

# Andep Investment Consultancy

Analytical advice since 1982.

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## September 2020 Quarter in Review

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## 1 Covid 19

### 1.1 Opinion

Last quarter, we wrote *“both the health and economic effects [of Covid 19] have been serious but not catastrophic.”* That remains true.

Interesting developments over the quarter have included been: -

-  The variety of experiences between and within countries
-  The emphasis on mental health
-  The politicisation of the disease and

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Japhener Pty Ltd trading as

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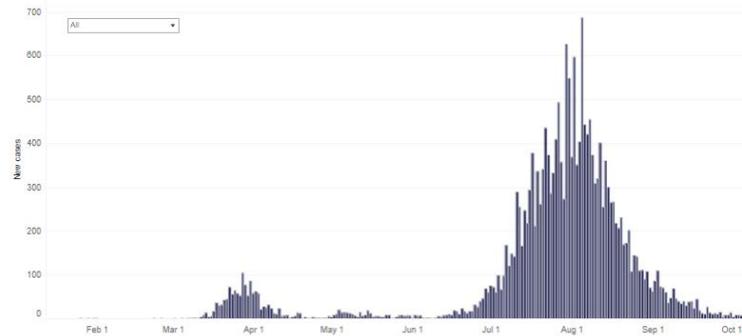
 The rapid escape of the disease in some situations.

## 1.2 Epidemiology

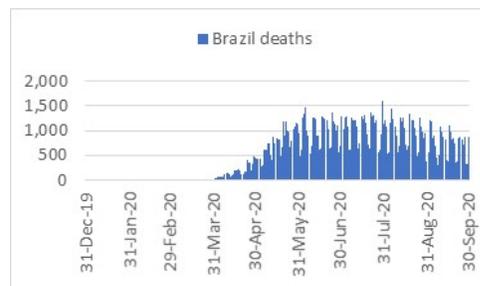
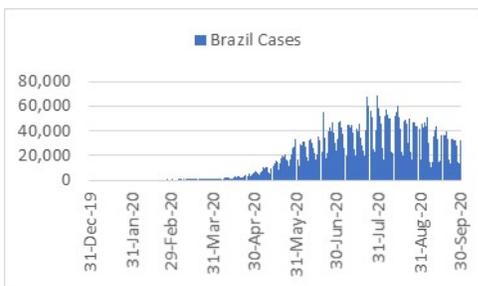
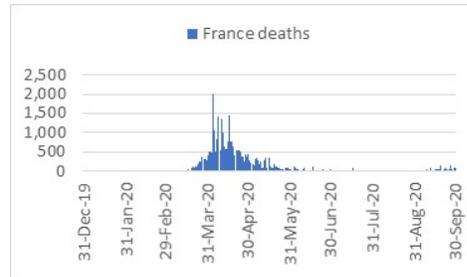
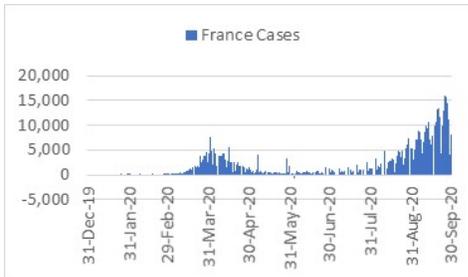
The quarter started with ten Melbourne postcodes in lockdown. On 7 July, all of Melbourne entered lockdown.

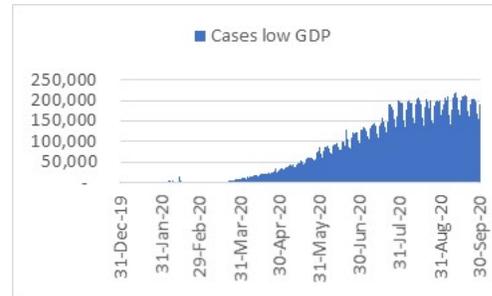
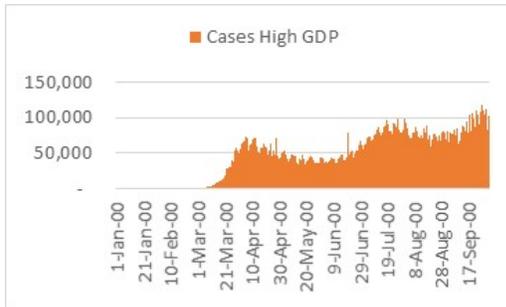
Victorian Chief Health Officer Brett Sutton boldly called the commencement of a downturn from Monday 27 July in his State's cases. The call was a little premature as it was not until 4 August that case reports peaked.

Daily new cases in Victoria



The second wave has reached developed countries, but, while larger in case terms, it has been more benign than the first wave. Lower GDP countries have not experienced a second wave. France and Brazil are examples.

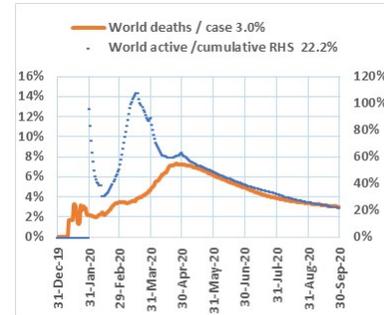




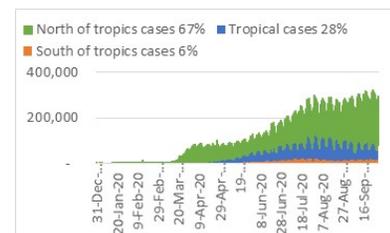
Better treatment and perhaps a less virulent virus have reduced France's deaths per case from a peak of 19.6% to 5.8%.

According to the European Centre for Disease Prevention and Control (ECDC), 33.7 million cases and 1.01 million deaths were reported to 30 September up from 10.3 million and 505 thousand respectively since 30 June. According to Worldometer, 7.50 million (22.2%) cases were active at that time compared with 1.87 million (40.8%) at the end of June.

Based on these sources, 3.0% (previously 4.9%) of cases have resulted in death. High case mortality is less concentrated in earlier hit European countries than it was in June. Global case mortality peaked on Anzac Day which closely coincided with the highest proportion of active cases in the June quarter. Case mortality has continued to decline. The chart to the right shows this with incomplete data about earlier active proportions.

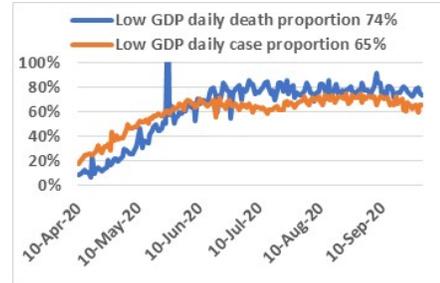


After being predominately afflicting the northern hemisphere in June, the share of cases in the tropics and, to a lesser extent, southern latitudes has increased during the September quarter.

