

The SuperConcepts SMSF Investment Patterns Survey September 2016



SuperConcepts undertakes a quarterly analysis of its SMSF client investments to get a closer insight into how SMSF trustees invest and to identify emerging investment trends.



The survey covers around 2900 funds, a sample of the SMSFs SuperConcepts administers and the investments they held at 30 September 2016.



Funds are administered on a daily basis which ensures data is based on actual investments and is completely up to date. The assets of the funds surveyed represent just over \$3.1 billion.

Continued drop in contributions levels after 2016 Budget announcements

The average level of contributions for the quarter was at its lowest level since commencement of the survey in 2007 and continued the trend we saw in the June 2016 quarter. This was clearly influenced by the budget announcement of a lifetime non-concessional contributions cap of \$500,000 which was to apply from 1 July 2007.

The survey also showed an increase in Australian Equity allocation, an increase in Hybrid allocation in the Fixed Interest sector and changes in the use of limited recourse borrowing arrangements as a result of the ATO safe harbour guidelines.

The overall asset allocation break-up as at 30 September 2016 was:

| Sector | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|--|---------------------|--------------------|----------------------|---------------------|---------------------|
| Cash and short term deposits | 18.7 | 18.0 | 18.4 | 18.0 | 18.1 |
| Fixed Interest | 12.0 | 12.3 | 12.3 | 12.2 | 12.7 |
| Australian Shares | 36.4 | 35.4 | 35.8 | 34.5 | 35.3 |
| International Shares | 12.0 | 12.9 | 12.6 | 13.1 | 12.8 |
| Property | 20.4 | 20.8 | 20.4 | 21.7 | 20.6 |
| Other (Hedge funds, agricultural funds, private geared & ungeared trusts and collectables) | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 |
| Total | 100 | 100 | 100 | 100 | 100 |

Top 10 largest holdings

The table below summarises the 10 largest investments which represent almost 14.7% of the total SMSF assets held. The total number of investments of the funds covered in the survey is just over 8,200. Two of the top ten are pooled structures used for accessing international equities.

The most commonly held (\$ invested) investments at 30 September 2016 were:

| Ranking | Investment |
|---------|-----------------------------|
| 1 | Commonwealth Bank Ltd |
| 2 | Westpac Banking Corporation |
| 3 | Telstra Corporation Limited |
| 4 | ANZ Limited |
| 5 | National Australia Bank Ltd |
| 6 | BHP Billiton Limited |
| 7 | Magellan Global Fund |
| 8 | Platinum International Fund |
| 9 | Wesfarmers Limited |
| 10 | CSL Ltd |

Maturing Term Deposits not being rolled over

The level of cash increased from 18% to 18.1%. When taking in consideration performance within the different sectors the cash level should have been slightly lower at 17.8%. The increase appears to be mainly the result of cash distributions being received post 30 June from managed funds. Term deposits with a term up to and including 1 year has declined quite significantly from 5.5% to 4.9% showing maturing deposits not being reinvested but kept in cash due to lower interest rates.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|------------------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| Cash | 13.1 | 12.6 | 13.1 | 12.5 | 13.2 |
| Term Deposits < 1 year | 5.6 | 5.4 | 5.3 | 5.5 | 4.9 |
| Total % | 18.7 | 18.0 | 18.4 | 18.0 | 18.1 |

