FIRST SAMUEL COMMENCED IN FEBRUARY 1999. IN THE 20 YEARS SINCE, IT HAS PROVIDED A TRUSTWORTHY, INDIVIDUAL AND INTEGRATED WEALTH MANAGEMENT SERVICE TO A SMALL NUMBER OF CLIENTS.

ITS LONG-TERM PERFORMANCE AND UNPARALLELED SERVICE AND ADVICE PLACES FIRST SAMUEL AS AUSTRALIA’S LEADING WEALTH MANAGEMENT COMPANY.¹

OVER THOSE YEARS WE HAVE STRIVED TO ENSURE THAT OUR CLIENTS HAVE...

lived well.
slept well.

¹ As measured by the widely used metric, Net Promoter Score.
KEY CLIENT METRICS

AVERAGE NUMBER OF CLIENTS PER CLIENT WEALTH STRATEGIST

FIRST SAMUEL: 58

INDUSTRY AVERAGE: 132

AMOUNT OF COMMISSIONS RECEIVED BY FIRST SAMUEL IN FY-19

THE SAME AS EVERY YEAR SINCE 1999

9.9%

AUSTRALIAN SHARES’ 5-YEAR PERFORMANCE (P.A.)

4.69.0%

AUSTRALIAN SHARE MARKET (ASX) (P.A.)

78.6%

AUSTRALIAN RANKING FOR NPS

1st

NET PROMOTER SCORE

8.7m BETTER OFF IF $1M INVESTED WITH FIRST SAMUEL RATHER THAN THE SHARE MARKET.

THE VALUE OF PATIENCE OVER 20 YEARS.

$680 million

CLIENT ASSETS UNDER MANAGEMENT

As at 30 June 2019

We are thankful to Australian artist David Blackley, for his consent to use detail from his ‘Symbiosis’ on the cover, and to Patrick Cook, our Wry & Dry cartoonist, for his consent to use his cartoons.

2 A Client Wealth Strategist is the First Samuel Associate licensed to provide personal financial advice. There are five of these. It excludes Anthony Starks who is responsible for some senior clients.

3 Source: Advisor Ratings.

4 Note: The data is the asset weighted average performance of clients’ Australian shares’ portfolios, before fees and after franking credits. Australian share market is the All Ordinaries Accumulation Index. Past performance does not guarantee similar future performance. Source: First Samuel, IRESS.

5 Net Promoter Score is a widely used metric to assess the willingness of a company’s clients to recommend it to others. It is a measure not only of client satisfaction, but also of reputation. Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld. Survey conducted in September 2018.


7 First Samuel is the asset weighted average performance of like clients in each portfolio category, after fees, franking credits, gst and brokerage. Because of small number of portfolios performance data for 20 years is estimated from 19 years’ actual data. Benchmark is the CPI performance plus the relevant margin. Past performance does not guarantee similar future performance. Source: First Samuel, ABS.
$3.3M better off if $1m invested with First Samuel rather than the share market. The value of patience over 20 years.  

**KEY PORTFOLIO PERFORMANCES: 5 YEARS**

- **GROWTH (CONCENTRATED)**  
  - **First Samuel**: (8.0%)  
  - **Benchmark**: (6.5%)  

- **GROWTH (DIVERSIFIED)**  
  - **First Samuel**: (7.6%)  
  - **Benchmark**: (5.6%)  

- **BALANCED**  
  - **First Samuel**: (7.2%)  
  - **Benchmark**: (5.5%)  

- **CONSERVATIVE**  
  - **First Samuel**: (7.0%)  
  - **Benchmark**: (4.5%)  

**KEY PORTFOLIO PERFORMANCES: 20 YEARS**

- **GROWTH (CONCENTRATED)**  
  - **First Samuel**: (9.7%)  
  - **Benchmark**: (7.4%)  

- **GROWTH (DIVERSIFIED)**  
  - **First Samuel**: (7.5%)  
  - **Benchmark**: (7.4%)  

- **BALANCED**  
  - **First Samuel**: (6.6%)  
  - **Benchmark**: (6.4%)  

- **CONSERVATIVE**  
  - **First Samuel**: (6.4%)  
  - **Benchmark**: (5.5%)  

See footnote on page 21 for data information.
Dear Clients and Friends

“It seemed like a good idea…”

It was early 1998 and my family and I were two years into an indefinite posting to Singapore. J.P. Morgan Investment began expanding its footprint into Asia in 1996. And senior people from its Melbourne office were transported northwards to bulk up its Singapore, Seoul and Tokyo offices.

But with the Asian meltdown, a visionless, passportless rocket-surgeon at J.P. Morgan in New York decided that there was little profitable future in Asia. And a retrenchment tsunami rolled across east and southern Asia.

I argued the case for the company to ride out the markets’ panic and to capture the opportunity that was obvious to the world. After all, we were investment professionals, we told our clients that markets could be volatile and suggested they be patient. Ergo, J.P. Morgan should be patient.

But the bean counters were not interested in the obvious or the opportunity, just the ‘headcount’ reduction. My head was one of many guillotined.

Six months later and back in Melbourne, I was the new ‘turnaround’ CEO of Norwich Investment Management. I presented to its board that the company was like a wooden ship of one hundred planks, and each plank needed replacing without the ship sinking. Which it was. On reflection, perhaps the image was a bit too strong. I was made to walk the plank. The board chose to sell the ship rather than repair it.

Clearly, the message was it was time to control my destiny.

I searched for someone to advise me on how to best invest my modest retrenchment packages. The doors of stockbrokers, accountants, financial planners and banks were all knocked upon.

Not one had any idea on how to provide an integrated service of personal financial advice, individual investment management and a decent administration service. The advice was, without exception, commission-based.

The investment was, without exception, either into managed funds or with an enthusiastic but clearly turnover-focused stockbroker.

The administration was, without exception, complex and opaque.

I reviewed that fiscal experience. If I had trouble finding an organisation that I could both trust and which was competent, then surely other people would have the same problem.

I mortgaged the family home to the max, rented an office in Collins Street, appointed a Board of Directors, employed four executives and opened the doors of First Samuel.

The solution for me has proven to be one for many others. Twenty years later we have 287 clients and, the Client Focus sections in this Annual Report are exemplars of how two clients in particular have experienced the same solution. First Samuel is held in higher regard by its clients than any other company in Australia.9

Yours sincerely

Anthony Starkins
Founder and Executive Director

Some of my friends said I was daft. Others said courageous (as in “a courageous decision, Prime Minister”8). Some wished me luck. Some offered prayer.

I can say that I needed some luck. And prayers.

Twenty years’ later, I am still not sure which had the larger hand: Fortune or Providence. Perhaps an equal measure of each, plus a dash of hard work. And... it was a good idea.

8 That is, foolish. From Yes, Prime Minister, the BBC television series.
9 As measured by Net Promoter Score and published by Customgauge 2018 NPS and CX Benchmark Reports.
FIRST SAMUEL HISTORY

<table>
<thead>
<tr>
<th>Assets Under Management ($M)</th>
<th>Number of Clients</th>
<th>Number of Associates</th>
<th>Year</th>
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<td>$708m</td>
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<td>$421m</td>
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<tr>
<td>$3m</td>
<td>2</td>
<td>5</td>
<td>1999</td>
</tr>
</tbody>
</table>

- **First Samuel’s 20th Anniversary.**
- First Samuel moves to 500 Collins Street. Prince Henry Marries Meghan Markle.
- Catalonia declares independence from Spain. Da Vinci painting sells for US$450m.
- Rio de Janeiro Olympic Games. UK votes to leave European Union.
- Greece first advanced country to miss IMF payment. New Horizons flies past Pluto.
- Russia annexes Crimea. Scotland votes against independence from the U.K.
- Pope Benedict XVI resigns as Pope. Margaret Thatcher dies.
- Prince William marries Catherine Middleton. US loses AAA credit rating.
- Greece’s credit rating downgraded to ‘junk’ status. Picasso painting sells for US$105m.
- Global financial crisis. ASX falls 54% from its peak. Beijing Olympic Games.
- Apple CEO Steve Jobs introduces the first iPhone. Boris Yeltsin dies.
- First Samuel moves to 350 Collins Street. Pluto is demoted to dwarf-planet status.
- Angela Merkel assumes office as the first female Chancellor of Germany.
- Mark Zuckerberg creates Facebook. Athens Olympic Games.
- Gulf War II commences, with the invasion of Iraq by mostly US forces.
- Dotcom bubble (‘Tech-Wreck’) bursts. NASDAQ falls 77% from its peak.
- ‘9-11’ terrorist attack on New York’s World Trade Centre and the Pentagon.
- First Samuel’s ASIC licence obtained. It opens its doors at 470 Collins Street.
Dear Clients and Friends

Fiduciary is a word not often heard these days. It is a:

“person or company that holds a legal or ethical relationship of trust with one or more other parties.”

