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FROM THE CEO

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ASA NEWS AND EVENTS

If you have an idea for an *EQUITY* article, please contact the Editor.

FROM THE CEO

By Rachel Waterhouse, CEO, Australian Shareholders' Association

In March, two major US banks failed within two days of each other.

While most Australian everyday investors had probably never heard of Silicon Valley Bank (SVB) or Signature Bank before mid-March, the announcement sent shockwaves through the financial markets.

Two collapses in such a short time led to concerns about another potential global financial crisis and fears about the stability and reliability of the US banking system.

Market capitalisation of U.S. banks lost a combined US$100 billion in two days and European banks lost US$50 billion. Even here in Australia shares in the big 4 banks moved due to the global news.

But was this realistic? The Australian banking system is one of the most heavily regulated in the world, and nobody would expect that they would fall prey to the problems faced by these US counterparts.

The collapses showed an insight into the customer homogeneity of some of these US banks – 90 percent of SVB's customers were technology firms, with a high proportion of start-ups. Signature Bank – the second largest regional bank – had a large proportion of cryptocurrency clients and real estate companies.

This lack of diversity exposed these banks to a significant risk – with fears if tech, crypto, or real estate bubbles were to burst, leading to a run on withdrawals.

The Collapse of Powerhouses

SVB was on the S&P 500. At the time of the collapse, its largest shareholders included The Vanguard Group, BlackRock, and State Street Corporation, which owned the stock in large exchange traded funds that track the performance of S&P 500.

Despite these high-powered investors, there were cracks showing in the risk management processes of that bank.

A 2021 Federal Reserve review of SVB found several issues in its risk management processes and failure to fix six citations issued by the Fed led to SVB being placed under a full supervisory review in July 2022.

Yet, when the bank collapsed in March, the bank had not had a Chief Risk Officer for eight months. Risk management was being carried out through a risk committee, but regulators and the markets are expressing concerns about this being an indication of a poor risk culture at the top of the organisation.

The investment strategies of the two banks are also being called into question. Both had invested in government bonds that were paying low interest rates, which reduced their balance sheet. So, when interest rates started increasing and speculation arose that they would need additional capital, existing customers started to withdraw their deposits, causing both banks to fail.

Within three days of the bank's collapse, a SVB shareholder filed a Class Action against the company, alleging fraud for false statements made by executives and the bank, so it will be interesting to see how this plays out in the courts.

The US Government Steps In

Since 1933, banking in the US has been overseen by the Federal Deposit Insurance Corp. (FDIC), which is funded by premiums that financial institutions pay for deposit insurance, not by the taxpayer.

The mission of the FDIC is to maintain stability and public confidence in the nation's financial system by insuring deposits up to $250,000, examining and supervising institutions 'for safety and soundness and consumer protection', working to make these institutions 'resolvable', and managing receiverships.

However, the Treasury Department, the Federal Reserve, and the FDIC have stated that deposit holders of SVB and Signature Bank will be protected beyond the FDIC's $250,000 threshold, and it is speculated that this may involve some taxpayer funding.

While not a 'bailout' per se – the funding is not going to investors or employees – such support would exceed the guaranteed limit and (in many cases) possibly recompense very wealthy account holders at the expense of the average taxpayer.

But Wait ... There's More

It's not just the US system that is coming under scrutiny.

Speculation has been rife for a while that Credit Suisse had financial challenges, and, shortly after news of the US bank failures, the market was told that the Swiss bank had financial reporting issues, which followed a series of high-profile scandals with its subsidiary First Boston.

The reports, compounded by the US collapses, led to this globally 'systemically important bank'.

This led to the share price dropping by 31%. UBS consequently secured Credit Suisse with the support of the Swiss government, led by the Federal Department of Finance, the Swiss National Bank, and the Swiss Financial Market Supervisory Authority (FINMA), much to the displeasure of Credit Suisse's major shareholders who owned 25% of the bank and are likely to take significant losses from the deal and the holders of hybrid Tier 1 securities that were wiped out.

So, What Does This Mean for Australian Investors?

Following the US bank failures, shares in the global banking sector fell sharply, with the S&P Banks index declining by 22% over the subsequent two weeks.

In Australia, the banking sector has also been on a bit of a rollercoaster, and investors may have been looking at the big four share prices and wondering whether they should just cash out.

But, like any sector, it pays to be a bit cautious before acting, whether that's to buy, hold or sell:

- Keep your emotions in check – don't fall prey to the doom and gloom of the media. Act rationally (even if it's challenging to do so) and do your research.
- Understand what is driving the share price – is your investment affected by the crisis or fear? Is the company in the spotlight being managed well? Is it likely to be drawn into the collapses?
- Reassess your diversification – be aware of how much of your total portfolio sits in a single sector and whether you are sufficiently diversified. Review your investment plan and consider updating your investment strategy to make sure that you're not going to be over-exposed to a sector-based downturn. A financial planner or accountant may be able to help you with that assessment.
- Consider your ETFs – an Exchange Traded Fund (ETF) tracking a range of companies may be impacted by negative sector news or a large company's news. If you have invested in an ETF, make sure you know what is in it and whether it could be exposed by the failure of a company or anxiety within a particular sector.
- Investing in equities is often for the long-term and real (or perceived) market disruptions can come and go. A diversified portfolio, investing in good companies, with a solid strategy that can provide growth and returns, will give some protection from the buffeting of uncertain markets.

Australian Shareholders' Association

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Author, Vice-Chair, Special Counsel and Independent Director

Christopher Joye
Coolabah Capital

Ian Irvine
LICAT

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Dania Zinurova
Wilson Asset Management

Steven Bennet
Charter Hall

Duncan Burns
Vanguard

Alex Harvey
Macquarie Group

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MOMENTUM INVESTING

By Nick Radge, The Chartist

Introduction

Momentum refers to persistence; persistence in Price-to-Book Ratio, Price-to-Cash flow, Earnings Growth, etc.

Ultimately however we are judged by the difference between our purchase price and our sale price. Therefore, the heart of a pure momentum strategy is price. Indeed, the heart of any strategy, regardless of how much you want to dress it up, is price.

The Momentum Analogy

I liken catching price momentum to that of a hitchhiker catching a ride. Hitchhiking involves soliciting a ride by standing at the edge of the road, facing the oncoming traffic. When looking to capture a ride, hitchhikers don't know which car will stop or how far a ride will take them should a vehicle offer a lift. A hitchhiker simply goes with the flow but will only join a ride that is heading in the right direction.

Likewise, a momentum investor will tend to stand aligned with oncoming price action ready to buy as prices are rising and ready to exit when prices reverse and start falling. A momentum investor has no idea which stock will offer the next ride or how far that ride will take them. A momentum investor, like a hitchhiker, simply goes with the flow of the market – fully invested as the market rises in a sustained up-trend and reverts to cash in a sustained bear trend.

Not every stock will trend all the time, but there are generally enough stocks exhibiting momentum to present opportunities. In certain market conditions these momentum rides, or trends, can be very long and extremely rewarding. In other market conditions they may be short and non-rewarding.

Whilst momentum investing works reasonably well most of the time, like any strategy, investment or asset class, it will have periods where performance is lacklustre.

Theory Into Practice

So, in the real world, how does momentum investing work?

Step one is to define momentum. As mentioned above, momentum is price persistence. The easiest way to measure this is comparing the price today to what it was n-days ago, say a year. This would be presented as a percentage change.

Stock-X was $15 last year and is now $20. An increase of 30%.

Stock-Y was $8 last year and is now $10. An increase of 25%.

Therefore, Stock-X has the higher momentum.

Each month run this exercise over the desired universe, say the ASX-100, and rank the highest momentum symbols from highest to lowest.

Buy the top 5. Repeat each month.

If a stock falls out of that top 5, sell it and buy the one that takes its position in the top 5.

Play a Good Defence

Strong performance is shaped by two factors; an investment process that has a positive mathematical expectancy, and a good defence.

We don't need to look far to see star stocks that have crashed back to earth.

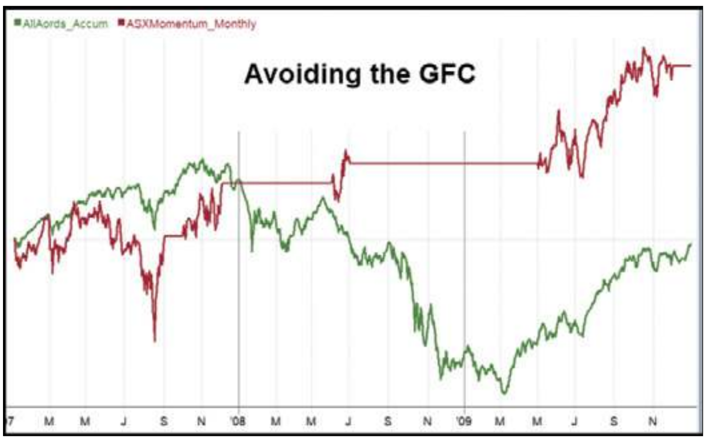
A2 Milk traded from $2 in early 2017 up to $20 in mid-2020. It then sunk to sub-$5. Dominos Pizza travelled from $38 to $160, then crashed back to $48 in a matter of three years. There are plenty more, but the truth is that holding these types of stocks through the full cycle will not help your portfolio outperform the market.

The same can be said for stocks that track sideways for extended periods of time. On a dividend adjusted basis, ANZ Bank is trading today at the same level it was in 2014. CSL might be the wonder stock, but it too has been treading water since 2019.

Stocks that trade sideways or trend lower will not be at the top of a momentum list. Only stocks showing the strongest momentum will make the cut.

On a macro scale, we would only be invested during favourable conditions (capturing momentum), yet standing aside when broader market conditions are unfavourable. Standing aside could be reverting to cash (or buying a high interest cash ETF).

The following chart shows how a momentum strategy can avoid sustained bear markets by automatically reverting to cash. Not only does this protect capital, it also protects an investor's psychological fortitude.