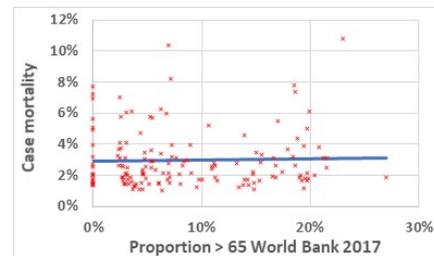




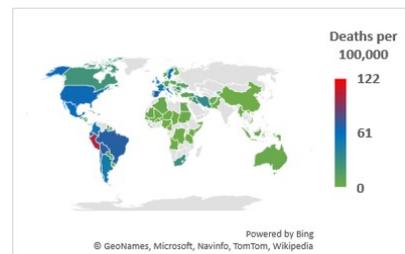
After the initial Chinese outbreak, the disease was concentrated in higher GDP per capita countries, During the June quarter, lower GDP countries experienced a greater proportion of daily cases and deaths driving. This trend stabilised in the September quarter.



Case mortality was, in June, generally higher in countries with a large proportion of their population aged over 65. By the end of September case mortality was not concerned with this measure.

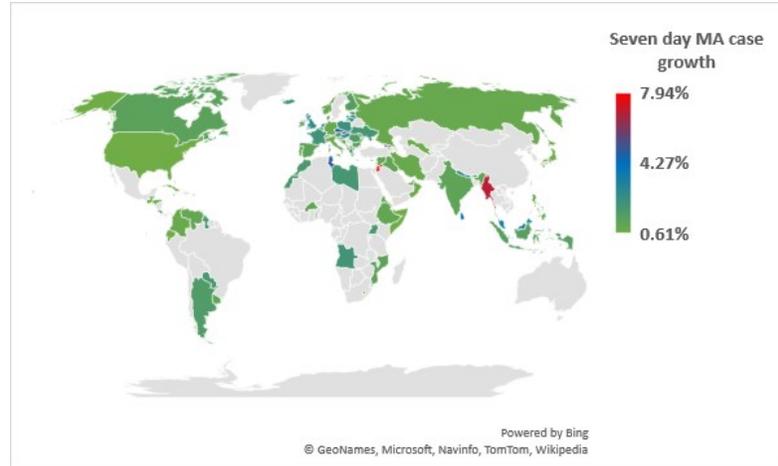


The damage was, in June, concentrated in Europe and parts of the Americas and this remained the case at the end of September.

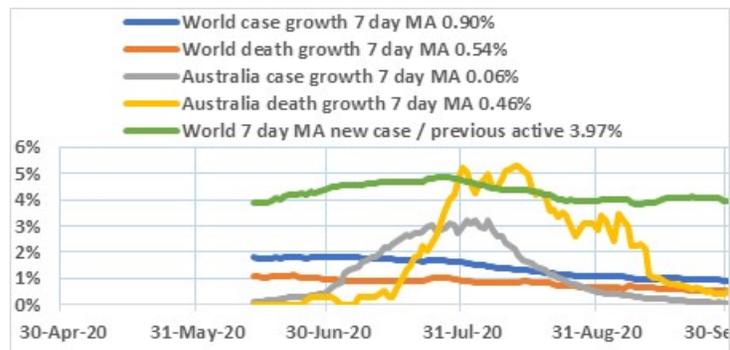




At the end of September, the global seven day moving average case growth was 0.90%, exactly half of the rate at the end of June. The red spots on the chart are Jordan (7.9%) and Myanmar (6.9%).



As was the case last quarter, while world case numbers and deaths continue to grow, the rate at which they are growing is slowing. The Victorian spike is obvious in the Australian lines on the chart. The alternative measure of new cases per active case on the previous day (green line) which had risen to June fell somewhat but has recently been steady.



### 1.3 Vaccines?

At 18 September : <https://covidvax.news/progress/> reported six vaccines were in final stage III trials, but none had filed results with regulators. General opinion appears to be that the vaccines will afford some protection but not to the extent of vaccines for other diseases. Availability rather than efficacy is likely to determine easing lockdowns.

### 1.4 Economic effect

#### 1.4.1 JobKeeper extended

On 21 July the Treasurer announced extensions of JobKeeper as follows



Date	Full rate per fortnight	Less than 20hrs worked per fortnight rate
28 September 2020 to 3 January 2021	\$1,200	\$750
4 January 2021 to 28 March 2021	\$1,000	\$650

Businesses will need to prove the relevant decline in turnover in all quarters from June to December to qualify for JobKeeper in the ensuing quarter. Expect a resurgence of cash transactions.

The Covid supplement for people on benefits will be extended at the rate of \$250 per fortnight. The Treasurer also said “From 25 September 2020, the assets test and the Liquid Assets Waiting Period will be reintroduced and the JobSeeker Payment partner income test will increase from 25 cents for every dollar of partner income earned over \$996 per fortnight to 27 cents for every dollar of partner income earned over \$1,165 per fortnight.

*The Government will also improve incentives to work by increasing the income free area for JobSeeker Payment and Youth Allowance (Other) from \$106 per fortnight to \$300 per fortnight and will simplify the taper rate from a dual taper of 50 cents and 60 cents to a single taper of 60 cents. This will mean recipients are more easily able to calculate the value of every dollar they earn.”*

#### 1.4.2 Disincentives of JobSeeker

Anecdotes about the reluctance of JobKeeper and JobSeeker beneficiaries to work abound.

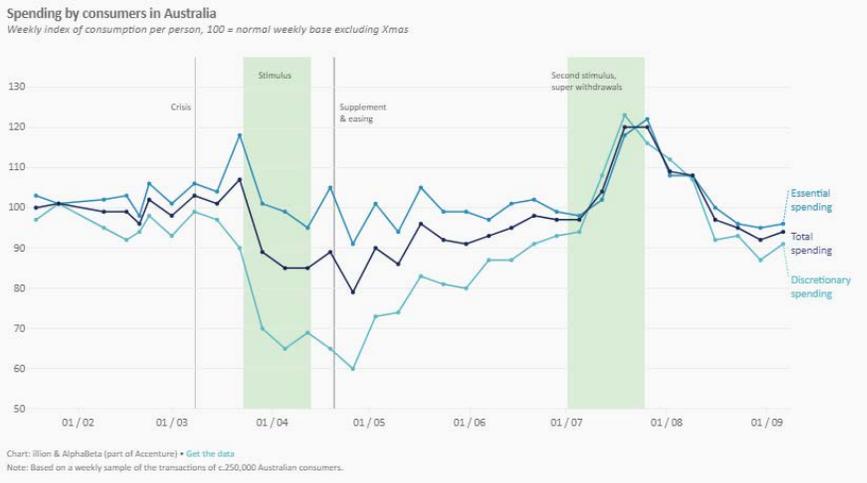
#### 1.5 Contact tracing

Some States appear to be better at this than others.

The pandemic has spouted a number of contact recording apps that venues can use to maintain their registers of visitors. Concerns have arisen about alternative uses or sale of the data so collected.

#### 1.6 Spending effect

The following [chart](#) from consultancy Accenture shows how the pandemic has affected Australian spending. Note the unusual offer at the bottom to download the data. One wishes more websites would do this.

