



PFG Connect - Summer 2022

It's December, summer is here and holidays are just around the corner. We take this opportunity to wish you and your family a happy festive season!

The big story on the global economic front continues to be inflation, and how high interest rates will go to tame it. November began with the US Federal Reserve hiking its federal funds target range by another 75 basis points to 3.75-4.00%. There are signs the tough approach is working, with the annual rate of inflation falling from 9.1% in June to 7.7% in October.

In Australia, the Reserve Bank lifted the cash rate another 25 basis points to a decade high of 2.85%. Inflation fell to 6.9% in the year to October, down from 7.3% in September, but remains high and economic signals are mixed. Reserve Bank governor Philip Lowe is keeping a close eye on consumer spending, where higher interest rates are having an impact. Retail trade fell 0.1% in October for the first time this year. And while the ANZ-Roy Morgan consumer sentiment index was up 5.6% to 83.1 points in the last three weeks of November, it remains 22.9 points below the same week last year. But rate hikes are not yet affecting the labour market, with unemployment falling to a 48-year low of 3.4% in October, while annual wages growth rose 1% to 3.13% in the September quarter, the fastest growth in a decade.

The Aussie dollar lifted 3c to around US67c over the month, crude oil prices fell 10% while iron ore lifted 0.5%. Shares remain skittish but positive overall. The ASX200 index rose more than 5% in November while the US S&P500 index was up more than 2%.

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SUSTAINABLE INVESTING ON THE RISE

Sustainable investing isn't new and is becoming more mainstream. From climate change to gender diversity, more people are aligning their money with their values.

In 2021, Australia's sustainable investment market increased 20 per cent to a record \$1.5 trillion. The Responsible Investment Association Australasia (RIAA) 2022 benchmark report found sustainable investments represents 43 per cent of total professionally-managed funds.ⁱ

In addition to traditional shares and fixed interest sustainable investments offer a wide range of assets, including property, alternatives such as forestry, infrastructure, private equity and cash.

Most big super funds offer a sustainable investment option and some offer this as their default option. You can also buy sustainable managed funds, including a growing list of exchange-traded funds (ETFs).

What are sustainable investments?

Focus on people and planet

Sustainable investing is also known as ethical, responsible and ESG (environmental, social, governance) investing, with the focus on people, society and/or the environment.

Sustainable investments are selected using a variety of screening methods, including:

- Positive screening selects the best investments in their class
- Negative screening excludes harmful sectors, companies or activities such as arms, gambling, animal testing, tobacco and fossil fuels
- Norms-based investing screens for minimum standards of relevant business practices
- Impact investing has the explicit intention of generating positive social or environment impacts.ⁱ

The term ESG investing is used when a fund or company commits to sustainable investing in these three areas:

- **Environmental** – air and water pollution, biodiversity and climate change
- **Social** – child labour and labour standards, ethical product sourcing, gambling and human rights
- **Governance** – board diversity, corruption, business ethics, corporate culture and whistle-blower schemes.

The report found gender diversity and women's empowerment are also gaining popularity.

Sustainable investing is not all warm and fuzzy. Performance still matters.

Performance gains

Initially, sustainable investing often came at the expense of returns but that is no longer necessarily the case.

The report compared the performance of what it terms responsible investment funds and mainstream investments funds (on average and net of fees) over the past 10 years to December 2021.

Responsible multi-sector growth funds consistently outperformed mainstream funds and their benchmark over 1, 3, 5 and 10 years. Responsible Australian share funds generally outperformed or were on par with mainstream funds. Only responsible international share funds disappointed, underperforming mainstream funds across all timeframes.ⁱ

Watch out for greenwashing

Increased demand for sustainable investments has led to a rapid increase in the number of products available. The rush to cash in on the trend has sometimes led to what is known as "greenwashing". The Australian Securities and Investments

Commission (ASIC) describes greenwashing as the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.

ASIC warns investors to review the product terms. For example, a fund might describe itself as "no gambling" but may invest in companies that earn less than 30 per cent of revenue from gambling.