Behind all the words that you will read on our website and in this Annual Report, there is an underlying theme of being a fiduciary. Being a fiduciary is what we do. And we have successfully done for 20 years.

Weirdly, the word is mentioned just once in the 159,581 words of the Final Report of the Financial Services Royal Commission. Which suggests (or perhaps confirms) that the concepts of trust and ethics are not widely known in the retail financial services industry.

It seems to me that the reason is that the obligations placed on the industry participants – banks, brokers, financial planners, fund managers, financial advisers, etc – are no longer based on trust and ethics. But more on meeting legal and regulatory compliance obligations.

So, providing all of these boxes are ticked, trust and ethics can be tossed out of the window onto Collins Street.

Which is why the industry is in such a crisis. Because there will always be a way around regulations and compliance. At least until those obligations strangle the very industry to which they are applied.

The ‘remediation’ costs, principally by the large banks, to compensate wronged clients now amounts to billions of dollars. And yet, as my colleague Wry & Dry drily observed, “the thieves have scarpered.” Those individuals who ignored the concept of being a fiduciary have made their dollars and left the scene of the crime. They will keep their gains.

And what will be left behind? A dumping on the industry of a mass of costly, complex and incomprehensible regulations and compliance obligations.

I am proud to say that First Samuel has served its clients as a true fiduciary, for 20 years. Our clients know we have never taken or paid commissions, that we disclose our errors (and pay for them), that our fees and costs are transparent and that any possible conflicts are resolved in their favour.

I know that we will continue to act as a fiduciary. It is the core of our business.

And this is on top of our successful and integrated service to our clients of advice, investment and administration. More information on these three services can be found on the following pages.

In closing, I cannot help but think of poetry...

The rain falls on the just
And also the unjust fella;
But chiefly on the just, because
The unjust has the just’s umbrella.10

...as I contemplate the rainfall of even more regulation and compliance.

Yours sincerely

Murray Baird
Chairman

---

10 Charles Bowen, later Baron Bowen, a famous English judge, who, amongst other things, coined the phrase “the man on the Clapham omnibus.”
We provide indispensable and enduring relationships that create, manage and protect wealth.
GOVERNANCE: BOARD OF DIRECTORS

CHAIRMAN
MURRAY BAIRD
BA, LLB, MAICD

Mr Baird was, until recently, Assistant Commissioner General Counsel of the Australian Charities and Not-for-Profits Commission (ACNC). Prior to June 2012 Mr Baird was in private legal practice in not-for-profit and charity law and governance. He was previously Senior Partner and leader of the Not-for-Profit group at Moores Legal, Melbourne. He is a Fellow of the Australian Institute of Company Directors and has held a number of positions on the boards of public companies.

Mr Baird is the Chairman and a Non-Executive Director of First Samuel Limited, and Chairman of the Remuneration & Nominations and Investment Governance Committees.

JOHN BRYSON
BEng (Mech), MBA, MAICD, Visiting Fellow of Sloan School, MIT

Mr Bryson has over 35 years’ experience in the finance industry and 15 years in non-executive board roles. He was a previous Equity Owner and Director of JBWere where he held the positions of Group General Manager, Director and Head of Retail and Director of Corporate Finance. He was a former CEO of the Helen Macpherson Trust. Mr Bryson is currently Deputy Chair of the Bionics Institute.

Mr Bryson is a Non-Executive Director of First Samuel Limited and a member of the Remuneration & Nominations and Investment Governance Committees.

DEPUTY CHAIR
ELIZABETH PARKIN
BBus, FFin, ACA

Ms Parkin has over 30 years’ experience in senior management and corporate advisory roles, working for such firms as Dairy Australia, Lander & Rogers and KPMG.

She is a Director of City West Water and Parkin Corporate, and a trustee of the Northcote Trust Fund.

Ms Parkin is Deputy Chair and a Non-Executive Director of First Samuel Limited and Chair of the Audit & Risk Committee.

ANTHONY STARKINS
LLB, BEc, CFA, FFin, MAICD

Prior to founding First Samuel in 1999, Mr Starkins’ significant experience was working with J.P. Morgan and Schroders, for which he worked in Melbourne, Sydney, Tokyo, Singapore and London in a variety of treasury, capital markets and investment management roles, for a combined period of 19 years.

He is a Chartered Financial Analyst, holds bachelors’ degrees in both Laws and Economics from Monash University, has completed the University of Oxford Advanced Management Program and also the University of Michigan Business School Strategic Marketing Program; is a Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors and the CFA Institute.

Mr Starkins is an Executive Director of First Samuel Limited and a member of the board’s Investment Governance Committee.

ANTONY GREENWOOD
LLB, LLM, MAICD

Mr Greenwood is a solicitor and retired partner of law firm Ashurst Australia (formerly Blake Dawson), where he specialised in corporate law and governance. Prior to that, he was a Commissioner of the National Companies and Securities Commission (the forerunner to ASIC).

He has been involved with governance of relevant professional associations and risk management of financial operations of several charities throughout his career.

Mr Greenwood has been associated with the governance of First Samuel since its foundation and is a Non-Executive Director of First Samuel Limited and member of the Audit & Risk Committee.

GUY STRAPP
BCom, Dip AF&I, CFA

Mr Strapp has 30 years’ experience in investment management, both as a Chief Executive Officer and as a Chief Investment Officer. He recently retired as CEO of Eastspring Investments Limited (formerly Prudential Asset Management), Hong Kong, where for six years he was responsible for Eastspring’s asset management business across 10 countries in Asia as well as Europe, the UK and US, with over $270 billion under management. Prior to that he was Chief Investment Officer for six years.

Before joining Eastspring, he held senior investment and management roles with Citigroup, BT Financial Group and JP Morgan.

He holds a bachelor’s degree in Commerce from the University of Melbourne and a Diploma of Applied Finance and Investment from the Securities’ Institute of Australia. He is also a Chartered Financial Analyst.

Mr Strapp is a Non-Executive Director of First Samuel Limited and a member of the board’s Investment Governance Committee.

8  FIRST SAMUEL 20TH ANNUAL REPORT
## GOVERNANCE: DIRECTORS’ MEETINGS, COMPENSATION

### DIRECTORS’ MEETINGS FY-19

<table>
<thead>
<tr>
<th></th>
<th>BOARD</th>
<th>REMUNERATION &amp; APPOINTMENTS</th>
<th>AUDIT &amp; RISK</th>
<th>INVESTMENT GOVERNANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Held</td>
<td>Attended</td>
<td>Held</td>
<td>Attended</td>
</tr>
<tr>
<td>Murray Baird</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
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<tr>
<td>John Bryson</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Antony Greenwood</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Elizabeth Parkin</td>
<td>5</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Anthony Starkins</td>
<td>5</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Guy Strapp</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
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</table>

### DIRECTORS’ COMPENSATION FY-19

<table>
<thead>
<tr>
<th></th>
<th>DIRECTORS’ FEES</th>
<th>BONUSES</th>
<th>INCOME FROM SHAREHOLDING</th>
<th>TOTAL INCOME</th>
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</thead>
<tbody>
<tr>
<td>Murray Baird</td>
<td>$52,517</td>
<td>-</td>
<td>$20,930</td>
<td>$73,447</td>
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<tr>
<td>John Bryson</td>
<td>$27,400</td>
<td>-</td>
<td>$55,147</td>
<td>$82,547</td>
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<td>$27,400</td>
<td>-</td>
<td>$50,051</td>
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<td>$24,388</td>
<td>$54,072</td>
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<tr>
<td>Anthony Starkins</td>
<td>Nil</td>
<td>-</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Guy Strapp</td>
<td>$1,903</td>
<td>-</td>
<td>-</td>
<td>$1,903</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$138,903</strong></td>
<td>-</td>
<td><strong>$150,516</strong></td>
<td><strong>$289,419</strong></td>
</tr>
</tbody>
</table>

Note: The above shows income from shares held in First Samuel arising from being a director.
Dear Clients and Friends

The year 2019 is the 20th anniversary of the founding of First Samuel. Over those 20 years, without exception, we have met the needs of our clients, shareholders and regulators.

FY-19 exemplified some of the issues we faced and how we responded.

**Client success** is best measured by how our clients rate us in our annual survey. We employ the widely-used Net Promoter Score (NPS) rating. Our rating of 78.6 again places us as the best company in Australia. This is a testament to the excellence we offer in our three key areas of service.