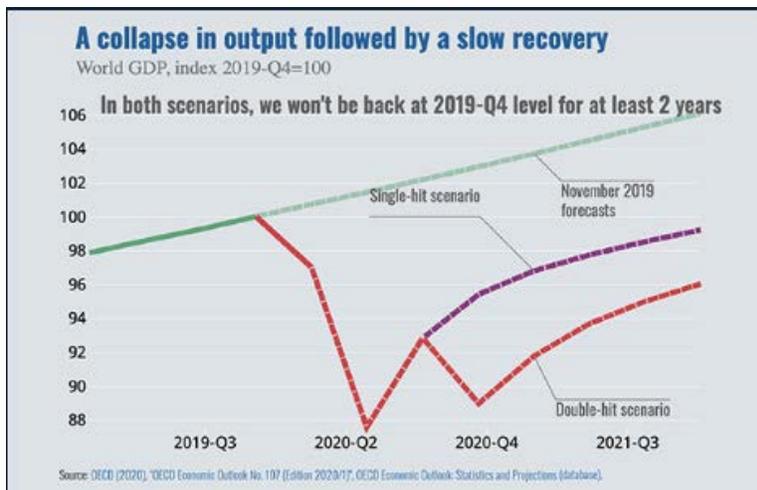


### 1.7 Unemployment

Masked by Job Seeker, unemployment peaked at 977 thousand (7.6% of the workforce) in July and was 907 thousand (7.1%) in August (up from 5.4% a year earlier).

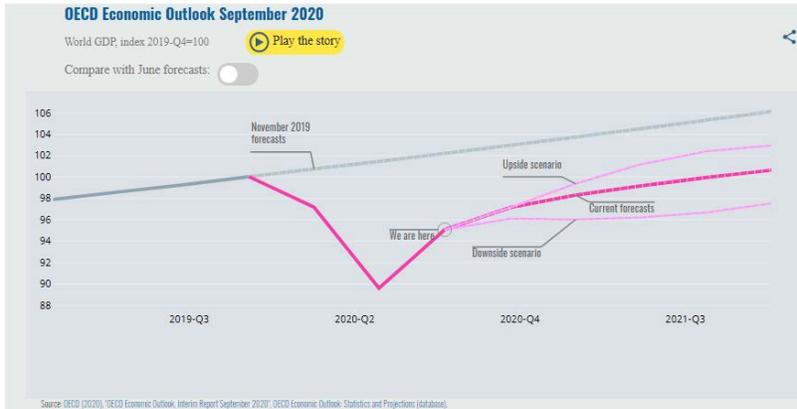
### 1.8 GDP

Last quarter, we showed this OECD chart projecting world GDP assuming single and double waves of infection.



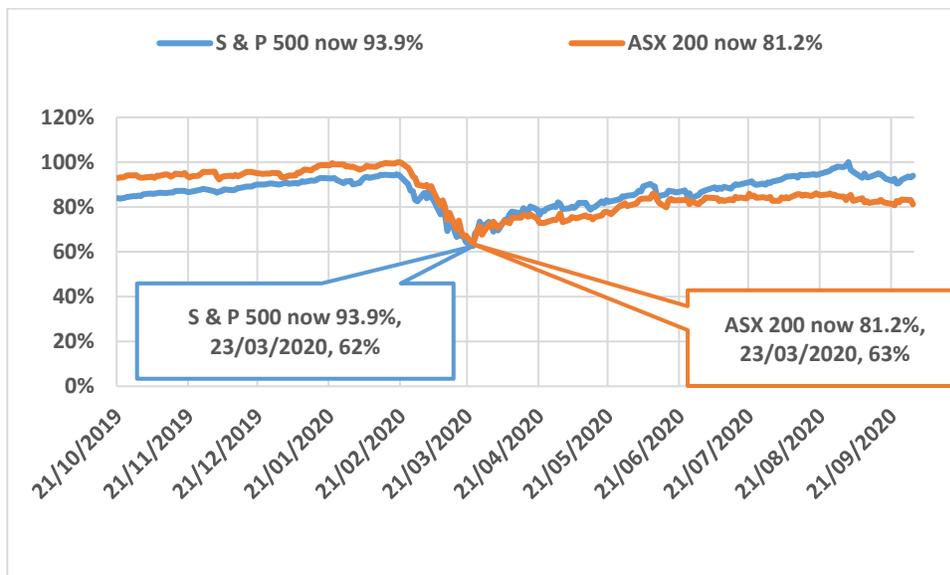


The September updated chart showed the experience to September matched the OECD base case.



### 1.8.1 Stock markets

Stock markets fell significantly but have retraced many of their losses as indicated in the following chart of the Australian ASX 200 and the US S&P 500, both indexed to 100% at their peak. Indeed, the US index ignored Covid 19 ending 18 August at an all time high.





### 1.9 The recession

Predictions of a recession finally were realised when the ABS released the June GDP 7.0% decline on 2 September. Following the March quarter 0.3% decline, Australia had recorded the necessary two consecutive declines to qualify for a recession.

