GDA

Your Private Wealth Specialists

SPRING 2021

INSIDE THIS ISSUE

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JF

John Fairlie,
Chair, GDA Group

CHAIRMAN'S VIEW

It is the time of the year where the days are getting longer and a little warmer, day light saving is with us and there is a little light at the end of the Covid tunnel, although I am sure that it will be with us for a very long time to come and unfortunately there will be some that will succumb to it, but for most life will go on.

One of our directors is fond of saying to me that he is optimistic and always views the "glass as half full". My response to him is along the lines of "I also have an optimistic view, or I would not be in business, but it is the realistic view that you need to factor in. It is that component that plays an important role in protecting our clients' interests and allows GDA to continue to grow".

There are many exciting things happening in the world, a lot of it driven by technology, change is coming quicker than most people realise. If you haven't noticed it, it is worth a look at the SpaceX website. Recently they launched "Dragon", a fully automated spaceship that took four ordinary people (not astronauts) into space for three days. They reached as high as 590 kilometres above the earth, which is well above the space station, before safely returning. They raised over $200M for St. Jude Children's Research Hospital. You might like to have a look at the plans for "Starship". Starship will sit on top of a Super Heavy Rocket. It represents a fully reusable transportation system designed to carry both crew and cargo to orbit Earth, the Moon, Mars and beyond, and is designed to carry 100 passengers and more than 100 metric tons to earth orbit. The aim in 2023 is to do a flyby of the moon on a weeklong journey, with civilian passengers. Then to put people on the moon, something that has not happened since 1972. The goal is to go to Mars, the future is coming very quickly.

Then there is the other side, peoples lack of knowledge, or in many instances lack of interest. I recently watched some very interesting interviews with what looked to be middle class 20 – 30 year-olds in London and the US. The questions included how many continents there are, where countries are located, what are the capital cities of various countries, who bombed Pearl Harbour- that was interesting as answers included Al Qaeda and the US, in fact anyone other than Japan. If you asked about businesses and multi nationals that have failed, I think that would be too much for them, the ignorance of many, but not all young professionals is astonishing. If you don't know history, you cannot see the problem coming down the line. I have asked many questions of many young professionals and non-professionals for that matter, the answers and total lack of knowledge no longer shock me, it is why before we employ any person, we put them through a range of tests.

Here is a direct quote from Joel Fitzgibbon as he prepares to exit Federal Parliament after more than 25 years as a Labour MP. It is from an article written by Troy Bramston in "The Australian". "The Party I joined in 1984 was full of blue- collar workers, trade unionists, with a laser like focus on jobs and lifting people to a higher economic plane," he says, "The typical party branch today is full of progressives who want to spend all of their time talking about climate change or gender equity rather than the things that really matter to people". It is my personal view that you could take that and apply it to any number of State Governments and the opposition parties and councils around Australia.

Upsides are fabulous but the downsides are worth considering. There is a headlong rush by governments towards electrification of transport, cars, busses, trucks and even aircraft. It reminds me of the other headlong rush designed to save the planet, the promotion of personal diesel vehicles, that has worked out well, I don't think. These diesel vehicles are now in the process of being banned in many countries. Not that I mind, but for those ready to stick a label on me, I would point out that I drive a hybrid which for most of our day-to-day use is electric. Would I trust it to do the mileage the manufacture says? Based on experience, not for a minute. It is quite illustrative to read some of the manufacture's own comments on EVs on their website, don't park it in the sun, don't park it in the cold and don't fully charge the battery as all these things reduce the life and efficiency of the battery, go figure.

Depending on what research you might look at there are some potential environmental problems coming with electric vehicles. Personally, I think the future will be a combination of hydrogen and electric. Many manufacturers are working with hydrogen, a recent breakthrough by a major car manufacturer halved the size and weight of a hydrogen engine and doubled the power output. In September, Air New Zealand and Airbus signed an initial agreement to study the viability of hydrogen powered aircraft.

The future will be exciting and difficult to predict, but we will see, hopefully!