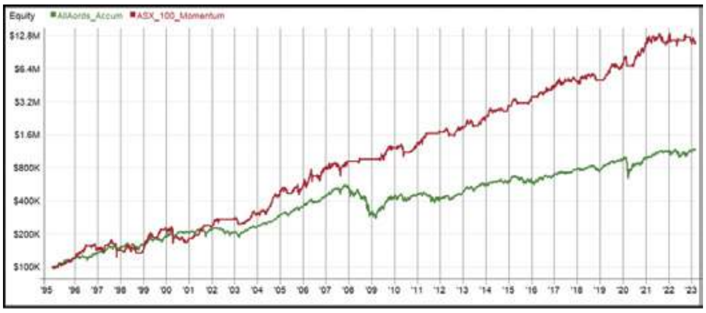


Putting It All Together

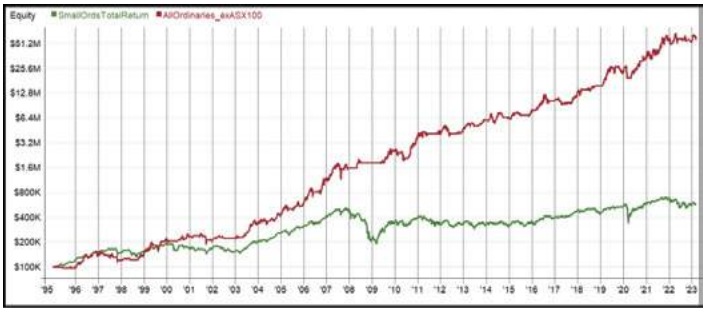
Having rigid and defined rules enables the strategy to be accurately modelled over history. This not only allows performance to be measured in various markets, and against various benchmarks, but also provides a high level of confidence on the long term viability of the strategy.

The following equity growth charts provide evidence that momentum is pervasive across markets and even within subsections of those markets.

This first chart shows the equity growth of a momentum model traded on the large-cap ASX-100 universe. Since 1995 is shows consistent growth and a strong risk-adjusted return against the All Ordinaries Accumulation Index (XAOA).



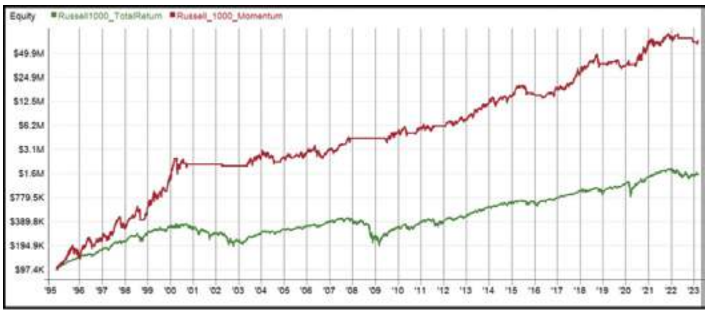
The next chart shows the equity growth of the same momentum model, yet this time traded on the All Ordinaries universe excluding the ASX-100. The benchmark used is the Small Ordinaries Accumulation Index (XSOA).



Note the stronger performance with higher volatility which is expected when investing in small-cap stocks.

When traded on US equities it's easy to see how the defensive mechanism keeps the portfolio out of the market during sustained bear markets, namely the 2001 – 2003 bear market and again during the GFC.

This is the same strategy used above for Australia, but now its applied to the broader US Russell-1000 universe and its appropriate benchmark.



Conclusion

The momentum factor historically has produced long-term excess return, and various academic studies show that it has been present across asset classes, markets, sectors and industries. Institutional investors have been using momentum for 20-years, but its simple implementation and replicability provides retail investors access to help diversify their own portfolios.

About

Nick Radge has been trading and investing for 37-years. Nick and his wife Trish operate The Chartist, a retail investing portal with various momentum strategies. Nick is also the Investment Manager for the Harbourside Multi Strategy managed account service which provides wholesale investors access to advanced momentum strategies in both Australia and the US. www.thechartist.com.au E

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Vale Lyle Fletcher

I am sad to report that Lyle Fletcher, a member of Ballarat ASA since 2002, has passed away after a few years of illness, having recently celebrated his 90th birthday.

A founding member of the Ballarat ASA Regional Group, he joined the first committee in April 2002, resigning only three years ago.

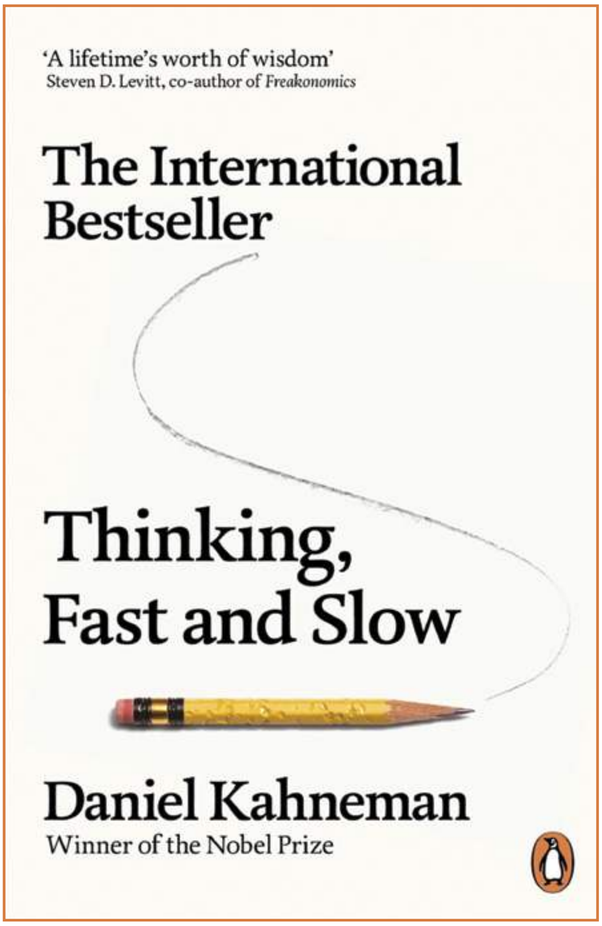
For some years committee meetings were held in his lovely home where he delighted in providing the Ballarat members with hearty hospitality.

Those who knew Lyle were always aware of his point of view about investments and he was a big contributor to discussions in the Ballarat meetings.

ASA offers its condolences to them, to his family and friends and to his fellow Regional Group members.

BOOK REVIEW:
THINKING FAST AND SLOW

By Lili Tran, Australian Shareholders' Association



Thinking, Fast and Slow engages through its different storytelling examples that explore various concepts applicable to everyday applications, particularly our investment decisions.

The book was written by Daniel Kahneman who is a Nobel Prize winner in economics and a world-famous psychologist. Published in 2011, his book received critical acclaim and has been deemed a 'mega seller'. While undertaking my Bachelor of Economics degree, Thinking...was one of the books recommended for understanding behavioural economics, particularly investment or business decisions where people often make mistakes.

Kahneman aims to enrich people's vocabulary when discussing people's judgment and choices, whether it is a new company's policies or one's investment decisions. He provides a good understanding of how judgment and choices form distinct patterns within the errors people make. These errors are known as 'systematic errors' or 'biases of intuition'.

Kahneman opens one of the chapters with a tour of the mind and describes two systems. The automatic System 1 is intuitive, fast, emotional, and prone to error, which is effortless. The reflective System 2 is slower, more deliberative, and logical. It is described as 'the accounting or mental arithmetic' that requires effort.

Kahneman explores the errors likely made by System 1 through automatic fast thinking, which he refers to as 'biases' or 'heuristics'. For example, he describes System 1 as a pervasive influence that provides the impression that often turns into beliefs, which are the sources of impulses that form our choices and actions.

An investor might make an impulsive decision to purchase shares through positive impressions of a company and by reviewing its past performance, believing it could perform equally well in the future. This reflects System 1's quick and precise intuitive judgment.

An 'anchoring heuristic' (or cognitive bias) occurs when one is heavily dependent on the information received earlier when making a subsequent decision that might be unrelated but affects the outcome. The adjustment would be close to the initial anchor values. As a result, the adjustment is biased and either underestimated or overestimated.

In Chapter 11, Kahneman explains these effects with a range of examples from his experiment. He discovered these through investigating two mechanisms that produce anchoring effects-one for System 2, the deliberate process of adjustment and the anchoring effects that occurs by a priming effect of the automatic manifestation of System 1.

'Availability heuristic' describes a situation where people quickly assess an event where instances or recent occurrences are recalled. In other words, Kahneman describes the situation as mentally lazy where System 2 is busy and becomes sluggish.

People prioritise infrequent events based on vividness to assess the problem. For example, uncertainty in the global financial market, sparked by the recent closure of Silicon Valley Bank in the USA, could impact the Australian share market and affect retiree investors with a large superannuation balance.

In general, if the investors are afraid of a future banking crisis and choose to withdraw their shares and instead invest in Bitcoin, this would cause material impact and even be riskier. Bitcoin collapsing is more likely to occur than another global banking crisis unfolding.

'Representativeness' is a bias where people judge matters not through the probability of the likelihood but the similarity of a characteristic, leading to serious errors. An example is misconception of chance, where people expect random events to represent specific characteristics, such as tossing a coin, with the sequence of 'heads-tails-heads-tails-heads-tails' being more likely than 'heads-heads-heads-heads-heads', which is not random, but in fact if we were assessing both sequences under probability, they are all equally likely.

Overall, Thinking...successfully brings awareness to the reader on different types of biases or heuristics that lead to errors and poor decision making. It is increasingly vital for readers to consider their behaviour and be fully aware of different types of heuristics and their intuition. Kahneman recommends we slow down and practice our decision making. His book proves to be an informative exploration of human behaviour. E

MODELS OF INVESTING:
THE BASICS OF SHORT SELLING

By Leigh Gant, Education Manager, Australian Shareholders' Association

The commonly understood way investors make money from stocks is straightforward: buy a stock with the anticipation that its price will rise over time, and if it does, sell it later for a profit. This is known as "going long."