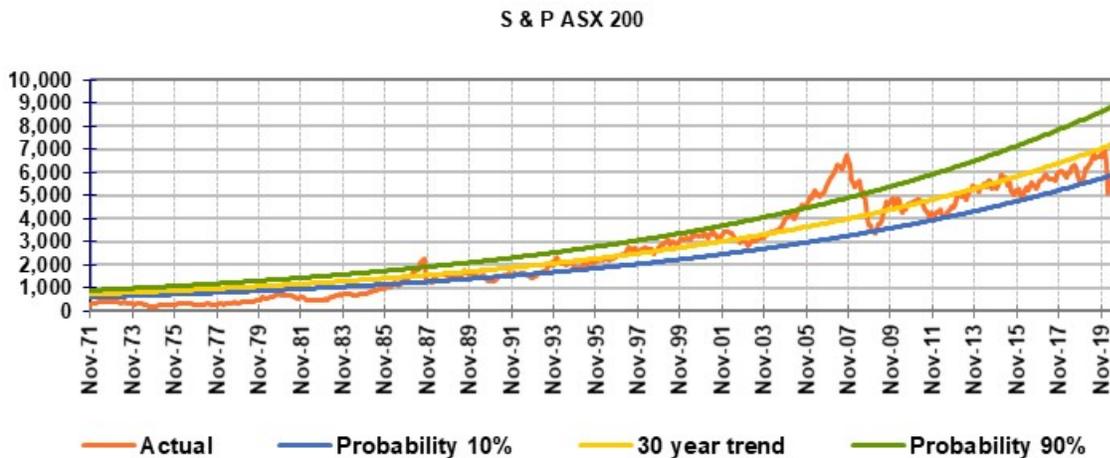
### 1.10 The blame games

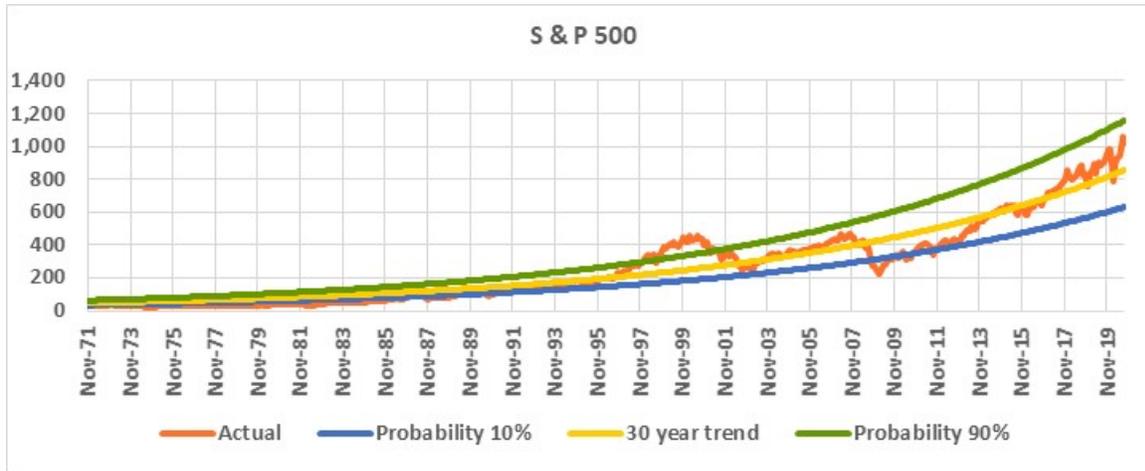
The NSW Ruby Princess enquiry identified "serious", "inexcusable" and "inexplicable" mistakes by NSW Health. The Enquirer tellingly wrote "It is inappropriate and unhelpful to make recommendations to experts that in truth amount to no more than 'do your job',"

At the end of the quarter, the Victorian enquiry was ongoing, but had already scalped that State's Health Minister.

## 2 Markets and trend lines

The following charts show, respectively, the best fit of constant compound growth in the Australian and United States of America broad market indices together with some statistically derived probability percentiles. On this statistical basis, the Australian market moved during the quarter from roundly 1.4 standard deviations below the trend to 1.5 standard deviations below the trend while the US moved a half of a standard deviation above its trend line to three quarters of a standard deviation above it.

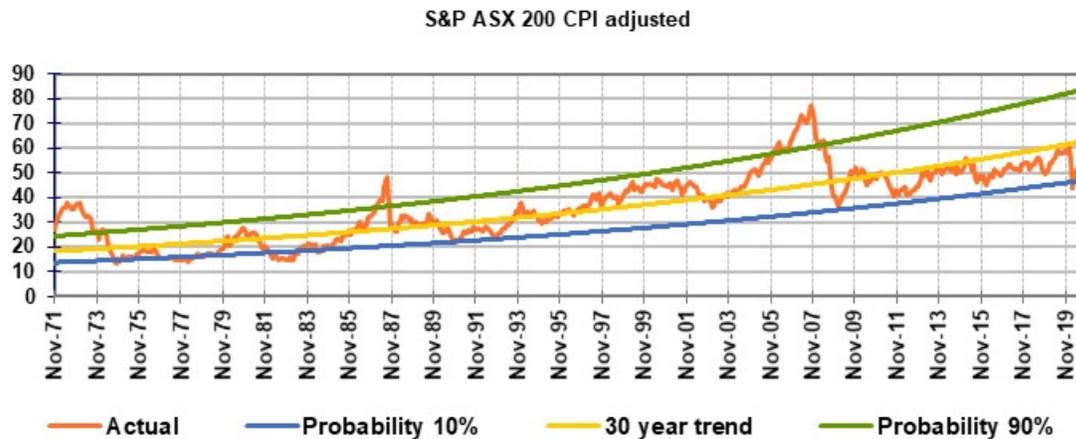




US share prices measured as a proportion of ten year average inflation adjusted earnings are roundly 20% above the 20 year average of the measure.

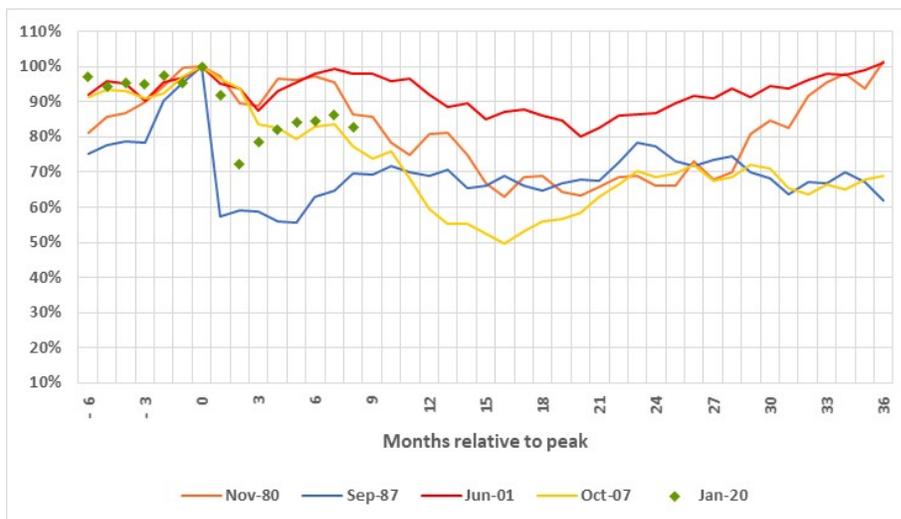
As written in previous Quarters in Review, the 30 year trends encompass a period of steadily falling interest rates, which is at or near its end. These may make conclusions from the trend charts optimistic.

The last thirty years have also been a period of generally declining inflation. The following chart shows similar information and a similar conclusion for the Australian stock market adjusted for Consumer Price Index inflation.



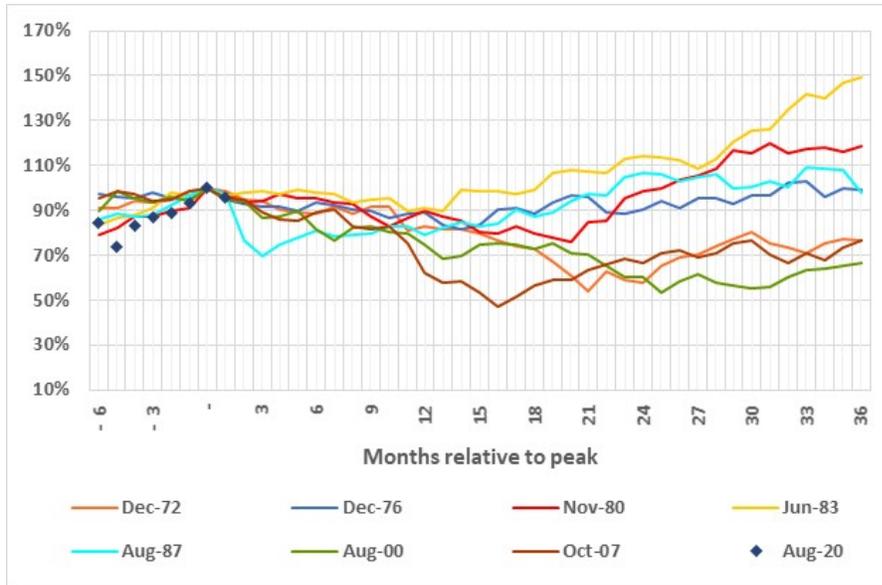
The next two charts seek to show the severity of the March 2020 fall and ultimate recovery in historical context.

