INVESTOR UPDATE

JULY 2020

KEEPING UP WITH YOUR INVESTMENTS | MARKET AND PERFORMANCE UPDATE | INVESTING IN UNCERTAIN TIMES

WELCOME TO YOUR 2020 INVESTOR UPDATE

A MESSAGE FROM RENATO MOTA, CHIEF EXECUTIVE OFFICER, IOOF

As you may already know, on 31 January 2020, IOOF acquired ANZ's Pensions and Investments (P&I) business and ANZ OneAnswer is now managed by IOOF, one of Australia's leading wealth management organisations.

Despite the upheaval to everyone's lives caused by the COVID-19 crisis, we're progressing well with smoothly integrating OneAnswer into the IOOF business with minimal disruption to the services we provide to you as a valued client. We're also ensuring your investments continue to be well managed and you have access to all the tools, support and financial advice you need to achieve your financial goals.

Who is IOOF?

At IOOF, we've been helping Australians secure their financial independence for over 170 years. We are an ASX-listed top 200 company with $195 billion in funds under management, administration and advice and we currently provide financial advice, products and services to more than 750,000 clients around Australia.

As CEO, I'm committed to helping IOOF to continue to evolve so we can realise our vision to be Australia's leading advice-led wealth management business. This will be achieved by helping more Australians get the financial advice they need to help them reach their financial and lifestyle goals. Our purpose is to understand our clients' needs, look after them and secure their future. This means we treat you, our clients, with empathy and understanding, we do what we say we'll do and strive to exceed your expectations. Essentially, we put your needs at the centre of everything we do.

An unusual and challenging year for investment markets

When markets fall sharply it can be nerve-wracking. What's important in times like these is having confidence in the ability of the people who manage your investments. At IOOF, your investments are managed by a team of experienced professionals, who have deep knowledge and expertise in managing investments across a wide range of asset classes and market environments. The team carefully follow a disciplined investment process to help you to grow and protect your investments and also maintain appropriate levels of liquidity. This is especially important if you are a super member as it ensures you can access your super when you're eligible to.

It's important to remember your long-term investment goals when there is shorter-term market volatility. Making snap decisions to switch to lower risk but also lower return investments can be an inappropriate decision for the growth of your investments over the long term. In volatile times like these, a financial adviser can help you decide what your best options are.

Special Government assistance related to COVID-19

To ease the financial impact of COVID-19, the Government has launched many temporary financial initiatives, including early release of superannuation due to the impact of COVID-19, reductions in minimum drawdown amounts for pensions and other initiatives aimed to help people and businesses. If you've been negatively affected by COVID-19 and need support or assistance, please contact us.

Be confident in your financial future

In this Investor Update, we explain some of the simple steps you can take to keep on top of your investments and take control of your financial future. But sometimes this might not be enough to give you peace of mind. If that's the situation for you, then I urge you to consider speaking with a financial adviser. They can help you create a financial plan and make decisions about your investments and the options available to you.

On behalf of IOOF, thank you for your ongoing support.

Regards,

Renato Mota
Chief Executive Officer
IOOF Holdings Ltd

KEEPING UP WITH YOUR INVESTMENTS

BRIDGE THE KNOWLEDGE GAP AND KEEP UP TO DATE WITH YOUR PORTFOLIO

Investments are like a living thing – they require attention and nurturing.

Whether you are invested for today, tomorrow or a rainy day, it's important to stay on top of how your money is invested and how it's performing. Here are some simple actions you can take now to keep up.

READ YOUR ANNUAL STATEMENT

Your regular statements aren't just for doing your taxes. They give you a summary of how your investments have performed through the year, how much you've contributed and the fees you're paying. If you have any questions regarding your statement, contact your financial adviser.

GET ONLINE

You don't need to wait for a statement in the mail. You can stay up to date with your OneAnswer investments and their performance online anytime, through ANZ Investor Access. Log in or register for access by going to **anz.com/investoraccess**

UNDERSTAND THE FEES YOU PAY

Like all managed investments, to invest through OneAnswer, you are charged fees. These fees may be deducted from your account, the returns on your investments, or your managed investments as a whole. It's important that you understand and feel comfortable with the fees you're paying. All these fees are reflected in your regular statements. Check the Product Disclosure Statement relevant to your product, to be clear on the fees you pay.