John Fairlie, Chairman

PRIVATE WEALTH

MD

Michael Driessen,
Senior Financial Planner

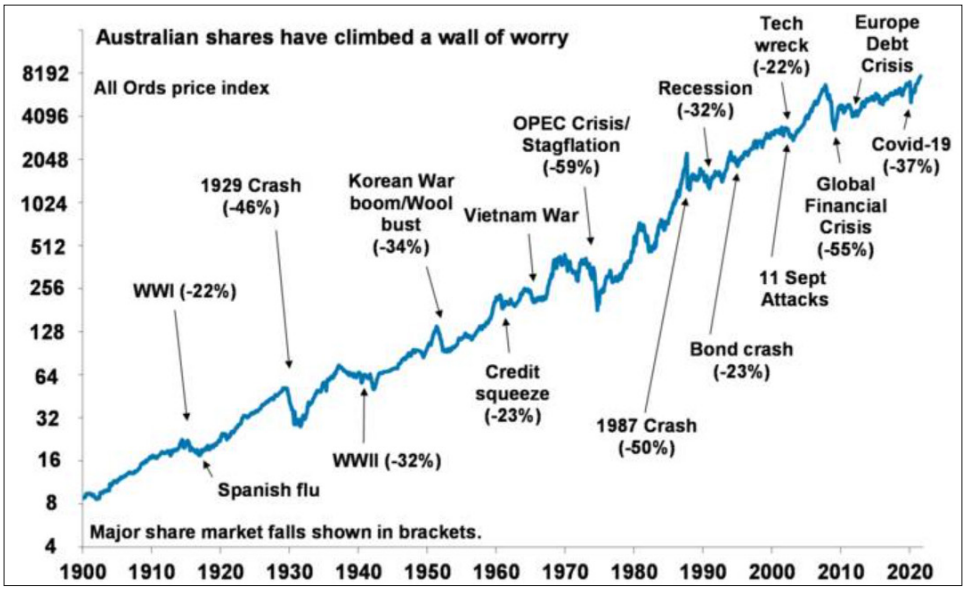
AUSTRALIAN EQUITIES - be aware, but not alarmed

The ASX 200 has rebounded strongly following the COVID crash in March 2020 and peaked at 7,628 points on the 13th August 2021.

At its recent meeting, the GDA Investment Committee noted the Purvis Barr Investment Market Condition Report, which indicated that the Australian equity market was trading at 94% of its assessed long-term fair value. This report also stated that 'there may be some short term sell offs, perhaps falling by as much as 15%'.

Shares may still have more downside, as it will take a while to resolve some of the economic issues.

Damien Oliver, AMP



Source: ASX, AMP Capital

Since its recent peak we have seen the ASX 200 recede by approximately 6%.

A report from AMP Capital's Oliver's Insights on 22 September 2021 suggested that 'Shares may still have more downside, as it will take a while to resolve some of the economic issues'.

With Victoria and New South Wales accounting for approximately 55% of Australia's Gross Domestic Product (GDP), it raises concerns that the Australian equity market continues its positive trajectory despite the limitations on the two powerhouses of the Australian economy.

More money has been lost trying to anticipate and protect from corrections, than actually in them.

Peter Lynch, US Fund Manager

It is our view that there is a risk that the Australian equities market may witness a market correction in the short term in the vacinity of 15%. In these circumstances, we advise clients to be aware, but not alarmed. Our reasoning is that historically the sharemarket has demonstrated it recovers within a relatively short time, relative to the longer term over which investment strategies are maintained.

Market corrections are normal and healthy for an efficient market. Whilst we acknowledge a correction may occur, it is important to not be overreactive or fearful. In fact, we do not recommend clients adjust their portfolio but rather stay fully invested. A quote from Peter Lynch, one of the most successful US fund managers of the 20th century, comes to mind 'More money has been lost trying to anticipate and protect from corrections, than actually in them'.

Michael Driessen, Senior Financial Planner

GUARDIANSHIP

We often talk about having a valid Will and an Enduring Power of Attorney. More recently we have added Enduring Guardianship as a document that clients should arrange to provide guidance on your health preferences.

A Will handles your estate matters following death, whilst a Power of Attorney ensures a trusted individual has authority to deal with your financial matters. However, neither of these documents adequately details and provides instruction on your personal and medical preferences.

As part of our teams' continuing professional development, we recently had a local lawyer present to us on matters regarding estate planning. A distinct point of difference identified during this session was the role of an Enduring Guardianship.

