FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

2017 *Professionals* CONGRESS

HOBART 22-24 NOV

Designing alternative investment strategies to superannuation

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What will we cover?

- "Alternative" investment strategies – why are we having this conversation?
- Why super in the first place?
- Alternatives to super
- Alternatives vs super
- Your role as financial planners
- Super versus other alternatives
- Risk management/profiling
- Asset allocation in super

Why are we having this conversation?

- ✓ Superannuation – the new political "one-stop shop"
- ✓ Confusion and misconceptions around recent changes
  - ➢ Even the ATO gets it wrong!
- ✓ Time to look beyond the "noise" and hit the pause button!
- ✓ Remind ourselves why we’ve promoted super in the first place

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Why super in the first place?

- ✓ **Tax effective...**
  - ➢ …savings
  - ➢ …income and capital growth
  - ➢ …retirement
- ✓ **Asset protection & estate planning**
  - ➢ bankruptcy
  - ➢ family law
  - ➢ family provision claims
  - ➢ notional estate (NSW)
- ✓ **Insurance (AALs)**
- ✓ **Ability to dictate beneficiaries (BDBNs)**
- ✓ **Access to greater investment opportunities**

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Pause to reflect…

Have the recent super changes really disturbed the legal, taxation and philosophical fundamentals for choosing super in the first place?

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Alternatives to super?

- ✓ **Personal & jointly owned investments**

  - ➢ investment bonds
  - ➢ SMAs
  - ➢ managed funds
  - ➢ shares

- ✓ **Trusts**

  - ➢ family discretionary
  - ➢ hybrid
  - ➢ unit

- ✓ **Others?**

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"Alternatives" vs super

- ✓ Tax
- ✓ Asset Protection
- ✓ Estate Planning
- ✓ Are trusts what they're cracked up to be?

Alternatives vs super – who wins?

