Investment report

31 March 2022

Market volatility and uncertainty resulting from the situation in Ukraine and rising interest rates.

Over the past few months, we've seen fluctuations in the market due in part to the pressure on world economies from the war in Ukraine, and uncertainty around interest rates.

This has caused a decrease across all Equip diversified options for the three months ending 31 March 2022.

Australia continues however to exceed expectations as the recovery from the pandemic continues with positive signs around employment and wage growth expected over the coming year.

Market review

During the March quarter, concerns around geopolitical tensions in Ukraine permeated through markets. Coupled with this were inflationary pressures across energy and a broad range of commodities that saw inflation levels in the US reach the highest in around 40 years. Developed market shares delivered negative returns over the quarter. Stocks that had entered 2022 with significantly higher valuations were particularly vulnerable to volatility during the quarter.

Throughout January and February, tensions between Russia and Ukraine escalated. Following the invasion of Ukraine, a host of sanctions were imposed on Russia by western nations. As a significant exporter of energy and other products, these sanctions immediately effected energy costs and a range of commodities.

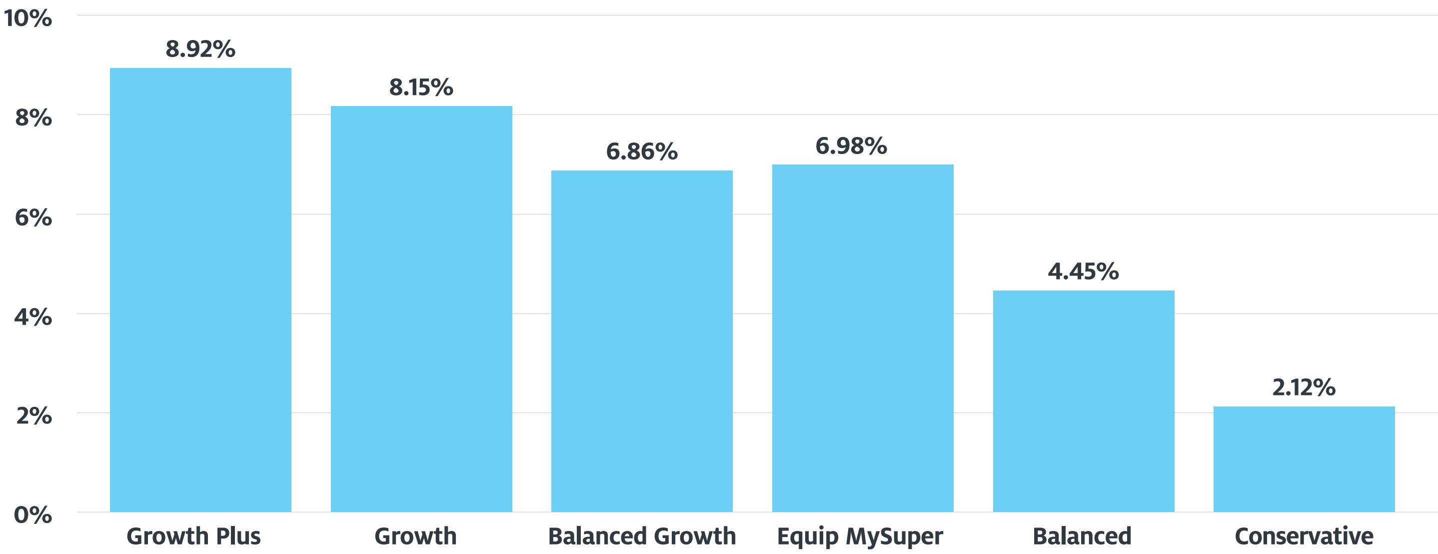
Despite a recovery during March, US equities finished the quarter down 5.2%, the MSCI World Index ex-Australia (hedged into AUD) returned -4.9% over the quarter. Emerging markets bared the full force of the sell-off, falling 10% in Australian dollar terms. January and February saw markets focussed primarily on geopolitics and inflation, along with the possibility of central bank interest rate rises, including from an increasingly hawkish US Federal Reserve.

In March, the Federal Reserve approved a 0.25% rate hike, the first interest rate rise since December 2018. Economic conditions have otherwise remained robust in the US.

