AD WEALTH NEWSLETTER
AUGUST 2022

GENERAL UPDATE

Dear Clients,

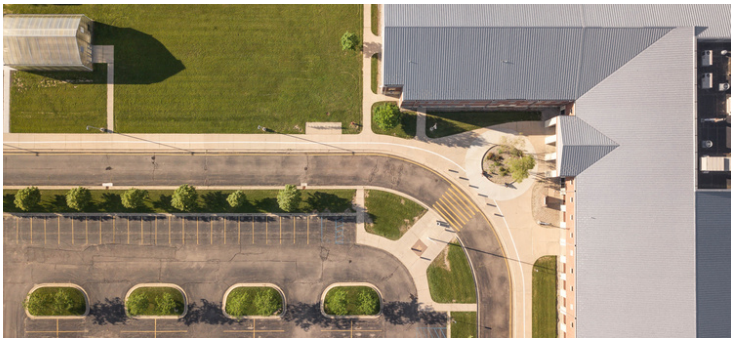
Welcome back to the latest edition of the AD Wealth Update for 2022. Whilst we brave the weather of what's proven to be a typical cold Winter here in Melbourne, we are glad to see the city buzzing with life again and are even happier to see colleagues and clients alike venture overseas for some long-awaited travel to relax and see friends and family.

We have successfully closed out another financial year here at AD Wealth and as we forge ahead into the second half of 2022, we are confident in our investment committee continuing to generate strong returns for our clients, and we look forward to welcoming new specialised property projects into our portfolio and being able to share these investment opportunities with clients.

We thank you for your ongoing support and trust in the AD Wealth team, and we look forward to providing further updates throughout the remainder of 2022.

Matt Morley
Director

SPECIALISED PROPERTY INVESTMENTS



KYNETON

On Friday, July 22nd, after six months of waiting, VCAT finally delivered their verdict for the Kyneton Bunnings construction permit. Pleasingly, a permit was granted without any further significant planning impediments. Seven days later, VCAT also delivered the permit that allows for the construction of a service station & convenience restaurant. Furthermore, in recent weeks, Goldfields has agreed to lease terms with an experienced service station operator via a Heads of Agreement. The proposed tenant will operate under the BP brand and currently has 10 other service station sites branded largely under BP or Shell.

WATTLEFIELD

The Wattlefield development, located in Munno Para, South Australia is a small land subdivision developed by Goldfields which AD Wealth supported via a capital raising in September 2021. The development continues to take shape from a construction and sales perspective with practical completion reached for Stage 1 in March this year and it is anticipated Stage 2 will be finalised by the end of 2022. On the sales front, 70% of the 146 lots have been sold to date. Based on the current sales and construction timelines, this investment should be finalised in the first quarter of 2023.

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MARKET OUTLOOK: INDUSTRIAL PROPERTY

The Industrial property market is seeing significant growth in both Victoria and Australia wide and is an asset class the AD Wealth team are watching closely. Real Commercial defines that Industrial Real Estate includes factories, warehouses and large buildings mainly used for distribution, manufacturing, production and storage. According to CBRE, some factors driving the increased demand for industrial space in the Melbourne market include the strong population growth rate, the Port of Melbourne being the largest container port in Australia thus driving industrial activity, and the cost difference of industrial space in Melbourne being 24% below the Sydney average and 23% below Brisbane's average. Cameron Grier from CBRE predicted in December 2021 that 2022 would be strong in terms of rental growth in the industrial market and it would be a good time to have or purchase assets in this area. This was supported by Morgan Stanley International data in March which indicated that industrial property is one of the best performing asset classes surpassing the office sector. AD Wealth is seeking to capitalise on this demand by bringing specialised property investments to our clients of an industrial nature and is currently exploring opportunities in this area.

