INVESTMENT PHILOSOPHY

Dated: April 2021 | Version: 1.0

We are passionate about working with motivated investors who love having control and input as to how they invest for their future. And in case you're wondering, no, there are no "get rich quick" schemes. The advice we provide is common sense in nature and gets results. No fluff, no hype.

Having a concise investment philosophy is vital for all investors and financial planning businesses alike. Just as important is our clients understanding of how we invest to ensure you, as a client, are on the "same page" through education. This document is part of this education process. With education comes knowledge, and as knowledge and understanding grow, you will become a rounded and patient investor.

INVESTMENT PHILOSOPHY

Our investment philosophy is based on Australian investor, Peter Thornhill. We have personally and professionally implemented his strategies for the past 20 years, with some small variations.

When investing, Peter's key themes are to invest in high-quality businesses in the All-Industrials Index, which excludes all exposure to the market's resources sector. Peter compares his preferred index, which is investing in industrial businesses, with that of term deposits and the property sector, and uses the property index as a proxy for all property including residential rentals.

WHO IS PETER THORNHILL? *

Peter's career spans over 40 years in the financial services industry.

Educated in Melbourne, his early years were spent with one of Australia's leading insurance companies. In 1971 he moved to London and joined a London Merchant Bank, as a private client investment adviser. In 1982 he joined one of the UKs largest unit trust groups and was appointed a Director in 1984.

Since returning to Australia in 1988, Peter has gained considerable respect for his expertise and involvement with some of the country's most successful managed funds. Peter is now the principal of Motivated Money Pty Ltd and consults to many of Australia's leading financial institutions.

His experience and insights into wealth creation through investment and his entertaining delivery make him a highly sought after presenter and a recognised financial commentator in the print and electronic media.

He believes the share markets are guided by forces beyond reason. Their ups and downs can be linked to collective human behaviour, not a logical continuum of cause and effect. As a successful investor himself, his views have a firm base in the real financial world. His presentations have become legendary for their no-nonsense assault on popular wisdom. He believes that there is no such thing as a market "crash"; why investing for the long term is the surest way to tap the market's riches; why market volatility is not a measure of risk; and why looking backwards "can damage your wealth."

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* Extract taken from www.motivatedmoney.com.au

SHORT TERM VOLATILITY IS NOT RISK

Share markets worldwide trade daily, and with this ability to buy and sell nearly every working day, these markets, and the underlying businesses, face substantial short-term volatility. Compare this to the sale and purchase of a residential property that may happen once every 10 or 20 years, this lack of liquidity provides the illusion that this asset's price does not change on an ongoing basis.

As we have seen in recent times, COVID-19's effect and the subsequent shutdowns and effects on global economies and businesses made investors extremely nervous. In uncertain times, when investors become nervous, they will tend to sell their businesses due to fear. These volatile times can provide substantial opportunity for investors willing to purchase shares (businesses) at discounted prices.

In volatile times in the past, we have had a negative view of the media. It is bad news that sells, and when share markets plunge globally, it's the media that focuses heavily on how much investors have lost in recent days or weeks.

In more recent times, we have seen the media's negative role as positive for our investors, looking for opportunities to purchase high-quality businesses at discounted prices. We are not concerned when the media create doubt as we see this as an opportunity for our clients to take advantage of market bargains.

BALANCED FUND, MEDIOCRE RESULT

The investment industry introduced balanced funds to reduce short-term volatility. These balanced funds consist of a mixture of different asset classes, such as Australian and global shares (businesses), adding property and some conservative assets such as cash and fixed interest. While the balanced fund in the short term does reduce volatility, it also reduces the returns over the long term.

It is our view that short term volatility should not be considered a risk, but as a natural movement that we will continue to see in share markets. By investing in conservative assets to reduce short-term volatility, we believe that an opportunity cost arises whereby investors could have ignored short-term volatility by owning high-quality businesses over the long term.