In contrast to most developed markets, the Australian share market provided positive returns over the quarter, of around 2.2%. This was driven by the materials and energy sectors, which benefit most from the uplift in commodity prices. The RBA retained its current policy rate position although adopted a more hawkish tune. The Australian dollar has been a key beneficiary, rising 3.3% vs the US dollar during the quarter.

Rising inflation and interest rates have seen poor returns from bond markets. The Bloomberg AusBond Composite 0+yr Index returning -5.9% for the quarter, among the worst quarterly returns for Australian bonds on record.

Diversified options 1-year returns (%) as at 31 March 2022



Outlook

The path forward for investment strategy is becoming increasingly clouded. Now at its highest levels in decades, inflation is forcing central banks to push forward the timing and size of interest rate hikes this year. For example, at the time of writing markets are currently pricing a cash rate in the US of 2.7% by the end of 2022. Similar moves are expected in Australia.

The US Federal Reserve recently outlined further tightening measures via a reduction in their balance sheet holdings of financial assets, aka quantitative tightening. Having swelled from $4.2t pre pandemic to $8.9t currently, a decrease of up to $95b a month going forward is expected. This will tighten financial conditions further and result in more upward pressure on interest rates. The withdrawal of liquidity from the global economy, via higher interest rates and quantitative tightening, is likely to have spill-over effects on financial markets.

However, this also reflects an underlying economy performing above expectations, as the recovery from the pandemic continues. Employment outcomes have been very strong here in Australia and throughout most developed countries. With that, wages should begin to rise over the next year or so. Also, even if central banks tighten as expected policy will remain very accommodative by historical standards. Whilst the conflict in Ukraine has consequences for those caught in the crossfire, to date the impact on financial markets has been mostly contained to energy and agricultural commodity markets. Any resolution could see an easing of these pressures.

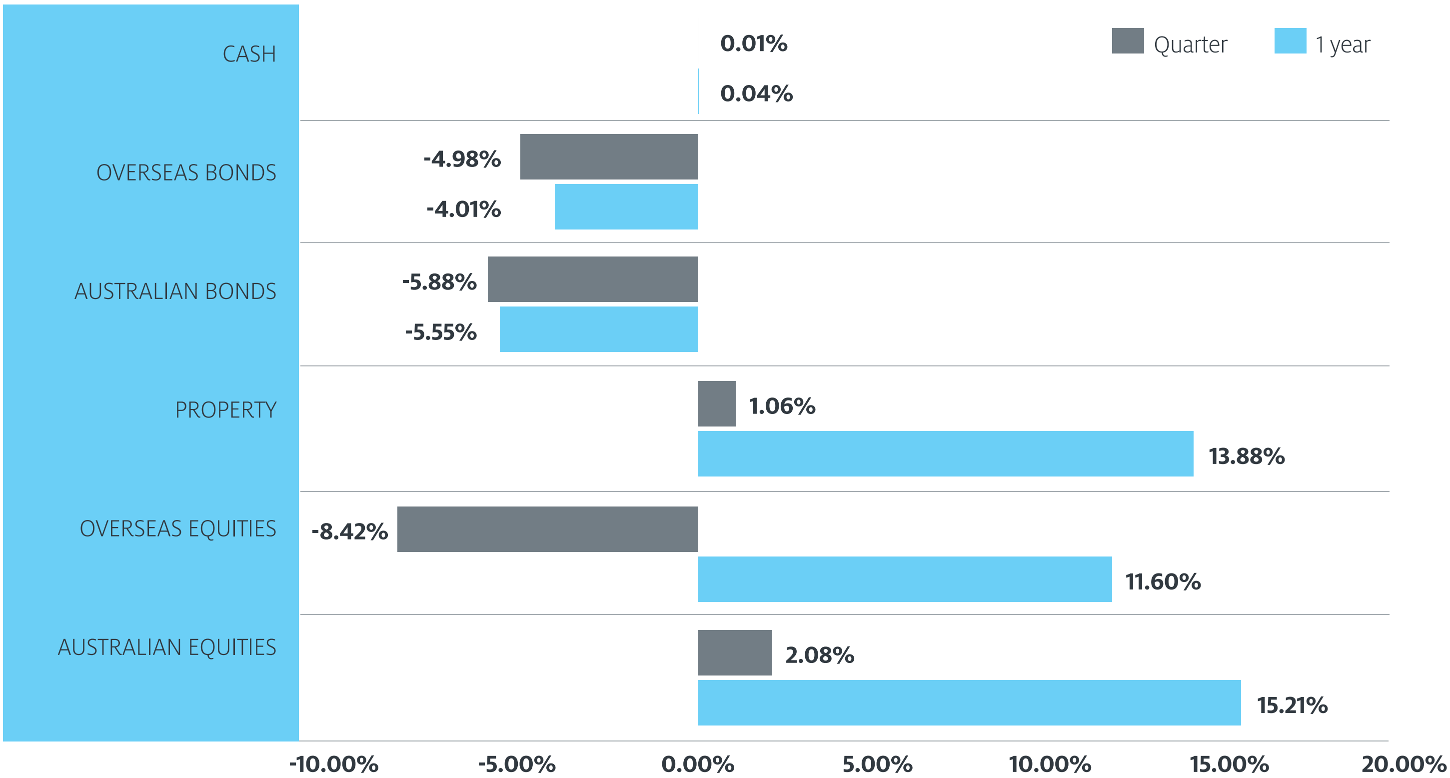
Developments in China, however, require close monitoring. Continued harsh lockdown measures via their "zero COVID" strategy has fueled supply chain blockages and global inflationary pressures. There also remains significant underlying imbalances within the economy, not least of which within the troubled property sector. Although, with elections scheduled for the second half of this year we should expect prudent management and additional stimulatory measures if required.