GET ADVICE

Make sure you're getting regular financial advice. Over time, your needs may shift depending on the financial climate or your personal circumstances. A financial adviser can ensure your investment strategy continues to meet your needs, taking into consideration your risk tolerance, time horizon and the economy. This is especially important in challenging economic times or if your circumstances have changed.

MARKET AND PERFORMANCE UPDATE

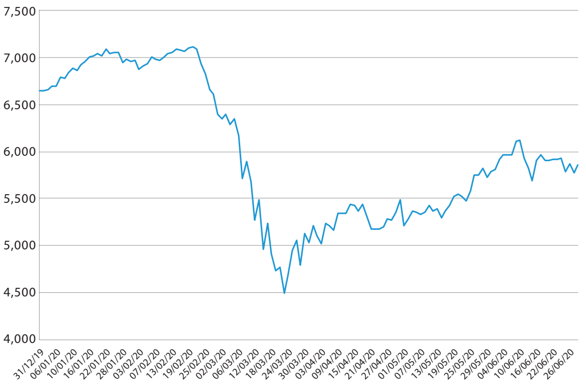
INITIAL PANDEMIC FEARS EASE BUT RISKS REMAIN

The COVID-19 health crisis is, first and foremost, a human tragedy but lockdown and isolation measures designed to control the spread have had destructive economic consequences at home and abroad. The negative effect on share markets has been swift and substantial. Large share market falls across most regions were seen in March, as supply chains were disrupted, and business activity was restricted to try and contain the pandemic. Shutdown measures squeezed companies' turnover and profits, and damaged consumer confidence.

There's no doubt that some 10 years out from the Global Financial Crisis (GFC) we are again confronting a deep recession. Governments and central banks have reacted swiftly with enormous fiscal and monetary responses. These response measures, along with some considerable success in flattening infection curves, have seen share markets in most major countries claw back some of their significant losses in recent months, albeit with a 'see-saw' like progress.

The US Share Market (S&P 500)

The Australian Share Market (ASX 300)



These graphs show the performance of the S&P 500 Price Index and ASX 300 Price Index from 1 January 2020 to 30 June 2020.

US technology stocks such as Apple, Google, Microsoft, Facebook and Amazon, have remained strong through the share market correction, reinforcing the trend of significant outperformance over recent years. By late May, the S&P 500 (the stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the US) had bounced by around 33%[1] since the late March 2020 low, while Chinese equities, that also have some large technology exposures, were up a still solid 13%[1]. The promise by the US Federal Reserve (the Fed) to maintain low interest rates for a number of years and possibly buy corporate bonds is also boosting confidence. It's all fairly positive news, and economies are now starting to re-open.

The 'r' word

In Australia, the shutdown response to COVID-19 seems to have been successful on the whole with the health outcomes much better than initially feared. In addition, the fiscal response has been material. That said, economic data has shown that Australia may enter a technical recession (defined as two quarters in a row of economic contraction as measured by Gross Domestic Product (GDP) which is the market value of all the final goods and services a country makes in a year).

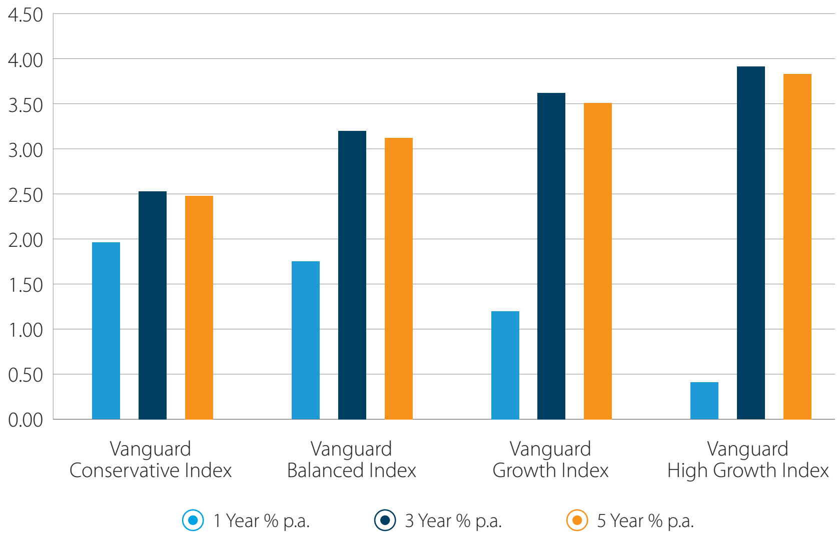
While 'recession' may sound alarming, it's important to remember the last time this happened in Australia was back in 1991 with a banking crisis induced recession that took many years to heal. The current recession is very different and more akin to a large natural disaster than a banking crisis. When compared with most other economies Australia has modest public debt which positions us well to recover from the crisis.

