Investment report

31 December 2021

A positive end to an uncertain year

The December quarter ended on a positive note with a dose of optimism, despite another turbulent year.

We saw positive returns across all of Equip's diversified options for the three months ending 31 December 2021. Members invested in our default MySuper option saw a return of 2.3% for the quarter, taking the 1-year return to 12.2%.

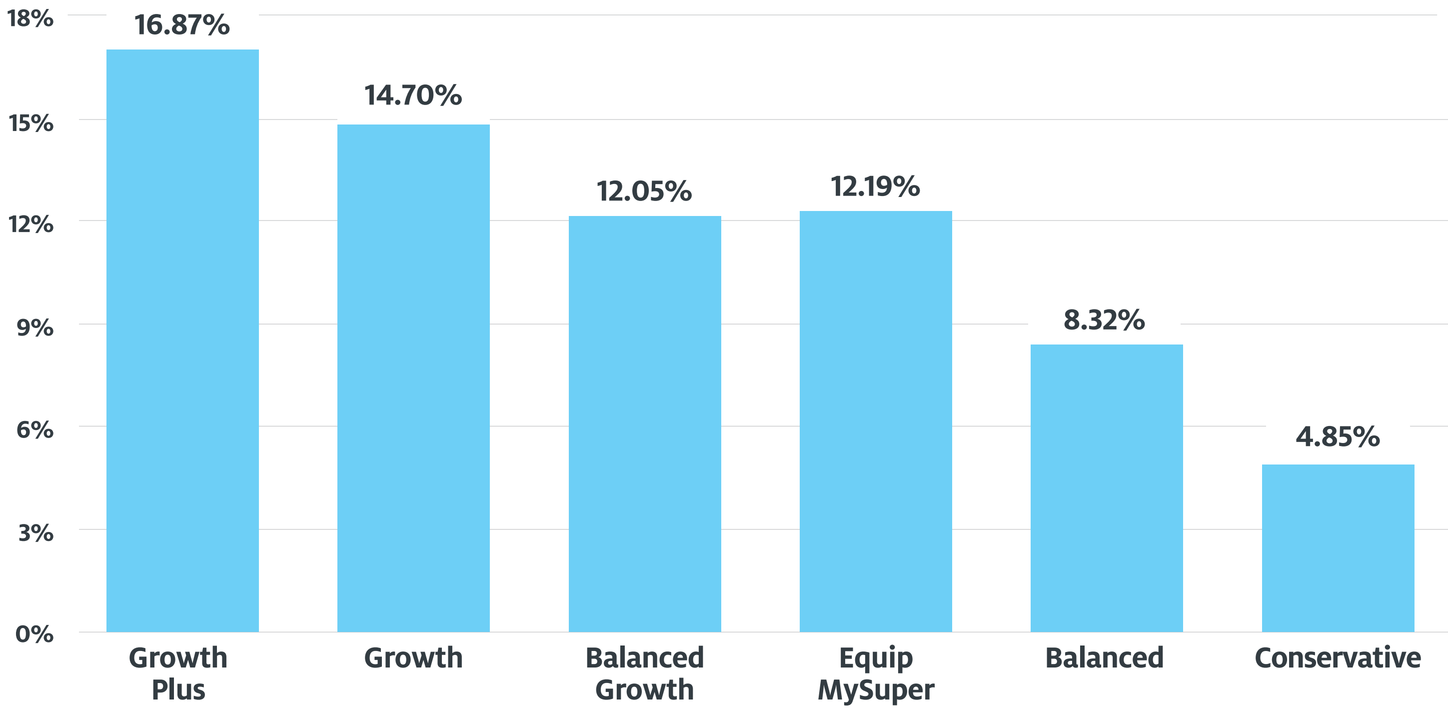
However, the standout return was our Property option, which returned 7.2% for the quarter and 19.3% for the previous 12 months.

Market review

The calendar year finished strongly for equity markets with the S&P ASX 200 Accumulation Index gaining 2% for the quarter and the MSCI World Index (ex Australia) up around 7%. These gains came despite growing concerns around building inflationary pressures, due to rebounding demand and supply bottlenecks. Inflation is now running at 7% in the US to be at its highest levels in 40 years. This was evident in the returns for a range of commodities, the standout being lumber which surged 83% during the quarter reflecting limited supply and a rebound in residential construction activity in the US.

Despite the ongoing gloominess, 2021 turned out to be a great year for share markets with the MSCI World Index (ex Australia) up a healthy 27%. Global markets have bounced strongly off the lows of March 2020 as successive rounds of fiscal stimulus and very low interest rates have enabled investors to look through the impact of rolling lock downs and supply shortages. However, as inflationary pressures build and the ultra-accommodative policy settings begin to turn, so too does the liquidity tailwind markets have enjoyed.

Diversified options 1-year returns (% p.a.) as at 31 December 2021



Super fair and square

We're a **profit-to-member** fund, so you can be confident **your future** is in good hands.