The following chart relates to Australia and the diamonds of recent progress show the fall was not as precipitous as the 1987 crash, but this time the market fell further in two months than it did in ten months after October 2007. The decline has been reversed and the current position is between those after the June 2001 and October 2007 peaks, both of which, at this time from the peak, had further to fall.



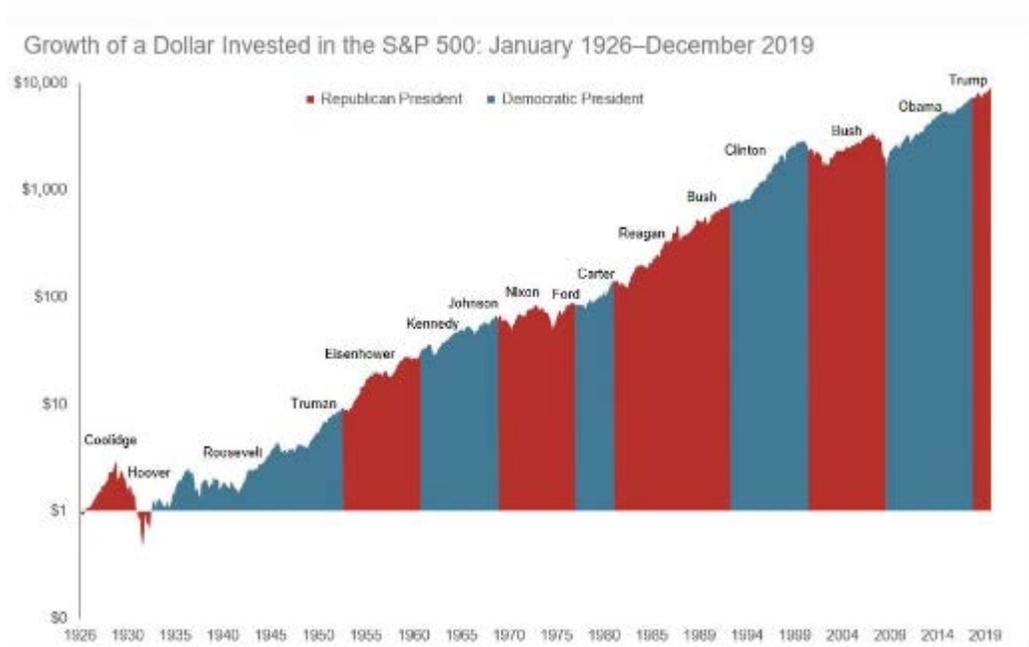
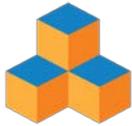


As a consequence of the August peak in the US index, the corresponding chart for that market now has only one point after the most recent peaks, looking similar to all other post peak progress but that relating to October 1987.



Exactly as was the case last quarter, all the markets that have statistics published by the Reserve Bank of Australia (RBA), with the exception of the UK, are at levels higher than four years ago. Only Australia, USA, New Zealand and Taiwan are higher than they were three years ago.

In the last Quarter in Review, we wrote “*The next quarter’s progress will depend on whether there are further epidemiological shocks (good or bad) and whether markets tire of looking across the recessionary valley.*” Neither of these have occurred but the statement remains true. As indicated in the following chart (Source [Forbes](#)), the US stock market is generally not spooked by election of a Democratic president and takes re election of a Republican in its stride. The market will likely be indifferent to whether the bland septuagenarian replaces the blustery septuagenarian.



### 3 Economic milestones

#### 3.1 CPI fall

On 29 July the ABS released the June quarter Consumer Price Index (CPI), showing the largest decline since 1948, attributable mainly to free child care and lower petrol prices.

#### 3.2 Age Pension increase on hold

Government pensions are usually adjusted in March and September on the greater of CPI and Pensioner and Beneficiary Living Cost Index (PBLCI). Both of these indices fell in the June 2020 quarter. So for the first time in 23 years the Age Pension, as well as other government pensions, will not increase.

#### 3.3 Chines trade tension

This quarter brought wine and barley into the spotlight.

#### 3.4 Announcement of recession

As written above the Australian 2020 recession was announced, to no surprise, on 2 September.



## 4 Legislation

The quarter's legislative activity concentrated on aged care and Covid. The [Treasury Laws Amendment \(More Flexible Superannuation\) 2020 Bill](#) remains before the Senate, having passed the House. It allows people aged 65 and 66 to make non concessional contributions under the "bring forward" rules.

[The Treasury Laws Amendment \(Self Managed Superannuation Funds\) 2020 Bill](#) giving effect to the increase from four to six as the maximum number of members of such funds was introduced to the House in the quarter but has moved no further.

## 5 The environment

### 5.1 Right or legal

During the quarter, the Juukan Gorge cave explosion triggered by Rio went from a regrettable but legal destruction of ancient shelters to a cause celebre for activist investors and the catalyst for the resignations of three senior executives. It is not unrelated to the AMP situation where a board behaving legally but in a way offensive to elite opinion attracts the ire of these investors. It is likely to be a harbinger of other similar activity. Cleanaway Ltd appears to be padding up for its time in this arena.

#### 5.1.1 Small useful step

The AFR of 21 September carried a story about "Great Wrap" a corn starch based wrap that is biodegradable. It can be used instead of cling wrap and pallet wrapping plastic.

#### 5.1.2 Clean energy funding

On 27 August the Government introduced a Bill to provide a \$1 billion fund for investment in improving the reliability of clean energy.

### 5.2 Renewable targets (continued)

Respected e-zine "Renew Economy"<https://reneweconomy.com.au/> reported on 22 September that the European Union increased its reduction target for 2030 from 40 to 55% of 1990 levels.

### 5.3 Batteries

On 13 August, Renew Economy reported that AGL "*was looking to expand its portfolio of clean energy projects, especially storage capacity, and is targeting up to 850MW of grid scale battery storage, as well as 350MW of distributed storage and demand response capacity by 2024*".

Neoen Energy continued announcing big things. On 20 August, Renew Economy reported "*French renewable energy developer Neoen has filed its development application for the huge*



\$3 billion Goyder South wind, solar and storage project in South Australia which includes a proposed big battery than it nearly 10 times bigger than the expanded 'Tesla big battery' at Hornsdale.

The plan proposes a total of 1,200MW of wind energy, 600MW of solar PV, and 900MW/1800MWh of battery storage, an 'extremely large' battery as Neoen describes it that will dwarf the 150MW/194MWh 'Tesla' battery known officially as the Hornsdale Power Reserve."

