FM Financial Investment Update

2021 – March Quarter

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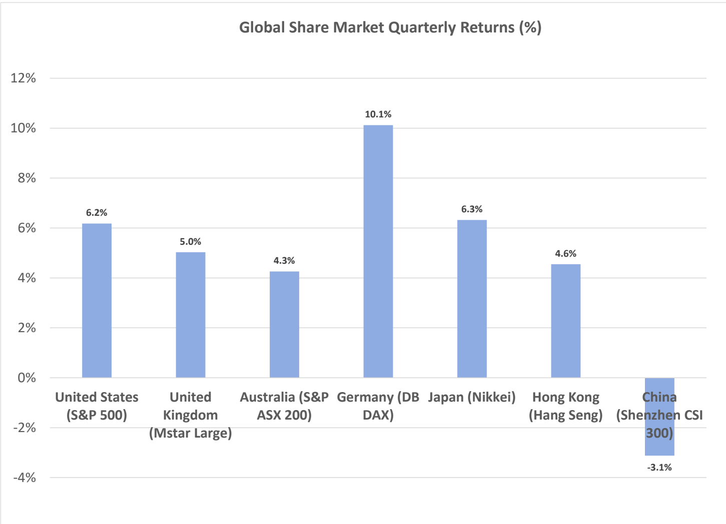
March Quarter 2021 Review – Equities sustain rally despite higher bond yields

- Longer term interest rates rose sharply in the March quarter, creating negative returns for fixed interest asset classes.
- Despite share markets reacting negatively to rising bond yields at times through the quarter, solid growth in share market growth was recorded across most major markets.
- Rising confidence over the success of the vaccine rollout, combined with confirmation of the United States fiscal stimulus program, has boosted confidence in the broader economic outlook.

Asset Class Return	3 Months	Annual
Australian Equities	4.3%	37.5%
Global Equities - Unhedged	6.3%	23.6%
Global Equities - Hedged	6.1%	48.7%
Australian Listed Property	-0.6%	45.4%
Global Listed Property	7.6%	30.0%
Global Listed Infrastructure	4.1%	27.4%
Australian Fixed Interest	-3.2%	-1.8%
Global Fixed Interest	-2.6%	1.0%
Cash	0.0%	0.1%

International Equities



A material slowdown in new COVID cases and progress on the vaccine rollout, particularly in the U.K. and the United States, boosted investor sentiment over the quarter. Also contributing to share price growth was an encouraging earnings reporting season, as well as the $US 1.9 trillion fiscal stimulus package in the U.S. gaining approval. The resulting gains on share markets were significant and sufficient to more than offset the negative impact from rising bond yields. Germany, like much of Continental Europe, produced very strong return over the quarter. Similarly, Japan where the effect of higher bond yields was less significant, also outperformed, with the Nikkei Index gaining 6.3%. The Japanese market has now increased 26% over the past 6 months, placing it ahead of other major developed markets.

Emerging markets were generally weaker than developed markets over the March quarter, despite strong gains in commodity and energy prices. Brazil, which remains heavily impacted by the COVID second wave, produced negative results. Share prices in China also contracted as leading Information Technology stocks were sold down partially in response to new legislation in the United States requiring tougher audit and disclosure standards for dual listed stocks.

Australian Equities

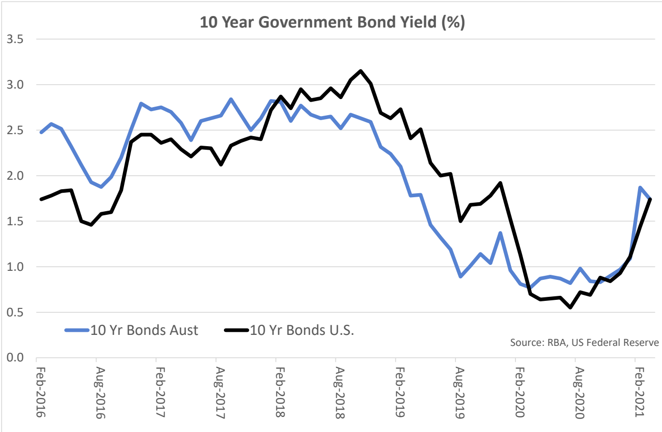
Despite economic data released in Australian generally being much better than expected, gains on the Australian market were approximately 2% less than the global average, with the S&P ASX 200 Index rising by 4.3% over the quarter. The profit reporting season for the period ending December 2020 showed significant recovery in company earnings, with results generally more favourable than market expectations. Higher resource and energy prices reinforced the outlook for earnings growth in resources sector. Over the quarter, iron ore prices consolidated at very high levels and are approximately 80% higher than one year earlier. More recently price rises for base metals have been very significant. This reflects the more positive outlook for global economic growth and inflation, which also impacted on the oil price, which gained 22% over the quarter. As a result, resources (up 2.5%) and energy (up 3.4%) were positive contributors to the Australian market last quarter. Also leading the market higher was the financial sector (up 12.2%), where banks were well supported due to improved earnings and expectations that stronger lending and higher nominal bond yields would be supportive of future interest margin growth. Ongoing strength in the residential property market was also supportive of the banking sector, paving the way for the banks to reverse some of the loan loss provisions that impacted on earnings and dividends when the COVID crisis first took hold.

