INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Preparation and planning the keys to high retirement confidence: Vanguard study

Melbourne, 4 May 2023: Australians with the highest confidence about their future retirement tend to take the most purposeful action to prepare, which may include accessing advice, having a detailed plan or making regular extra contributions to their superannuation.

Meanwhile, those with the lowest confidence about retirement tend to be the least actively prepared. Often, they have never accessed advice, have little understanding of how they can achieve their retirement goals, and expect to be more reliant on the Age Pension after they retire than those with higher retirement confidence.

Vanguard's inaugural ***How Australia Retires*** study, released today, found that high retirement confidence is not necessarily dependent on age or income, but rather on having a plan.

52% of participants surveyed who presented as highly confident about their retirement readiness feel that they know what they need to do to achieve the retirement outcome they desire and are optimistic about this phase of their life. They are relatively likely to use budgets and prioritise their savings.

By contrast, most Australians surveyed who presented as having low confidence about their retirement readiness do not have a plan and feel the most unprepared. They do not tend to make regular additional super contributions and are generally less optimistic and more likely to feel disinterested, anxious or worried about this later phase of life.

Among the Australians surveyed who are generally older and who have typically taken less action to prepare, only 27% feel optimistic about retirement and just 23% feel very confident. Many are concerned about not having enough income in their retirement and are uncertain about the actions they could take to achieve the retirement they envision.

Other key findings

Vanguard's survey of more than 1,800 working and retired Australians aged 18 years and older also found:

- 50% of working-age Australians consider super an important component of their retirement plan but expect to rely on it less than existing retirees. As part of this, more than half of working-age Australians (54%) estimate that their super balance constitutes 50% or less of their total investment balance. 1 in 4 in this cohort highlight investment property as a key part of their retirement plan, with financial assets and their home making up the balance of their investments. By contrast, only 1 in 10 retired Australians cite investment property as an asset.
- Despite it still being an important component of total retirement assets, relatively few Australians engage with their super. 1 in 4 working-age Australians are unsure about their current superannuation balance, and 1 in 2 are unsure what they pay in super fees. In addition, 50% of working-age Australians have either not made contact with their superannuation fund in the last 12 months or have never made contact at all. For retirees, this scenario is even more common, with almost 3 in 4 having not made contact in the last six months.
- Younger Australians are generally relatively confident about their retirement, but this confidence wanes as they get older and the longer they go without a retirement plan.
- Almost 2 in 3 working-age Australians have never engaged a financial adviser to help map out their retirement strategy. Of the Australians who have never sought professional advice, 75% report not being confident in being able to fund their retirement.
- By contrast, of Australians surveyed who have received professional financial advice, 44% are extremely or very confident in funding their retirement. Over 50% of Australians surveyed who use a financial adviser also engage with their super fund and are twice as likely to have a detailed plan as those who do not use a financial adviser.
- 2 in 5 working-age Australians expect to take some form of extended career break between their 20s and 50s which may include parental leave. The next generation of retirees will need

to factor in the financial cost of extended career breaks, particularly the impact that time away from full-time work can have on superannuation balances and long-term retirement savings.

- 1 in 3 Australians expect to continue some form of work into retirement, with some believing they will not be able to afford retirement without additional income. Many expect to still be making mortgage repayments when they retire. Working-age Australians who intend to stop working completely once retired are more likely to have a retirement plan, have higher levels of confidence in funding their retirement, and to aim to own their home outright.
- While the average ideal retirement age for working-age Australians is around 61 years old, there is variation across the different age groups that make up this cohort. Australians aged between 18 to 34 hope to retire by 59.5, while those aged between 35 to 54 hope to retire by 61.5, and those aged between 55 to 75 and beyond want or wanted to retire by 64.9 years old.

Vanguard Australia's Managing Director, Daniel Shrimski, says the study highlights both the opportunities and challenges facing Australians on their journey towards retirement.

"One of the key findings in this report is that having a plan is one of the most effective ways to not only achieve a successful retirement, but to alleviate the emotional burdens and anxieties that Australians can feel towards retiring," Mr Shrimski says.

"For younger Australians in particular who are redefining the traditional path towards retirement with career breaks, parental leave and travel, having a plan is paramount to ensuring these pauses in paid work don't impede their ability to accumulate enough superannuation and save for retirement.

"The study also provides evidence that Australians display low engagement and understanding when it comes to superannuation, with half not knowing how much they pay in annual fees, and 1 in 4 not knowing what their current superannuation balance is.