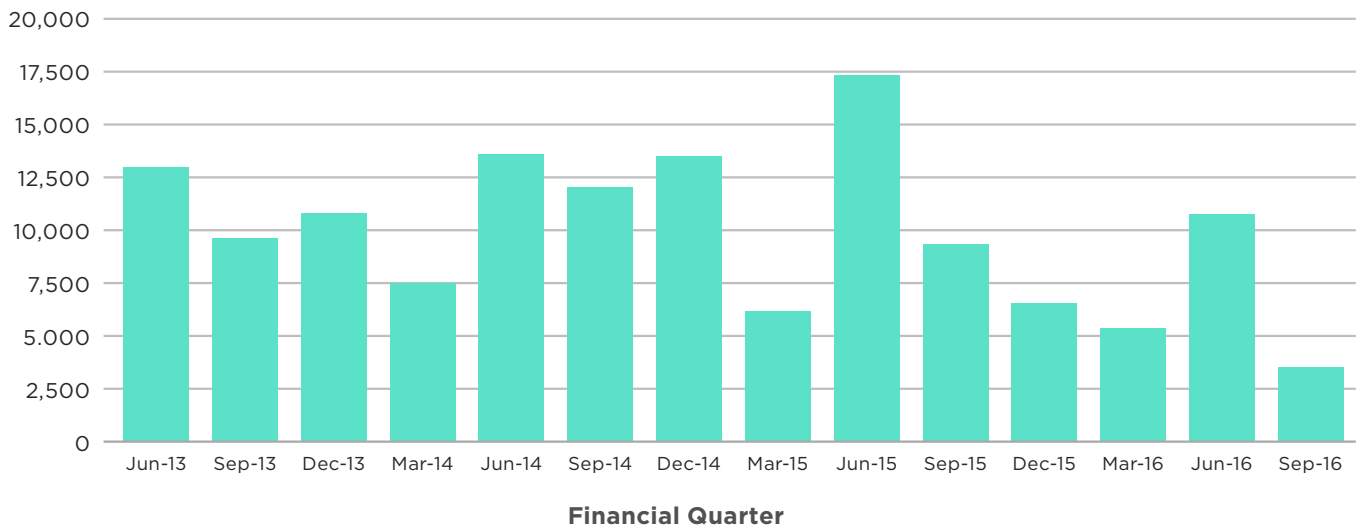
Contributions, Benefit and Pension payments

The average contribution inflow per fund for the quarter decreased significantly from \$10,750 to \$3,040 for the quarter. This is the lowest since the inception of the survey in 2007. This shows the significant impact the proposed budget changes have had on member contributions.

The government initially announced a lifetime non-concessional contributions cap of \$500,000 which was to apply retrospectively from 1 July 2007. On 15 September 2016 this proposal was abolished and replaced with draft legislation providing a lower annual non-concessional cap of \$100,000 for members with a balance below \$1.6 million from 1 July 2017 onwards.

With the existing non-concessional contribution rules (\$180,000 per annum or \$540,000 on a 3 year bring forward basis regardless of their member balance) still applying for the remainder of this financial year, we expect a significant uplift in the level of non-concessional contributions prior to the end of the current financial year.

Average Contributions level history

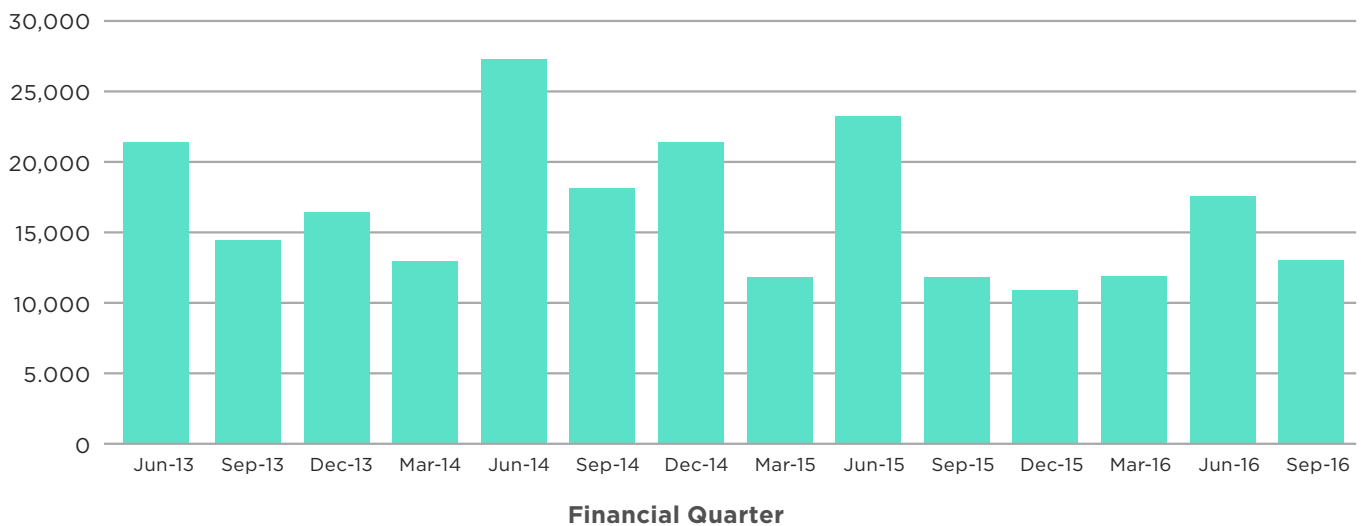


The average benefit and pension payments made per SMSF was \$13,220 compared to \$17,810 for the June quarter.

