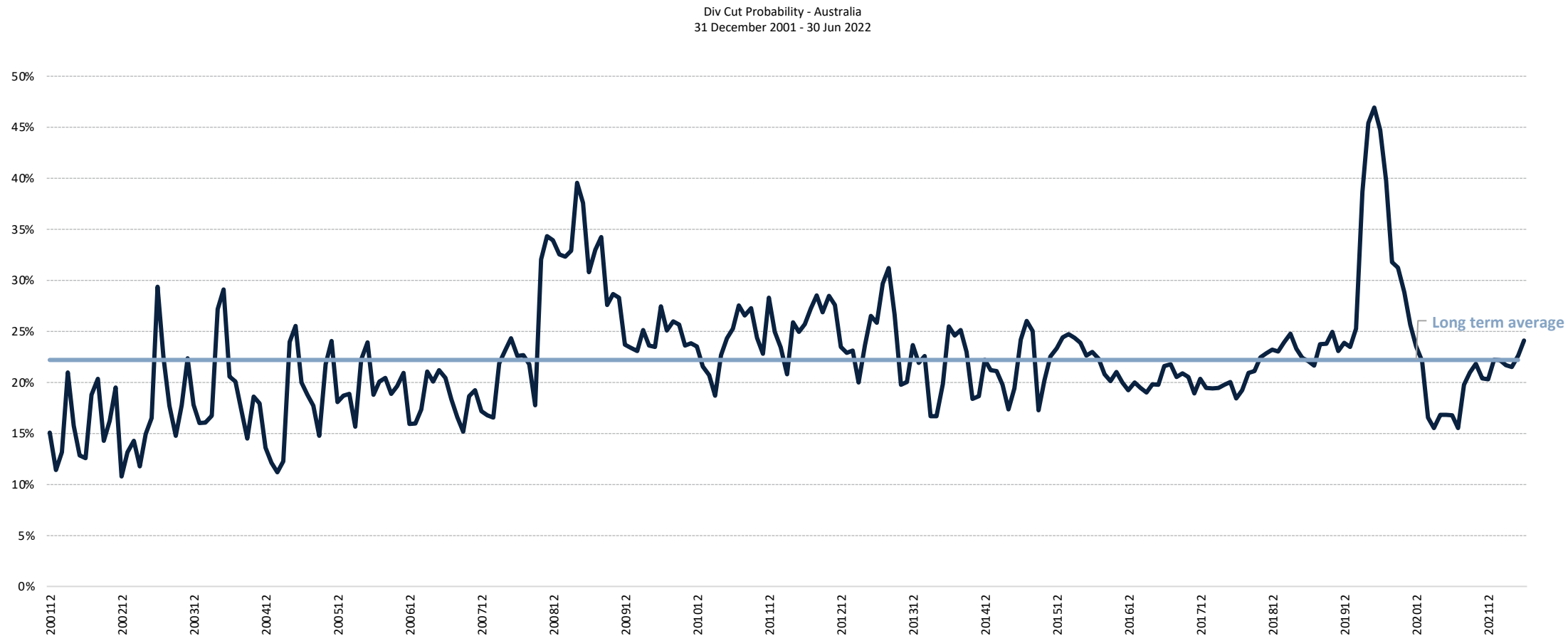
CASH VERSUS ALL ORDINARIES/S&P300 GROSS DIVIDENDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year, spend all income. All Ords to June 2005, S&P300 thereafter

Dividend outlook rising but still within normal range

AVERAGE % CHANCE OF DIVIDEND CUTS FOR AUSTRALIAN MARKET



Source: Plato, based on MSCI World IMI (Australian portion)

Summary



The income summary



— **Bad news: Interest rates are near historic lows but rising quickly**

- rising interest rates will challenge asset prices but “safe assets” face negative real returns



— **Good news: Dividends are still strong**

- Plato dividend cut model still fairly benign
- Balance sheets are strong
- Active management critical in avoiding dividend traps as uncertainty rises

Pinnacle Distribution Contact Details



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