"An opportunity, and perhaps a need, therefore exists for the superannuation industry on the whole to improve member engagement, to simplify fee structures, and to support stronger retirement outcomes."

The **How Australia Retires** study also contains several useful case studies covering people at different stages of life, each with varying levels of retirement confidence and different expectations regarding their financial futures.

Banking on the Age Pension

The ranks of Australians receiving the Age Pension are increasing. It's important to understand who is eligible and its role in retirement planning.

Just days before the 2023 Federal Budget was handed down on 9 May, the Australian Bureau of Statistics released a new report including data on the number of Australians receiving the Age Pension.

The report, ***New Census insights on income in Australia using administrative data***, has largely flown under the public radar so far.
But it contains some interesting retirement insights compiled from the 2021 Census, most notably that "nearly half of Australians aged 65 years and older receive most of their income from the Age Pension (47.8% or 2,029,000 persons)".

That's a powerful statistic, especially when taking into account the "Support for Seniors" expense numbers detailed a week later in the Federal Budget's ***Statement 6: Expenses and Net Capital Investment***.
Support for Seniors (the Age Pension) has been costed in the latest Budget at $54.87 billion for the 2022-23 financial year, rising progressively on forward estimates to $67.32 billion in 2026-27.

A growing reliance on the pension

One of the key findings from Vanguard's ***How Australia Retires*** study, released in May, is that the Age Pension features most prominently among Australians who are still working and who have not taken purposeful steps to prepare for their retirement, and who are more likely to say the Age Pension is part of their retirement..

These steps include having a well-documented and detailed financial plan, ideally prepared by a professional financial adviser, and making extra contributions to superannuation over time.

Australians who have low confidence about their retirement generally have low expectations about the amount of income they'll likely receive during retirement and believe the Age Pension will form the biggest component of their retirement plan.

The number of Australians receiving the Age Pension is continuing to rise, and has actually increased significantly since the 2021 Census data that the ABS has used in its recent Census insights report.

The Department of Social Services (DSS) ***Expanded DSS Benefit and Payment Recipient Demographics - December 2022*** data shows 2,565,870 people were receiving the Age Pension at the end of last year.

This included 1,783,980 people receiving full pension payments, 393,365 people receiving part pensions as a result of the ***"income test"***, and a further 385,525 people receiving part pensions as a result of the ***"assets test"***.

Under the income test, individuals can earn a maximum of $190 in income per fortnight (and couples $336 per fortnight) from other sources before their pension is reduced by 50 cents for every dollar above the respective allowable limits.

Under the assets test, individuals and couples are assessed on whether they do or don't own a home. They can hold up to a certain value of financial and other assets before their pension is incrementally reduced for every dollar above the respective allowable limits.

Single homeowners can have up to $280,000 in assets, and non-homeowners up to $504,500, before their full Age Pension starts to reduce. The Age Pension cuts out completely once singles reach maximum asset limits of $634,750 (homeowners) and $859,250 (non-homeowners), with higher cut off points for singles who receive rent assistance.

The same rules apply to couples receiving the Age Pension, but the limits are higher.

Couple homeowners can have up to $419,000 in assets, and non-homeowners up to $643,500, before their full Age Pension starts to reduce. The Age Pension cuts out completely once couples reach maximum asset limits of $954,000 (homeowners) and $1,178,500 (non-homeowners).

The growing role of the Age Pension

The DSS's demographics data shows that there are just under 400,000 Australians aged 66 to 69 that were receiving a full or part pension as of December 2022 – roughly about 15% of the total Age Pension population.

Keep in mind that this is the youngest Age Pension cohort, as individuals can potentially qualify to receive a full or part Age Pension from the age of 65 years and six months, depending on the year they were born.

The largest cohort of pension recipients (about 51%) was aged 70 to 79.

For most Australian retirees, the Age Pension forms a meaningful portion of their retirement income, and for all retirees it should be considered as part of the retirement planning process.

Two key features of the Age Pension – it is payable until one's death, and it adjusts for inflation over time - make the Age Pension a very valuable benefit as well.

Given this, a thorough understanding of how the Age Pension works, what benefits should be expected, and its role in planning for retirement is critical.

For retirees who meet the eligibility criteria, the Age Pension can act like an inflation-protected, lifetime-income safety net.