Key for share markets going forward will be expectations for earnings growth. Until recently markets had seemed reasonably comfortable with rising interest rates as the outlook for growth had remained relatively strong. This view is now being challenged. Echoing the change in sentiment, the IMF recently lowered its global growth forecast for this year down to 3.6%, some 1.3% lower than only six months ago. How central banks respond to any continued weakness will be critical. Managing inflationary pressures whilst nurturing continued economic recovery will be very difficult.

The multiple cross currents now facing investors necessitate a cautious but balanced view. In the face of uncertainty, maintaining a disciplined investment approach is paramount. Maintaining a robust portfolio for a wide array of outcomes in this environment becomes even more important. As is continued focus on longer-term strategies and outcomes.

Index returns at 31 March 2022

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 31 March 2022

Australian Shares

BHP	Woodside Petroleum
Commonwealth Bank of Australia	Santos
National Australia Bank	Macquarie Group Limited
CSL Limited	QBE Insurance
Australia and New Zealand Banking Group Limited	Westpac Banking Corportation

Overseas Shares

Alphabet	Samsung
Apple	Unitedhealth
Amazon	Tesla
Microsoft	Nvidia Corporation
Taiwan Semiconductor Manufacturing	Techtronic Industries

Investment performance as at 31 March 2022

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	-2.57	8.92	10.29	10.52	11.24
Growth	-2.11	8.15	9.12	9.03	9.90
Balanced Growth	-1.65	6.86	7.50	7.82	8.84
MySuper#	-1.68	6.98	7.41	7.56	
Balanced	-1.47	4.45	5.60	5.86	6.90
Conservative	-1.42	2.12	3.72	4.00	5.07
Sector Specific options					
Australian Shares	3.01	15.18	10.58	9.21	9.79
Overseas Shares	-9.46	1.12	10.91	12.13	12.78
Fixed Interest	-2.07	-2.22	1.23	1.80	3.25
Property	1.19	17.44	6.74	8.00	8.80
Sustainable Responsible Investment	5.68	13.19	8.48	8.91	9.47
Cash	0.02	0.08	0.50	0.97	1.63

Pension returns (%)*

Diversified options	QUARTERLY	1 YR	3 YRS P.A.	5 YRS P.A.	10 YRS P.A.
Growth Plus	-2.77	9.73	11.18	11.58	12.26
Growth	-2.25	9.11	9.97	9.99	10.77
Balanced Growth	-1.78	7.59	7.93	8.39	9.47
Balanced	-1.64	5.12	6.09	6.46	7.60
Conservative	-1.58	2.36	4.12	4.42	5.55
Sector Specific options					
Australian Shares	3.45	17.75	11.85	10.22	10.67
Overseas Shares	-10.08	1.37	11.80	13.31	14.09
Fixed Interest	-2.42	-2.60	1.40	2.01	3.64
Property	1.42	19.99	7.32	8.85	9.57
Sustainable Responsible Investment	6.56	15.27	9.18	9.87	10.70
Cash	0.03	0.10	0.59	1.14	1.91

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 Product Disclosure Statement.

* 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.

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