**Wealth Strategy Advice** (that is, the provision of personal financial advice, as ASIC phrases it) is the area that has seen the varied demand for our services. Regulatory changes have been considerable, especially in the area of superannuation.

Governments are keen to pick the low hanging taxation fruit, as they see it, often with little regard for the outworking complexities. We are not sure of how the policies of the new government will turn out. However, doubtless they will be profound and administratively complex. As in previous years, we will keep ahead of the changes, proactively advising clients and making structuring changes where necessary. Please turn to page 16 for more comments on this from my colleague, Nikki Hill.

**Investment Management** is the service easiest to measure and the hardest to explain when performance disappoints. FY-19, when viewed in isolation, may be disappointing. However, longer-term clients might recall the disappointing years of FY-04 and FY-14 and also the strong performance recovery from those set backs.

I am very confident that we shall see a strong recovery from this year. Please see pages 20-33 for more information on performance and how we manage your wealth. I note that, notwithstanding this year’s outcome, our clients’ longer-term performance exceeds benchmarks.

**Client Services and Reporting** is a mostly hidden service, visible only in the reporting we do for clients. But behind all of this is the fine detail of accurate and accessible record keeping and the ever-growing matter of compliance.

Compliance continues to be a major and expensive cost of doing business. It is an unhappy fact that it is the ethical weaknesses of others in the industry that compels the government to raise the compliance bar. The compliance outworkings of the Royal Commission will be costly.

**Business Success** for our shareholders is in the data shown opposite. The three key metrics are a NPS of 78.6, 14 successive years of profit and our policy of having zero debt.

Yours sincerely

Joe Flinn
Chief Executive Officer
KEY BUSINESS METRICS

NUMBER OF ASSOCIATES
22

YEARS OF SUCCESSIVE PROFIT
14

AVERAGE CLIENT ASSETS UNDER MANAGEMENT
$2.4M

NUMBER OF COMPLAINTS TO AUSTRALIAN FINANCIAL COMPLAINTS AUTHORITY
0

NET PROMOTER SCORE
First Samuel NPS (78)
Finance Industry equivalent of ‘very good’ NPS: 20
Australian Bank Average* NPS: -10

* Source: NPS Benchmarks
“We had to get married,” Rowena laughed. “Otherwise Bob would not have been allowed to stay in Australia. And here we are, 45 years later. Still together.”

Rowena and Bob were having coffee with me in one of those non-fashionable cafes in Kew, east of Melbourne. The owner managed the cafe in a style not often seen nowadays: a relaxed, southern European charm and ease blended with northern European efficiency. A mixture dreamed of by EU idealists, and found in Melbourne. And the coffee was excellent.

Bob is an anaesthetist and intensive care specialist, now working one day a week. Rowena had been an intensive care nurse and medical publisher. Despite both coming from England, they met in Melbourne, at the Royal Children’s Hospital. Rowena had a permanent resident’s visa but Bob did not. Marriage solved the problem, as so often the case.

Bob also seemed more reflective than his anaesthetist peers, a deeper observer of life. But he allowed his Yorkshire dry wit to often emerge, especially when sparked by Rowena.

TWICKENHAM
Rowena was from Twickenham, just outside London and home of rugby in England. “But I have little interest in rugby. I preferred the rock concerts at Eel Pie Island12. Mind you my ladies’ athletic club trained at the Harlequins ground; it gave the lads an incentive to sprint,” she smiled.

When I prodded Bob to speak of his career, she added the vignettes.

His career, like many in his profession, was somewhat peripatetic. He modestly mentioned the cities, adding details only when asked. He trained in anaesthetics in Leeds, before a year lecturing at the Chinese University in Hong Kong. He then came to Melbourne to work in the ICU of the Royal Children’s Hospital and thence to Perth. Then to Albury-Wodonga where he was also Director of Intensive Care at the Albury Base Hospital.

He returned to Hong Kong in 1989, as both a Senior Lecturer at the Chinese University of Hong Kong, and as Acting Director of Intensive Care at the Prince of Wales Hospital, Shatin.

Y2K
Rowena laughed, and told the story of their adviser. “He was, well, different. He thought that the Y2K13 bug would cause the end of the world. He sold his house, all his possessions and moved to a faraway country town. But before he sold his worldly possessions he sold us a Yarra Valley vineyard investment. All we got by way of return was two dozen tasting glasses! It was time to change.”

Bob continued: “We liked First Samuel’s philosophy: individual advice and management, coverage of both superannuation and non-superannuation assets and its no-commission policy.”

11 But not recently... it was in 1912.
12 Eel Pie Island is a 4-hectare island in the River Thames at Twickenham. The island had a genteel 19th century hotel that in the 1960s hosted such performers as The Rolling Stones, The Who and The Yardbirds.
13 The Y2K (Year 2000) bug was a technology issue (that digital timers represented four-digit years with only the two final digits) that developed into hysteria. Many people expected disasters to occur. None did.
“First Samuel was small enough for us to matter to them as a client,” he added.

“And although First Samuel has become larger, we still seem to matter to them as a client. Our Wealth Strategist, Nikki Hill is not only very smart, she is responsive. We have never contacted First Samuel and not had our matter quickly sorted.”

And the best advice? “Rowena received an inheritance and we asked for their suggestion. It was not to invest with First Samuel, but to pre-pay school fees. It was not only good advice, but also showed they put the interests of their clients first.”

The conversation widened again: to politics and schools, crosswords and literature. And then a glance at my watch showed that two hours had passed in what seemed half that time.

So often the way, I mused, when a conversation is rich and vivid. I reluctantly asked for the bill. With northern European efficiency it quickly came, and with a southern European smile.

**Bob and Rowena have been First Samuel clients for almost 20 years.**
- Anthony Starkins

Their recommendation was not to invest [an inheritance] with First Samuel, but to pre-pay school fees. It was not only good advice, but also showed they put the interests of their clients first.
HOW FIRST SAMUEL SERVES ITS CLIENTS

First Samuel provides an integrated, personal and tailored wealth management service to individual clients and their families. We hold an Australian Financial Services licence to provide “Managed Discretionary Account” services. Our usual minimum investment amount is $1m, however for people referred by clients or for children of clients we are pleased to reduce this amount. Our service has three clear elements, within an ethical enclosure.

ETHICS: WE WILL NOT COMPROMISE A CLIENT’S TRUST IN US

First Samuel was not only talking about ethics two decades ago, we took action. The talking was Anthony Starkins presenting to a Senate Standing Committee in the year 2000 the view that the payment and receipt of commissions in the financial services industry was unethical and a breach of fiduciary duty. The Committee ignored Starkins’ submission. But the talking went on. The action was to enshrine what we saw as our fiduciary duty in every client interaction. We will not compromise a client’s trust. We do not receive or pay commissions. We resolve any errors in favour of our clients. We admit our mistakes. We tell our clients when investments do not work out, and why. We have absolute fee and transaction transparency. And if any client has a problem, he or she can pick up the phone and speak to the person who owns the business. Or to the person who selects the securities to invest. We remain close to our clients.

WEALTH STRATEGY ADVICE

We provide individual, tailored and ongoing advice on the following:
- intergenerational wealth transfers
- investment strategies
- asset mix
- tax management in investment
- predator protection
- superannuation optimisation
- self-managed superannuation
- family trusts
- retirement planning
- asset and liability structuring
- insurance needs

More generally, our advice has the following features:
- initially, we consider the suitability of our service for the prospective client
- each client has an experienced and fully credentialed Private Client Adviser
- advice is provided initially, annually and on request
- we will initiate advice in the interests of clients
- we do not recommend products, nor consider services offered by other organisations

INVESTMENT MANAGEMENT

We provide individually managed portfolios of securities, whereby our clients give us the discretion to manage according to a pre-agreed Investment Program. Our service features:
- each portfolio is individually managed
- client’s wealth strategy advice is integrated with their investment program
- we can manage multiple portfolios, with one overall Investment Program, or with each having a unique Investment Program
- client’s retain ownership of securities
- our objective is long-term, after-tax performance
- we are not traders and do not invest based on fashion or trends
- when choosing securities, we consider a three-year minimum investment time frame
- we manage portfolios on an after-tax basis, seeking to optimise outcomes

ADMINISTRATION AND REPORTING

We provide a comprehensive administration and reporting service, using our secure online Client Portal:
- Daily updated reports:
  - portfolio appraisal
  - cash ledger
  - transactions
  - FYTD investment performance (before and after-tax)
  - realised capital gain tax
  - unrealised capital gains tax
- Additionally, the Client Portal provides:
  - archived quarterly and annual reports
  - audited accountant’s pack
  - quarterly investment review
  - annual investment review

Importantly, clients’ accountants can, with the client’s consent, have separate access to that client’s Client Portal.
ONLY AN INTEGRATED OFFERING OF THE THREE CRITICAL SERVICES WITHIN AN ETHICAL ENCLOSURE CAN TRULY MEET CLIENTS’ NEEDS
Dear Clients and Friends

CHANGE & COMPLEXITY

I continue to be amazed at the ongoing change and increasing complexity of the financial services industry.