This means that Australian retirees who are eligible for the Age Pension can expect to receive a fortnightly pay packet that maintains its purchasing power for as long as they are alive and as long as they continue to meet the assets test, income test and residency rules.

If available, it is a great resource to help meet "basic living expenses" in retirement.

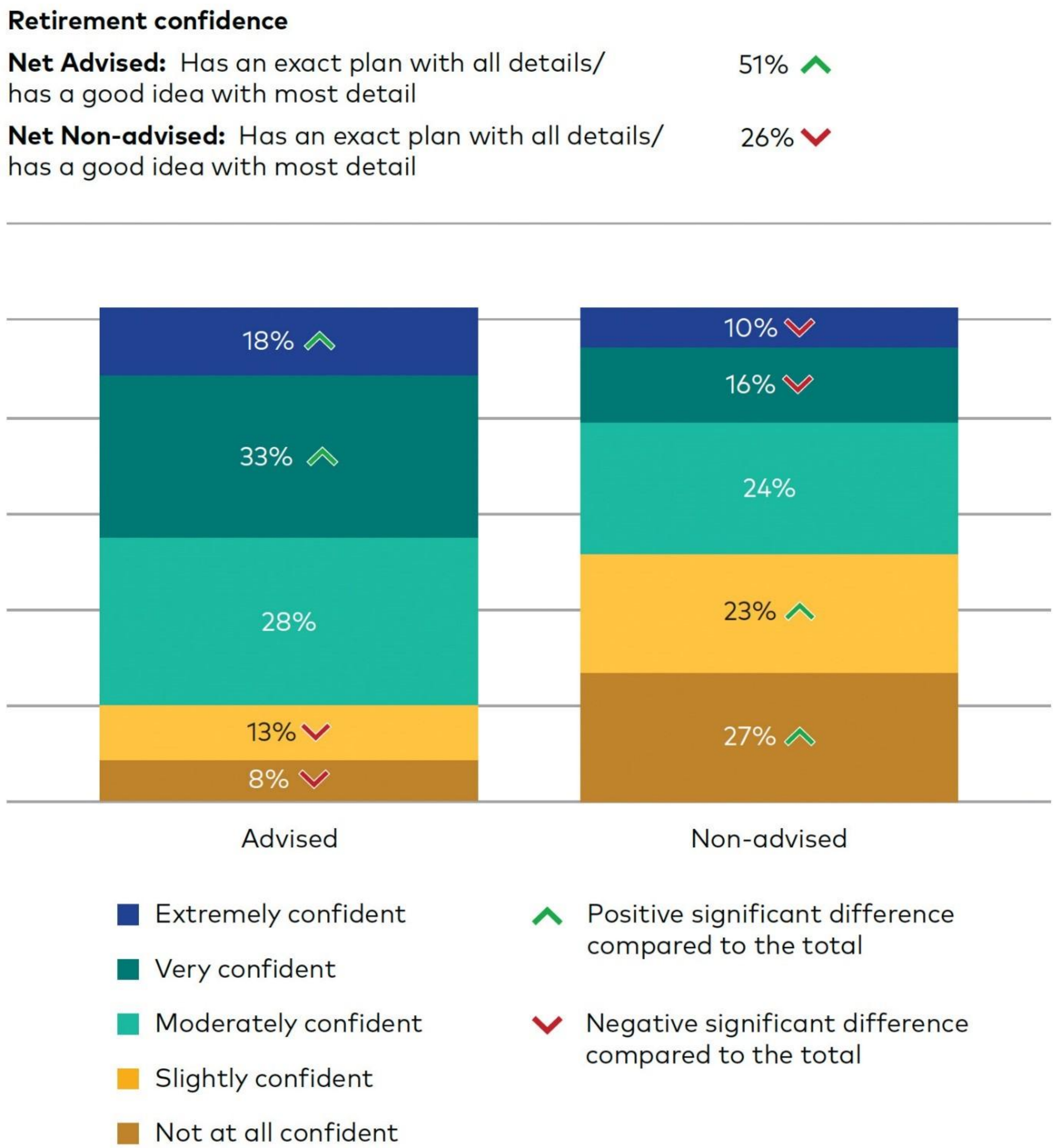
Source: https://www.vanguard.com.au/personal/learn/smart-investing/retirement/banking-on-the-age-pension

The strong link between advice and retirement confidence

Seeking professional advice could lead to greater confidence in being financially prepared for retirement. Vanguard's inaugural ***How Australia Retires*** study has found a strong correlation between the use of a professional financial adviser and retirement confidence.