Look for a clear explanation of how the product will achieve its aims and don't rely on vague language like "considers", "integrates" or "takes into account".

Australian companies lifting their game

It's not just super funds and managed funds taking sustainable investing more seriously, Australian listed companies are also adapting to changing investor preferences and regulatory environment. A recent analysis of ESG reporting by Australia's top 200 listed companies, PwC found a 13 per cent increase in companies declaring a commitment to net zero emissions. However, only 55 per cent of those disclosed a transition plan or activities that will enable them to reach net zero.ⁱⁱ

There was also a 10 per cent increase in companies disclosing climate risks and opportunities, and a 30 per cent increase in companies disclosing a gender diversity policy.

For investors seeking sustainability along with financial returns from their investments, momentum and choice is growing. So please get in touch if you would like to discuss your investment options.

ⁱ <https://responsibleinvestment.org/wp-content/uploads/2022/09/Responsible-Investment-Benchmark-Report-Australia-2022-1.pdf>

ⁱⁱ <https://www.pwc.com.au/assurance/environmental-social-and-governance-reporting.html>

Buying shares for kids:

a gift that keeps on giving



Many parents and grandparents worry about how to help the children in their lives achieve financial independence. But the value of long-term investment can seem like a dry and complicated idea for kids to get their heads around.

In fact, many young people would like to know more about money, according to a Young People and Money survey by the Australian Securities and Investments Commission MoneySmart website. The survey found more than half of the 15-21-year-olds surveyed were interested in learning how to invest, different types of investments and possible risks and returns. What's more, almost all those young people with at least one investment were interested enough to regularly check performance.ⁱ

One way to introduce investment to children may be to begin a share portfolio on their behalf. The child can follow the progress of the companies they are investing in, understand how the market can fluctuate over the short- and long-term, as well as learn to deal with some of the paperwork required, such as filing tax returns.

How to begin

Setting up a share portfolio doesn't need to be onerous. It's possible to start with a minimum investment of around \$500, using one of the online share trading platforms. Then you could consider topping it up every year or so with a further investment.

Deciding on which shares to buy comes down to the amount you have available to invest and perhaps your child's interests.

If the initial investment is relatively small, an exchange traded fund (ETF) may be a

useful way of accessing the hundreds of companies, bonds, commodity or theme the fund invests in, providing a more diversified portfolio.

ETFs are available in Australian and international shares; different sectors of the share market, such as mining; precious metals and commodities, such as gold; foreign and crypto currencies; and fixed interest investments, such as bonds. You can also invest in themes such as sustainability or market sectors such as video games that may appeal to young people.

Alternatively, buying shares in one company that your child strongly identifies with – like a popular pizza delivery firm, a surf brand or a toy manufacturer – may help keep them interested and excited about market movements.

Should you buy in your name or theirs

Since children cannot own shares in their own right, you may consider buying in your name with a plan to transfer the portfolio to the child when they turn 18. But be aware that you will pay capital gains tax (CGT) on any profits made and the investments will be assessable in your annual income tax return.

On the other hand, you could buy the shares in trust for the child. While you are considered the legal owner the child is the beneficial owner. That way, when the child turns 18, you can transfer the

shares to their name without paying CGT. Your online trading platform will have easy steps to follow to set up an account in trust for a minor.

There is also some annual tax paperwork to consider.

You can apply for a tax file number (TFN) for the child and quote that when buying the shares. If you don't quote a TFN, pay as you go tax will be withheld at 47 per cent from the unfranked amount of the dividend income. Be aware that if the shares earn more than \$416 in a year, you will need to lodge a tax return for the child.ⁱⁱ

Taking it slowly

If you are not quite ready to invest cash but are keen to help your children to understand share investment, you could consider playing it safe by playing a sharemarket game, run by the ASX.ⁱⁱⁱ

Participants invest \$50,000 in virtual cash in the S&P/ASX200, a range of ETFs and a selection of companies. You can take part as an individual or a group and there is a chance to win prizes.