UNDERSTANDING YOUR INVESTMENT TIME HORIZON

Investors must understand their investment time horizon. As people retire in their mid-60s, there is the perception that they should become conservative investors and have more money allocated to conservative assets, like cash and fixed interest. Given that life expectancy is expanding, investors need to understand that even at retirement age 65, there is every chance that either themselves or their partner will still be alive at age 95. This classifies these investors as long-term investors with a 30-year time horizon.

As Peter Thornhill has said, "you can retire from your job, but you shouldn't retire your money".

SHARES, EQUITIES, STOCKS!

Over the years, we have become quite frustrated with the terminology used in our industry. It is little wonder people get confused with the complexity used to a point where it's easier to do nothing than to keep pushing through the jargon to increase their understanding level.

Instead of talking about equities, shares, and the share market, we encourage clients to invest in businesses. The share market or stock exchange is nothing more than an auction house where investors purchase and sell small portions (shares) of businesses.

TERM DEPOSITS

Peter views term deposits as an asset that provides no product or service over the very long term. His views are even more important now with historically low-interest rates and term deposits providing less than 1% in return.

Whilst term deposits are often viewed as conservative investments, the opportunity cost for conservative investors has been extreme. This opportunity cost refers to the investment into high-quality businesses that an investor could have made and provided a significantly higher return then the term deposit.

Over the last 12 years to the end of 2020, we've seen term deposit rates go from 6.5% before the global financial crisis, down to 0.7%, which has been devastating for retirees with high exposure to this so-called conservative investment.

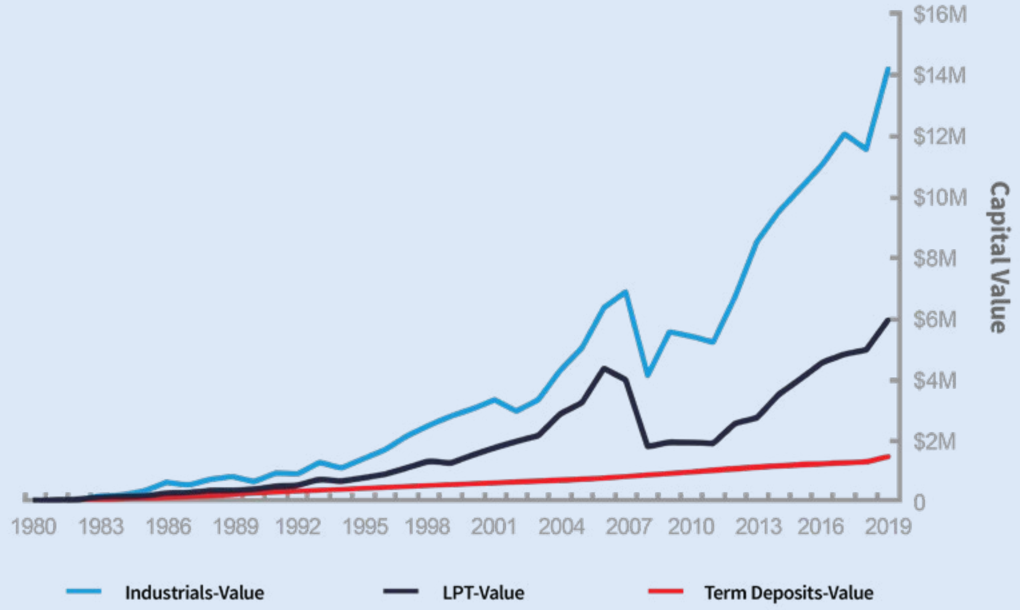
An example of this approach is if we consider an investor with a $1,000,000 term deposit in 2008 would receive approximately $65,000 in income. That same investor now would receive approximately $7,000 in income and be forced to utilise the capital to meet their income needs.

We recognise the importance of having good cash reserves, as psychologically investors, and particularly retirees, take great comfort knowing they have adequate cash reserves to assist with their income needs and any unforeseen capital expenditure they may have.

When considering term deposits, the key point is that it is a significant risk to invest in this asset class over the long term. If there are short term income and capital needs, including the comfort of knowing there are substantial cash reserves for the unforeseen, term deposits are appropriate.

The chart on the right clearly shows the long-term difference between investing in term deposits and shares. Term deposits are represented by the red line, with an initial investment of $100,000 invested in December of 1979 with all income reinvested.