Outlook

After the initial pandemic panic in March 2020 the playbook for global markets has been relatively straightforward. Very low interest rates combined with gargantuan fiscal stimulus has allowed all markets to perform strongly. The policy positioning has been justified to dampen the impact of the greatest economic contraction we've seen since the Great Depression. A lack of inflationary pressures, having remained low since the financial crisis of 2008-9, has allowed central banks ample flexibility in this regard.

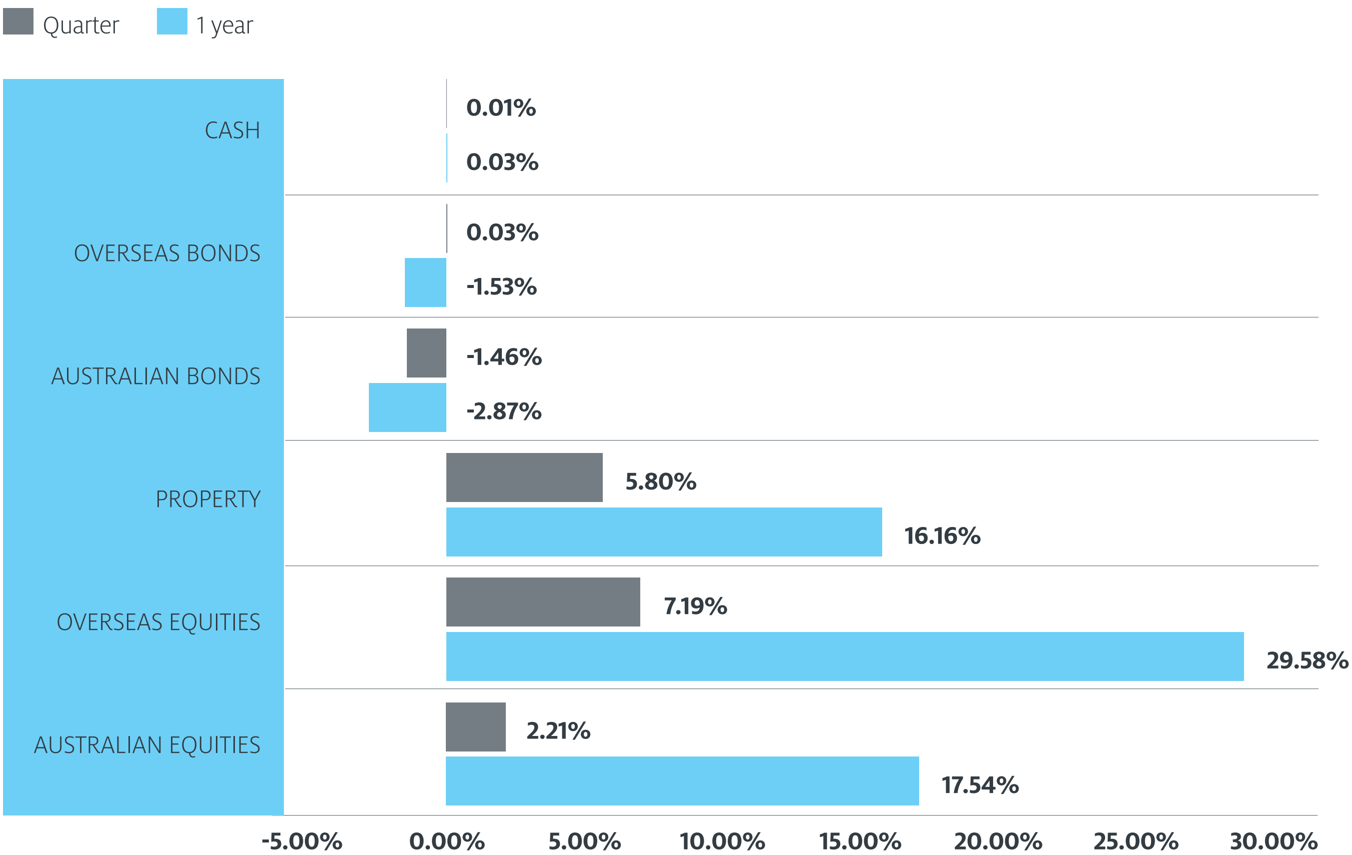
However, now two years on, the picture has changed markedly. Vaccines have enabled a partial reopening and excess savings built up via government support programs has seen a surge in demand through the year. Employment markets remain some way off pre-pandemic levels though, and business investment has plummeted given the uncertainty of continuous lock downs. Global supply chains have struggled to keep up, and as such whilst growth has recovered inflation has ballooned. Central banks having initially argued that these pressures were "transitory" are now pulling forward the withdrawal of stimulus. Interest rates have risen, the market now expecting four rate hikes in the US by the end of 2022, barely one was expected back in October. Further tightening is to come in 2023. Many emerging market central banks have already tightened.