Our survey of more than 1,800 working and retired Australians aged 18 years and older found that, of the people participants who received professional financial advice, 44% indicated they were extremely or very confident in funding their retirement.

These people were also twice as likely to have a clearer, more detailed retirement plan.
But the study also found that almost 2 in 3 working-age Australians (those who did not identify as retired) have never engaged a financial adviser to help map out their retirement strategy.
And, of the Australians who have never sought any professional advice, only 25% indicated they were extremely or very confident in being able to fund their retirement.



Source: [Vanguard]

Furthermore, those who had not sought professional advice or sought only the assistance of family and friends tended to have less comprehensive retirement plans.

There were some other interesting findings from our study in terms of where some people are getting advice from.

Working-age Australians, particularly those with low retirement confidence, are much more likely to seek information from digital sources including podcasts, blogs, and social influencers.

That contrasts with retired Australians and those with high retirement confidence, who predominantly consult professional sources of guidance, such as financial advisers or their superannuation fund.

Budgeting and regular savings

Working-age Australians who did not seek professional advice and developed their own financial plan are relatively likely to have prioritised budgeting and regular savings.

In contrast, people who have a more detailed plan from an adviser have typically taken more purposeful action to prepare for retirement, particularly in debt management and budgeting. They are more likely to make additional superannuation contributions and invest in securities and property, the study found.

In fact, contributing regularly to superannuation is a key trait of Australians who presented as having high confidence about their retirement.

Conversely, the majority of people presenting as having low retirement confidence typically did not do so.

Vanguard Australia's Managing Director, Daniel Shrimski, says the study highlights both the opportunities and challenges facing Australians on their journey towards retirement.

"One of the key findings in this report is that having a well-documented and detailed financial plan is one of the most effective ways to not only achieve a successful retirement, but to alleviate the emotional burdens and anxieties that Australians can feel towards retiring," Mr Shrimski says.

To read the full **How Australia Retires** study, click ***here*****.**

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/strong-link-between-advice-and-retirement-confidence

Do career breaks come with a retirement price tag?

More working-age Australians intend to take a career break at some point. We've calculated the potential impact of doing so on retirement superannuation balances.

Extended career breaks were once a rarity for most Australian workers but these days they are more common.

Vanguard's inaugural ***How Australia Retires*** study has found that 2 in 5 current working-age Australians (40%) – those that did not identify as being retired – expect to take some form of extended break from work during their career, probably between their twenties and fifties.

Those career breaks are most likely to be in the form of parental leave, study leave, or extended holidays. Vanguard's study found that career breaks are more likely to be taken by those working-age Australians on higher salaries who have a retirement plan in place and possess higher confidence in funding their desired lifestyle in retirement.

Unlike the generations before them, 1 in 2 younger Australians (under 35 years old) expect to take parental leave, especially in their thirties.

This next generation of retirees will need to factor in the financial cost of extended career breaks, particularly the impact that time away from full-time work can have on superannuation balances and long-term retirement savings.

The Vanguard study found that 39% of males and 61% of females aged under 35 expect to take, or have already taken, parental leave.

This contrasts with Australians over 55 years old, whose lives were more likely characterised by full-time work from their twenties through to their sixties. Their path to retirement was rarely interrupted by further study, parental leave, career breaks or multiple career changes.

Costing career gaps

There are many variables when it comes to calculating the potential cost of a career break, including the amount of time taken off from work, an individual's age, and their salary.

Vanguard has done some broad calculations in the table below to illustrate, on a very general level, the potential long-term financial impact of taking a one- or two-year career break.

The dollar estimates are based on specific salaries and superannuation contribution rates and assume a wide range of other financial variables.

But, even though the estimates are hypothetical, what's clear is that career breaks could have a substantial impact on superannuation balances by the time a person reaches their retirement.

The earlier a career break is taken, and the longer the break, the bigger the potential financial impact.

Table 1: Estimated impact of career break on superannuation balance at retirement

		Age at which the break starts	
Break Length (years)	25	35	45
1	$10,000	$11,500	$9,500
2	$19,900	$22,600	$18,700

Notes: These are highly stylised estimates for the purpose of illustration only and represent the estimated impact, in today's dollars, on an individual's superannuation balance as at age 67 as a result of foregone Super Guarantee (SG) contributions during a career break starting at a particular age. The figures are based on an assumed SG rate of 10.5% (being the current SG rate, noting also that legislation has specified that this rate will increase in future) and adjusted for CPI (assumed at 2.5%) and real wage growth (assumed at 1.5%), and rounded to the nearest $100.