Return on Investment of $100,000 Dec 1979–2019
with Income Reinvested



Source: Patersons Securities Limited
Data: S&P/ASX 200 Industrials Index (All Industrials Index used prior to May 1992).
S&P/ASX 200 Property Index (All Property Index used prior to May 1992).
RBA 1 yr Term Deposits

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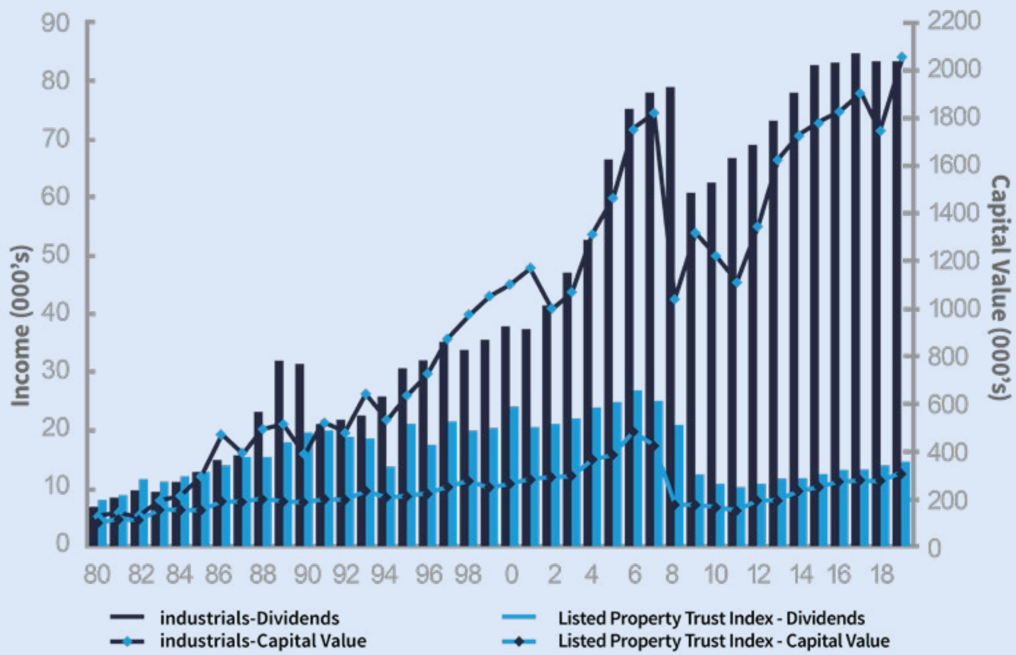
Return on Investment of $100,000 Dec 1979–2019



Source: Patersons Securities Limited

Data: S&P/ASX 200 Industrials Index (All Industrials Index used prior to May 1992).
S&P/ASX 200 Property Index (All Property Index used prior to May 1992).

MOTIVATED MONEY

PROPERTY INVESTMENT

Over the years, Peter Thornhill has been extremely vocal in his views on property investment. When comparing businesses to investing in property, one of the key points is the inability of property investments to increase their revenues and profitability at a rate higher than inflation.

By contrast, if we consider a high-quality business with a scalable model such as Microsoft or Google, these businesses have grown their revenues, and therefore profitability, by more than 15% over many decades. Ultimately the only way to value any asset is based on future income the asset generates. If those future incomes and profitability are linked to the increasing cost of living or the consumer price index (CPI), which is currently increasing at 1.5% per annum, the potential for the asset's value to grow over the long term, is minimal.

Another critical point to consider is that lease and rental payments are paid out in full to the investors, with no income retained to improve the asset for future revenue growth. By comparison, on average, every dollar of profit a business makes, 50% is reinvested back into the business rather than paying out that 50% as a dividend to its shareholders. This point is key to the growth of many of Australia's, and the world's, most valuable businesses, i.e. Apple, Google, and Australia's CSL. All of which pay minimal or no dividend payments with profits reinvested back into their business to improve products and services.