The practical reality of the substantial changes implemented by the Turnbull government in 2017 are still being dealt with by many accountants and wealth advisers today.

And now we are subject to more change arising from the Financial Services Industry Royal Commission, which has led to an overhaul of adviser education and ethical standards. While I am hopeful that higher advising standards may actually be achieved, I believe that the best advisers were already operating in this realm.

Our industry is also becoming more complex in terms of potential investment products and structures.

To me, the importance of high-quality strategic advice, in order to successfully navigate our ever-evolving industry, has never been clearer.

MORE THAN SUPERANNUATION

The Financial Services Royal Commission focussed on superannuation and it seemed for many people superannuation was the only way to invest for retirement.

Superannuation remains a preferable investment structure. However, for some (and following the introduction of the $1.6 million transfer balance cap in July 2017), it is now just one of a number of investment structures.

Just as there is a blend of asset sectors in which to invest, it may be preferable to invest across a number of investment vehicles (such as superannuation, a family trust, jointly etc.) in order to deploy optimal outcomes such as tax efficiencies and flexibility.

In terms of potential superannuation options (and we compare three principal superannuation structures opposite), industry funds continue to gain market share. However, for those who wish for a more tailored and personal approach (and do not wish to be one of thousands of members) this option may not optimal.

Some (banking) retail superannuation funds were in the spotlight of the Financial Services Royal Commission for all the wrong reasons. Retail funds offer a range of products, for both superannuation and non-superannuation accounts, but both industry and retail funds offer a one-size-fits-all approach and retail funds can be expensive in terms of the total package provided.

BEST CHOICE

I therefore argue strongly for a flexible, high quality and individual service, such as that offered successfully by First Samuel over the past 20 years, to be a preferred choice.

The starting point for wealth management is wealth strategy advice. If this advice is absent or poor, then no amount of outstanding investment performance will help.

That is why investors need to start with high-quality wealth strategy advice. As our clients have done for 20 years.

Yours sincerely

Nikki Hill
Head of Wealth Strategy
For many people superannuation is their largest investment outside of the family home. And in many cases superannuation continues for longer than a single family home is owned.

The Royal Commission gave a sense that there were just two superannuation structures available. But there are essentially three superannuation structures from which to choose: (a) Self managed superannuation funds (SMSFs); (b) Industry superannuation funds or (c) Retail superannuation funds (e.g. those offered by banks). Of course, there are government and corporate funds, but these are not open to non-employees. We set out below the key features of each.

We consider that for investors who wish to control their superannuation investments and have more than $200,000 to invest, SMSFs often have many more advantages than other structures.

### SMSFs: STILL OFTEN BETTER THAN ALL THE REST

For many people superannuation is their largest investment outside of the family home. And in many cases superannuation continues for longer than a single family home is owned.

The Royal Commission gave a sense that there were just two superannuation structures available. But there are essentially three superannuation structures from which to choose: (a) Self managed superannuation funds (SMSFs); (b) Industry superannuation funds or (c) Retail superannuation funds (e.g. those offered by banks). Of course, there are government and corporate funds, but these are not open to non-employees. We set out below the key features of each.

We consider that for investors who wish to control their superannuation investments and have more than $200,000 to invest, SMSFs often have many more advantages than other structures.

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>SMSF</th>
<th>INDUSTRY</th>
<th>RETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>What the member wants (generally)</td>
<td>Control</td>
<td>Simplicity</td>
<td>Convenience with investor’s (a) bank; or (b) financial adviser</td>
</tr>
<tr>
<td>Ownership</td>
<td>Private, run by its members</td>
<td>Joint enterprise between an industry’s employers and employees</td>
<td>Banks or investment companies</td>
</tr>
<tr>
<td>Members</td>
<td>Up to 4</td>
<td>No cap</td>
<td>No cap</td>
</tr>
<tr>
<td>Minimum size for efficiency*</td>
<td>$200,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Compliance responsibility</td>
<td>Members</td>
<td>Fund</td>
<td>Fund</td>
</tr>
<tr>
<td>Profit</td>
<td>Not for profit</td>
<td>Not for profit</td>
<td>For profit</td>
</tr>
<tr>
<td>Rollover choices</td>
<td>Cash and ‘in specie’</td>
<td>Cash</td>
<td>Cash</td>
</tr>
<tr>
<td>Insurance</td>
<td>Wide choice</td>
<td>No choice</td>
<td>No choice</td>
</tr>
<tr>
<td>Investment: choices</td>
<td>Unlimited</td>
<td>Small (generally)</td>
<td>Large</td>
</tr>
<tr>
<td>Investment: business real property</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Investment: economies of scale</td>
<td>Limited</td>
<td>Maximised</td>
<td>Limited</td>
</tr>
<tr>
<td>Investment: transparency</td>
<td>Total</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td>Performance</td>
<td>Varies with each SMSF</td>
<td>Generally good</td>
<td>Generally not as good as industry funds</td>
</tr>
<tr>
<td>Costs</td>
<td>Medium to high</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Tax effectiveness: contributions</td>
<td>Optimised</td>
<td>Poor</td>
<td>Poor</td>
</tr>
<tr>
<td>Tax effectiveness: CGT</td>
<td>Optimised</td>
<td>Poor</td>
<td>Poor</td>
</tr>
<tr>
<td>Tax effectiveness: franking credits</td>
<td>Optimised</td>
<td>Poor</td>
<td>Poor</td>
</tr>
<tr>
<td>Tax effectiveness: accumulation to pension</td>
<td>Optimised</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td>Transparency</td>
<td>Total</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td>Administration</td>
<td>Varies with each SMSF</td>
<td>Can be complex</td>
<td>Can be complex</td>
</tr>
<tr>
<td>Estate management</td>
<td>Flexible</td>
<td>Can be administratively difficult with less flexibility</td>
<td>Can be difficult</td>
</tr>
</tbody>
</table>

Investors should seek personal financial advice before choosing a SMSF. Source: Australian Securities and Investments Commission, First Samuel.

* Depends on particular circumstances of each client
It was probably inevitable that younger clients would choose a place for coffee that mixed a café with a very upmarket homewares shop. The place was light and very modern. But, unlike many modern cafes and restaurants, the tables were well-spaced, allowing for unintrusive conversation.

Dmitri and Maria bounced in. The greeting was lush, but genuinely friendly. Their Russian-ness was of a more refined style, without betraying their heritage. Both were born in Russia, but met in Melbourne.

Dmitri is from St Petersburg, which he left with his parents when he was 16. The chaos of Russia under Yeltsin was perhaps too much for them. But, if nothing else, he was well educated: on reaching Melbourne, he found his Russian education was more advanced for his age than locally. So he qualified for University of Melbourne a year ahead of his classmates, after Year 11.

**BRAINS’ TRUST**

After graduating with Bachelor of Commerce he worked at Ford Credit for four years, before moving to the ANZ Bank. There he extended his experience in risk management and banking. He now works at the NAB, in business lending. He was part of the brains trust behind development of its highly successful QuickBiz lending product and is now Head of Business Credit Portfolio Management.

I sensed that he was on the escalator at NAB.

His career seems to tell a story of a beavering business technician. But there is much colour to his personality – he laughs at himself and is self-deprecating, for example. Maria often interjected to boost his modest comments about his career.

**SENT TO AUSTRALIA**

Maria’s 14 years in Melbourne contrasts with Dmitri’s 25. But she seems more Australian. After completing at Moscow State Technology University, she was 21 when her father “sent me to Australia.” She quickly obtained a bachelor’s degree in Applied Science and a master’s degree in Business Information Technology. She then worked as an implementation specialist in the Salesforce.com ecosystem.

At that time, Maria became active in the Australian Computer Society and is now Chair of ACS Victoria and is on the National Management Committee. She is also a Graduate of the Australian Institute of Company Directors and an IT Advisory Board Member, School of IT, at Deakin University.

This is not a woman who stands still (she and Dmitri also have an eight-year-old son). She now has decided to build her own business. Whew!

Whereas I was happy to probe Dmitri on business, finance and banking matters, my understanding of IT matters was, and is, well, somewhat elementary. So I felt most uncomfortable to ask Maria about her ‘start-up’.

“IT’s about original content creation for social media,” she happily responded. My blank look betrayed my complete absence of understanding. Dmitri was smiling at my obvious discomfort. Indeed, my comfort zone was some distance away.