1 Indexes used – S&P 500 and MSCI China, 23 March 2020 to 28 May 2020.

VANGUARD DIVERSIFIED FUNDS HOLD UP DURING CHALLENGING MARKET CONDITIONS*

Markets have continued to fluctuate due to uncertainty about the economic impacts of the COVID-19 (coronavirus) pandemic. In this challenging environment investment values have swung sharply, with significant losses in March followed by strong rebounds during April and May. If we take the suite of Vanguard diversified funds available through OneAnswer as an example, we can see that performance returns over one year for diversified funds with a higher allocation to shares have been impacted, while the more defensive funds have been resilient.

ANZ OneAnswer Personal Super Returns



* The performance information provided above is for ANZ OneAnswer Personal Super Nil Entry Fee option to 31 May 2020. Past performance is not indicative of future performance. The future value of investments may rise and fall with changes in the market. Returns quoted use the unit price which is calculated using the asset values for the relevant month end. Please note that all returns are after the deduction of management fees, expenses, indirect costs and taxes where applicable and assume all distributions are reinvested.

The reason for the weaker performance in the growth and high growth funds over the one-year timeframe was their higher allocation to 'growth assets', such as shares, which were hit hardest by the market downturn that resulted from the lockdown measures put in place to control the COVID-19 pandemic.

When markets fall, growth assets tend to be worst hit. However, it's also the case that growth assets have been the biggest beneficiaries of the significant market rally we've seen over the past decade, as demonstrated by the strong returns over three and five years. A higher allocation to growth assets tends to deliver higher returns in the longer term.

The balanced and conservative index funds have seen less impact to their performance over the one-year timeframe as they have less exposure to growth assets This has offered a degree of protection to these portfolios during the down market caused by the COVID-19 pandemic.

To view your investment mix and check on the latest performance of your portfolio, log in to your account or register for access by going to **anz.com/investoraccess**

Performance returns over one year for diversified funds with a higher allocation to shares have been impacted, while the more defensive funds have been resilient.

All Vanguard diversified fund returns were positive for the one-year period **(1 June 2019 to 31 May 2020)**, ranging from

1.96%

for the Conservative Index fund to

0.41%

for the High Growth Index fund.

Further, the longer term performance was solid at

2.48%

for the Conservative Index fund for the five-year period and

3.83%

for the High Growth Index fund for the same period.

What may be ahead?

While the share market has been buoyed by the promise of additional fiscal support and the fact that an orderly return to work is already beginning to happen, we're not 'out of the woods' just yet. Three key risks remain, leaving the market vulnerable to possible setbacks:

1 A SECOND WAVE

The global daily COVID-19 case count remains stubbornly high and trends are also up in emerging countries such as Brazil, India, Bangladesh, Indonesia and Saudi Arabia. In the US the infection rate has continued to rise, most likely because reopening started before a sharp downtrend in new cases.

2 ECONOMIC DAMAGE

If countries need to delay reopening efforts to slow an escalation of infections, bankruptcies may surge, and unemployment could go even higher. That said, governments and central banks are still applying fiscal and monetary support in meaningful amounts which should support to avoid intensifying the economic impacts of the pandemic.

3 ESCALATION OF US-CHINA TENSIONS

Tensions between the global superpowers have continued to rise on the back of a swathe of issues, backdropped by the World Health Organisation's agreement to run a COVID-19 inquiry. China's move to introduce a controversial security law in Hong Kong has also added to frictions. US technology shares could be vulnerable to Chinese retaliation because of their high dependence on China as both a manufacturing hub and a large source of revenue. And with an election nearing, US/China tensions may escalate further posing even more risks for markets.

Investing in uncertain times

While there are clearly some key risks at play, markets have proven time and again that they have the ability to recover from significant downturns over the longer term and we should expect a solid recovery to unfold through the latter half of this year.