The chart on the left clearly shows the difference between the All Industrials index and the listed property trusts index over the long term. The same amount of money invested in 1979 in property or businesses, has provided a substantially different result in terms of capital and income. Please note that we also view infrastructure assets in a similar way to how we view property assets.

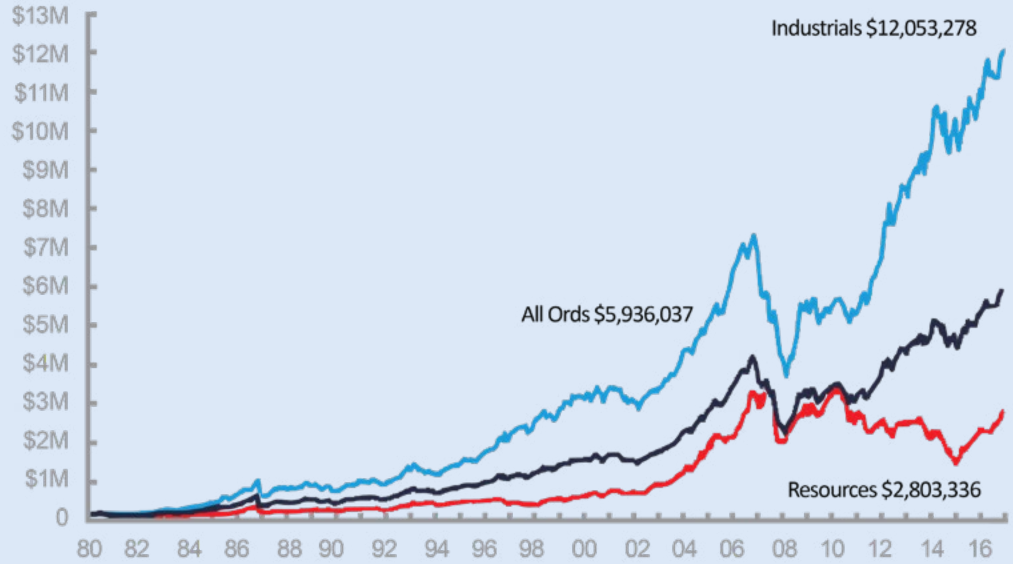
RESOURCE BUSINESSES

Peter has provided clear proof of why he chooses not to invest in the resource sector, with long-term returns comparisons clearly showing it is an underperforming sector compared to the All Industrials index. His reasoning behind his preference to avoid resources is that many of these businesses have had very high capital expenditure to commence and build their businesses.

In addition to this resource is businesses selling commodities where they have minimal influence on the prices they receive for their products. An example of this is coal or iron ore, two of Australia's biggest exports. Australia does not have a monopoly on these products and prices fluctuate daily due to supply and demand issues. As investors, we prefer businesses with unique products or services, and consumers that are prepared to pay for these high-quality products or services. A modern-day example is Apple's products and services. Consumers generally remain using an Apple iPhone once they've begun using the product and are prepared to pay an ever-increasing amount for their phones as they upgrade.

The chart on the right clearly shows the difference between the All Industrials index and the All Resources index over the long term. The green line in the middle is the All Ordinaries index, representing the average between the two indices.

Accumulation Indices:
Value of $100,000 Invested Dec 1979–2017



Data:
S&P/ASX 200 Industrial Accumulation Index (All Industrials Accumulation Index used prior to May 1992).
S&P/ASX 200 Resources Accumulation Index (All Resources Accumulation Index used prior to May 1992).
S&P/ASX 200 All Ordinaries Accumulation Index (All All Ordinaries Accumulation Index used prior to May 1992).

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DYNAMIC ASSET ALLOCATION

As part of our ongoing advice and management of your superannuation assets, we employ Dynamic Asset Allocation (DAA).

DAA's objective is to recognise when asset classes become overpriced and under-priced, and we utilise this information to make adjustments to your portfolio on an ongoing basis. In doing so, we hope to provide a less volatile investment portfolio by reducing the weightings to asset classes that are deemed to be overvalued and reweighting to assets that represent better value.