It's the type of investing in which most of us solely participate. If you buy shares in the Technology One (ASX:TNE), you probably do so because you think it will make a profitable investment over time.

However, it's not the only way money can be made on the stock market.

In contrast, shorting, or short-selling, is a strategy that allows participants to profit from a decline in the price of a stock or other asset. The function of short-selling is not available to all retail investors, but it's a process worth understanding.

In this edition of "Models of Investing", I'll explain what shorting is, why an investor might short, how to do it, the risks involved, the maximum upside, and some famous investors who have used shorting as part of their strategy.

What is Shorting?

Shorting a stock is essentially betting against it. An investor borrows shares of a stock from a broker, sells those shares at the current market price, and then waits for the price to drop. Once the price has dropped, the investor buys the same number of shares back at the lower price and returns them to the broker. The difference between the price at which the shares were sold and the price at which they were bought back is the investor's profit. If the price of the stock rises instead of falling, the investor will incur a loss.

Here's an example to see how this can profit a short-seller:

If Rio Tinto (ASX:RIO) shares are trading for $100, and a short-seller initiates a three-month short position with 100 shares, they will borrow these 100 shares and immediately sell them for $100 each, banking $10,000.

Three months later, Rio Tinto shares are now trading for $60. The short-seller repurchases 100 Rio Tinto shares for $6,000 and returns them to the original owner, making a profit of $4,000. This is equivalent to how much the long investor has lost on paper.

Of course, this can work in the opposite direction as well. If, after three months, Rio Tinto shares are $120 each rather than $60, the short-seller still has to return the 100 shares but at a higher price. Thus, the shorter would be $2,000 poorer at the end of the transaction.

Due to using borrowed shares when short-selling stock, shorting is a form of leveraged trading (similar to trading on margin). Investors can potentially make substantial returns with little to no initial outlay. However, if the market moves against them, it can leave them on the hook for a large loss.Stop orders can help mitigate this risk, but they're by no means bulletproof.

Losses for short-sellers can be particularly heavy during a so-called short-squeeze, more on that later.

Why Would an Investor Short?

Investors may choose to short a stock for a variety of reasons. For example, they may believe that a company is overvalued and that its stock price will fall. Alternatively, they may have an informational edge that suggests the company is prone announce negative news in the near future. Investors may also use shorting as a way to hedge their existing long positions, reducing their overall risk in the market.

Risk and Maximum Upside

The asymmetry of returns on a simple shorting transaction (i.e. without the use of options or other derivative) is easy to understand: the maximum a short can make is 100%. If the share price drops to zero, the investor will have made a profit equal to the full selling price. However, in practice, it is rare for such capitulation and short-sellers should be prepared for the possibility of significant losses.

Shorting can be a risky strategy, as there is no limit to how much a stock price can rise. If the investor's short position goes against them, they could potentially lose an unlimited amount of money. In addition, shorting requires the investor to borrow shares from a broker, which can be expensive. As with other forms of borrowing, you'll be charged interest on the value of the outstanding shares until they're returned (though the interest may be tax-deductible).

What is a Short Squeeze?

In a short squeeze, investors target a stock that the market has heavily shorted. They then start buying shares in this stock, driving up its share price. This prompts short-sellers, afraid of losing money as the stock price rises, to buy shares to cover their short positions. In other words, they buy enough to return the borrowed shares. However, this contributes to more market demand for the share, increasing its stock price even further.

Short-sellers can lose significant amounts of money in a short squeeze. The more short-sellers panic, the faster the share price rises, leaving the shorters who were slowest to react out of pocket. And, because there is no ceiling on how high a share's price can climb, short-sellers' losses can be (at least theoretically) limitless.

When has Short Selling Worked?

Some well known investors who have used shorting as part of their strategy include George Soros, Jim Chanos, and John Paulson. Soros famously made a billion dollars in a single day by shorting the British pound in 1992. Chanos is known for shorting Enron before it collapsed in 2001, and Paulson famously made billions of dollars by shorting the US housing market prior to the financial crisis of 2008.

Is Short-Selling a Good Thing?

Shorting is always an area of controversy in the world of investing. Its proponents argue that by allowing short-selling, the market encourages investors to sniff out fraud, deceitful accounting, or any other illicit business activity that might go unnoticed by a long-only market.

In fact, some investment firms and hedge funds operate with the sole purpose of identifying these activities to profitably short-sell the companies that perpetrate them.

However, short-selling also attracts its share of criticism for how it allows investors to profit from a company's distress — which some view as immoral. When a company fails, it negatively affects its employees, customers, and possibly the broader economy. Critics argue that having large groups of investors hoping for that outcome introduces perverse incentives into the stock market.

It can also incentivise false claims against a 'short target' company to create market panic among its shareholders, creating a groundless (but profitable) short-selling opportunity. For example, short-sellers have targeted ASX logistics company WiseTech Global Ltd (ASX: WTC) on multiple occasions.

Even so, short-selling looks as though it's here to stay. Hopefully, you now have a deeper understanding of this investing practice and how it relates to you as an everyday shareholder.

FINDING CLARITY ON SHIFTING GROUND

By Elio D'Amato, Stockopedia

Negative Sentiment - Like a Snowball Coming Down the Mountain

Moments of volatility in markets are periods of great emotional stress, even for the most hardened investor.

What began with an obscure "Cyrpto Bank" *sic* by the name of Silvergate, unwinding its operations kicked off a chain of events that within the next week and a half saw the second largest ever UB Bank collapse in Silicon Valley Bank plus a number of other regionals. Further contagion spread over to Europe in the form of Credit Suisse with global regulators scrambling, ultimately selling it to UBS the following week at half what it was trading at the week earlier.

Then in a remarkable step on Thursday US time, a group of financial institutions including Bank of America, Wells Fargo, Citigroup, JPMorgan Chase plus others, pledging to deposit a combined US$30B into First Republic, in a sign of solidarity that the sector is not like it was in 2008....

Feels like it though.

Details aside, the truth is while the actors may change the plot remains the same, and moments in time such as this will be repeated and we will inevitably feel just as nervous.

But should we be? In our investing hearts we know such events occur. We can even now chuckle as we recall moments where like watching a horror movie, we are petrified in the moment, but as the credits roll (pardon the pun) we say it was a good film. Retail investors love a good drama, and will know its silly, but we can't look away as evidenced by articles covering the recent events being most viewed in the Australian Financial Review.

Sentiment driven selling has always occurred, even amongst the professionals... just look at the run on deposits at SVB? A run of US$42B is more than just Mr & Mrs Callahan taking out their deposits.

But there are reasons why it feels worse for retail investors in specific stocks rather than what the broader market index is telling us. Part of that is because we have money at risk which when falling never feels nice, and part because of the sequence of events that occur during a broader sentiment pullback:

- The first stocks to tip over are the ones that have done the best so far. (This process is often referred to as profit taking). DIY investors can be drawn to these businesses too late. So if you bought Coal, Lithium, Rare Earths or any other stock which had a good prior 12 - 24 months, a correction always feels worse.
- Next in the list are stocks that should have done better to date, however haven't. Investors here just cash in their chips saying "if it can't go up when the market is going up, then I am out."
- Then if the negative sentiment hasn't abated everyone else will get hit as the last wall of resistance falls over and we are starting to see that at the moment.

There are two exceptions to these behavioral rules. One, are stocks that have already been smacked heavily in the months prior. The irony being they can hold up quite well during periods such as this. The other exception are the cash hungry penny dreadful micro-caps where individual business success, or failure, drives the price.

If, like me, you believe that economies will rebound and that Australia will not fall into a state of anarchic sovereignty, then you share the view that over the long term, markets will rebound. The trick with managing such volatile times is not to worry about the current issues, rather it is to focus our attention on whether the companies we hold are resilient enough to ride through the current cycle. The only way we can do that is by assessing key quantitative metrics and any other measures which help remove emotion from decision making. As Peter Lynch reminds us:

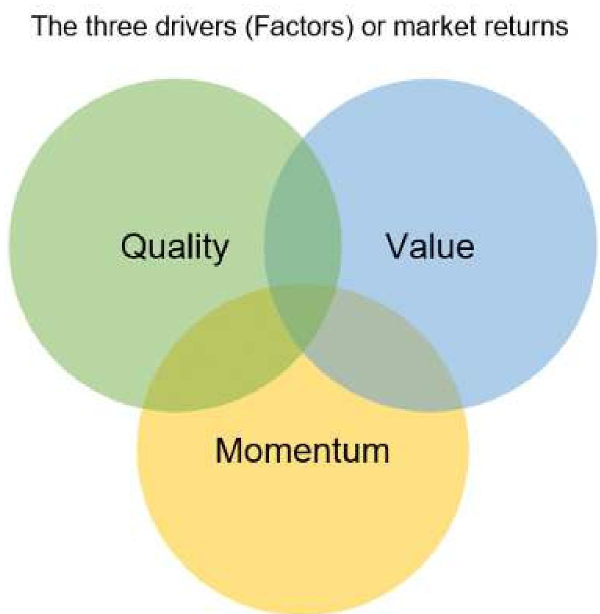
> *"The trick is not to learn to trust your gut feelings, but rather to discipline yourself to ignore them."*

Your Companies Need to be...

While this list is not exhaustive, it is comprehensive enough to ensure that if met, your companies will ride through the current nervousness and hopefully resume an upward trajectory when the market feels it is ready.

#1 Your Company Must be Quality - High Quality Rank

In times of uncertainty the Factors of "Value" and "Momentum" are not particularly useful in measuring a business' safety or its ability to recover from challenging times. They will have their relevance, for example following a deep pullback, Value metrics can lead to outperformance. In the same way when markets run hot, Momentum is a factor often focused on.