**RESCUE**

Dmitri came to my rescue and moved the conversation to wealth management matters.

“We read an article about Saul Eslake, where Saul said that the best (investment) decision he ever made was appointing First Samuel. I had indirectly worked with Saul at ANZ
and respected his judgement. So we decided to meet with First Samuel.”

“We have not been disappointed, even though we have been clients for just two years. Our Wealth Strategist, Jack Ngo, is easy to relate to: who we are and what is important to us.”

And Maria added, “It’s not just managing our money, but managing our circumstances. And in cases where there is no monetary advantage to them, First Samuel also provided guidance, such as on insurance and estate planning. We didn’t realise the complexity of these things.”

I decided it was time to steer away from First Samuel and back to them. And we returned to education and discussed the merits of an Erasmian education14. This was a topic with which I was not familiar, but to which I soon warmed. Ancora imparo15, indeed! And although now decidedly Australian parents, their son goes to Russian lessons every Sunday.

As with so many meetings with clients, the time passes all too quickly. And as I strolled out to the train station I remembered I had forgotten to ask what they thought of Vladimir Putin.

Dmitri and Maria have been First Samuel clients for just over two years.

- Anthony Starkins

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14 Based on Desiderius Erasmus’ philosophy of the humanistic belief in an individual’s capacity for self-improvement and the fundamental role of education. The thrust of Erasmus’ educational program was the promotion of docta pietas, learned piety.

15 ‘I am still learning,’ the motto of Monash University.
Dear Clients and Friends

OUTCOMES
As you can see from the tables opposite, all portfolio types had a poor year, driven by our Australian shares' performance. In an intersection of rare circumstances (see pages 28-29) our shares' performance was minus 14%.

It is pleasing that our performance in the other major sectors that we manage was excellent:

<table>
<thead>
<tr>
<th>Income securities:</th>
<th>Property securities:</th>
<th>Alternative securities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>+7.8%</td>
<td>+5.8%</td>
<td>+8.5%</td>
</tr>
</tbody>
</table>

FACTORS AFFECTING AUSTRALIAN SHARES
Part of our success over 20 years has been because we invest in a portfolio that often is very different from the broader share market. So it is inevitable that our returns will be different from the market.

There were three circumstances that met to produce the disappointing FY-19 return:

<table>
<thead>
<tr>
<th>CIRCUMSTANCES</th>
<th>OUTWORKING</th>
<th>WE SAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Massive capital moves from retail funds to industry superannuation funds</td>
<td>Small stocks' poor performance</td>
<td>Short-term dislocation. These stocks' values will be recognised with share price gains</td>
</tr>
<tr>
<td>2. Share market over-valued. Suitable stocks expensive.</td>
<td>20% + cash in a rising market; poor relative performance</td>
<td>Cash holding is both prudent and a free option to capture opportunity</td>
</tr>
<tr>
<td>3. We underestimated business changes within two companies</td>
<td>Two large stocks under-perform</td>
<td>We erred. We held, rather than reducing our exposure</td>
</tr>
</tbody>
</table>

CONTEXT: LONG-TERM-INVESTING
Investors often say they are 'long-term investors'. This is wise. And we invest accordingly. But when a bad year comes along, it is natural for investors to feel disappointed.

This is especially so of clients who have been with us for a very short time. Longer-term clients have their own proof-statement of our successful approach. That is in their own strong performance. For the 10 years to June 2018, our raw16 Australian shares' performance was 11.7% p.a, somewhat above the 6.2% of the share-market. That's a strong proof-statement.

OUTLOOK
As I often say, it is foolish to predict investment outcomes. But it is clear that as we commence FY-20 our shares’ portfolio has a good yield, an expected profit growth from its companies that is over twice that expected of the ASX300, is inexpensive, and has the opportunity of over 20% cash.

If you are confident in the process that brought you strong returns, now is the time to stay with that successful process. Your patience will be rewarded.

Yours sincerely

Dennison Hambling
Chief Investment Officer

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16 Note: The data is the asset weighted average performance of clients’ Australian shares’ portfolios, before fees and after franking credits. Australian share market is the All Ordinaries Accumulation Index. Past performance does not guarantee similar future performance. Source: First Samuel, IRESS.
## OUR CLIENTS’ PERFORMANCES

### KEY PORTFOLIO-TYPE PERFORMANCE FOR FY-19, 5 YEARS AND 20 YEARS

<table>
<thead>
<tr>
<th></th>
<th>GROWTH (CONCENTRATED)</th>
<th>GROWTH (DIVERSIFIED)</th>
<th>BALANCED</th>
<th>CONSERVATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BENCHMARK</td>
<td>CPI + 5%</td>
<td>CPI + 5%</td>
<td>CPI + 4%</td>
<td>CPI + 3%</td>
</tr>
<tr>
<td>FY-19</td>
<td>-11.8%</td>
<td>-9.7%</td>
<td>-5.6%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>5 year</td>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.0%</td>
<td>7.6%</td>
<td>7.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td></td>
<td>Benchmark</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.5%</td>
<td>6.5%</td>
<td>5.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Value added</td>
<td>1.5%</td>
<td>1.1%</td>
<td>1.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>20 year</td>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9.7%</td>
<td>7.5%</td>
<td>6.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td></td>
<td>Benchmark</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7.4%</td>
<td>7.4%</td>
<td>6.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Value added</td>
<td>2.3%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

### 5 YEARS

- **First Samuel** (8.0%) Benchmark (6.5%)
- **First Samuel** (7.6%) Benchmark (6.5%)
- **First Samuel** (7.2%) Benchmark (5.5%)
- **First Samuel** (7.0%) Benchmark (4.5%)

### 20 YEARS

- **First Samuel** (9.7%) Benchmark (7.4%)
- **First Samuel** (7.5%) Benchmark (7.4%)
- **First Samuel** (6.6%) Benchmark (6.4%)
- **First Samuel** (6.4%) Benchmark (5.5%)

### AVERAGE ASSET MIXES FOR THE FOUR BROAD PORTFOLIO TYPES

<table>
<thead>
<tr>
<th></th>
<th>Equity securities</th>
<th>Income securities</th>
<th>Property securities</th>
<th>Alternative securities</th>
<th>International securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI + 5% (Growth - Concentrated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI + 5% (Growth - Diversified)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI + 14% (Balanced)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI + 13% (Conservative)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17 The returns shown are percent per annum and are the asset weighted average performance of all like clients’ portfolios, after fees, GST, brokerage and tax benefits. Individual client returns will vary, reflecting different client asset mixes, investment prohibitions, tax management, legacy issues, the timing of their funding, etc. The 20-year performance data is a composite of benchmark tracking performance for the first 12 months and then actual performance since. Past performance does not guarantee similar future performance.

18 Actual asset mixes depend on each client’s objectives.
“The essence of successful investing is two-fold: not to pay too much for any investment and to be patient.”

INVESTMENT BASIS
We see Australian shares as the anchor for all clients’ portfolios. Generally speaking, a client’s expectation for return and volatility is achieved by varying the proportion of Australian shares in a portfolio with a mix of other asset sectors.

This can be shown in the asset mix columns on page 21. Of course, there are endless combinations of asset mixes but the importance of Australian shares to long-term investment outcomes is clear.

1. OBJECTIVE
“To obtain returns over rolling five-year periods that exceeds (a) 10% p.a. and (b) the market by 2% p.a.”

Critical success factors:

- **Five-year periods**: we are patient; some securities take time to either mature (especially smaller companies) or to be recognised by the market.
- **Market**: investors have an alternative, that of passively investing in the market. We must therefore provide a higher return than the market.
- **10%**: absolute returns are critical. There is little point in out-performing the market if the market is negative for a long-period. We believe that double digit returns are achievable.

Note: In certain circumstances we may not be able to meet these objectives. We cannot guarantee future returns.

2. OPTIMAL CONSTRUCTION
We build a diversified and concentrated portfolio of securities, the expected dividend yield and expected profit growth of which will be higher than that of the market and the P/E of which will be lower.

Critical success factors:

- **Portfolio of securities I**: We are interested in the return of the portfolio. And hence we look at the metrics of the overall portfolio.
- **Portfolio of securities II**: Not all individual securities will perform as we expect. But, rather like a football team, it is the team result that counts.
- **Concentrated**: We aim to have about 25 securities in the portfolio.
- **Diversified**: We diversify the portfolio by investing in securities across a range of industry sectors. This avoids shocks that might affect one sector.

3. SECURITY SELECTION
We like to deeply understand the management and business basis of the companies in which we invest.