For the purposes of this illustration it has also been assumed that SG contributions made at age x are invested when the individual turns age (x+1), and that the foregone contributions would have achieved a consistent annual earnings rate equal to CPI plus 4% net of fees, costs, taxes and inflation. Actual performance of superannuation products may differ.

The estimates have been determined based on the following assumed annual salaries which reflect median gross wage data reported in the Australian Bureau of Statistics' Census 2021:

- Wage at age 25: $41,500
- Wage at age 35: $60,000
- Wage at age 45: $63,000

The above estimates of the impact of foregone SG contributions are not general or personal advice. They do not take into account the actual situation, financial objective or needs of any particular person and are not intended to be relied on for the purpose of making a decision about a financial product. Consider obtaining advice from an Australian financial services licensee before making any financial decisions.

Source: Vanguard

Making extra super contributions

One obvious way to offset the impact of foregone superannuation contributions from taking a career break is to make additional super contributions, either before or after the break.

The Vanguard study found that those who contribute extra into their superannuation funds are significantly more likely to feel prepared and confident in funding their retirement lifestyle.

This was evidenced by 36% of those presenting themselves as being highly confident make regular additional superannuation contributions .

Most notably, only 5% of those who presented themselves as lacking direction make regular additional contributions to their superannuation.

To read the full **How Australia Retires** study, click ***here***.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/career-breaks-retirement-price-tag

Tapping into your home's equity

Retirees feeling the pinch of higher living costs, are reluctantly making difficult decisions as they draw dangerously close to outliving their retirement savings.

A 2021 report released by the Association of Superannuation Funds of Australia (ASFA) found that 90% of Australians who died aged over 80 years had no superannuation savings – an alarming statistic given that our average life expectancy is currently 83.6.

For many retirees, the family home remains their only asset. Not generally subject to capital gains tax, or assessable under the assets test, it represents financial security, independence and family history which is why downsizing is an unpopular option.

However, the family home also represents a reservoir of untapped equity.

Consequently, retirees are reviewing ways to access that equity through reverse mortgages or equity release schemes.

These arrangements provide access to some of your home's equity, usually to cover medical costs, home renovations or even living expenses.

Now, here's the fine print.

Reverse mortgage: borrowing money using the equity in your home as security over the loan.

Pros	Cons
You continue living in your home.	The amount you can borrow is limited and usually based on your age. E.g., if you're 65, you will be limited to about 20–25% of your available equity.
Can be taken as a lump sum, line of credit, income stream or a combination.	Fees, charges and interest apply based on how much you borrow.
You may not have to make repayments on the interest while living in the home.	It's not necessary to make interest repayments while living in your home, but the debt will increase as the interest compounds. After selling your home you must repay the entire amount (including fees). If you die, your estate must repay the full amount.
Since 2012, reverse mortgages have negative equity protection. This ensures your loan cannot grow to be greater than your home's market value. Ensure any contracts you sign include negative equity protection.	Over time, your debt will grow and may become more than your home equity.

Equity release: selling part of your home through property investment funds.

Pros	Cons
You continue living in your home.	Fees are calculated on the part of your home you sell, based on the value of your home's equity. If your home grows in value, the fees increase accordingly. The fees are deducted from the remaining equity in your home.
Can be taken as a lump sum or instalments.	Your home equity will reduce over time because of the fees. If it reduces to zero, you may not be able to continue living in your home.
	When you sell your home or die, the investment fund must receive its share of the accrued equity.
	Application fees and service fees apply. Additional fees may apply if you end the contract early.

Depending on your circumstances, either of these schemes may work for you. However, before making any decisions, consider these alternatives:

- Government no interest loans provide lump sums with no fees or charges. Visit the Good Shepherd Australia website for details.
- The Home Equity Access Scheme offers government backed assistance. See Services Australia or the Department of Veterans' Affairs for information.
- Reconsider downsizing. The government offers incentives that may change your mind.

Regardless, get your financial adviser to run the sums for you. They'll make sure your super savings are on track and you're maximising your pension entitlements.

You've planned a busy retirement, so don't let financial worries slow you down.