In the face of the changing inflation narrative, share markets have so far remained mostly resilient. Under the hood, however, we've seen some violent swings out of sectors that are more sensitive to changes in interest rates. This includes many of the winners of last year such as the high-flying technology and health care sectors. The NASDAQ, home to many of these types of companies, is already down 10% and in official "correction" territory. Bitcoin is again proving its volatile nature losing 40% in a couple of months. Cheaper "value" stocks, having languished for years, are now enjoying a long overdue renaissance. For the time being financial markets will remain very sensitive to any confirmation, or not, of the higher inflation narrative. While share markets have so far digested the changes, we could expect volatility if more, or quicker, tightening is priced in.

However, on the positive side the ongoing recovery will see corporate earnings rise, which will ease expensive valuations. Also, whilst most of the world's central banks have indicated a tightening of policy ahead, China has moved to ease conditions given weak growth and troubles in their property sector. Should the inflationary pulse prove less concerning in coming months it will allow central banks more breathing space and a gentler path forward, which if it is forthcoming could see further upside in equity markets. Either way, share market returns are likely to be much lower than what we have enjoyed over recent years.

Index returns at 31 December 2021

The numbers shown below are the index returns of some of the major asset classes we invest in. These are not the returns we provide to our members with our investment options; rather, an index is a measure of the value of a section of a market and can be used to benchmark the performance of investors.



The asset class returns are represented by the following benchmarks: Australian equity: S&P ASX 300; Overseas equities: MSCI World ex-Australia Index (net divs), unhedged; Property: 80% Mercer Australian Unlisted Property Index and 20% FTSE EPRA/NAREIT Global Listed Index, hedged into AUD; Australian bonds: Bloomberg AusBond Composite Bond Index; Overseas bonds: Barclays Capital Global Aggregate (hedged, in AUD); Cash: Bloomberg AusBond 3-month Bank Bill Index.

Top 10 holdings at 30 September 2021

Australian Shares

BHP Group Limited
Commonwealth Bank of Australia
CSL Limited
National Australia Bank Limited
Australia and New Zealand Banking Group Limited
Macquarie Group Limited
Westpac Banking Corporation
QBE Insurance Group Limited
Telstra Corporation Limited
Newcrest Mining Limited

Overseas Shares

Alphabet Inc.
Apple Inc.
Amazon.com, Inc.
Taiwan Semiconductor Manufacturing Co., Ltd.
Microsoft Corporation
Samsung Electronics Co., Ltd.
Meta Platforms, Inc.
UnitedHealth Group Incorporated
GXO Logistics, Inc.
Tesla, Inc.

Investment performance as at 31 December 2021

Accumulation and transition to retirement pension returns (%)*

Diversified options	QUARTERLY	1 YR	3 YRS P.A.	5 YRS P.A.	10 YRS P.A.
Growth Plus	2.99	16.87	14.31	11.83	12.59
Growth	2.72	14.70	12.40	10.12	10.89
Balanced Growth	2.28	12.05	10.08	8.72	9.66
MySuper#	2.30	12.19	9.97	8.42	
Balanced	1.62	8.32	7.60	6.59	7.50
Conservative	0.88	4.85	5.22	4.60	5.56
Sector Specific options					
Australian Shares	2.49	17.15	12.68	9.30	10.49
Overseas Shares	3.08	16.79	18.53	15.14	14.96
Fixed Interest	-0.33	-1.08	2.50	2.49	3.58
Property	7.19	19.27	7.65	8.21	9.16
Sustainable Responsible Investment	2.14	13.82	10.33	8.47	9.89
Cash	0.02	0.08	0.66	1.05	1.72

Pension returns (%)*

Diversified options	QUARTERLY	1 YR	3 YRS P.A.	5 YRS P.A.	10 YRS P.A.
Growth Plus	3.25	18.55	15.61	13.06	13.68
Growth	3.05	16.41	13.62	11.22	11.91
Balanced Growth	2.54	13.38	10.74	9.42	10.40
Balanced	1.82	9.51	8.31	7.31	8.28
Conservative	1.01	5.43	5.74	5.10	6.09
Sector Specific options					
Australian Shares	2.97	19.92	14.21	10.40	11.44
Overseas Shares	3.37	18.32	20.11	16.56	16.58
Fixed Interest	-0.39	-1.25	2.80	2.77	4.03
Property	8.03	21.95	8.34	9.05	9.98
Sustainable Responsible Investment	2.57	15.99	11.29	9.35	11.33
Cash	0.03	0.09	0.77	1.23	2.02

Pension returns are generally higher than those for superannuation, as no tax is paid on earnings.

The Sustainable Responsible Investment (SRI) option is invested 100% in Australian equities.

For more information on the investment objectives and strategies for our investment options, please refer to the Equip website or an Equip PDS.

* For periods greater than 1 year, returns are compound annualised returns. Returns are net of tax and investment fees.

Equip MySuper was introduced on 1 August 2013.

Past performance is not an indicator of future performance.

Contact our Helpline **1800 682 626** | Visit our website **equipsuper.com.au**

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