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Your role as planners

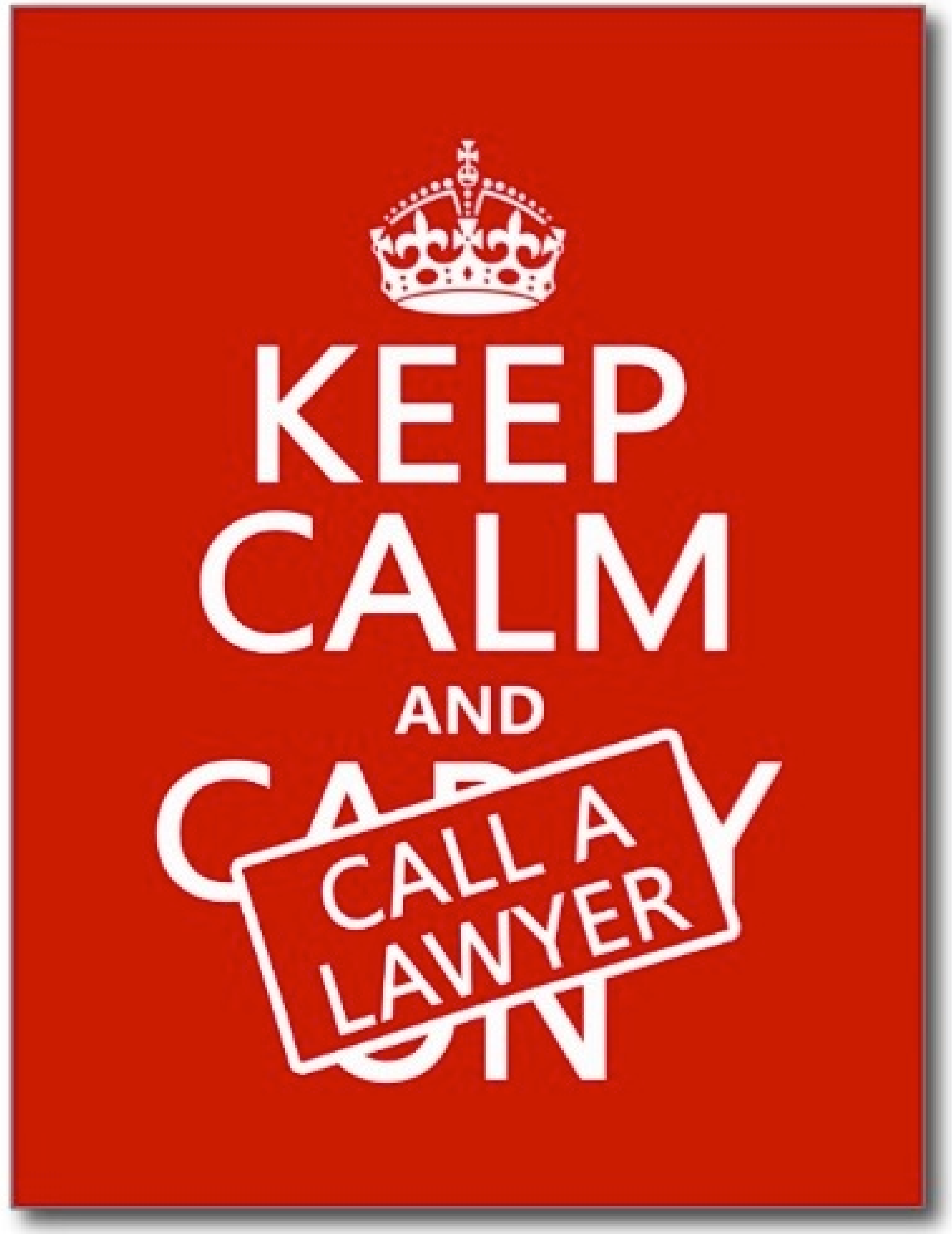
- ✓ Look beyond the noise and hysteria

- ✓ Don’t forget your fundamentals
  - ➢ Diversification
  - ➢ Best Interests Duty

- ✓ Keep asking the "what", "why" and "how“
  - ➢ **<u>What</u>** do your clients want?
  - ➢ **<u>Why</u>** do they want it?
  - ➢ **<u>How</u>** can you achieve it?

- ✓ Is it ultimately about tax? Is it about asset protection? Or about future generations?

- ✓ Remember: you’re the front line!



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Risk Management/Asset Allocation Considerations for Superannuation

Alternatives to Super…

Alternative investments to fund life after retirement include:

- Equities? Domestic/International?
- Manage Funds? Active/Passive?
- Investment bonds?
- Hedge Funds/Private Equity Funds?
- Fixed income securities such as Hybrid Securities & Notes?
- Alternatives such as FX, Commodities, Direct Property (Commercial & Residential)

Superannuation is not broken…

- **Superannuation – The model is not broken despite regulatory reforms.**
- ✓ Superannuation is not an investment!
- ✓ Superannuation is simply a trust structure that holds investments in accordance to the rules of the trust.
- ✓ Superannuation is still an appropriate and the best vehicle to pay for life after retirement…(especially in terms of tax and insurance benefits)…
- ✓ These "alternative investments" are also available to you via Super…

Example of a model portfolio…Risk mgmt. and asset allocation considerations?

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Combined Model Portfolios: Strategi[illegible]ocation (SAA)