This is quite similar prior years with generally only the June quarter showing a strong increase in benefit payments with trustees ensuring they draw the annual minimum pension requirement before the end of the financial year.

During the September quarter 81.9% of benefit payments were pension payments and 18.1% lump sum payments, compared to 79.7% and 20.3% for the previous quarter.

Average Benefit payment level history



Fixed Interest shows increase in Hybrids allocation

The asset allocation to the fixed interest sector increased from 12.2% to 12.8%. The growth mainly comes from the increased allocation to Hybrids from 6.5% to 7% with a new offer from ANZ as well as reaction to the interest rate cut by the RBA during the quarter.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|---------------------------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| Hybrids & other direct holdings | 5.8 | 6.3 | 6.6 | 6.5 | 7.0 |
| Term Deposits > 1 year | 1.8 | 1.6 | 1.3 | 1.3 | 1.5 |
| Managed Funds | 4.4 | 4.4 | 4.4 | 4.4 | 4.2 |
| Total % | 12.0 | 12.3 | 12.3 | 12.2 | 12.8 |

Australian Equity allocation up

The allocation to Australian Equities increased from 34.5% to 35.3%.

With the All Ords currently outperforming the ASX top 20, the increased allocation to Australian Equities shows trustees benefited from moving away from the top 20 shares within the sector.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|----------------------------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| Direct Shares | 32.2 | 31.1 | 31.2 | 29.7 | 30.4 |
| ETF's | 0.9 | 1.0 | 0.9 | 1.1 | 1.1 |
| Managed Funds | 3.3 | 3.3 | 3.7 | 3.7 | 3.8 |
| Total Australian Shares % | 36.4 | 35.4 | 35.8 | 34.5 | 35.3 |

Top 10 largest Australian listed securities

Out of the total SMSF assets held, the top 10 listed securities trustees invest in represent 14% of total investments.

During most of the 2015 calendar year, this figure was generally around 20% with trustees investing almost \$1 of every \$5 in the S&P Top 10 shares. The top 10 shares now represent just less than 39% of all trustees Australian Equity holdings.

The most commonly held (\$ invested) shares at 30 September 2016 were:

| Ranking | Company | Ranking | Company |
|---------|-----------------------------|---------|----------------------|
| 1 | Commonwealth Bank Ltd | 6 | BHP Billiton Limited |
| 2 | Westpac Banking Corporation | 7 | Wesfarmers Limited |
| 3 | Telstra Corporation Limited | 8 | CSL Limited |
| 4 | ANZ Limited | 9 | Woolworths Ltd |
| 5 | National Australia Bank Ltd | 10 | Transurban Group |

The Top 10 are the four major banks, a telco, two mining companies, two retailers, a pharmaceutical company & a transportation company.

Exposure to International equities decreased

Exposure to International Equities decreased from 13.1% to 12.7%. When looking at performance in the different sectors, the theoretical allocation should have instead slightly increased to 13.2% if trustees would have left their allocation unchanged for the quarter. However, when we take into account the 4% appreciation in the currency this results in a fall in the allocation.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|----------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| Direct Shares | 1.3 | 2.5 | 2.3 | 2.8 | 2.5 |
| ETF's | 2.2 | 2.3 | 2.4 | 2.2 | 2.1 |
| Managed Funds | 8.5 | 8.1 | 7.9 | 8.1 | 8.1 |
| Total % | 12.0 | 12.9 | 12.6 | 13.1 | 12.7 |

Exposure to ETF's and International Managed Funds increasing

The overall allocation to Managed Funds decreased from 18.2% to 17.7% for the quarter.

The split continues to show pooled structures are the preferred method of investing in overseas markets due to the complications still present in investing overseas directly.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|------------------------|---------------------|--------------------|----------------------|---------------------|---------------------|
| Cash & Fixed Interest | 4.6 | 4.5 | 4.6 | 4.6 | 4.4 |
| Australian Equities | 3.3 | 3.3 | 3.7 | 3.8 | 3.8 |
| International Equities | 8.5 | 8.1 | 7.9 | 8.1 | 8.1 |
| Property & other | 1.7 | 1.7 | 1.7 | 1.7 | 1.4 |
| Total | 18.1 | 17.6 | 17.8 | 18.2 | 17.7 |

Investment through the use of ETFs represents 3.9% of all assets during the September quarter, up from 3.7% during the June quarter. The EFT allocation has continued to increase over the past few quarters. ETF's are mostly used in the International Equity sector, representing 17% of all International Equity holdings.