Another option, for children able to work independently, is the federal government money managed website. This is pitched at teens and provides a thorough grounding in savings and investment principles.^{iv}

Call us if you would like to discuss how best to establish a share portfolio for your child, grandchild or a special young person in your life.

ⁱ <https://files.moneysmart.gov.au/media/kjvjabp5/young-people-and-money-survey-snapshot.pdf>

ⁱⁱ <https://www.ato.gov.au/Individuals/Investments-and-assets/In-detail/Children-and-under-18s/Children-s-share-investments/>

ⁱⁱⁱ <https://www2.asx.com.au/investors/investment-tools-and-resources/sharemarket-game>

^{iv} <https://www.financialcapability.gov.au/teens>



GUIDE TO concession cards for seniors

The excitement of heading towards retirement and a new stage of life can be tinged with concern over how to manage finances. For many people, seniors' concession cards are a good way to help make ends meet.

While discounts on goods and services are always welcome, they're even more valued right now as living costs continue to climb.

Concession cards for seniors provide significant discounts on medicines, public transport, rates and power bills. Many private businesses – from cinemas to hairdressers – also offer reduced prices to concession card holders.

There are different types of concession cards offered by federal, state and territory governments. While some are for those receiving government benefits, others are available to almost anyone aged over 60.

The cards are free and should not be confused with commercial discount cards that require an upfront fee or ongoing subscription.

Seniors Card

The Seniors Card is offered by all state and territory governments when you turn 60 (64 years in Western Australia) and are no longer working full time. This card is offered to everyone, regardless of your assets or income.

The Card will allow you to claim discounts on things like public transport fares, council rates and power bills. Thousands of businesses across Australia also offer reduced prices to Seniors Card holders. In some states, a separate card is offered to access discounts provided by private businesses and another card is provided for public transport.

There are a varied eligibility requirements and a range of different services offered based on your state or territory, so it's best check with your relevant government department.

Federal Government concession cards

If you're receiving a government pension or allowance, you're a self-funded retiree or you're a veteran, you may be eligible for one of several cards issued by the Federal Government.

The Pensioner Concession Card is automatically issued to people receiving pensions or certain allowances.

The card provides discounts on most medicines, out-of-hospital medical expenses, hearing assessments, hearing aids and batteries, and some Australia Post services.

In most states and territories, card holders receive at least one free rail journey within their state or territory each year.

Commonwealth Seniors Health Card

If you've reached the qualifying age for an Age Pension (currently 66 years and 6 months) but you're not eligible to receive a pension, you may be entitled to the Commonwealth Seniors Health Card.

You can receive the card if you:

- Are Age Pension age or older
- Can meet residence rules
- Are not receiving a government pension or allowance
- Can meet identity requirements
- Can meet the income test
- Provide a Tax File Number or are exempt

While there is an income test, no assets test applies. You will receive similar benefits to the Pensioner Concession Card.

Low Income Health Card

For those on a low income but not yet at Age Pension age, the Low Income Health

Care Card can be a big help. If you meet the income test, you'll get cheaper health care and medicines and other discounts.

Your gross income, before tax, earned in the eight weeks before you submit your claim is assessed and must be below certain limits.

The types of income included in the test includes wages and any benefits you receive from an employer, self employment income, rental income, super contributions as well as pensions and government allowances.

Other types of income are also counted including:

- Deemed income from investments
- Income and deemed income from income stream products such as super pensions
- Foreign income
- Distributions from private trusts and companies
- Compensation payments
- Lump sums such as redundancy, leave or termination payments.

Veteran Card

The Department of Veterans' Affairs has a concession card for anyone who has served in the armed forces and their dependents. Like other government concession cards, the Veteran Card provides access to cheaper medicines and medical care as well as discounts from various businesses. The Veteran Card is a new offering, combining the former white, gold and orange cards. There is no change to entitlements or services with the new card.

As you can see, the potential savings from seniors concession cards can be significant so be sure to check your eligibility. If you would like help working out your income and other eligibility requirements, give us a call.