Critical success factors:

- **Research**: We undertake our own research, avoiding the pitfalls of conflicted broker research.
- **Proximity**: We get close to the management of a company, and sometimes will assist the board in strategic matters.
- **Asymmetry**: We assess what can go wrong before we assess the upside potential.
- **Size**: Size doesn’t matter. A large market capitalisation doesn’t guarantee success.

4. RISK MANAGEMENT
Risk is managed at two levels: by the investment team and by the Board’s Investment Governance Committee (IGC).

Critical success factors:

- **Security**: We cap exposure to any one security.
- **Sector**: We cap exposure to any one industry sector.
- **Intended deviations**: Any deviations are advised to the IGC.
- **Breaches**: Any breaches of a client’s Investment Program are reported to the IGC.

EXCEPT FOR SHORT PERIODS, FIRST SAMUEL HAS EXCEEDED ITS TWIN AUSTRALIAN SHARES’ OBJECTIVES

Past performance does not guarantee similar future performance.
GETTING TO THE THREE CRITICAL PORTFOLIO METRICS

WHAT NUMBERS SHOULD CLIENTS LOOK AT?
The critical items are the metrics of the portfolio (i.e. yield, profit growth and inexpensiveness), not of individual stocks. There will be seeming anomalies in the data for some (especially small and opportunity) stocks. Examples include owning a security that has no dividend, zero expected profit growth and no P/E or has a seemingly weird P/E (arising from the sale of a business). The answer is our conservativeness – these stocks have significant potential because of, for example, industry attractiveness (e.g uranium) or company uniqueness that might lead to corporate activity. It is better to understate the opportunity.

TARGET AUSTRALIAN EQUITY PORTFOLIO 30-JUN-19 (see footnotes)

<table>
<thead>
<tr>
<th>SECURITY</th>
<th>WEIGHT</th>
<th>DIV YIELD</th>
<th>AVG 3 YR PROFIT GROWTH</th>
<th>PROSPECTIVE PE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emeco</td>
<td>8.7%</td>
<td>4.9%</td>
<td>17%</td>
<td>8</td>
</tr>
<tr>
<td>Aveo</td>
<td>5.0%</td>
<td>2.0%</td>
<td>18%</td>
<td>16</td>
</tr>
<tr>
<td>Origin Energy</td>
<td>3.2%</td>
<td>8.5%</td>
<td>8%</td>
<td>10</td>
</tr>
<tr>
<td>Healius</td>
<td>3.0%</td>
<td>5.3%</td>
<td>19%</td>
<td>13</td>
</tr>
<tr>
<td>Southern Cross Media</td>
<td>3.0%</td>
<td>9.4%</td>
<td>5%</td>
<td>10</td>
</tr>
<tr>
<td>BHP</td>
<td>3.1%</td>
<td>8.1%</td>
<td>1%</td>
<td>15</td>
</tr>
<tr>
<td>Coronado</td>
<td>3.3%</td>
<td>14.6%</td>
<td>-5%</td>
<td>12</td>
</tr>
<tr>
<td>QBE</td>
<td>2.9%</td>
<td>8.0%</td>
<td>11%</td>
<td>10</td>
</tr>
<tr>
<td>HT &amp; E</td>
<td>2.6%</td>
<td>9.7%</td>
<td>12%</td>
<td>9</td>
</tr>
<tr>
<td>Cardno</td>
<td>2.8%</td>
<td>0.0%</td>
<td>21%</td>
<td>7</td>
</tr>
<tr>
<td>Challenger Financial Group</td>
<td>2.3%</td>
<td>6.7%</td>
<td>1%</td>
<td>10</td>
</tr>
<tr>
<td>Pact Group</td>
<td>2.6%</td>
<td>6.7%</td>
<td>22%</td>
<td>11</td>
</tr>
<tr>
<td>Worley Parsons</td>
<td>1.0%</td>
<td>3.2%</td>
<td>14%</td>
<td>10</td>
</tr>
<tr>
<td>Small cap securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paragon Healthcare</td>
<td>4.2%</td>
<td>10.5%</td>
<td>21%</td>
<td>9</td>
</tr>
<tr>
<td>360 Capital Group</td>
<td>4.2%</td>
<td>0.0%</td>
<td>17%</td>
<td>52</td>
</tr>
<tr>
<td>CML Group</td>
<td>4.1%</td>
<td>8.8%</td>
<td>19%</td>
<td>7</td>
</tr>
<tr>
<td>Threat Protect</td>
<td>3.5%</td>
<td>0.0%</td>
<td>14%</td>
<td>6</td>
</tr>
<tr>
<td>Mermaid Marine</td>
<td>3.4%</td>
<td>0.0%</td>
<td>0%</td>
<td>6</td>
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<tr>
<td>Paladin Energy</td>
<td>2.4%</td>
<td>0.0%</td>
<td>0%</td>
<td>7</td>
</tr>
<tr>
<td>Elmore (formerly Indiore)</td>
<td>1.4%</td>
<td>0.0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Moreton Resources</td>
<td>0.8%</td>
<td>0.0%</td>
<td>0%</td>
<td>6</td>
</tr>
<tr>
<td>TZ Limited</td>
<td>0.5%</td>
<td>0.0%</td>
<td>0%</td>
<td>4</td>
</tr>
<tr>
<td>Deep Yellow</td>
<td>0.5%</td>
<td>0.0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Opportunity securities i.e. unlisted</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northern Silica</td>
<td>6.7%</td>
<td>0.0%</td>
<td>0%</td>
<td>8</td>
</tr>
<tr>
<td>TZ Limited Convertible Note</td>
<td>1.3%</td>
<td>9.8%</td>
<td>0%</td>
<td>10</td>
</tr>
<tr>
<td>Mr Rental Group</td>
<td>0.9%</td>
<td>0.0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Equity cash</td>
<td>22.5%</td>
<td>1.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio</td>
<td></td>
<td></td>
<td>3.9%</td>
<td>10%</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td></td>
<td>3.8%</td>
<td>4%</td>
</tr>
<tr>
<td>First Samuel advantage</td>
<td></td>
<td></td>
<td>0.1%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Notes:
1. The above table is for illustrative purposes only. Stock and market data may change. Individual client holdings may vary.
2. Yield is grossed up for franking credits.
3. Expected 3-year return is average over three years and is a forecast.
4. P/E is forward looking Price to Earnings ratio.
5. All Ordinaries Index data is consensus forecasts from stock brokers.
6. We do not provide an expected 3-year return for Opportunity Securities.
SUMMARY

After three years of exceptional outperformance, our clients had a very disappointing year, for the reasons described on earlier pages. The average share portfolio returned -16%, not only obviously a large negative performance but also well below the Australian market’s +11%.

This reduced our performance outcomes to just below their five-year targets.

<table>
<thead>
<tr>
<th>TARGET</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>10% p.a.</td>
</tr>
<tr>
<td>Outperformance</td>
<td>2% p.a.</td>
</tr>
</tbody>
</table>

As set out on page 23, the share portfolio is now well-structured to add considerable value over the next three years.

LONGER-TERM CONTEXT

It is folly to seek a performance pattern from just one year, albeit a very good year. The below chart shows the best 20 and worst five contributors to our share return of 9.9% p.a. over the past five years.

The horizontal bars for the stocks do not measure performance. Each measures ‘contribution’, that is average performance multiplied by average portfolio weight. This avoids the temptation to look at just stock performance – a stock may perform very well but if it has only a small portfolio weight then it is not going to make much overall difference.

There is merit in highlighting:
1. Industry-diversified success
2. Relatively even spread of success
3. ‘Red’ stocks – there will always be negative contributors

PERFORMANCE CONTRIBUTION BY STOCK FOR PAST 5 YEARS. A WELL SPREAD CONTRIBUTION, DIVERSIFIED BY INDUSTRY*.

* First Samuel Average Return is the asset weighted average performance of clients’ Australian shares’ portfolios, before fees and after franking credits. Blue and red bars are the contribution of individual stocks to overall performance. See text for explanation. Source: First Samuel, IRESS.

Past performance does not guarantee similar future performance.
WHAT IS SHORT-TERM INVESTMENT SUCCESS?
Poor share market performance of many of our companies seems to have been compressed into one year. But it is important to differentiate between:
• good investment decisions that have not yet been recognised by the market
• poor investment decisions

The metric of short-term success is not the share-price of stock. But whether its underlying business is performing as we expect.

In many cases we believe we have made good investment decisions that are yet to be recognised. The reasons for this are principally because of the massive capital shift to industry funds explained on page 28. But also the frequent lag between when we see value in a stock and the market finally sees that same value.

In the long-term the value that we see in a stock, will be recognised by its price.

However, we are not perfect. And not all decisions this year were ideal.

We set out over the next few pages what worked in FY-19 and what didn’t work. We have focused on the major companies.