We are not lawyers, but recognise the value a Guardianship document would provide to your family and recommend you discuss establishing an Enduring Guardianship with your lawyer.

Enduring Guardianship:

An Enduring Guardianship is a legal document in which you ('the appointor') appoint another person ('the guardian') to make personal and medical decisions for you.

An Enduring Guardianship authorises your guardian to make these decisions for you if you are no longer able to make them for yourself. It will come into effect if you lose that ability. This could be due to an accident, illness or disability, such as dementia.

Source: Legal Aid Tasmania

GDA

Your Private Wealth Specialists

MARKETS

JP

James Purvis,
Actuary, Purvis Barr & Associates

KEY ISSUES

Covid continues to disrupt

While vaccination rates in most developed countries are approaching levels that will protect their health systems, the low vaccination rates in less developed countries, or emerging markets, continues to disrupt supply chains. Manufacturing and other industries are still very globalised so that the disruption to supply chains is having significant impacts. These include shortages of key components as well as accelerating costs. Within the USA and European Union, there are signs that inflation will rise further and persist longer.

Australia is about to see if opening up, particularly post-December, will spur the economy to another rebound. The IMF has reduced its forecast for Australian real GDP growth from 5.9% to 3.5% for 2021 but has increased its forecast for 2022 from 3.0% to 4.1%. In effect, it is forecasting a delay in the recovery. The IMF is also forecasting real growth in global GDP of 5.9% in 2022. It has commented that the supply chain issues due to Covid are a significant risk factor.

Gita Gopinath, the chief economist of the IMF referred to the risk of heavy price falls in developed market residential real estate over the next three years as an additional risk factor. The IMF is forecasting a potential 14% drop over the next three years. Gopinath commented that "policymakers are confronted with a challenging trade-off of maintaining near term support for the global recovery while preventing unintended consequences and medium-term financial stability risks" and that "the risks to the IMF inflation outlook appear to be skewed to the upside".

On balance we think that this background favours a fragile stop-start scenario.

Inflation

Inflation has picked up in both European Union and the USA and the question is whether this is a temporary phenomenon caused by supply chain problems or whether it will build into expectations and become more persistent via increases in wage rates. Our view is that inflation above 3% per annum may well persist for the next year or two while supply chain issues are being resolved but will not get outside of the control of the central banks which still remember the hard lessons of the period from 1975 to 1995. It is likely that over this period the central banks will refrain from pre-emptively increasing interest rates in order to choke off inflation. If it turns out that we and they are wrong about the subsidence of inflation within a few years, then they will act more aggressively and push interest rates up more firmly from 2023 onwards.

Mistakes by policymakers

There is plenty of scope for policymakers to make mistakes. We see this as the least of our worries about policymaker mistakes. More importantly, there is scope for policymakers in both the USA and China to make significant mistakes with fiscal and other policy areas.

There are four main engines driving the world economy: the USA, the Peoples Republic of China, the European Union, and Japan. The two main engines: the USA and the PRC are both being driven by what we have previously referred to as old men in a hurry. Both want to effect significant policy change within their domestic settings. Both have challenges to overcome in effectively making these changes.

In the USA the fractured nature of the legislature the Congress will very likely mean that the fiscal policy adopted including infrastructure spending will become a very piecemeal program with less effective stimulus than anticipated by markets. Disappointment will lead to short-term selloffs in equities which will be recovered within subsequent six-to-twelve-month periods.

In China, the leadership has fewer concerns about opposition from either a legislature or the media. Their challenge is that they are attempting to decarbonize the economy while maintaining energy supplies to important industries and cities and also trying to deflate a major real estate bubble. It may be that not all of this can be done at the same time. In addition, the policy of community prosperity will cause ongoing instability in both the equity and bond markets.

The two main engines: the USA and the PRC are both being driven by what we have previously referred to as old men in a hurry.

James Purvis, Actuary

TAX MATTERS

HC

Helen Cowhan,
Senior Accountant

RETIREMENT INCOME

On 27th September this year Treasury released 'Exposure Draft – Treasury Laws Amendment Bill 2021: Retirement Income Covenant'

This draft legislation will codify an obligation for superannuation fund Trustees to provide a Retirement Income Strategy outlining how they intend to assist their members in retirement and consider how they will balance maximising retirement income, management of risk and ensure flexible access to savings. This legislation is intended to take effect from 1 July 2022.