But "Quality" on the other hand is a rock of comfort for those who seek solace from choppy waters. Hence why it is the most important factor your stocks need to fulfill at this present time. It doesn't guarantee that the price won't fall, but it does provide comfort that the company can ride out the current macro tumult and come out the other side.

When discussing Quality we are talking of indicators that allow us to measure:

- The quality of the Franchise?
- Have their fundamentals been improving?
- Is it a safe company?

In assessing these factors we look at a wide range of financial indicators and measures, such as return on capital employed, operating margin stability, long- term sales growth consistency, free cash flow to assets, the Piotroski F-Score (fundamentals improving), the Altman Z score (bankruptcy risk) and the Beneish M-Score (earnings manipulation risk).

If a company rates highly on Quality, they are in a good position to ride out the current tumult. Please find below a list of the top 10 Quality ranked stocks in the ASX200 following the latest reporting season, all these have recently updated following an assessment of their current numbers.

Code	Name	Quality Rank
Alu	Altium	100
A2M	A2 Milk	99
TNE	TechnologyOne	99
WTC	Wisetec Global	99
PME	Pro Medicus	99
GNC	Graincorp	99
MFG	Magellan Financial Group	99
IPL	Incitec Pivot	99
CRN	Coronado	98
SPK	Spark New Zealand	98

Note: This list is current as at 17 Feb 223 and is subject to change. This list is for educational purposes only. Please do your own research into a stock's suitability to your personal circumstances. This table is solely for the Quality Rank. It does NOT consider Value or Momentum. Past performance is not a reliable indicator of future performance.

While there may be a few names that surprise given their past history, our measure looks at them today with their ultimate success a factor of how well they can execute their plans.

#2 Ensure There has not been too much Share Dilution

When markets are running hot there is a propensity for lazy companies to reachout cup in hand too many times to investors for much needed cash. This has the effect of diluting existing shareholder wealth significantly. While this impact of dilutions are too often ignored in Bull Markets where prices remain incredibly resilient, once the tide goes out, the reality comes home to roost as it has done for many unprofitable businesses in history, even well before this recent bout of volatility.

#3 Don't be too Concentrated in any Specific Sector

Like bees to honey, investors will often follow where the money trail leads (otherwise known as Momentum investing). This overweight phenomenon can even compound for those investors that add an element of top-down analysis to their investing, especially given I rarely if ever see negative commentary about a sector running hot.

But the problem is that often the hotter the lead up to the period of uncertainty the harder the fall – this rule you will need to remember for next time as many of the "Hot" sectors have experienced big corrections well over 10%. Therefore, being exposed to such sectors requires a well diversified portfolio should sentiment move in the opposite direction.

Managing money is often more about managing risk than stock picking. So be sure to be pragmatic in your total portfolio composition. If you do however choose to maintain a larger exposure to a specific sector, then more often than not your portfolio will require more protection than just the fundamentals if things shift the other way.

#4 Look at Who is Holding the Stock

Are the stocks tightly held? Are there large strategic owners? Are the Founders/Families still major holders on the register?

While this can be a double-edged sword where in boom times, such a register can be seen as a drag, in times of volatility it can be seen as a sign of strength and longevity in the business. The added bonus is that any rebound will see investors fighting over less stocks as major holders are less willing to sell to them.

#5 Is Cash on Hand Strong and Flowing in.

Cash is always King, but during uncertain times it is a god. Ensuring good levels of cash and seeing cash flows that are preferably growing, is a good indicator that the company will have sufficient strength to get to the other side of volatility. Look for companies that can grow cash consistently as measured by a compound annual growth rate (CAGR) over say a 5 year period.

A review of the Beneish M-Score which measures the potential for earnings manipulation is also a prudent step. If you don't have access to that, then a review of the company accruals is a good substitute.

Final Note: Be Optimistic

Be optimistic because markets go up far more than they go down. It will cost you more being out of the market over the long-term than being in it. I know such events never feel good, so notwithstanding the above steps and indicators you could monitor in order to remove emotion from the decision process, it still doesn't feel nice.

If there is one shining light about a broad market selloff it is this, they are wonderful opportunities to re- weight and realign your portfolio. They almost act as a "get out of jail free" card.

When all stocks fall based on sentiment, it offers a unique opportunity to jump from your previous underperformer and into another stock you have always wanted to buy, but it had run too hard in the past.

The sell off of Quality businesses creates a great opportunity to hop off your old clunker, and get into a much more impressive business. Because when it comes down to capital allocation, I would rather be in a good business whose price has fallen, than a bad business whose price has fallen.

Being invested in companies where their key indicators are going down, rather than those who on a relative basis are going up, is a sure fire way to make any short term negative sentiment permanent. E

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THERE HAS NEVER BEEN A BETTER TIME TO RETIRE

By Drew Meredith, Wattle Partners

How to Avoid the Most Common Mistakes of Retirees

Another month, another crisis. With the pandemic now in the rear-view mirror, investors are now seemingly moving from one crisis to another.

First it was inflation, triggered by surging demand and bottle-necked supply chains. This triggered rate hikes, and a massive 'reset' of the valuations of most assets around the world. Now, the world faces a banking and financial system crisis not seen since the depths of the Global Financial Crisis.

One of the quotes I use most often when talking to retired or soon to be retired investors, is that there will always be enough reasons to justify holding all your savings in cash. The challenge, for most investors, is looking beyond this, and remaining focused on the true reason for investing; to generate a passive and consistent income in retirement.

Inundated with headlines and phone calls about the end of markets and the financial system as we know it, many will be surprised that we are more positive than ever about the opportunity set for investors, particularly those in retirement.

After close to a decade of strong returns from nearly every asset class, including real estate, Australian shares and even government bonds, 2022 was one of the worst years in history for each of them.

Why?

Because the valuation of every asset was supported by a constantly falling cash or interest rate, forcing investors to take on more risk in the pursuit of returns.

We know that interest rates are painful for those with mortgages, facing a variety of other cost increases, but after a decade of receiving close to 0 per cent interest on bank accounts, the golden years have finally returned for those who have savings and capital.

The willingness and requirement to accept greater risk in the pursuit of returns wasn't more evident than in the asset allocation of some of Australia's largest industry super funds, with 'balanced' options holding as much as 80 per cent of their portfolios in 'growth' assets.

For many investors this 'balance' or asset allocation decision is an afterthought. Accepted as being set in stone, few take the time to review it closely despite a significant change in the macro environment, or more importantly the value of nearly every asset in the world.

As it stands today, retirees could perceivably hold a significantly lower amount of their capital in higher risk investments while still achieving the 4 to 5 per cent income goal that many pursue. In fact, the traditional 'balanced' portfolio could truly be balanced again, split 50 per cent into growth and defensive assets.

How is this Possible?

It starts at the most basic of investment options, that being cash and term deposits. A number of online banks have recently announced interest rates of 5 per cent on their day-to-day high interest accounts. Similarly, the likes of Macquarie Bank are offering one year term deposits with rates exceeding 4.5 per cent. Just two years ago achieving this level of income from a share portfolio was borderline unattainable, let alone from government guaranteed deposits.

The story is similar across the many lower risk asset classes ranging from government bonds to hybrids and other fixed income assets. As it stands today, an investment in government bonds, whether through the likes of exchange traded funds like iShares or Vanguard, is offering an income of more than 3 per cent.

This opportunity set extends to a broader range of asset classes, from the lesser known 'junk' or lower rated bonds, to hybrids, all of which now offer income from 5 to more than 10 per cent, despite being exposed to significantly less equity risk.

This isn't the only positive to come out of increasing interest rates. Depending on how you currently invest, the fastest interest rate hiking cycle in history is 'cleaning out' a lot of the poorer quality and weaker businesses listed on stock exchanges around the world. I

It is also bringing into question long-held valuations on private market assets, ranging from commercial property to venture capital and private equity. While listed versions of these investments have fallen by more than 30 per cent, in many cases, the value of these assets has continued to increase. Yet at some point valuations will catch up, offering an extensive menu of opportunities to patient and cashed up investors

While opportunities abound for investors, being in the privileged position as financial advisers, guiding close to 200 families throughout their own retirement experiences, we know and see the most common mistakes that are holding people back.

The nature of the Australian taxation system means that retired investors have flocked to high dividend paying companies, for better or worse. We think it is the latter. History and our own experience has shown that investing solely based on the headline income being provided by an investment is a recipe for disaster.

Income trap or not, those companies that are not reinvesting in themselves, or proritising high dividend payout ratios, consistently underperform and more importantly destroy capital, over the long-term. When managing retirement assets, we rely on the simple calculation:

I + G = TR or Income plus Growth equals Total Return.

Rarely has this been more relevant than today, when soaring inflation is eating into the value of your income and capital. But more importantly, in order to ensure the income you generate from your investments can keep up with your own spending, it must be growing rather than stagnating, which itself requires a company committed to investing in itself.

Among the most dangerous mistakes we see, is an extensive cohort of investors who believe they can DIY their entire retirement investment strategy. The old saying 'you don't know what you don't know' s more relevant than ever, at a time when the divergence between funds, ETFs, sectors, companies and economies has rarely been greater.

Investing in retirement requires an entirely different mindset and approach to investing in your younger years. With a finite amount of capital, the focus must turn to resilience, diversification and discipline. This is particularly relevant during periods of uncertainty when media headlines can get the better of any of us, often resulting in poor decisions being made.

Case in point is the growing popularity, in 2023, of the many winners of 2022. That is, the most popular ETFs, funds, and companies in 2023 have been those operating in the energy and materials sector, or alternatively, floating/variable rate fixed interest investments, like hybrids.

These investments were clearly suited to the unique situation in 2022, but thus far in 2023 have performed quite poorly. Any DIY investor must bring rigour and structure to their investment approach, or risk making the same mistakes year after year.

Finally, there is a tendency for many investors to follow the most overquoted man in finance, Warren Buffett, when he suggested if you don't understand something, don't invest into it.

Fortunately, the world has changed a lot since Buffett was quoted on many of these issues, and both the availability and professionalism of many alternative investments continues to grow.