1

2

Asset Class	Ticker/APIR	Investment Name	Type	MER	Conservative 15/85	Moderately Conversative 30/70	Balanced 50/50	Moderate Growth 70/30	Growth 95/5
					Weights				
Australian Equi[illegible]					**5.0%**	**13.0%**	**20.0%**	**30.0%**	**[illegible]**
	[illegible]	[illegible]ares S&P/ASX 200 ETF	ETF	0.1[illegible]%	5.0%	7.0%	13.0%	18.0%	28.0%
	MVW	Market Vector Equal Weight ETF	ETF	0.35%	0.0%	[illegible]	4.0%	6.0%	6.0%
	RFA0819AU	BT Wholesale Smaller Companies Fund	Managed Fund	1.24%	0.0%	3.0%	3.0%	6.0%	6.0%
International Equities					**6.0%**	**11.0%**	**25.0%**	**36.0%**	**51.0%**
	VTS	Vanguard US Total Market Shares ETF	ETF	0.05%	6.0%	7.0%	6.0%	10.0%	13.0%
	PLA0001AU	Platinum European Fund	Managed Fund	1.54%	0.0%	0.0%	7.0%	10.0%	15.0%
	IJP	iShares MSCI Japanese ETF	ETF	0.48%	0.0%	0.0%	3.0%	3.0%	5.0%
	PLA0004AU	Platinum Asia Fund	Managed Fund	1.54%	0.0%	0.0%	4.0%	5.0%	6.0%
	MGE	Magellan Global Fund	Managed Fund	1.35%	0.0%	4.0%	5.0%	8.0%	12.0%
Property & Infrastructure					**4.0%**	**6.0%**	**5.0%**	**4.0%**	**4.0%**
	VAP	Vanguard Australian Property Securities	ETF	0.25%	4.0%	6.0%	5.0%	4.0%	4.0%
Fixed Income					**30.0%**	**31.0%**	**30.0%**	**14.0%**	**0.0%**
Bonds					**12.0%**	**13.0%**	**12.0%**	**0.0%**	**0.0%**
	VAF	Vanguard Australian Fixed Interest Index ETF	ETF	0.20%	4.0%	4.0%	3.0%	0.0%	0.0%
	ETL0018AU	PIMCO EQT Global Bond Fund	Managed Fund	0.49%	8.0%	9.0%	9.0%	0.0%	0.0%
Credit					**18.0%**	**18.0%**	**18.0%**	**14.0%**	**0.0%**
	MAQ0277AU	Macquarie Income Opportunities Fund	Managed Fund	0.49%	7.0%	7.0%	5.0%	0.0%	0.0%
	CSA0038AU	Bentham Global Income Fund	Managed Fund	0.77%	5.0%	5.0%	3.0%	3.0%	0.0%
	AQHHA	APT Pipelines	Shares	na	2.0%	2.0%	4.0%	4.0%	0.0%
	QUBHA	Qube Subordinated Notes	Shares	na	2.0%	2.0%	3.0%	3.0%	0.0%
	CGFPA	Challenger Capital Notes	Shares	na	2.0%	2.0%	3.0%	4.0%	0.0%
Alternatives					**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
				0.00%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash					**55.0%**	**39.0%**	**20.0%**	**16.0%**	**5.0%**
	HOW0052AU	Kapstream Absolute Return Income Fund	Managed Fund	0.70%	16.0%	0.0%	8.0%	0.0%	0.0%
	AAA	BetaShares Australian High Interest Cash ETF	ETF	0.18%	29.0%	34.0%	7.0%	11.0%	5.0%
		Cash	na	na	10.0%	5.0%	5.0%	5.0%	0.0%
TOTAL					**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Weight Average MER					**0.30%**	**0.32%**	**0.50%**	**0.53%**	**0.67%**

Risk profiling and asset allocation…

1. Identify the risk profile of the client.
2. Set the asset allocation…by selection of the fund managers or securities itself.

Risk management (Risk Profiling and Asset Allocation) within Superannuation?

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- **Most super funds let you choose a range of investment options.** The difference between investment options is mainly how much investment risk you are willing to take on.
- Key points on selecting investment options are:
  - Strategy behind each investment option
  - Investment returns it aims for
  - Risks involved
- Superannuation funds provide “default asset allocation”. This means the superannuation will develop an asset allocation that will “hopefully” suit the majority of the members in the fund.
  - What these default funds often fail to take into account is that the “one size does not fit all” approach, may be appropriate for one person but not be appropriate for another person

Types of Investment Options...