Sector	3 Months	Annual
Resources	2.5%	53.8%
Energy	3.8%	44.2%
Utilities	-1.8%	-10.0%
Healthcare	-2.3%	-0.4%
Property Trusts	-0.5%	44.7%
Financials	12.2%	45.9%
Consumer Staples	0.4%	10.1%
Consumer Discretionary	8.8%	70.9%
Industrials	-1.1%	20.0%
Information Technology	-11.3%	85.4%
Telecomunications	8.8%	35.0%

However, not all sectors delivered positive results as higher bond yields became a catalyst for rotation away from companies with high earnings growth expectations (where the higher interest rates have a greater impact on share price valuation metrics). This was particularly noticeable in the Information Technology sector, where prices dropped by an average of 11.3%. This thematic is also likely to have impacted the healthcare sector, which recorded an average price fall of 2.3%. Other sectors shown to be interest rate sensitive were Property Trusts (down 0.5%) and Utilities (down 1.8%) as the

steady yields expected from these sectors became less attractive to investors relative to the higher bond yields available.

Fixed Interest & Currencies



Expectations of improved economic growth and inflation drove longer term bond yields sharply higher over the quarter. In addition to more positive economic data and optimism over the vaccine rollout, the magnitude of the approved U.S. fiscal stimulus package added to expectations that inflation would be on the rise. The increase in yields was significant in Australia, where the 10-year government bond yield jumped from 0.97% to 1.74%. In the U.S., the yield increase was initially more moderate but accelerated over March with the 10-year Treasury yield moving 0.81% higher to also finish the quarter at 1.74%. The rise in yields resulted in negative returns from many fixed interest investments (as bond prices fall when yields increase). However, investments linked to variable (rather than longer term) interest rates largely avoided these losses. With central banks maintaining a commitment to keep cash interest rates at record low levels until unemployment normalises, the rise in longer term yields has created the steepest yield curve experienced for some time.

Despite strong commodity prices, the Australian dollar finished the quarter slightly lower. At US 76.0 cents, the $A declined US 1.0 cents over the 3-month period. The $A was, however, stronger against the Euro and Yen over the quarter.

Outlook and Portfolio Positioning

The rise in longer term interest rates over the March quarter was a logical and expected result of the significant improvement in economic outlook that has emerged across the globe in recent months. With short term interest rates being maintained at record low levels and further substantial stimulus to come, particularly in the United States, the stage is set for further inflationary pressures emerging and the potential temporary overheating of economies. The magnitude of the impact of this stimulus coinciding with the expected success of the vaccine rollout should not be underestimated. As such, it remains too early to move fixed interest portfolios back towards longer term bonds, despite the higher returns now on offer.

High levels of consumer confidence backed up by stimulus induced purchasing power continues to produce an environment highly supportive of company earnings and equity markets. With the global economy in a cyclical upswing, the rotation away from the more expensive growth orientated stocks, towards “value” stocks positioned to benefit from a broader economy recovery, may have some way to run. Active managers who can navigate this transition may be well placed to outperform passive investments in this environment.

However, whilst the immediate environment appears supportive of equity markets, increasingly investors should be focussed on the “post recovery” environment. The steeper the upswing in spending in the months ahead, the greater potential there is for a sharper decline once the cycle matures, and the stimulus is unwound. To assist in the management of this post stimulus downturn, investors should take opportunities to purchase more defensive sectors, such as listed property and infrastructure, which are currently trading at attractive valuations relative to the broader equity market. Whilst being less exposed to economic cycles, these sectors would still benefit from an upswing in inflation as revenues and asset values increase. As such, property and infrastructure can play an important role in protecting the purchasing power of an investment portfolio as well as stabilising returns across a full economic cycle.

Important Information

The following indexes are used to report asset class performance: ASX S&P 200 Index, MSCI World Index ex Australia net AUD TR (composite of 50% hedged and 50% unhedged), FTSE EPRA/NAREIT Developed REITs Index Net TRI AUD Hedged, Bloomberg AusBond Composite 0 Yr Index, Barclays Global Aggregate ($A Hedged), Bloomberg AusBond Bank Bill Index, S&P ASX 300 A-REIT (Sector) TR Index AUD, S&P Global Infrastructure NR Index (AUD Hedged).