Two examples come to mind, the first being a fear of investing in overseas companies on concerns that they are 'higher risk' than those listed on the ASX. Or alternatively, seeking to get a 'global' exposure by investing into ASX companies. Australian companies represent just 2 per cent of all listed companies in the world, and putting a few aside, have very few global leaders that have the quality of Apple, Microsoft or Amazon.

This also extends to the lesser known and poorly understood 'bond' investments. At their most simple, these are loans to another person or company; primarily the government. With interest rates now significantly higher than two years ago, the benefits of these assets have returned, meaning they demand attention and warrant a position within portfolios, if only for the inherent protection against another drop in the sharemarket.

If there is one comment to leave you with, it would be this. Times have changed significantly in investment markets, and this warrants a change in how we all approach our own portfolios. More than anything, building a portfolio of assets that is resilient to the issues of the day, will be the biggest derteminant of success in retirement. E

Looking to re-energise your investments?

Wind and solar are not the only alternatives to fossil fuel-derived energy production. The Platinum Global Transition Fund (Quoted Managed Hedge Fund) opens up a world of investment opportunities – from areas such as renewable energy, electric vehicles and recycling technologies to materials, components and infrastructure required to make the transition possible.

Read more at platinum.com.au/transition or scan the QR code.

Trading as an active ETF (ASX: PGTX)

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WHY IT PAYS TO LOOK BEYOND THE NTA

By Jesse Hamilton, Wilson Asset Management

Recent equity market volatility has presented investors with compelling opportunities to buy listed investment companies (LICs) at a discount to their underlying net tangible asset (NTA) backing. To help make an informed investment decision, it is important to not only look at the NTA of a LIC, but also assess the company's investment strategy, long-term investment portfolio performance, quality of the investment manager, history of paying fully franked dividends and how the company communicates and engages with its shareholder base.

Understanding NTAs

In their simplest form, the NTA per share of a LIC represents the total assets of a company, less liabilities and intangible assets (such as goodwill), divided by the number of shares on issue. The NTA represents the true underlying market value of the company's assets, calculated in accordance with the Australian Accounting Standards, at a point in time. A LIC is a public company, has a board of directors, corporate governance and its shares are traded on the Australian Securities Exchange (ASX). At times, the LIC's share price can fluctuate above or below its underlying NTA value. The NTA of a LIC is announced on the ASX to shareholders each month.

The NTA of a company is a "right now" reflection of where the assets of the LIC are invested, how much those investments and other assets the company holds are worth, less any associated liabilities for the company. Companies often report a pre-tax and post-tax NTA, showing shareholders the value of the company excluding current or deferred tax liabilities and assets as well as the value of the company's assets if those tax liabilities were to be paid.

Fundamentals First

NTAs are a point in time reference for the value of a LIC and should always be the first step for investors when evaluating the company. However, NTAs are a small slice of the pie when it comes to making an informed investment decision with LICs. It is important to also consider the company's historical investment portfolio performance, which measures the investment manager's ability to perform compared to its relevant index on a like-for-like basis, the NTA growth of the company, as this demonstrates the realisable value of the company after expenses, fees and taxes, and total shareholder return (TSR) which measures the tangible value shareholders gain from share price growth and dividends paid over the period, before the value of any franking credits distributed to shareholders through fully franked dividends.

At the end of the day, TSR is the true return for shareholders of a LIC, as it represents the tangible value they are able to receive for their shares, including dividends paid by the company. TSR can often be impacted by a company's shares trading at a discount or premium to its underlying NTA, so it is important you consider all three measures of performance for a LIC when making an informed investment decision.

Why are Some LICs at Premiums and Others at Discounts

A LIC can trade at a premium or discount to its underlying NTA, providing investors with an incredible opportunity to buy $1 of assets for 80c and sell $1 of assets for $1.20. Whether a LIC trades at a premium or discount to its NTA can be influenced by a number of factors including, but not limited to; short term falls in domestic or global equity markets and overall equity market volatility, the performance of its investment portfolio, its history of fully franked dividend payments, its marketing and communication strategy and overall experience of its investment management team and board of directors.

Buying shares at a discount to NTA means you pay less today for what the company's underlying net assets are valued at. It can give shareholders access to a portfolio of investments for less than what they are worth, but investors need to be confident that the discount can dissipate over time in order to capture or realise that return.

Buying shares at a premium, however, means you pay more today for a company than its underlying net assets are worth. LICs can trade at a premium when they pay a consistent and growing stream of fully franked dividends, have a track record of long-term investment portfolio performance, treat shareholders equitably and communicate consistently and effectively with their shareholder base. The risk is if that premium to NTA will be maintained or grow over time. Paying $1.20 today for a LIC which has a NTA of $1.10 can quickly lead to an investment loss if the share price of the LIC trades back to its NTA value or goes to a discount.

Putting this Information into Practice

The closed end structure of a LIC provides investors with the ability to buy shares at a discount or potentially sell their shares when they are trading at a premium to their underlying net asset value, however it is important to not get caught in a "value trap", referring to situations where a LIC represents good value with its discount to NTA, but falls short of expectations if that discount persists or worsens over time. There are several risks to consider here, as a LIC may continue to trade at a discount to is underlying NTA for a long period of time or the share price premium to NTA of a LIC may evaporate quickly for no other reason than a change in market sentiment or equity market volatility.

Investors should always ask themselves: is there a realistic expectation that the discount will close? Has the LIC traded at NTA or a premium to NTA in the past? And do you believe that the investment manager and the company will be able to close the discount and continue to perform for shareholders?

We believe there are four critical elements of a running successful LIC, including a strong track record of investment portfolio performance, paying a stream of fully franked dividends, treating shareholders equitably and with respect, and strong shareholder communication and engagement.

It pays dividends to have conviction and take a holistic approach when assessing which LIC is right for you.

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CRITICAL MINERALS

– POTENTIAL EXPOSURE FOR THE SMALLER SHAREHOLDER

By R McKenzie, ASA Member

I am sure many of us have heard of "critical minerals" without really knowing what this means. Why are they "critical?" For those of us who read the financial pages, mining magazines, or investment newsletters, minerals (or elements), such as lithium, graphite, rare earths, vanadium, or tantalum, are favoured targets particularly for the smaller listed exploration companies. For others, the last time we read about such elements was in high school science.

By deterring from fossil fuels and focusing on renewable energy, lithium batteries are now commonplace, either in electric cars or as wall-mounted units connected to solar panels at home. Lithium batteries typically contain lithium-nickel-manganese-cobalt-oxide or similar complex mineral assemblages as the "anode" and graphite as the "cathode".

Rare earth minerals may be used in small amounts as an additive to the complex mineral assemblage in some batteries and in permanent magnets. With the transition to clean energy, the demand for rare earth minerals is increasing rapidly. Their use in permanent magnets will surge given the Western world's plans to break the reliance on supplies from China. The US recently introduced a Critical Raw Materials Act to ensure it has the metals required for the transition to clean energy and for the defence industry.

Meanwhile, minerals such as bauxite (source of alumina), iron ore, copper, nickel, and manganese are essential for transitioning towards a renewable energy future. Forecasters claim there will be a substantial deficit of copper by the end of this decade. This is partly due to a delay in advancing existing projects, the effects of COVID-19 on the availability of skilled technical people (engineers, geologists, metallurgists, etc), and political uncertainty in South American and African countries.

The excitement is with the "critical minerals". The link below points to a 64-page document outlining activities of several smaller mining/exploration companies listed on the ASX. This list is by no means exhaustive. There are around 300-400 smaller mining and/or exploration companies on the ASX.

It is strongly recommended members do their own research and obtain professional advice before investing due to the speculative nature of mineral exploration and the companies mentioned being considered highly speculative.

www.amec.org.au/wp-content/uploads/2021/06/FINAL-AMEC-Critical-Minerals-Investment-Opportunities-2021.pdf E

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DIGITAL REPORTING – HAS IT'S TIME COME?

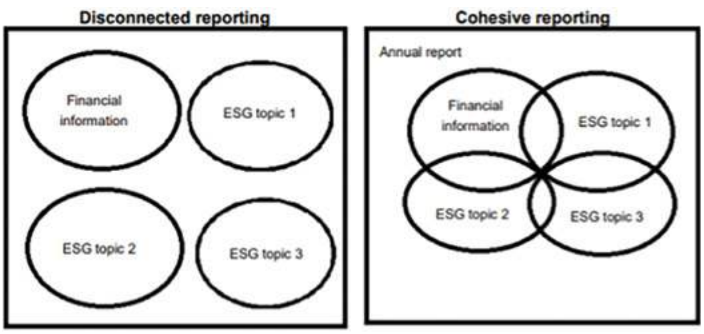
By Fiona Balzer, Policy and Advocacy Manager, Australian Shareholders' Association

Chartered Accountants Australia and New Zealand (CA ANZ) has published a great thought leadership paper with Professor Peter Wells, Professor, Accounting Discipline Group at University of Technology Sydney.

Authors are Peter Wells, and CA ANZ's Reporting and Assurance Leader, Amir Ghandar FCA, and Senior Policy Advocate – Reporting and Assurance. Masood Mehmood FCCA, who have kindly permitted ASA to reference sections of the report, titled "Can digital reporting tame the corporate reporting beast?" We encourage you to have a read of the full report.

CA ANZ has been advocating for mandatory digital financial reporting to tackle the challenge for businesses of increasing information demands and complexity of corporate reporting. This latest report, delves into the challenges of corporate reporting and examines how digital reporting can help standardise, simplify and make reports more comparable. By leveraging technology, the report sees that businesses can enhance their reporting and better meet the needs of stakeholders. The importance of a cohesive way of reporting information is illustrated as follows.

Figure 1: Reporting of information in annual reports



The challenges in financial reporting identified in the report are expanding. Business operations and transactions are becoming more complex, as is the accounting standards required to represent this complexity.

This has inevitably contributed to more complex and detailed financial reports and the challenge of providing relevant information for decision making.