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- **Growth:** Invests around 85% in 'growth assets' such as shares or property. Aims for higher average returns over the long term. This also means higher losses in bad years than those you would experience with lower risk options. You may also be able to invest in a 'high growth' option with 100% in growth assets.
- **Balanced:** Invests around 70% in growth assets, and the rest in fixed interest and cash. Aims for reasonable returns, but less than growth funds to reduce risk of losses in bad years. Those losses usually occur less frequently than in the growth option. You may also be able to invest in a 'moderate' option with around 50% in growth assets and 50% in defensive assets.
- **Conservative:** Invests around 30% in growth assets with the majority in defensive assets such as fixed interest and cash. Aims to reduce the risk of loss and therefore accepts a lower return over the long term. There is less chance of having a bad year than in the balanced or growth options.
- **Cash:** Invests 100% in deposits with Australian deposit-taking institutions or in a 'capital guaranteed' life insurance policy. This option aims to guarantee your capital and accumulated earnings cannot be reduced by losses on investments.

Considerations…

- Ask your clients what they are comfortable with.
- Considerations include…
  - Age
  - How comfortable they are with investment risk
  - How long before they are able to access their funds
  - Their retirement goals

Return expectations…

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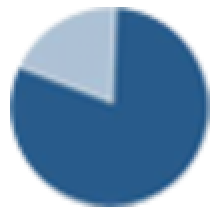
Growth

- Around 85% in shares and property
- The rest in cash or fixed interest



Investment: $10,000 after 5 years = $13,500

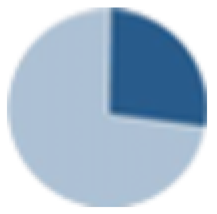
Expected return: 6.2% (gross returns before fees, taxes and other costs)

Volatility: High

Expect a loss: 4-5 years in 20

Conservative

- Around 30% in shares and property
- The rest in cash or fixed interest



Investment: $10,000 after 5 years = $12,300

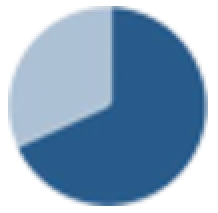
Expected return: 4.2% (gross returns before fees, taxes and other costs)

Volatility: Low

Expect a loss: 0 years in 20

Balanced

- Around 70% in shares and property
- The rest in cash or fixed interest



Investment: $10,000 after 5 years = $13,200

Expected return: 5.7% (gross returns before fees, taxes and other costs)

Volatility: Medium

Expect a loss: 4 years in 20

Cash

- 100% in deposits with Australian deposit-taking institutions

Investment: $10,000 after 5 years = $11,500

Expected return: 2.9% (gross returns before fees, taxes and other costs)

Volatility: Very low

Expect a loss: 0 years in 20

Source: ASIC

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Concept of Asset Allocation

- A major driver behind superannuation investment returns is asset allocation set in superannuation funds.
- **Asset Allocation** = where and how much clients have invested in each asset class.
- Assets are classed as cash, fixed interest (Government and corporate bonds), property, Australian and global shares and alternatives (such as private equity).

Considerations in Asset Allocation

- When considering what is an appropriate asset allocation for you, here are the points to remember:
  - **We are all different.** We are all different and what is a suitable asset allocation for one person may not be suitable for another person.
  - By diversifying amongst and within each of the asset classes, the overall risk of the portfolio is reduced.
  - Different asset classes offer different returns and risks ("risk-return tradeoff") which means the more risk you take the higher your expected return is over the long term.
  - Each asset class will have a different level of return and risk depending on underlying valuations & economic conditions at the time.
  - Determine long and short term goals.
  - Time is your friend and use this to your advantage. Having a reasonable investment time period allows you to take advantage of compounding, the time value of money and ride out any periods of poor investment returns.
  - Asset allocation is an ongoing process and may require adjustments.

Contact details and Questions?

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