Sources:

www.superannuation.asn.au "Superannuation balances prior to death: Superannuation balances of older Australians", ASFA, March 2021 (accessed 2 April 2023)
www.moneysmart.gov.au "Reverse mortgage and home equity release" (accessed 2 April 2023)
www.goodshep.org.au "No Interest Loans (NILs)" (accessed 2 April 2023)
www.servicesaustralia.gov.au "Home Equity Access Scheme" (Last updated 2 February 2023)

Super Contribution Rules when you're in your 60's and 70's

Know your options around making contributions, accessing your super savings and when Age Pension entitlements could be affected.

Whether you're still working, or you've already retired, rules around super contributions, accessing super and things like age pension eligibility do ramp up once you hit your 60s and 70s.

There have also been a lot of rule changes in the super space, including some around age limits in recent times, so here's a quick snapshot of what you need to know.

What super contributions can I make?

You can generally make two types of contributions, depending on your circumstances and whether or not you're still working. They include concessional contributions and non-concessional contributions.

Concessional contributions include:

- Compulsory SG contributions, which are the before-tax contributions your employer is required to make into your super fund under the super guarantee, if you're eligible.
- Voluntary salary sacrifice contributions, which are additional contributions you can get your employer to make into your super fund out of your before-tax income, if you choose to.

- Voluntary tax deductible contributions, which are contributions you can make (such as when you transfer funds from your bank account into your super) that you then claim a tax deduction for.

Note, concessional contributions are usually taxed at 15% in your super fund (or 30% if your total income exceeds $250,000), which for most people means you'll generally pay less tax on contributions than you do on any income you may be earning.

Non-concessional contributions include:

- Voluntary personal contributions, which you can also make by transferring funds from your bank account into super, that you can't claim a tax deduction for.

Note, some people may choose to make non-concessional contributions when they've reached their yearly concessional contributions cap, following an inheritance or sale of a large asset, or to receive a government contribution.

How much can I contribute and at what age?

If you're making contributions to your super, there are limits on the amount of concessional and non-concessional contributions you can make each year.

See below how much you can put in annually.

Contribution type	Your age	Cap
Concessional	All	$27,500 a year Plus, unused cap amounts accrued since 1 July 2018 if you're eligible*
Non-concessional	Under 75	$110,000 a year Alternatively, up to three years of annual caps ($330,000) under bring-forward rules if you're eligible**

*This broadly applies to people whose total super balance was less than $500,000 on 30 June of the previous financial year.

** If you happen to have total super assets over $1.7 million as at 30 June of the previous financial year, you can't make additional non-concessional contributions to your super, or you may be penalised. There are restrictions on the ability to trigger bring forward rules for certain people with large total superannuation balances (more than $1.48 million as at 30 June of the previous financial year).

When does the work test apply?

If you're aged 67 to 74 (at the time of the contribution) and want to claim a personal superannuation deduction for your contribution, generally you must first satisfy work test requirements. Under the work test you must have worked at least 40 hours over 30 consecutive days in the financial year. Under the new rules, the work test can be met any time in the financial year the contribution was made. This is different to the previous rules, where the work test must be met before contributing.

What are the rules around downsizer contributions?

Eligible Australians aged 55 or over are able to make a tax-free non-concessional contribution to their super of up to $300,000 each using the proceeds from the sale of their main residence – regardless of caps and restrictions, such as the work test, that otherwise apply.

For couples, both spouses can take advantage of this opportunity, which means up to $600,000 per couple can be contributed toward super.

When can I access my super?

When you turn 65, you don't have to retire or satisfy any special conditions to get full access to your super savings. While you can access super before this age, in most cases you must be retired, or if you keep working, you can access up to a certain percentage of your balance each year via a transition to retirement pension.

It's also important to note, while you do have full access to your super, you're not obligated to draw down your savings, however there may be some benefits in doing so, depending on your situation.

What options do I have to draw down my super?

You'll have to make a few decisions about what you would like to do with your super savings, which will generally be tax free after age 60. You might be wondering whether you'd be better off taking the money as a lump sum, income stream, or even a bit of both.

Lump sum

Taking some or all of your super savings as a lump sum can be tempting, particularly if you want to pay off debt, assist children, or go on a holiday. However, it might not be the best option for everyone, as you'll need to consider how you fund the years after you've finished working.

While you may be eligible for government entitlements, such as the age pension, it might not cover the type of lifestyle you'd like to have after you finish working.