While not a formal requirement... it would still be prudent for Trustees of SMSFs to consider

What does this mean for SMSF Trustees? Initially SMSF Trustee's would have been required to comply with this new legislation however following feedback from SMSF representative bodies the Government has decided to remove SMSFs from this formal requirement.

While not a formal requirement for an SMSF industry experts have indicated that it would still be prudent for trustees of SMSFs to consider these factors while formulating their Fund's strategy, just because it is not required doesn't mean it cannot be beneficial for a fund and its members.

VALUATION OF FUND ASSETS

The ATO has recently updated its 'Valuation Guidelines for Self-Managed Super Funds'.

While the changes made seem inconsequential it is the inclusion of the word 'all' in the sentence that could be cause for concern. It indicates that the valuation must take into account all relevant factors and considerations likely to affect the value of the asset that may impact on trustee valuation determinations. Unless the trustees are an expert on the particular class of asset then it is unlikely that they will have access to all relevant and up to date information that will impact the asset and may not even be aware of some factors influencing the valuation.

With these new guidelines in place it is expected that Auditors of SMSFs will be requesting more formal valuations from professionals in the field.

Helen Cowhan, Senior Accountant

GDA Diversified Property Trust

MP

Malcolm Penglase,
Director, GDA Securities

Noosa Outlook Shopping Centre
Tewantin, Queensland

TRUST NEWS

September 2021 saw settlement complete on the latest purchase within the Trust, the Noosa Outlook Shopping Centre in Tewantin, Queensland. The centre is anchored by an IGA Supermarket and a further 10 fully leased tenancies.

We also embarked on a capital raise for a property in South Australia. During the due diligence process, we identified aspects that we were not comfortable with. Specifically, in our view, income was unlikely to grow for some years which, when combined with the likely increase in outgoings, would not enhance the Trust's performance. In the end, the final decision always comes down to, "is it beneficial to the Trust and its Investors?". We are continually undertaking due diligence on properties we believe may benefit the Trust and as such we would expect to see further acquisitions in the near future.

The Trust has also entered into a works agreement with the current tenant of 579 South Road, Regency Park SA. This will result in a new 3 year lease commencing on the completion of these works.

PERFORMANCE

The Trust has continued to perform strongly, and generated a total return of 15.26% over the last 12 months to 30 September 2021.

Pleasingly, distributions have been maintained at 6.35 cents per unit per annum resulting in actual distribution return of 6.04% per annum paid quarterly as at 30 September 2021. The current unit price is $1.0509.

The Trust's annualised performance for the last 10 years is summarised in the table below.

Performance[1]	GDA Diversified Property Trust					
	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
Distribution	6.73%	6.44%	6.51%	6.97%	7.40%	7.23%
Growth	8.53%	4.58%	4.48%	6.40%	5.53%	3.17%
Total Return	15.26%	11.02%	10.99%	13.37%	12.93%	10.40%

1. Based on actual distribution of 6.35 cents per annum per unit and a current unit price of $1.0509 as at 30 September 2021. Distributions for future quarters may vary. Performance data for the periods longer than one year have been annualised. Past performance is not a reliable indicator of future performance.

OPEN FOR INVESTMENT

The GDA Diversified Property Trust is open for investment. Recent investments into the Trust have come from both new and existing investors. These investments come from various entities including individuals, SMSFs and trusts.

For more information contact your financial advisor or call us directly on (03) 6234 4413 or alternatively you can access a copy of the PDS on our website at www.gdagroup.com.au/the-fund/.

QR CODES

A QR code is a type of matrix barcode invented in 1994 by the Japanese automotive company Denso Wave (part of the Toyota family). It was created to improve the manufacturing process of vehicles and parts (https://en.wikipedia.org/wiki/QR_code).

What does "QR" stand for? Quick Response.

In no small part thanks to COVID 19 and the check in system, we all know how to use them.

Here's ours.

You may have seen it in our advertisements for the GDA Diversified Property Trust in The Mercury, The Examiner, RACT Journeys Magazine, The Australian or the Courier Mail in Brisbane.

Scanning the code takes you to the Trust's webpage and all current information regarding the Trust.