A further challenge is whether traditional financial reports emphasising financial information are sufficient. There has long been evidence of the limitations of information in financial reports. For example, Easton and Harris (1991) find that over a 20-year sample period, annual earnings and earnings change explain only 7.7% of stock returns. Further, within individual years this ranges from 3.2% to 23.1%.

While there are claims that the information in financial reports is becoming less relevant, empirical evidence of this is unclear.

It is also clear that more information is required by users and that corporate reporting needs to evolve to address this. A challenge in expanding corporate reporting is that there are limits to the financial information (or information that can be reliably expressed in financial terms) that can be presented.

However, the demand for more information is not limited to this and there will likely be calls for the further expansion of corporate reporting. The challenge is that this will add to the length and complexity of corporate reports. Strategies are necessary to address this successfully, and digital reporting will inevitably be a central integral component.

Breaking the nexus between the digital reporting and traditional reporting would address a range of problems The adoption of digital financial reporting in Australia and New Zealand is inevitable. However, if there is a limitation of digital financial reporting as it currently exists, it is the constraint that only information in financial reports, or corporate reports more generally, can be tagged. Accordingly, any extension in corporate reporting will necessarily increase the volume and complexity of information in corporate reports and this will further degrade the understandability of these traditional financial reports.

The report concludes we are at a crossroads in corporate reporting.

Digital financial reporting and extended external reporting are not new concepts, but both will feature predominantly.

The financial reports prepared by corporations today are grounded in the 20th century, both in terms of what is included and how it is presented and published. There is a major need for upgrading to bring them into the 21st century. Digital financial reporting and extended external reporting are not new concepts, but both will feature predominantly as we struggle to ensure that corporate reports meet the diverse needs of users. The challenge for the accounting profession is to embrace these changes and ensure they are 'surfing in front of the wave'. This will have major implications for the accounting profession and staff capabilities, not only for those involved in the preparation and audit of this information, but increasingly those that use this information, and the development of tools that users might rely upon.

Again we thank the Authors for allowing us to share their reports with our members. E

ALL AGM REPORT

On the morning of Aristocrat Leisure's AGM, there was an article in The Australian where the Board Chair and CEO & MD of the company reportedly said cashless gaming is coming regardless of the outcome of the 2023 NSW state election. ALL has spent millions on cashless gaming technology. They said ALL proposed a trial of cashless gaming, which commenced in October.

The Chair and CEO AGM speeches are available on ALL's website. ALL provided an AGM trading update and reaffirmed FY2023 guidance previously given. ALL expects to deliver normalised profit after tax and before amortisation of acquired intangibles (NPATA) growth over the full year, assuming no material change in economic and industry conditions.

Over the medium term, ALL aims to continue gaining market share in all key segments, deliver high-quality profitable growth, continuously invest in R&D to improve competitiveness and breadth of product, invest to diversify its business in line with strategy, and effectively manage capital to support long-term growth and maximise shareholders returns. It was also announced that the on-market share buy-back program was being increased by another $500m.

ASA complimented ALL on its comprehensive Annual Report and Notice of Meeting, noting some areas (e.g. remuneration) were enhanced since last year. With ALL being in many jurisdictions, it is highly conscious of ESG, risk, and compliance management with good coverage on these aspects. ASA also praised the support given to its people in Ukraine.

ASA raised the issue of webcast attendees not having the facility to ask questions or vote during the AGM. ALL agreed this issue would be addressed in the future. ASA also asked questions related to cashless gaming machines, including when its trial results would be announced and the likelihood of cashless gaming machines extending beyond what is proposed for NSW to other states and areas outside Australia.

Issues raised by other questioners, in particular Stephen Mayne, Nick Xenophon, and Troy Stolz had an underlying anti-gambling activist focus. The day after the meeting, The Sydney Morning Herald suggested the questions 'turned the heat on pokies giant Aristocrat at AGM'.

All board directors being proposed for election/re-election spoke in support of their nominations. Most shareholders present seemed satisfied with ALL's performance in the past year. The majority of resolutions passed with over 90% support but the proposed election of external Board Director candidate, Stephen Mayne, secured only 0.33% FOR vote.

The grant of Performance Share Rights to the CEO & MD under the LTI program had 82% FOR whereas the Remuneration Report had voting in favour at 92.84%. The CEO&MD is US-based where remuneration plans are somewhat different.

ARISTOCRAT LEISURE LTD AGM

1 year chart

MONITORS: Carol Limmer assisted by Sue Erbag

Date	24 February 2023
Venue	Physical with webcast
Attendees	47
Value of proxies	$2.83m
Proxies voted	Yes, on a poll
Market cap	$24.18bn
Pre-AGM meeting	Yes, with Chair of People & Culture Committee, Kathleen Conlon and Company Secretary, Kristy Jo

ROOM FOR GROWTH AND POSITIVE OUTLOOKS

There were two items of note in Pat O'Sullivan's address to shareholders. Firstly, that Director Ron McLean was retiring after the meeting and secondly, acknowledgement of the 23% vote against the remuneration report.

It will be interesting to see if Ron is replaced or if Technology One takes this opportunity to reduce the size of their Board. Eliminating one director role would get them to the 30% target for female representation.

Pat defended the contentious element of the remuneration report, i.e. the Retention LTIs, saying they were preferable to permanently increasing fixed remuneration or short term incentives.

Edward Chung, the CEO, repeatedly confirmed the company is on track to meet its ambitious target of $500m annual recurring revenue by FY26. He also noted there is ample room for growth in their target markets. He said the outlook for FY23 is good with a healthy sales pipeline and an expectation of strong growth in revenue and profit.

ASA asked some warmup questions about the migration to SaaS, expansion into new geographies, the impact of a slowing UK economy and cybersecurity. The answers were all succinct and raised no concerns.

When it came to the Remuneration Report, we asked two questions about the Retention LTIs. Why did they not have performance hurdles? How can we be sure something similar won't happen in the future?

The Chair responded by explaining the situation the Board found themselves in, the head hunting of key executives, they looked at many different options, it was best practise and that he stood by the decision. All good information but he didn't really answer either question.

Technology One admits their executives are not highly paid compared to their peers and, perhaps, it would be preferable to remedy that situation rather than resorting to "golden handcuffs" in a crisis.

We voted against the resolution, as did some other shareholders, with the final tally being only 76.6% in favour.

We asked Cliff Rosenberg about the workload from his six directorships. He says he has no issues juggling his multiple commitments and that his recent experiences with companies undergoing significant corporate activity (Afterpay and NearMap) are evidence of his ability to respond to spikes in demands on his time. We were satisfied with his answer and voted in favour of his re-election which was passed at 92.8%.

We voted in favour of all the other resolutions, which were all well supported by shareholders.

TECHNOLOGY ONE AGM

1 year chart

MONITORS: Paul Donohue assisted by David Loosemore

Date	22 February 2023
Venue	Brisbane Convention and Exhibition Centre and online
Attendees	78 in person / 95 online
ASA proxies	80
Value of proxies	$6.36M
Proxies voted	Yes, on a poll
Market cap	$4.76B
Pre-AGM meeting	Yes, with chair Pat O'Sullivan

FIFTY SHADES OF GREEN

By Christopher Niesche

Companies and directors are on notice that regulators will come after them if they over-inflate the ESG credentials of their businesses or products.

The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) have both identified investigating greenwashing and taking enforcement action as key priorities for 2023.

The ACCC warned that it and other regulators "are concerned that some businesses are falsely promoting their environmental, green or sustainability credentials in response to consumer demands".

ASIC warned last year that it was switching from educating executives and directors about greenwashing to enforcement. The regulator has issued one or more infringement notices to four different entities.

In December, it issued infringement notices to investment manager Vanguard Investments Australia because it was concerned that product disclosure statements for the Vanguard International Shares Select Exclusions Index Fund may have been liable to mislead the public by overstating an exclusion claimed to prevent investment in companies involved in significant tobacco sales. This is known as an "investment screen".

The Vanguard Funds were structured to exclude certain investments in tobacco. However, while this screen applied to exclude manufacturers of cigarettes and other tobacco products, it did not exclude companies involved in the sale of tobacco products, ASIC alleged.

Vanguard paid a fine of $39,960, although this does not constitute an admission of liability.

Increasing Penalties

ASIC deputy chair Sarah Court says the next step in enforcement could be to start instituting civil court proceedings and seek penalties "significantly in excess" of those in infringement notices.

Where a company makes an ESG claim they have to have evidence to substantiate that claim to the market, investors and consumers, says Court. "If you're on a board that is using green credentials to do your marketing or promotion, my message would be that it's very important for directors to ask what is sitting underneath that. What enables us to be making that representation?"

This is what led to the issuing of four infringement notices to listed energy company Tlou Energy last October. ASIC was concerned about alleged false or misleading sustainability-related statements made to the Australian Securities Exchange, including that it would be carbon-neutral and also had environmental approval and the capability to generate certain quantities of electricity from solar power.

"ASIC was concerned that Tlou either did not have a reasonable basis to make the representations, or that the representations were factually incorrect," the regulator said in a statement regarding the infringement notices issued to the company. Tlou Energy paid $53,280 to comply with the notices, although these payments do not constitute an admission of liability.

ASIC takes a broad approach to greenwashing and will consider any ESG-related claims made by a company to entice people to buy their products or invest in their offerings, says Court. "We're certainly not having any trouble having that referred to us. One of the interesting things about greenwashing claims is that a big source of the matters that are coming our way are from individual investors and consumers who are seeing things out in the market and are actively referring those kind of complaints through to us."

With businesses competing with each other based on their environmental credentials, ASIC is also receiving referrals from companies concerned about what their competitors are doing.

Court says the regulator has seen a spectrum of greenwashing incidents – ranging from the deliberately misleading to the inadvertent issuing of inaccurate ESG claims – but these will still require a regulatory response. "If there was an issue of any inadvertent publication that's made, somebody's picked it up and it's quickly been remedied and reissued appropriately, that's not something we would take enormous issue with. If there is some kind of marketing-related careless disclosure, but it has significant prominence and has been aired in the marketplace for quite some time, and we're getting reports that people have been relying on it, then we'll take a stronger response."