Account-based pension

If you'd like to receive a regular income in retirement, an account-based pension (or allocated pension) could be a tax-effective option. You won't be limited in what you can take out, but each year you'll need to withdraw a minimum amount.

It's also important to know that the most you'll be able to transfer into this type of pension will be up to $1.7 million in super.

Remember, the value of an account-based pension is based on the amount of super you've saved, the investments you choose and the level of income you receive, so it won't guarantee an income for life.

Annuity

Another option is an annuity product, which generally provides guaranteed payments over a set number of years, or the rest of your life, depending on whether you opt for a fixed-term or lifetime annuity.

They tend to be a more secure option as they provide a guaranteed income regardless of what might happen in financial markets. However, you will be sacrificing some flexibility as you can't usually make lump sum withdrawals and your life expectancy may also be a consideration.

When might age pension entitlements be affected?

Currently, to be eligible for the age pension you must be 66 and a half, or older, and meet an income test and an assets test, which will determine the amount of money you're eligible for.

As a result, how much money you have in super could affect your Age Pension entitlements. Contributing some of your super funds to a younger spouse may be one way to lessen the impact of the income and assets tests, but this will depend on your individual circumstances, so it's important to do your research.

With changes underway, the qualifying age for the Age Pension is gradually increasing to 67 based on when you were born. To find out more about eligibility, check out the Services Australia website.

What else do I need to know?

- If you exceed super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down. Before making extra contributions, make sure you understand, and are comfortable with, any potential risks.

INSIDE

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An environment we haven't seen in 15 years

It has been said we're investing in a period we haven't witnessed in over 15 years. Some like that we're moving away from the "free money" era, while some are concerned about the adjustment. We see both sides to this argument, but we maintain a positive view when taking a longer-term perspective.
As such, we share some insights below.

Current Backdrop & Key Observations

Like always, we must assess the market environment around us. This is not something we can control, but we can seek to understand it and the opportunities that are available.

Below is a series of recent developments:

- Due to sticky inflation post-covid, interest rates have increased quickly, pressuring many households and businesses alike.
- Higher interest rates mean better cash rates for savers, but also higher interest rates for borrowers. As fixed rate loans mature, many are seeing sharp increases in their debt repayments. The old "pay down debt vs invest for growth" conversation is back, which is something we can certainly help with.

- Economists now expect rate cuts as the consensus, with most believing we're very close to peak rates. These rate cuts are expected to begin later this year.
- The Australian and international share markets have been oscillating, while people weigh two opposing forces:
    - 1) better valuations are available for long-term investors and may stand to benefit when interest rates start falling, and;
    - 2) recession and inflation pressures remain, with potential volatility for investors with a shorter-term mindset.
- Among defensive assets, bonds and cash rates have improved, so we don't have to work as hard to find decent cash-producing opportunities. In many cases, investment yields can still exceed debt costs.

How to Act During This Period

For assets matched to longer-term goals, we see merit in continuing our measured and positive approach. That is, we want to retain the ability to potentially drive healthy long-term outcomes, so keeping money at work in a diversified portfolio makes sense, especially with a valuation focus.

We share a few reasoned thoughts to support this:

1. Higher interest rates have resulted in better yields becoming available for many assets. By holding assets with strong durable income generation, we can benefit from this market shift and reduce the capital gains hurdle required to grow your portfolio.
2. Valuations are supportive of investment. The markets aren't running hot, by large, so potentially offers a solid foundation for returns.
3. To offset some shorter-term risks, such as the U.S. debt ceiling or a potential recession, holding defensive assets provides a ballast to your portfolio. Given the higher yields available among these defensive assets, this could offer some peace of mind.

Risks We Are Working to Mitigate

We believe the above approach makes sense for you in this environment, however we also acknowledge that we operate in a world of uncertainty.

Below are some of the potential downsides that could occur:

- If we see large-scale volatility, your investment mix could still fall in value. It has the potential to hold up better than the overall market, but we might see shorter-term falls.
- The proposed holdings are diversified and liquid in nature, but we can't rule out some assets falling more than the market. We don't expect material liquidity or default issues though, given the diversified approach.

- If the recessionary concerns come to pass, we may find ourselves slightly on the back foot, not growing as quickly as the broader market. That is, riskier assets may excel, which could leave us lagging in a big upswing. This is a trade-off we are broadly comfortable with, balancing risk and reward, but is worthwhile noting.