WHAT IS LONG-TERM INVESTMENT SUCCESS?
Long-term investment success is shown in the below table¹⁹.

<table>
<thead>
<tr>
<th></th>
<th>5 YEARS</th>
<th>10 YEARS</th>
<th>15 YEARS</th>
<th>20 YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Samuel</td>
<td>9.9%</td>
<td>11.7%</td>
<td>12.1%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>9.0%</td>
<td>10.1%</td>
<td>8.9%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

¹⁹ The returns shown are per cent per annum and are the asset weighted average performance of clients’ Australian shares’ portfolios, before fees and after franking credits. Individual client returns will vary, reflecting different investment prohibitions, tax management, legacy issues, the timing of their funding, etc. The 20-year performance data is a composite of benchmark tracking performance for the first 4 months and then actual performance since. Benchmark is the All Ordinaries Accumulation Index. Past performance does not guarantee similar future performance.

Source: First Samuel, IRESS.
WHERE A COMPANY’S BUSINESS MET OUR EXPECTATIONS, EVEN IF THE SHARE PRICE DIDN’T

QBE
- a general insurer and underwriter, with a diversified global exposure

We saw the benefits of QBE’s ‘brilliant basics’ and ‘cell review’ programs flow through to its performance.

In 2018 the company’s combined operating ratio (a ratio of its expenses/claims/commissions to premiums collected) was 95.7% - indicating underwriting was profitable and a marked improvement on 2017 (103.9%). All geographies delivered better results, with a significant turnaround in North America of note – but more improvement in their Asia-Pacific operations is required.

The company was able to institute an average price increase of 5% in 2018, while ensuring customer retention remained stable and reducing its exposure to large, individual risk and catastrophes. It is worth noting that the strong growth in its net profit over 2018 was in spite of the weak investment returns seen market-wide in the latter half of 2018.

QBE finished FY-19 with a dividend yield of 8%, expected profit growth over the next three years of 11% p.a. and had a P/E of 10. All attractive metrics.

EMECO
- a mining services company that provides earth-moving equipment and maintenance services to the mining industry (primarily bulk commodities & metals)

Emeco’s revenue was up significantly during the first half of the year, as demand for its equipment increased – as represented by a strengthening in its operating utilisation. The contribution/synergies from the Force and Matilda acquisitions, as well as disciplined cost management saw its operating profit (EBITDA) margin increase. The company has signalled its intention to acquire additional equipment, which is expected to result in a 10% accretion of its earnings.

The company expects a level of operating profit (EBITDA) in FY-19 that is approximately 40% higher than FY-18, with an improvement in its operating profit margin. Furthermore, it continues to reduce its leverage and forecasts a leverage ratio of 2.1x by year end FY-19 (FY-17 5.5x)

Emeco finished FY-19 with a dividend yield of 5%, expected profit growth over the next three years of 17% p.a. and had a P/E of 8.

We saw the benefits of QBE’s ‘brilliant basics’ and ‘cell review’ programs flow through to its performance.

The contribution/synergies... [from] acquisitions, as well as disciplined cost management saw its operating profit margin increase.
CORONADO
- a predominantly metallurgical coal (used in the manufacture of steel) producer
Coronado’s half year result confirmed that the company essentially met or exceeded its FY-18 target, as articulated in its listing prospectus. The company produced 20.2 million tonnes of coal in FY-18, with sales of 20.1 million tonnes of coal (78.6% of which was metallurgical coal – which is used in the manufacture of steel).

Furthermore, it has indicated that it is on track to exceed production levels forecast in its prospectus. The company issued a dividend which was higher than we expected, including a special dividend. The dividend paid was $43.7cps, versus a share price of $3.52, which represented a 12.4% dividend yield.

High dividends are expected to continue, supported by strong cash generation from its assets.

Coronado finished FY-19 with a dividend yield of 14% and a P/E of 12. We are being conservative and expect profit growth to be flat to slightly down over the next three years.

SOUTHERN CROSS MEDIA
- one of the largest commercial radio operators in Australia (broadcaster of Triple M and HiT)
Southern Cross Media’s performance was better than expected, given weak economic conditions seen in the first half of the year.

Revenue at a group level was flat, however, its Audio division showed strong growth (with regional radio a standout – as management’s efforts to expand national advertisers into regional stations brought benefits), while Television revenue experienced a decline, largely a result of the loss of the cricket telecast.

Net profit overall for the company increased by 5.4% versus the previous comparative period.

Southern Cross finished FY-19 with a dividend yield of 9.4%, expected profit growth over the next three years of 5% p.a. and had a P/E of 10.

The company issued a dividend which was higher than we expected, including a special dividend.
MASSIVE SHIFT OF ASSETS TO INDUSTRY SUPERANNUATION FUNDS

My colleagues and I have recently written about the largest capital move in Australia’s financial market’s history.

The effect of this is considerable.

The short story is that there has been a massive flow of superannuation assets to ‘industry’ superannuation funds. This flow has two causes:

a. retail investor disillusionment with bank- and AMP-operated funds, especially during and following the Royal Commission; hence selling out; and

b. industry funds reducing the number of mandates ‘outsourced’ to specialist portfolio managers as those mandates were brought ‘in-house’.

This flow has one major effect: to cause the forced selling of stocks held by those portfolio managers.

This forced selling has depressed prices, and absent subsequent buying from industry funds has caused many smaller stocks, for the moment, not to be widely purchased.

Eventually, as history has shown, buyers for stocks with depressed prices that underestimate their value will emerge, either on the market or from private equity investors.

...buyers will emerge for stocks with depressed prices that underestimate their value...
THE SHARE MARKET IS OVER-VALUED

We held between 20% and 25% ‘equity cash’ in the share portfolio this year.

This is cash generally not needed for liquidity and is set aside to invest in securities.

This seeming high weight reflected our view of the expensiveness of the wider market and our conservativeness.

The expensiveness of the market is shown by the compression of returns to a small number of stocks.

The compression of FY-19 had a number of factors, not least of which was the very narrow band of stocks that made up the success of the ASX.

But for just six stocks (CBA, CSL, BHP, Fortescue, Telstra and Transurban), the ASX300 would have been negative (see top chart).

We consider it not worth the risk to invest in such stocks, five of which had become very expensive (see bottom chart).

Of course, with the benefit of hindsight, we were too cautious. But consider our reasoning.

Equity cash should be looked at as an equity security, that:

• is a prudent holding when the market is expensive
• is a free option to buy securities
• earns a (now small) rate of return
• doesn’t grow

We include equity cash in calculating performance, unlike other investment managers (which include only securities).

This obviously adversely affects performance in a strong market.

Equity cash will only be utilised to purchase new securities if they (a) improve the three critical overall portfolio metrics of yield, profit growth and inexpensiveness; and (b) do not increase the risk of the portfolio by, for example, over-weighting a sector.

It is a good question to ask “if you cannot find anything to buy that meets the investment criteria, why not invest more in the existing portfolio?”

The reason is that we have risk-caps on the percentage weight we hold in any one security or sector – depending mainly upon the size of the company.
BUT EACH OF PACT GROUP AND CHALLENGER ARE NOW ATTRACTIVELY PRICED

PACT GROUP
- one of Australia’s largest providers of rigid packaging, contract manufacturing and materials handling solutions

Pact faced several challenges over FY-19. Margins have been impacted by higher input costs including higher electricity and resin costs. Furthermore, it has experienced weaker demand across all divisions, partly due to macro-economic and seasonal factors (for example in dairy as a result of drought conditions).

Pact is responding to this challenging operating environment through the redesign of its packaging network, as well as an operational improvement program (involving a new operating model and reduction in overheads). This will be led by its newly-appointed CEO, Sanjay Dayal, an executive with considerable experience in manufacturing and supply chain management.

We are not unrealistic: Pact still does have a hard road ahead as it turns its operational momentum. But it has a clear path to get there, credible management to do so, and importantly, great assets.

CHALLENGER
- a provider of annuities, guaranteed income solutions, as well as fund management services

Challenger has been impacted by weaker investment returns over FY-19 (in part, due to the weak performance of equity markets in 1H19, a low interest rate environment and a reduction in the risk profile of its investment portfolio). Sales growth has been impacted by the structural changes we have seen within the financial advice market (post-Royal Commission) as well as the depreciation of the Australian Dollar (relative to the US dollar) which has impacted the attractiveness of its products to the Japanese market.

In addressing this, Challenger strengthened its partnership with Japanese life insurer MS&AD (guaranteeing a nominal amount of sales in Japan), expanded its distribution channels and is looking to strengthen its relationship with not-for-profit member funds.