### 5.3.1 Rooftops in Struggle Street

The Australian Renewable Energy Agency (ARENA) announced on 4 September a grant of \$8.2 million to provide solar generation and storage in 3,000 properties owned by Housing SA.

### 5.4 Hydrogen funding

On 20 July, ARENA announced it had shortlisted 10 projects for a \$70 million tranche of the Renewable Hydrogen Deployment Fund.

## 6 Economic and market statistics

The following table shows key economic and market statistics.

	Latest date	Now	1 year ago	3 years ago	7 years ago
S&P /ASX 200- Australia	Sep 20	5,816	6,688	5,682	5,219
Annual change to latest date			-13.0%	0.8%	1.6%
S&P /ASX 200 dividend yield	Aug 20	309.00 %	4.13%	4.39%	4.00%
S&P /ASX 200 P/E ratio	Aug 20	39.8	16.53	15.39	16.18
Topix- Japan	Sep 20	93.8	91.60	96.60	68.90
Annual change to latest date			2.4%	-1.0%	4.5%
S&P 500- US	Sep 20	1018.4	901.5	763.0	509.2
Annual change to latest date			13.0%	10.1%	10.4%
GDAXI- Germany	Jul 20	12,374	12,135	12,148	8,320
Annual change to latest date			2.0%	0.6%	5.8%
Average weekly earnings \$	Dec 19	1,659	1,606	1,533	1,396
Annual change to latest date			3.3%	2.7%	2.5%
Consumer price index	Jun 20	116.60	114.80	110.70	102.80
Annual change to latest date			1.6%	1.7%	1.8%



	Latest date	Now	1 year ago	3 years ago	7 years ago
Unemployment	Jun 20	7.4%	5.22%	5.65%	5.70%
Gross domestic product \$ m per quarter	Mar 20	478,811	463,907	442,251	385,083
Annual change to latest date			3.2%	2.7%	3.2%
RBA cash rate	Sep 20	0.3%	1.00%	1.50%	2.50%
3 year Commonwealth bond	Jul 20	28.0%	0.92%	1.95%	2.69%
10 year Commonwealth bond	Jul 20	88.0%	1.31%	2.64%	3.75%
USD/AUD	Jun 20	0.7213	0.7013	0.7692	0.9275
Annual change to latest date			2.9%	-2.1%	-3.5%

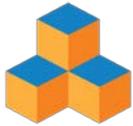
## 7 Other peoples' views

### 7.1 Regulatory barriers to innovation

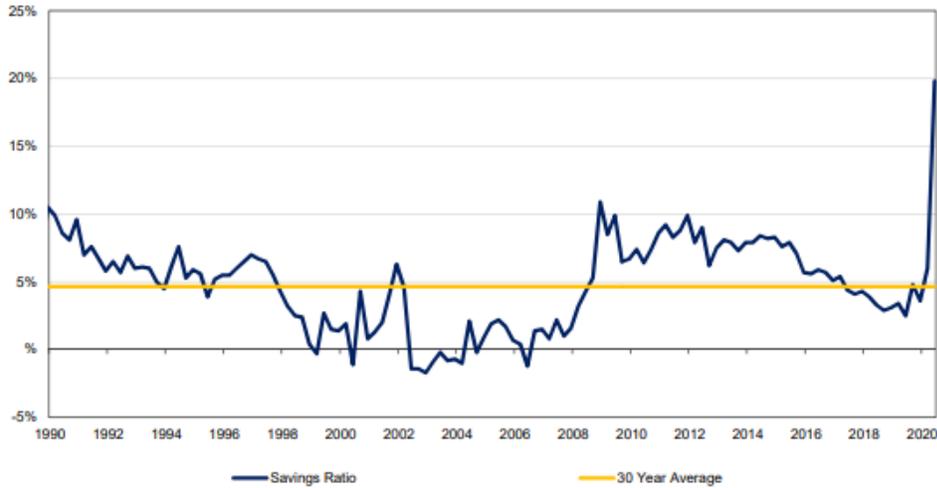
Speaking at a Financial Services Institute webinar, Vicki Doyle, the CEO of retail-based industry superannuation fund REST, remarked the heavy burden of regulation is a barrier to innovation and it's important that the super sector, government and regulators work collectively together to address this so we can really help Australians with saving for retirement.

### 7.2 Savings

Fund manager Auscap Asset management produced this chart showing Australia's savings ratio. While the sharp spike is obviously Covid induced, the ratio was starting to increase before Covid emerged.



Household Saving Ratio



Source: Australian Bureau of Statistics, Auacap Asset Management

### 7.3 Geopolitical risk

Investment house BlackRock quarterly quantifies geopolitical risk and its likely effect on world share markets. The following charts show the June 2020 situation and the history of the index.

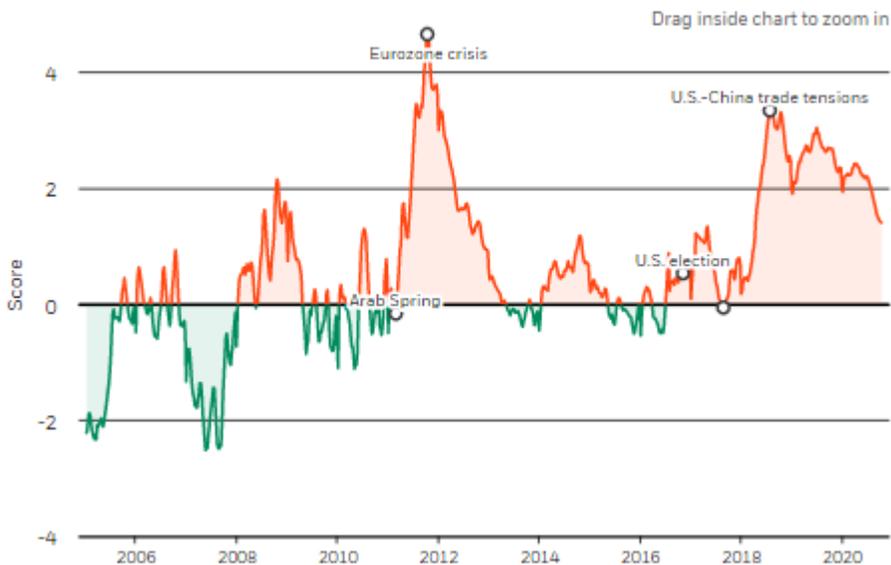
Relative likelihood and market impact of risks

Original estimate  BGRI-adjusted





## Global index



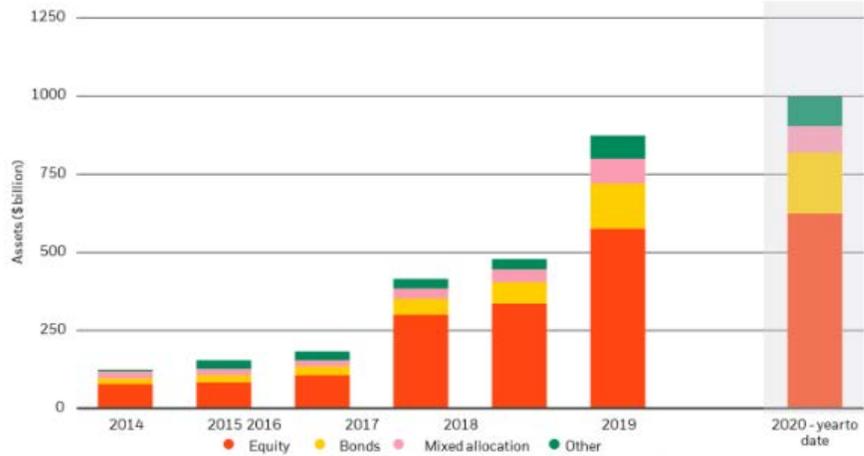
Source: BlackRock Investment Institute. See Andep's June 2018 [Quarter in Review](#) for an explanation of this chart.