Personal Liability

Directors can also face personal liability, which Court says is no different from the general directors' duties – the extent to which they are doing what a reasonable director would do when faced with those circumstances.

"Is the board aware that these kinds of potentially misleading claims are being made? What's being done about it? What questions are being asked? What reports are being asked to ensure that the representations and statements and claims that are being made publicly can be appropriately backed up and substantiated? It's not a particularly complex calculation. Directors can deal with those things relatively succinctly."

Terms that companies use to promote their ESG credentials can be vague — such as "green", "sustainable", "cruelty-free" — but Court says the definition of the word isn't the central issue in greenwashing claims. Instead ASIC looks at the overall context in which a statement is made. How prominent is it? Is it appropriately qualified? Is the qualification done with an asterisk and in fine print on page 53 of the prospectus, for example?

Work is being carried out in Australia to prepare a sustainability taxonomy to define greenwashing terms. The EU introduced its sustainability taxonomy in July 2020.

Andrew Lumsden MAICD, an M&A and corporate governance partner at Corrs Chambers Westgarth, says a key factor in regulators' determinations on greenwashing will be the "intensity of the promise". Directors need to bear this in mind in their analysis of greenwashing risk.

"At one end of the spectrum, you've got people who are demonstrably selling an investment in the broader category of an ESG-compliant fund," he says. "So that promise is very intense. Then you've got, at the other end, somebody who's offering a financial service from a bank, where the promise is still there, but it's probably not as strong as it is in terms of people's reliance on it for their investment decision."

Lumsden says that for directors, doing what they can to ensure their organisation isn't greenwashing draws on basic core director skills — bringing an inquiring mind to a topic, being observant and making sure executives are acting appropriately.

For instance, if a company claimed it was going to convert its entire fleet into electric cars in the next three years, the board would ask the executives how they plan to meet that ambition.

Lumsden says directors with good business sense would ask: "How are we going to moderate that statement if there's a supply chain issue and we cannot get the number of cars that we need in time? Are we comfortable that the material we're putting out has sufficient clarity that we can say, well, all other things being equal, and based on what we think about supply chain issues, can we get to that level?"

ASIC has published an information sheet for companies, How to avoid greenwashing when offering or promoting sustainability-related products.

While this information sheet relates to the finance sector, the guidance is of broader relevance to all corporates.

Communication Processes

Emily Tranter, litigation and dispute resolution partner at Clayton Utz, says directors should be mindful that company communications are made across a range of channels, not just as formal disclosures or regulatory filings. This can include social media statements, which can involve abbreviating well-crafted company statements, and statements the directors themselves make in the public sphere. Boards need to ensure they have visibility over their organisation's ESG claims and statements — and ensure there are processes in place to capture any statements that could potentially be misleading to investors or a wider audience.

"It's about putting the processes in place to ensure that future communications are run through the appropriate channels, whether that's through your compliance or legal department in conjunction with your technical experts who are making those particular net zero commitments, for example," she says.

When considering ESG-related statements, directors need to consider whether they should issue a statement in the first place — or potentially not make the statement. "There may be a time and a place to hold back because there might not be reasonable grounds for making the statement," says Tranter. "But within all of that, there is also always a continuing obligation to consider disclosing the company's climate-related risks."

It's a point taken up by Court. "You don't have to make green claims or ESG claims," she says. "They're made for a purpose and the purpose is to entice people to choose your product over other products."

ACCC in Action

The ACCC warns against vague or broad terms such as "green" or "sustainable". "These words on their own have limited value for consumers," the regulator said in a statement after declining an interview. "Whether a claim is misleading will depend on what an ordinary consumer will understand."

Any business making environmental or sustainability claims must have valid and reliable evidence to back up the claim and the ACCC said it will ask to see their evidence if it has any concerns about greenwashing. "Where businesses announce aspirational goals in relation to meeting future environmental or sustainability targets, they need to have genuine measures in train going towards meeting these goals," the regulator said.

Treasury is currently consulting on bringing in mandatory climate disclosure into Australia based on the ISSB sustainability and climate standards.

The ACCC flagged a number of active investigations in the packaging, consumer goods, food manufacturing and medical device sectors for alleged misleading environmental claims. Additionally, it is proactively reviewing environmental and sustainability claims in the retail clothing, electrical and whitegoods, energy, motor vehicle, packaging and household cleaning product sectors. E

Access the free AICD greenwashing webinar here: www.aicd.com.au/courses-and-programs/all-webinars/EV159372.html

To find out more about climate change governance, visit the AICD-hosted Climate Governance Initiative Australia at aicd.com.au/tools-and-resources/climate-change

RESEARCH UPDATE:
ESG ISSUES IMPACTING YOUR INVESTMENTS

By Team Altiorem

Each month we share Altiorem's newest and most popular research with ASA members, keeping you up to date and hopefully, sparking your interest in some of the pressing environmental, social and governance issues that are impacting your investments. Our research summaries make it simple for shareholders to grasp key concepts without being an expert which helps you to make informed decisions and smarter investment choices.

Altiorem is the world's first community-built sustainable finance library. Our free online library supports investors interested in long-term performance and the allocation of capital towards a flourishing economy, society and environment. Altiorem's resources help shareholders better understand the role environmental, social and governance (ESG) issues play in portfolio construction, risk management, returns and shareholder advocacy.

Altiorem provides members free access to the sustainability research that investment professionals use. Research is summarised and categorised by key issues and leading sustainability standards. Our goal for Altiorem is to give the investment community access to free, high quality, relevant and accessible material they can easily use to inform and ignite the case for change.

Trending Research

Diversity wins: How inclusion matters

This report highlights that the business case for gender and ethnic diversity in executive teams is stronger than ever, having been deepened by the COVID-19 crisis. Emphasis on diverse representation within organisations is no longer sufficient; employees must feel and perceive equality and fairness of opportunity in their workplace.

Artificial intelligence solutions to support environmental, social, and governance integration in emerging markets

This report examines the use of artificial intelligence technologies to analyse ESG data for investments in emerging markets. It gives a detailed account of an experiment conducted to determine the effectiveness of such technologies in analysing the ESG performance of emerging markets issuers.

ESG: Hyperboles and reality

An analysis drawing on a decade of environmental, social and governance (ESG) research to discuss theories of influence, the relationship between ESG and corporate value, and the usefulness of ESG assessments and ratings. The report aims to debunk myths associated with ESG as a commonly used evaluation within businesses and society.

Taking the carbon out of credit: An integrated approach to removing climate emissions from lending

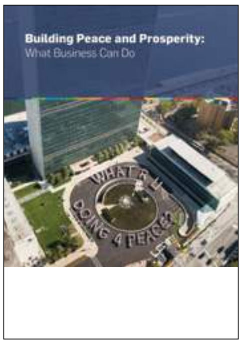
This report makes a complete case for banks and lending institutions to avoid further damaging of the climate. It provides both justification for why this is an important financial undertaking, and principles for how to go about and do it.

We believe Altiorem can help ASA members better incorporate sustainability issues when investing and voting. Head over to Altiorem and become a member at www.altiorem.org. Membership is free and includes access to all research, and soon we will be offering webinars, e-books, and more benefits for members.

New Research

Guide for responsible corporate engagement in climate policy: A Caring for Climate report

A report on the business community's engagement with climate change, and the best way for companies to implement policies that ensure greenhouse gas emissions are reduced whilst supporting the global economy. The report sets guidelines for why and how companies can provide constructive influences on public policy.



Building peace and prosperity: What business can do

A brief look at the policies and actions stakeholders can do to confront and prevent violent conflict in high-risk areas. Actions are laid out for businesses, governments, the United Nations, investment community, and civil society. Multi-stakeholder initiatives to support building and investing in peace are presented.

ESG and financial performance: Aggregated evidence from more than 2000 empirical studies

This study examines the positive relationship between ESG (environmental, social, and governance factors) and corporate financial performance, through examining over 2000 empirical studies; a strong business case is also seen across regions and asset classes. Findings show an expected alpha when embracing ESG in investment strategies.

Financing for sustainable development report 2021

is report contains updates, data and analysis on trends in financing for sustainable development in 2021, while setting out recommendations for policy. Covid-19 has negatively impacted progress for sustainable development. The report proposes measures to support developing countries, rebuild global economies, and achieve the Sustainable Development Goals.

LISTED INVESTMENT LICAT COMPANIES & TRUSTS ASSOCIATION

Join us at the ASA Investor Conference in May for our panel discussion on:

HOW THE LIC & LIT STRUCTURE CAN ASSIST IN DELIVERING AN INCOME STREAM FOR INVESTORS

11-12 May 2023

Hear from our panel chaired by LICAT on how they apply this thinking across a range of asset classes to deliver regular income for their investors.

ATTEND OUR PANEL DISCUSSION ON 11 MAY AND DROP BY THE LICAT STAND OVER THE TWO DAYS OF THE INVESTOR CONFERENCE

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Wilson Alternative Assets (WMA)
Alternative Assets Manager

Listed Investment Companies and Trusts Association Limited ACN 161 506 985

Letters to the Editor

Dear Folks,

Thanks for all the hard work you do – here is a letter for the Equity magazine:

Many shareholders would have been disappointed by the plunge in share price of a company when a director sells down shares. Currently there appears to be no rule requiring director to either give notice or to give a reason for a share sale. It might be a good idea for the ASA to propose that a director must give a reason for a share sale, and must give the market 24 hours' notice of any intention to sell shares. In this way, the director could experience the exquisite pain along with the rest of us.

My point is that a share sale by an "insider" will affect public confidence in that company. The knowledge that those shares will be sold is market information, to which only the insider has access. By making it mandatory for insiders to give a reason and one day's notice of intention to sell, all shareholders will then be fully informed and can then act accordingly. Making it mandatory for insiders to give a reason for selling would go some way to settling the market. Selling to pay a tax bill is a lot different to selling because you find better prospects elsewhere. Good companies do usually give a reason, but many never do.