Despite difficulties in the short term, Challenger remains the largest, most established player in a sector that is well-positioned for growth. There is a pressing and growing need for post-retirement products, which will continue to grow as populations age and a larger number of people (and a larger dollar amount of assets) transition to pension phase.

... it has a clear path, credible management and... great assets.

Challenger remains the largest most established player in the sector for post-retirement products.
INVESTORS SHOULD EXPECT RETURNS DIFFERENT FROM THE SHARE MARKET

OUT-PERFORMANCE COMES FROM HOLDING A DIFFERENT PORTFOLIO

Your shares’ performance generally does not match that of the broader share market (e.g. the ASX200 – the performance index of the 200 largest stocks on the ASX) because we do not hold the same securities as the ASX200.

We have consistently outperformed the ASX200 for the simple reason that we do not hold the same securities.

If investors want outperformance, they must expect a different portfolio to the ASX. Which is what we offer.

But this is not a guarantee of outperformance in any one year. We have outperformed in 13 of our 20 years.

The variation from market has varied from -25.4% (FY-19) to +18.3% (FY-04), with an average variation of +3.3%.

However, in any three-year period underperformance has occurred just four times since the business began in 1999 - see adjacent chart.

In FY-19, our performance relative to the ASX has been compressed into one year.

For FY-15 it was three successive years of poor relative performance.

And never has 5-year relative performance been negative.

" Over every five year period First Samuel has provided a positive return "
INCOME SECURITIES AND PROPERTY SECURITIES

INCOME SECURITIES
AVERAGE CLIENT RETURN: 7.8%
BENCHMARK RETURN: 1.9%

SECTOR CHARACTERISTICS
The objective of Income Securities (often termed Fixed Income elsewhere, but many securities now have interest rates that “float”) is to diversify return and volatility by investing in debt or quasi-debt securities that provide regular income. Examples include corporate bonds, income notes, hybrid securities and securitised mortgages. The total investment return comes from both income (interest) and capital gain (or loss).

THIS YEAR
FY-19 was a strong year, with comfortable outperformance of the benchmark. Good performance came from securities where there was a capital gain on top of the interest income, with the Multiplex SITES preference securities, Suncorp Capital Notes and NAB Income Securities performing the best.

Other securities returned between 6% and 10% depending upon the security type.

The Moreton Resources Hybrids (for some clients might be an Alternative Security) were refinanced in a number of tranches at 12% p.a. Threat Protect Notes were refinanced at 6.5% above 180-day swap rate.

The IANG Reset Exchangeable Securities and Macquarie Group Capital Notes were each sold.

PROPERTY SECURITIES
AVERAGE CLIENT RETURN: 5.8%
BENCHMARK RETURN: NOT APPLICABLE

SECTOR CHARACTERISTICS
The objective of Property Securities is to diversify return and volatility away from Australian Shares by investing in listed and unlisted securities, the return of which is determined by income and capital gain (or loss) from real property. Examples include real estate investment trusts and property companies.

We do not seek to add value to the various industry property benchmarks, as these have a significant component of property development exposure, a characteristic with which we are not comfortable. Hence there is not an applicable benchmark for the sector.

THIS YEAR
It was another sound year for property securities. Clients should remember that this sector is used to sensibly diversify return and risk away from investments in Australian shares and not to outperform the property securities index.

Many REITS (Real Estate Investment Trusts, formerly ‘property trusts’, listed on the ASX) had a very strong year as the search for a high yield in the face of declining deposit rates caused a flood of capital. This pushed up prices well above what we consider is ‘fair value’. This fact was shown when major trusts undertook rights’ issues late in the year, taking advantage of strong investor demand. We ignored these issues as we believe the share prices of these securities are vulnerable.

For our clients, we were and are comfortable not to chase yield, but rather to provide steady returns from securities that reduce the overall volatility of client portfolios.

INCOME SECURITIES: ANOTHER GOOD YEAR - SIGNIFICANT PERFORMERS

<table>
<thead>
<tr>
<th>Security</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiplex SITES hybrid</td>
<td></td>
</tr>
<tr>
<td>Suncorp Capital Notes</td>
<td></td>
</tr>
<tr>
<td>National Income Notes (NAB)</td>
<td></td>
</tr>
<tr>
<td>Australian Enhanced Income Fund</td>
<td></td>
</tr>
<tr>
<td>FastTrack Notes</td>
<td></td>
</tr>
<tr>
<td>Peet bonds</td>
<td></td>
</tr>
<tr>
<td>IAG Capital Notes</td>
<td></td>
</tr>
<tr>
<td>TZ Notes</td>
<td></td>
</tr>
<tr>
<td>Liberty MBS</td>
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</tr>
<tr>
<td>AMP Capital Notes</td>
<td></td>
</tr>
</tbody>
</table>

PROPERTY SECURITIES: DIVERSIFYING VOLATILITY - SIGNIFICANT PERFORMERS

<table>
<thead>
<tr>
<th>Security</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centuria Metropolitan REIT</td>
<td></td>
</tr>
<tr>
<td>Centuria 8 Central Ave Fund</td>
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</tr>
<tr>
<td>Eldon Capital</td>
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<td>NextDC bond</td>
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<tr>
<td>Centuria FRN</td>
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<tr>
<td>Sydney Airport Bond</td>
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<tr>
<td>Mirvac Bond</td>
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</tr>
<tr>
<td>360 Total Return Fund</td>
<td></td>
</tr>
</tbody>
</table>

‘Data is performance of clients’ significant holdings. Individual holdings may vary. Source: First Samuel, IRESS. Past performance does not guarantee similar future performance.'
ALTERNATIVE SECURITIES AND INTERNATIONAL SECURITIES

ALTERNATIVE SECURITIES
AVERAGE CLIENT RETURN: 8.5%
BENCHMARK RETURN: 1.9%

SECTOR CHARACTERISTICS
The objective of Alternative Securities is to diversify portfolio returns and volatility by investing in low-volatility securities that cannot be readily characterised as belonging to one of the other major asset sectors. Most are unlisted securities.

We point out that, unlike many portfolio managers, we do not use risky derivatives or leverage to try to add value to the Alternative Securities sector.

THIS YEAR
FY-19 was another excellent year for this sector. The FastTrack convertible note; Northern Silica debenture and Cypress mortgage each performed strongly, with other holdings also contributing well. The Moreton Resources refinancing was shared for some clients between this sector and Income Securities. The Bluestone MBS was sold. A brief summary of the terms of some of these investments is:

- **FastTrack**: convertible note, with interest accumulating, interest rate 10% p.a. increasing.
- **Northern Silica debenture**: 8% p.a. with interesting capitalising and converting into new units.
- **Cypress Carrara Trust debenture**: 9% p.a.
- **Moreton Resources notes**: 12% p.a.
- **Threat Protect Notes**: 180 day swap rate plus 6.5%.
- **Mr Rental Notes**: interest rate 7% p.a. increasing.
- **HoldCo**: this is our holding in the now privatised Patties Foods.

INTERNATIONAL SECURITIES
AVERAGE CLIENT RETURN: 10.9%
BENCHMARK RETURN: 10.9%

SECTOR CHARACTERISTICS
The objective of International Securities is to diversify return and volatility by investing in a portfolio of International Securities, where the portfolio weight of each security is approximately equal to its global market capitalisation. We do not seek to add value in this sector (nor do we consider that it is sustainably possible to do so).

THIS YEAR
International Securities’ performance was driven by a strong US market and a weak Australian dollar. The US market’s strength was pushed by fewer and fewer large cap stocks, with the S&P 500 index closing the fiscal year with a P/E of 22.3. This is well above its long-term average, notwithstanding the low interest rate environment.

The IPOs of many tech companies with no profits (e.g. Uber) suggests this is now a FOMO (fear of missing out) rally. That fear is by tech entrepreneurs. Investors should be cautious.

US STOCKS ARE BY THE FAR THE LARGEST COMPONENT...

...MICROSOFT OVERTAKES APPLE AS THE LARGEST COMPANY

ALTERNATIVE SECURITIES: DIVERSIFYING VOLATILITY – SIGNIFICANT PERFORMERS

FastTrack
Northern Silica
Cypress
Bluestone

Market Cap (A$ billions)

Microsoft
Amazon
Apple
Alphabet (Google)
Facebook
Visa
Johnson & Johnson
JP Morgan Chase
Exxon Mobil
Nestle

0% 5% 10% 15% 20% 25% 30% 35% $0 $200 $400 $600 $800 $1000 $1200

‘Data is performance of clients’ significant holdings. Individual holdings may vary. Source: First Samuel, IRESS. Past performance does not guarantee similar future performance.
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“The Lord declares those who honour me I shall also honour”
1 Samuel 2:30

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