DAA is very different from both Strategic Asset Allocation (SAA) and Tactical Asset Allocation (TAA). With SAA, asset allocation changes are made infrequently and are generally small. Under SAA, investors must be prepared to hold and, worse still, buy manifestly overpriced assets. On the other hand, TAA is generally about making decisions about short-term price moves over a period that may vary from one to 18 months, meaning it is crucially dependent on correctly timing both the entry and exit.

DAA is all about moving ahead of events, sometimes up to two to three years in advance of an event occurring – and as such, DAA is not dependent on correctly timing either the entry or the exit to a position. DAA is essentially a long-term strategy, but unlike SAA, it is not blind to valuation excesses. DAA is all about investing in reasonably priced assets and most importantly, avoiding investment in overpriced assets.

To implement this DAA strategy, a Netwealth account provides us with the necessary administrative tools to make the required ongoing adjustments to your investment allocation.

To assist with guidance on asset class valuations and forecasting over a 10-year time frame, we utilise the skills of economist Tim Farrelly.

It is important to note that both Tim and ourselves find it impossible to predict any market or asset class's movements in the short-term, therefore changes performed to your portfolio are progressive in nature. These alterations will be completed quarterly and in line with Tim's recommendations.

When an investment change only has occurred, we provide a Record of Advice document that outlines the recommended change and the reasoning behind it.

WHO IS TIM FARRELLY?

Established in 2004, Farrelly's is the first independent, specialist asset allocation research service for investment advisory firms in Australia and New Zealand.

Its founder, Tim Farrelly, brings a unique combination of analytics, understanding of financial markets, knowledge of capital market history, and insight into the practical requirements of financial advisers.

Tim is a member of Portfolio Construction Forum's core faculty of leading investment professionals, contributing to the Conference, Markets Summit, and Academy programs.

Prior to founding Farrelly's, Tim was an Executive Director of Macquarie Bank Ltd and Director of Macquarie Investment Management Ltd (MIML). At various times during his 14 years at Macquarie, he sat on the MIML Asset Allocation and Risk Committees and was responsible for the distribution of the Bank's products through third-party financial planners and stockbrokers.

Between 1981 and 1986, Tim was head of research for financial advisory firm Monitor Money, where he was responsible for asset allocation and manager selection. He has an MBA (Distinction) from the Harvard Business School and a Bachelor of Engineering (Met) from the University of Melbourne, where he was awarded the J. Neill Greenwood Medal.