Direct Property allocation

The asset allocation to the property sector decreased from 21.7% to 20.6% for the quarter. Direct property represents around 79% of the total property allocation, compared to 72% for the previous quarter.

These changes were mainly the result of a significant number of property syndicates that were finalised during the quarter compared with new direct property acquisitions.

In actual numbers, the approximately 2900 funds covered in the survey own a total of 1108 residential or commercial properties. The split between commercial property and residential property was 28% versus 72%.

The average value per property was \$692k for commercial property and \$393k for residential property.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|--|---------------------|--------------------|----------------------|---------------------|---------------------|
| Direct Property | 16.5 | 16.5 | 16 | 15.7 | 16.3 |
| Listed Property | 1.7 | 1.9 | 2.2 | 2.1 | 1.9 |
| Managed Funds | 1.2 | 1.2 | 1.3 | 1.3 | 1.2 |
| Other (Syndicates, Unlisted Trusts etc) | 1.0 | 1.2 | 0.9 | 2.7 | 1.2 |
| Total % | 20.4 | 20.8 | 20.4 | 21.7 | 20.6 |

Limited recourse borrowing arrangements

Around 19.4% of the total number of funds in the survey are currently utilising a borrowing arrangement.

The number of property loans increased by 7.4% for the quarter while the number of investment loans decreased by 16.9% for the quarter.

In percentage terms based on number of loans, 75% of borrowed monies relate to property, with financial asset loans representing 25% of the borrowed monies. The split was 70% versus 30% respectively during the June quarter.

This shows a decrease in the amount of financial asset loans. This appears to be the result of trustees winding up some of the related party loans in relation to financial assets due to the introduction of the ATO safe harbour guidelines on related party loans which only applied to real property & listed assets.

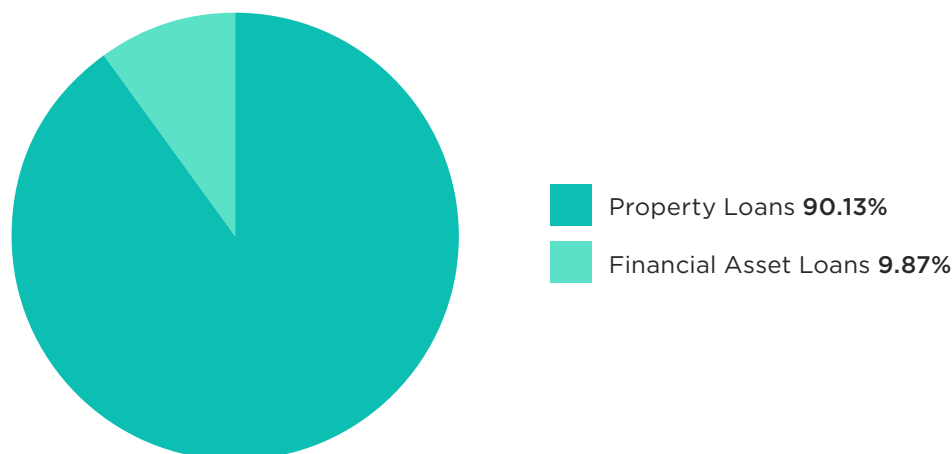
The average property loan amount was \$280k compared to \$93k for financial asset loans, so based on loan values, 90% of borrowed monies relates to property, with financial asset loans representing 10% of the borrowed monies

At the end of the December quarter 38% of all direct property holders had a gearing arrangement in place, up from 37.3% from the previous quarter. The table below shows the percentage of geared property for the year.

| | 30 Sept 2015 (%) | 31 Dec 2015 (%) | 31 March 2016 (%) | 30 June 2016 (%) | 30 Sept 2016 (%) |
|--|---------------------|--------------------|----------------------|---------------------|---------------------|
| Direct Property holders utilising LRBAs | 29.8 | 33.0 | 35.6 | 37.3 | 38.0 |

The graph below shows the split across direct property and financial assets of the value of total borrowings at 30 September 2016.

Borrowing across Assets



For any queries in relation to this Investment Pattern Survey please contact Philip La Greca on (02) 8055 0669 or email Philip.LaGreca@SuperConcepts.com.au. Philip La Greca is Executive Manager – SMSF Technical & Strategic Solutions. SuperConcepts is a leading specialist SMSF and Managed Account administration company. The vast majority of SuperConcepts administered SMSFs have a wide range of financial advisers providing investment advice to the trustees and this may make the analysis results different to the wider SMSF community.

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