"COVID-19 has caused considerable disruption to society as a whole and markets have been extremely volatile during the first few months of 2020. We have maintained our disciplined investment process during this time and our decisions have been strategic, designed to deliver to the longer-term goals of our clients, rather than responding to shorter-term market noise" said OnePath Portfolio Manager, Liam Wilson.

In today's complex and ever-changing world, making sound financial decisions isn't always easy. Expert guidance can help you achieve your financial goals so speak to your financial adviser if you're feeling concerned about your strategy.

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INVESTING IN UNCERTAIN TIMES

Since the beginning of 2020, we have seen some tumultuous times in the markets, in Australia and internationally.

There has been extraordinary disruption to economies and societies, at home and abroad, and the effect on share markets has been substantial. At times like these it can be easy to make knee-jerk decisions, but rash short-term thinking can often be counterproductive. While investing in uncertain times can be daunting, remembering a few key things can be a salve for frayed nerves.

Fear isn't a strategy

Seeing your investments go into the red is never a pleasant feeling. When markets fluctuate, fear often ensues, and cutting your losses and moving your holdings into cash may be tempting. However, it will also mean crystallising your losses and that you miss out on gains when the market starts to recover again. You could also incur transaction fees by moving your money.

Investing is a long game: keep your eye on the prize

History has shown time and again that share markets tend to recover from significant market events and deliver returns in the long term. Reminding yourself of your long-term goals can be a good way to counter the sense of panic shorter-term market volatility may generate around your personal finances and investments. Legendary investor, Warren Buffett is well known for his investment philosophy and strategy of holding the course when markets fall – one of his famous quotes is "our favourite holding period is forever".

A robust, diversified portfolio usually wins long term

Different asset classes produce different returns, at different times, often depending on the different 'peak and trough' phases of the economic cycle. A diversified investment strategy is often the surest way to grow the value of your portfolio over the long term. You can also further diversify across fund managers and investment styles, so your portfolio is less vulnerable to a falling market – different investment styles usually perform differently throughout the market cycle. The below table shows how each asset class has performed for each of the past 10 financial years. The best and worst performers each year are highlighted.

Key asset class performance

Highest performing asset class   Lowest performing asset class

Financial Year	Australian shares	Int'l shares	Int'l property	Aust. fixed interest	Int'l fixed interest	Cash
2011	11.90%	26.72%	34.29%	5.55%	6.93%	4.98%
2012	-7.01%	0.43%	7.24%	12.41%	11.58%	4.70%
2013	21.90%	24.57%	14.11%	2.78%	4.59%	3.28%
2014	17.25%	24.63%	16.24%	6.09%	7.76%	2.68%
2015	5.61%	10.94%	8.02%	5.63%	5.62%	2.60%
2016	0.87%	-1.42%	18.27%	7.02%	9.34%	2.24%
2017	13.82%	20.54%	-0.12%	0.25%	0.47%	1.82%
2018	13.24%	11.48%	5.47%	3.09%	1.85%	1.78%
2019	11.42%	6.22%	7.63%	9.57%	7.23%	1.97%
2020	-7.61%	1.30%	-16.60%	4.18%	5.18%	0.85%
Past 10 year return p.a.	**7.71%**	**12.07%**	**8.72%**	**5.60%**	**6.01%**	**2.68%**

Source: www.marketindex.com.au, FactSet, ABS and OnePath.

Timeframe: Annual returns for each financial year – 1 July to 30 June.

Note: Past performance is not indicative of future performance. Your investment is subject to investment risk, including possible repayment delays and loss of income and capital invested.

Data: Australian Shares: S&P/ASX 300 Accum, International Shares: MSCI World ex Aust Net Index hedged to AUD, International Property: FTSE EPRA/NAREIT Developed Rental ex Australia Net Total Return Index hedged to AUD, Australain Fixed Interest: Bloomberg AusBond Composite 0+ Yr Index, International Fixed Interest: Bloomberg Barclays Capital Global Aggregate hedged to AUD, Cash: Bloomberg AusBond Bank Bill Index.

Don't go it alone

Tough times are not the times to go it alone. Your financial adviser can help you to identify your financial goals, your appetite for risk and your cash flow requirements. They're also well placed to talk through any concerns you may have about your finances. Often, the best investment to make in challenging times is an investment in expert advice.

Contact us

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