INVESTMENT RESEARCH PROCESS

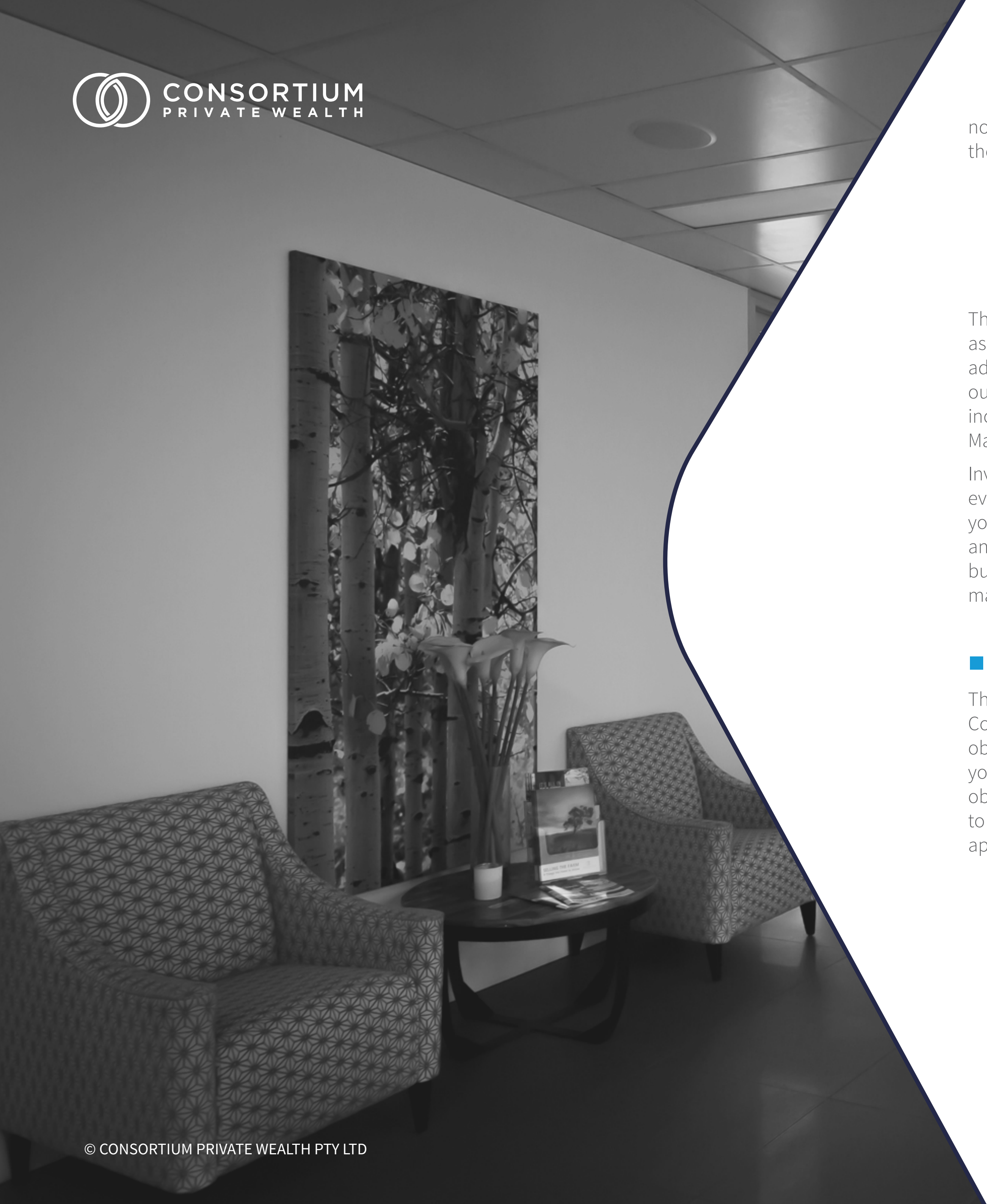
Investment selection is an extremely complex process and takes a considerable amount of ongoing research and investigation to ensure that we provide advice that protects, and hopefully grows your capital.

When forming views on assets classes, or specific companies, it's not just one subscription or research house that influences our decision making, but multiple sources of information to ensure that we form an unbiased and informed opinion regarding various investment opportunities.

Identifying businesses that have structural tailwinds pushing their growth potential is key to our process. We prefer businesses that offer high-quality products and services that people value.

Products that we use or consume daily are key indicators to identify quality businesses. Further to this research, we analyse the quality of the balance sheet, for example, how much debt the business may have. We prefer businesses with

CONSORTIUM PRIVATE WEALTH



no debt, cash in bank and growing earnings. This information is gathered from the following sources:

- Simply Wall Street
- Undertheradar.com.au
- Stockdoctor.com.au
- Valueline.com
- Lonsec

The guidance of Tim Farrelly influences asset allocation preferences. Tim assists with ongoing valuations of markets and sectors within the markets. In addition to the above research, we have several industry leaders that influence our advice based on their extensive knowledge and research. These individuals include Peter Thornhill from Motivated Money and Hamish Douglas from Magellan Financial Group, to name a few.

Investing and finding high-quality businesses is not an exact science. Whilst every endeavour is made to provide recommendations that will ultimately grow your portfolio over the long term, inevitably, not all decisions will be correct, and we will select the wrong businesses from time to time. Furthermore, all businesses, regardless of the quality, are subject to expected normal daily share market volatility.

GENERAL ADVICE DISCLAIMER

This document contains general information only. In preparing this information, Consortium Private Wealth Pty Ltd have not taken into account your investment objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your needs, objectives and circumstances. You may need to obtain professional advice to help you make an investment decision on whether this information is appropriate to your needs, objectives and circumstances.

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