### 7.4 Blackrock on ESG

The following chart shows the growth of funds invested under Environmental, Social and Governance (ESG) “mandates” requiring observation of rules directed towards socially responsible investing.



**Assets under management at ESG-mandated funds, 2014-2020 YTD**



Sources: BlackRock Investment Institute with data from EPFR, June 2020. Notes: The chart shows the global total assets under management at ESG-mandated funds. The "Other" category includes money-market and alternatives funds. Data for 2020 through May 31, 2020.

### 7.5 AMP opinion

Despite AMP's staff and client troubles it still has a widely respected economics group. The table below shows AMP's estimates for GDP growth.

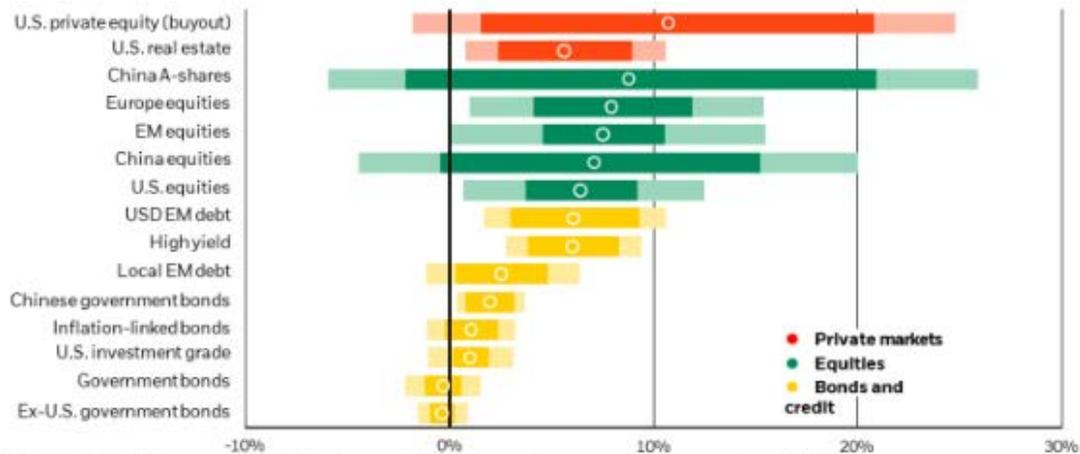
	2019	2020	2021
World	2.9	-3.3	5.6
USA	2.3	-3.1	4.5
Japan	0.7	-5.8	2.0
Eurozone	1.3	-9.9	1.8
UK	1.4	-10.0	6.0
Australia	1.8	-3.9	3.0
China	6.1	1.5	9.6

### 7.6 More Blackrock

At the risk of over exposing Blackrock, below is its five year estimates of asset class returns.



**Asset return expectations and uncertainty in U.S. dollars on a five-year horizon**



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Source: BlackRock Investment Institute, June 2020. Data as of 13 April 2020. Notes: Return assumptions are total nominal returns. Sterling return expectations for all asset classes are shown in hedged terms, with the exception of regional equity markets, Chinese government bonds, local-currency EM debt and private markets other than hedge funds. Our CMA's generate market, or beta, geometric return expectations. Asset return expectations are gross of fees. For a list of indices used see Appendix. Visit our Capital market assumptions website at [blackrock.com/institutions/en-us/insights/chart/capital-market-assumptions](https://blackrock.com/institutions/en-us/insights/chart/capital-market-assumptions) and click on the information icon in the Asset class return and volatility expectations table for further details. We use BlackRock proxies for selected private markets because of lack of sufficient data. These proxies represent the mix of risk factor or exposures that we believe represents the economic sensitivity of the given asset class. There are two sets of bands around our mean return expectation. The darker bands show our estimates of uncertainty in our mean return estimates. The lighter bands are based on the 25th and 75th percentile of expected return outcomes - the interquartile range for more detail read [Portfolio perspectives](#). Indices are unmanaged and used for illustrative purposes only. They are not intended to be indicative of any fund or strategy's performance. It is not possible to invest directly in an index.

**BlackRock**

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## 8 Products and producers

### 8.1 AMP woes continue

Early in the quarter AMP staff leaked criticism of the promotion of an employee who had been counselled and lost some bonuses following sexual harassment allegations. The Board had been fully informed before ratifying the appointment. Publicity ensued and asset consultants JANA put AMP “on watch”. By 6 August AMP had announced the exits of five senior staff and the resignation of the Chairman. The promotion that started the furore was rescinded, but the criticism continued. Efforts to find the leakers were themselves leaked. By the end of the quarter the matter had gone quiet.

### 8.2 Further AMP class action

Late in July, it was revealed that AMP agents are participating in a class action against AMP alleging that AMP has changed its “Buyer of Last Resort” processes under which AMP buys back clients from advisers seeking to sell their businesses. There is little information about the action on the website of the relevant lawyers, Coors Chambers Westgarth.



### 8.2.1 AMP green shoots

Maybe too soon to call AMP out of trouble, but on 12 August, it repurchased a Japanese 15% stake in AMP Capital Ltd, its funds management arm.

### 8.3 Another era ends

First State Super and WA Super announced their intention to merge on 30 July. WA Super evolved from the WA Local Government Superannuation plan which was established in the early 1980s and initially chaired by Andep Director Dennis Barton. The merger leaves WA without a resident non government public offer superannuation fund. First State has also changed its name to “Aware”.

#### 8.3.1 Superannuation mergers continue

On 18 August, Australian Catholic Super and Non Government Schools Super announced plans to merge creating “a \$21 billion superannuation Fund with approximately 200,000 members servicing independent and Catholic schools and the community sector across Australia.”

### 8.4 Aged care exit



Not an investment product, but a service of interest to older people is aged care. Respected industry e-zine [The Weekly Source](#) reported the decision of Presbyterian Care Queensland to exit the aged care industry after 89 years. The recently appointed CEO cited significant ongoing capital requirements as the reason for the decision. The Source Executive Editor, Chris Bayne, wrote “*PresCare now joins the quiet bolt for the door by operators. No mention of RAD [Refundable Accommodation Deposits] commitments however.*”

### 8.5 Buy now pay later goes mainstream

The AFR of 27 July reported that the CBA website now contains links to and shares information (with customer consent) with Klarna of which CBA owns 5.5%.