Response:

Thanks, David, for raising this situation. As you note, director or "insider" trades are often taken as an indicator of the insiders' confidence in the company prospects, and share sales are likely to scare the market.

There are a lot of rules around such trading. Not only is it covered by prohibition on insider trading where buy/sell decisions are made using information that has not been made public (as distinct from what we are talking about, insiders' trading) but Listing rule 12.9 requires a listed entity to have a trading policy covering its directors and other key management personnel and regulating trading in its securities during certain "prohibited periods."

Further insiders' trades are notifiable share trades which have to be advised to the ASX within 5 days under ASX listing rule 3.19A.2 with an Appendix 3Y, Change of Director's Interest Notice. That requirement overrides the 14 days' notice required under s205G of the Corporations Act 2001.

It's an interesting suggestion of requiring directors to give 24 hours' public notice of any intention to sell part of their holdings. I fear that 24 hours' notice could be more disruptive to the shareholders expanding on their exquisite pain, beyond the sole impact of the uncertainty around the executive director motivation and intentions for the rest of their holdings and one-off impact on liquidity.

I would expect the likely time a director could trade would be immediately after the release of financial results. There would be a neat trading strategy for short-sellers, knowing there's a likelihood of a 24 hour notice of intent to trade. There is also the potential for arbitragers to step in and force the sale to fail in the 24 hours' notice period. And then the pain would be repeated for the executive director and for the shareholders until the deal was done.

However, as you mention good companies usually give a reason, or other forms of comfort, around the intentions of key executive directors in relation to selling part of their holdings. I would add that a good board would see such disclosure as being important to maintaining shareholder confidence.

Way back in 2005, Brian McNamee the then CEO of CSL disposed of 55% of his holding and then, in 2010, sold more $8.4m shares at almost $36 per share. As I said in an article for AICD "Director share trading" back in 2006 "CSL CEO Brian McNamee sells a portion of his shareholding every year,"(I continued,) "Some time ago he came out and explained that his portfolio was heavily overweight in CSL shares and that he would be having regular sell-downs to keep more balance in his portfolio. He was letting shareholders know that he wasn't dumping shares because he knew something they didn't, and he was also emphasising the fact that directors follow similar financial strategies as anyone else – he didn't want all of his eggs in one basket, however sound the basket happened to be. His disclosure makes it clear that the move is neither opportunistic nor a cause for concern."

It was a comfort to shareholders that he retained around $30m worth of shares after the 2010 sale, and it was about diversifying his and his family's portfolio. The share price is up more than $230 per share since that time, so most shareholders are pretty happy!

More recently Domino's Pizza Enterprises (DMP) share price tumbled at the time CEO Don Meij sold 150,000 shares on 23 February 2023, with notification required and delivered on 2 March. The trade took place in the window after the half-yearly result was released on 22 February. The company released a formal statement on the Managing Directors shareholding to accompany the ASX Appendix 3Y announcement. A reason was given, using funds to reduce personal borrowings in a period of rising interest rates. Mr Meij was quoted saying "I appreciate there is no ideal time to sell any shares, but my long-term track record shows my alignment with the future of our business and interests of shareholders and franchisees." Don Meij continued to hold around 1.6m shares directly and indirectly. But that quantity was about 20 to 25% of daily volumes for 2023, and a small portion of trading in the shares after the release of the financial result.

Johns Lyng Group (JLG) similarly commented on its executive director's share sale in December 2022 and reaffirmed pre-existing earnings guidance. Lindsay Barber (at that time Executive Director and Group COO, now resigned as director while retaining his executive role) sold 4 million shares in the company, which was around 31% of his prior holding and multiples of the usual volume trading at that time. The sale was undertaken to diversify Mr Barber's personal asset portfolio. The JLG share price is higher than at the time of the sale, with shareholders perhaps more comfortable with the guidance after the release of the interim results.

We expect the companies to abide by the rules around trading by insiders and to make additional comment to the ASX beyond the Appendix 3Y notice when executives make substantial sales.

Please email your contributions to:
education-manager@asa.asn.au

BRICKBATS

Brickbat to **Rio Tinto** for reminder of the history of the tightening of remuneration policy as a reaction to events over the past decade. At least they learn after the fact. Joe Aston at the Australian Financial Review flagged the vesting of the 2018 Equity Incentive Plan to the former Rio Tinto chief executive Jean-Sebastien Jacques. Shareholder pain arises from the former CEO departing with an exceptionally large package despite being held accountable for the Juukan Gorge (JG) disaster. We get that the legal problem is that under the remuneration policy in the pertinent year there was no ability in law to withhold any of the payments, including long term incentive payments which accounted for much of the package.

BOUQUETS

Bouquet to **ASIC** for commencing civil penalty proceedings in the Federal Court against Noumi Limited (NOU) (formerly Freedom Foods Group Limited (FNP)), its former managing director and CEO Rory Macleod and its former CFO Campbell Nicholas for alleged continuous disclosure failures, breaches of company director and officer duties, and false or misleading conduct.

Freedom Foods is alleged to have failed to disclose material information about the value of inventories in its financial reports for the full year ending 30 June 2019 and the half year ending 31 December 2019.

It is also alleged to have failed to disclose material information about its sales revenue, gross profit and profit after tax in its financial report for the half year ending 31 December 2019.

ASIC Deputy Chair Sarah Court said, 'Directors and officers have a fundamental responsibility to ensure that their organisations comply with the law. However, in this case ASIC alleges Freedom Foods' former CEO and CFO misled investors, auditors and directors, and allowed their company to breach continuous disclosure laws by failing to disclose a significant write-down, leading to an uninformed market.'

ASIC is seeking declarations of contravention, pecuniary penalties, disqualification orders and costs.

And another bouquet to ASIC (and the Commonwealth Director of Public Prosecutions) for the prosecution after an investigation by ASIC of the former CEO and CFO of Benjamin Hornigold Limited for a criminal offence. We are happy that the court will be examining the conduct of the Pirate LICs which we have previously flagged in EQUITY as they were suspended from trading on the ASX for prolonged periods.

Benjamin Hornigold, John Bridgeman and Henry Morgan Limited (in liquidation) were part of a funds management group of companies. All the names are Pirate names, Arrr!

Benjamin Hornigold and Henry Morgan were listed on the ASX as listed investment companies for which John Bridgeman was the investment manager.

Henry Morgan was suspended from trading on the ASX in June 2017, removed from the official list in February 2020 and wound up on 22 August 2022.

Benjamin Hornigold was suspended from trading on the ASX in July 2018. In June 2019, the board of Benjamin Hornigold resigned, including Mr McAuliffe, and a new board was appointed, with trading in the company's shares of Benjamin Hornigold resuming on 25 June 2020.

ASIC alleges that Mr McAuliffe and Mr Elderfield failed to act in the best interests of Benjamin Hornigold regarding payments made in June 2018, totalling $3.8 million, to John Bridgeman Limited, a related entity and investment manager for Benjamin Hornigold. Failing to act in the best interests of a corporation is an offence under s 184(1) of the Corporations Act.

ASIC also alleges that Mr McAuliffe caused misleading information to be provided to the Australian Securities Exchange in August 2018 about the payments. ASIC alleges that conduct was in contravention of s 1309 of the Corporations Act.

Members are welcome to send in their suggestions to equity@asa.asn.au. Comments included here do not necessarily reflect those of all members.

YOU'RE INVITED!

GALA DINNER & ASA AWARDS

Thursday 11th May | 6:00 PM - 10:00 PM | $150pp (Includes 3-course dinner & beverages)
Sheraton Grand Hyde Park Sydney

The 2023 Investor Conference in Sydney will mark the second running of the ASA Awards. While we're proud of how the awards were introduced, 2023's awards program will be more ambitious in scope than last year's inaugural season. Four awards will be presented:

- Monitor of the Year Award
- Enhanced Company Governance Award
- Most Effective Shareholder Communications
- Convenor of the Year Award

Attendees will enjoy guest speakers Marcus Padley and Adam Dawes as they entertain us with their frank views of markets, investing and current events.

GUEST SPEAKERS

Adam Dawes
Senior Investment Adviser,
Shaw and Partners

Marcus Padley
Founder, Marcus Today

SITE TOURS

Qube Site Tour
Wednesday 10 May 2023, 9.00am - 12.30pm

Qube is Australia's provider of integrated import and export logistics services, covering the complete supply chain from beginning to end.
Paul Lewis, Group Investor Relations and Sean Hovey, GM Supply Chain Solutions will accompany the delegates and provide an overview of Qube and the operations of the Moorebank Logistics Park.

9.00am: Depart Sheraton Grand Hyde Park Sydney
10.00am: Arrive at Qube
10.15am: Presentation by Qube in Boardroom
10.30am: Reboard the coach for tour of Qube
11.30am: Depart Qube
12.30pm: Arrive back at the hotel

Dresscode: Long trousers and closed-in shoes (no high heels).
Cost: $55.00 incl GST per person

Telstra Site Tour
Wednesday 10 May 2023, 12.00pm - 2.00pm

Hear from Telstra about the mobile technology trends of the future and a demonstration of advanced mobile technology capability from our 5G Innovation Centre.

We will share CEO Vicki Brady's keynote speech from Mobile World Congress earlier this year, a discussion, demonstration and Q&A session with our executives on technology & innovation.

11.30am: Depart Hotel
11.40am: Meet at Level 2 Sydney Customer Insights Centre (CIC).
12.00pm: Greeting by Investor Relations and executives.
2.00pm: Site tour finishes. Walk back to the hotel or free time.

Dresscode: Smart Casual
Cost: $30.00 incl GST per person
Lunch: Provided

2023 INVESTOR CONFERENCE
11 & 12 May 2023
SHERATON GRAND HYDE PARK SYDNEY

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