Newcastle Bridge Club
Recommendation for Investment of Funds

Present Situation
The Club has around $130,000 in funds accumulated towards its future needs for replacements and renovations. To date these funds have been invested in Term Deposits, but the interest rate on such deposits is now reduced, and is likely to decrease further. Members at the 2019 AGM were advised of this and indicated their preparedness for Committee to pursue other avenues of investment, to enhance returns. The current position on term deposits is:

		180 days rate now
ANZ Bank $86,910 @ 1.65% maturing Oct 31	No Notice	1.00%
	30 day notice	1.55%
Greater Bank $30,000 @ 2.50% maturing Nov 15		1.60%
Greater Bank $10,000 @ 1.00% maturing Nov 15		1.00%

Proposed Change
It is proposed that Term Deposits, be progressively re-directed into products that offer better returns, without moving away from conservative investments. We can do this ourselves, or we can engage a financial planner to assist us. We would probably need to file an annual tax return to recover any franking credits.

<u>Doing it ourselves</u>

It may be prudent to appoint a sub-committee to look at this rather than one person. However, my initial thoughts are that listed investments are preferred to unlisted as fees are lower and investments are very liquid. In the event of a major market downturn, the type of investment proposed is unlikely to be affected to the same extent as the full market. Investments would be via ETF's (Exchange Traded Funds) which are low cost and, carefully selected, offer a good spread of investments hence limited risk exposure to any particular company, although market risk is always present whatever we choose to do. The categories recommended are:

a) Bond-related. These are invested in Government Bonds and offer five year returns of around 5% pa. This is trending lower as official interest rates are decreased, and it would be prudent to expect returns in the vicinity of 3% pa.
b) Other income investments inclusive of bank hybrids. Hybrids are special products developed by Australia's largest banks. They pay a rate of return based upon 'bank bill' rate plus a margin. Returns are likely to be around 3.5% pa, after allowing for a capital loss when these are re-set. Not suggesting any of these immediately.
c) Property and maybe infrastructure. Infrastructure includes toll roads, gas pipelines, airports and other capital-intensive assets providing a regular and predictable return. Products would be selected that have a broad range of such assets. Five-year performance for such investments indicates a return of 8% pa. These carry a higher risk and should be regarded as longer term investments and given a lower proportion of invested funds. Infrastructure funds are only beginning to come onto offer and it is not proposed they be used at this time
d) A balanced conservative fund across all investment categories but with weighting towards the the safer categories. Only a Vanguard fund presently available and insufficient history to go with that at this time.

Using a Financial Planner

I have had a preliminary discussion with the financial planning arm of Lambourne Partners. Their quoted cost is a one-off $1,500 charge to get things set up, with an annual service and review fee of $1,500 also. Given our proposed conservative investment profile, it is unlikely engagement of a financial adviser would contribute significant extra returns from investments. However, a planner in the industry will have a more extensive awareness of available products, and would also be helpful in terms of administration in placing funds and preparing taxation returns. Would also give us a form of 'protection' from members in the (unlikely) event of an investment failing.

If we do it ourselves

A suggested approach could be to place funds into ETF's as follows:

Vanguard Australian Government Bond Index ETF (VGB). This Vanguard fund is $362 million in size, and is part of an overall portfolio of $861 million comprising 116 holdings of Australian government or treasury bonds. Its earnings performance has been:

1 year 11.95%
3 years 4.55%
5 years 5.30%

This fund did have negative earnings of 0.38% in 2017.

iShares Treasury ETF (IGB). Fund is run by Black Rock, a global operator in ETF's. It comprises $145 million across 25 holdings, all in treasury bonds. Its earnings performance has been:

1 year 12.75%
3 years 4.58%
5 years 5.31%

There have been no negative returns from this fund in recent years

Vanguard Australian Property Securities Index ETF (VAP). This Vanguard product is $1,534 million in size and is part of an overall portfolio of $5,882 million comprising of 28 holdings of companies operating in the Australian property industry. This fund does not hold property itself, so may easily switch investments as opportunities or risks arise. It=s earning performance has been:

1 year 19.70%
3 years 8.87%
5 years 13.11%

This fund did have negative earnings over July 2016 to June 2016. Due to its relative volatility, a lower investment amount is suggested

Converting this to potential returns, and assuming amounts invested, would see:

VGB $30,000 invested at estimated annual return of 4.5%	$1,350
IGB $30,000 invested at estimated annual return of 4.5%	$1,350
VAP $15,000 invested at estimated annual return of 8.0%	$1,200
Term Deposits $55,000 at estimated 1.5% (maybe)	$825
Potential annual return in a full year	$4,725

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