## 9 Politics

### 9.1 The revolving door spun too fast

The AFR of 27 July reported that the rate of change of Prime Ministers has exhausted the bequest used to fund statues of former Prime Ministers in Prime Minister’s Avenue Ballarat.

### 9.2 Calm during the storm

Covid dominated local politics during the quarter. Oppositions are now daring to criticise incumbents. As often happens in our federated Commonwealth, issues are coloured by the



imbalance between taxing and spending. States are generally emphasising Covid minimisation while the Commonwealth is emphasising returns to financial normalcy. Elections in Queensland and the ACT early in the December quarter will be interesting in this regard.

### 9.3 Unresolved elections

As the quarter ended, leadership tensions existed in Malaysia, Israel and Belarus despite election results.

### 9.4 Elections

Elections held or concluded in the quarter included the following.

Jurisdiction	Election	Result
Australia	By election	Following the health induced resignation of the sitting member, the ALP suffered a 3.3% against it but retained the seat.
Basque Region	Region	Maintenance of power by Basque Nationalist Party
Belarus	Presidential	Incumbent Alexander Lukashenko "won" 80% of the vote to continue his 26 year presidency
Galacia	Region	Maintenance of power by conservative People's Party
Italy	Regional	Governments remained in place except in Marche where a centre right coalition comprehensively replaced a centre left coalition
Jamaica	General	In a country where party names belie their philosophies, the centre right Jamaica Labour Party enhanced its majority over the centre left People's National Party
Northern Territory	General	Despite losing four seats and 2.8% of the popular vote, the ALP comfortably retained government
Poland	Presidential	Right wing populist incumbent Andrzej Duda maintained his lead over Rafał Trzaskowski of the centre right in the first stage of the election ending the runoff election with 51% of the vote



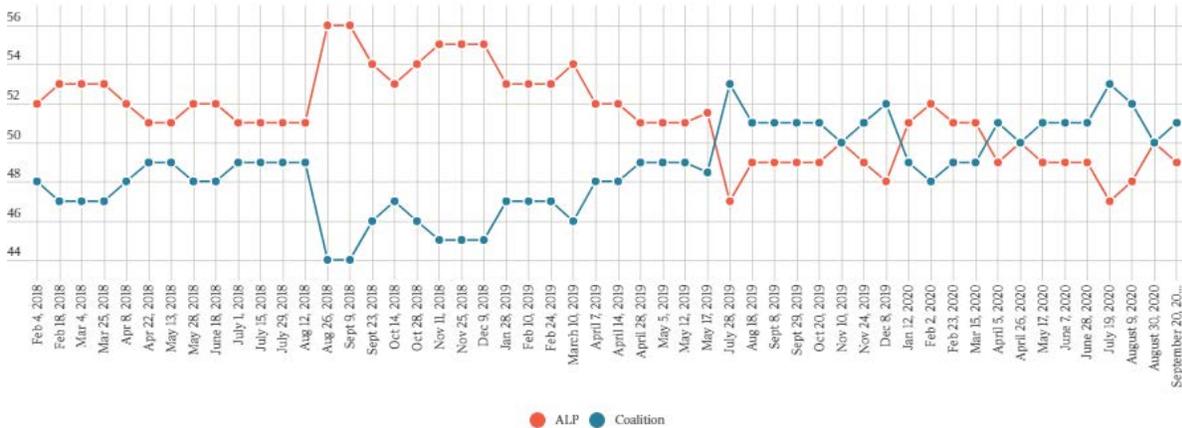
Jurisdiction	Election	Result
Sabah	State	Strong showing by a conservative, nationalist coalition including the relatively new Malaysian United Indigenous Party
	Legislative Council	Two seats were contested both held by independents. The ALP won one and the Liberal Party the other
Tasmania		

### 9.5 Opinion poll

The following chart shows two party preferred voting indications since February 2018 published by the Australian newspaper.

#### Two-party preferred

Preference flows based on recent federal and state elections.



## 10 Courts and regulation

### 10.1 More Mayfair

This new wealth management group has featured in several recent Quarters in Review. A Supreme Court order winding up a subsidiary IPO Wealth may be the last opportunity to mention this organisation.



## 10.2 Pandemic decision

On 15 September, UK Court held that an insurer was liable under a “Notifiable diseases business interruption” policy for losses caused by the pandemic shutdowns, but not on two other policies. A similar test case is currently before the Courts in Australia.

## 10.3 The last word on Waygu

Late in July the Australian Securities and Investments Commission (ASIC) decided not to appeal the Waygu beef case reported in a previous Quarter in Review. Business and other regulators feared that if The Australian Securities and Investments Commission (ASIC) won the appeal, lending would slow as banks became cautious not to breach responsible lending standards. A punster sub editor at the AFR had the last word in the heading of its 29 July editorial... “fruitless”.

## 10.4 Smoking dilemma

On 7 August ASIC announced in a 955 word media release that it had “engaged” with a number of superannuation funds which charged premiums on the basis that the insured was a smoker. The statement said “*merely providing disclosure and putting the onus on members to act is not enough to support good member outcomes.*”

The involved funds have ended the practice and some have refunded the excess. Await the case where a smoker failed to disclose his or her status and the insurer seeks to recover underpaid premiums.

## 10.5 IOOF buys trouble

On 21 August, ASIC announced action against a subsidiary acquired by IOOF in October 2018 for an initial cyber security breach in March 2017 with other breaches continuing to May 2020.

### 10.5.1 Great Southern Plantations (continued)

In the February 2019 Quarter in Review, we noted a case where Bendigo and Adelaide Bank was prevented on a technicality from enforcing a loan agreement. On 30 September, BABL announced remediation action to benefit Great Southern Plantations borrowers.

## 11 Andep news

### 11.1 Referred client discount

We are pleased to continue to have new clients coming to us at the suggestion of existing clients and remind readers that clients who they refer to Andep will have their fees discounted by 10%.



### **11.2 Additional service**

Andep has introduced a fixed fee service providing independent advice to people who are required to seek financial advice before guaranteeing loans. We meet the proposed guarantors unaccompanied and need to see photographic identification and the proposed loan contract.

### **11.3 Online booking**

The [online booking system](#) added last quarter is working smoothly.

## **12 Plaudits**

### **12.1 Caring super fund**

Speaking at the Finsia webinar mentioned in section 7.1 above, Renato Mota, CEO of wealth manager IOOF, told of a mother sleeping with her two children in a car being unable to meet the documentation for early release of her superannuation under the Covid provisions. IOOF staff found a shelter for them. In a different context, Mr Mota made the point that it is important for staff at all levels of the company to believe that their primary task is to help clients and superannuation fund members.

## **13 Disclaimer**

This publication does not constitute personal financial advice. Before acting on any suggestion, explicit or implicit in this publication, please contact your Andep adviser.