AD WEALTH CHARITY INITIATIVE

THE LOST DOGS HOME

This year, our team came together once again to gather supplies including towels, blankets and excess pet food to donate to The Lost Dogs Home in North Melbourne which is a fantastic charity in need of extra supplies, especially during these colder months in Melbourne. We encourage anyone based in Melbourne to consider donating household items like blankets and towels instead of throwing them away.

TRADITIONAL INVESTMENTS

AUSTRALIAN AND GLOBAL ECONOMIC OUTLOOK

Following on from our last update, the current economic outlook continues to be similar in other developed countries in relation to inflation as well as other topics including interest rate rises, supply chain disruptions and geopolitical instability. Higher inflation has prompted fears that interest rates will have to be pushed higher, thereby further constraining household expenditure which is already under pressure from increased living costs. In addition to inflation data, financial markets were also concerned by news of a surge in COVID cases in Beijing and a tempering of some of the reopening plans that were in place in Shanghai. From a human perspective, this sentiment is being mirrored globally as reported in a recent survey from McKinsey on the global economic outlook in June 2022. It noted that over three-quarters of respondents expected interest rate rises in their respective countries in the next six months; however, it also made note that whilst the sentiment appeared to be overall pessimistic heading into the second half of 2022, the mood amongst respondents in the Asia Pacific region was more positive as they reported improvements and an optimistic attitude toward their countries economic prospects.

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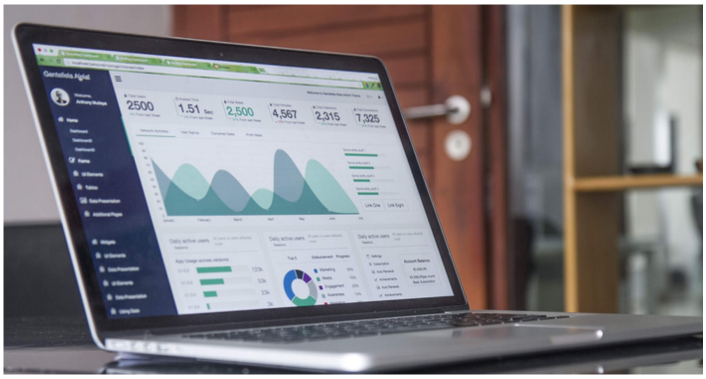

Although inflation is significant and well above the expectations of a few months ago, the latest market reaction to a single month's data point could be seen as excessive. It remains to be seen whether the latest inflation data will have any actual impact on the central bank's plans for interest rates. The central bank could rightly take the view that inflation is largely a supply-related issue and that any further interest rate rises (above what is already planned) are unnecessary.

It should also be emphasized that the circumstances around the current economic cycle are highly unusual. Of significance is the extremely low unemployment and record high job vacancies that characterise many developed economies now. This labour market strength, combined with a buildup in household savings over the past 2 years, may result in the household sector spending being far more resilient than it has been in previous downturns.

In terms of the outlook for the Australian economy and the potential impact of rising interest rates and inflation on household spending, it would appear that the domestic economy is less vulnerable than other major economies on the global scale.

Some relevant data points for the Australian economy are listed below:

- Unemployment (April 2022) = 3.9%
- Job Vacancies (February 2022) = 423,500 (highest on record)
- Inflation (March 2022) = 5.1% per annum
- Wages Growth (March 2022) = 2.4% per annum
- Cash Interest Rate (June 2022) = 0.85% since increased to 1.35% (July 2022)
- Household Savings Ratio (March 2022) = 11.4% (this reflects the % of disposable income that is saved and not spent and has a 20-year average of 5.4%)

Admittedly economic variables can change quickly. However, at this point in time the conditions are not indicative of an imminent recession or sharp downturn in household expenditure. With Australia's savings levels elevated and additional employment widely available, there is scope for the Australian household sector to absorb at least some of the impact of rising costs and interest rates.

Given the economic conditions are more favourable in Australia than in other advanced economies, the investment committee is focusing on a slightly higher exposure to domestic equities rather than international.

Brad Akkerman
Director (Principal Partners)