



# Investment Market Update

Issue 61 - Summer 2017



## Message from the Manager

Welcome to 2017. It started off mixed, and as we have outlined in previous newsletters, it's likely to stay that way.

In this newsletter we look at the history and economic effects of the era of feelings that we are currently in. Understanding this is crucial to understanding how to manage portfolios in volatile times. We look at some newsworthy changes in our business, especially the fitout in the Melbourne office, which everyone is looking forward to. There's an update on client services matters, which highlights the importance of responding to communications from your advisor in a timely fashion. As always there are budget and Centrelink changes, some of which are challenging. There's also the popular travel article, this time contributed by intrepid Rockhampton clients Bill and Kathy Prior. Morgen talks Insurance and there is a piece on our new home lending offering. We've included a piece on business consulting, which was founded on the needs of clients who run small businesses. Josh has provided some insight to transition pensions, and the changes being implemented from July 2017, while Lachlan put down his chisel and jotted a few notes on stocks we are currently looking closely at.

Readers, it takes us a while to put together this newsletter which we hope is informative, challenging and entertaining in equal measure. Please take a few minutes to read it.

**David French**  
Managing Director

## Economic environment

### Feelings rule

It's a frustrating time to be an economist because as with any science based discipline its under pressure from the feelings brigade. The noise of the feelings brigade is morphing into what is now being termed the "post truth" era. Their negative influence is seen in the anti-vaccination lobby, the dumbing down of education, the abject decline in quality journalism and increasing and unsustainable increases in regulation.

This type of rationale has been growing over the years, supported by the ideas behind political correctness. The deliberate curtailment of free speech is in fact threatening the very democratic principles on which the west is founded. The result is problems that are not discussed or fixed, but rather exacerbated because of fears that people will be offended or at the very least suffer perceived micro-aggressions. And it's not just that anything contentious is shot down, it's that anything that might impact on anybody is off limits for discussion – even those well versed in the particular matter.

The issues we face have been brewing for at least 15 years, when Donald Rumsfeld was publicly pillared for daring to expect the public would appreciate his insight into "know unknowns" etc. This pillaring was a demonstration of the embryo of the current populist movement.

According to Alan Greenspan in his

Excellent book "The Age of Turbulence":

*Economic populism imagines a more straightforward world in which a conceptual framework seems a distraction from evident and pressing need. If there is unemployment, then the government should hire the unemployed. If money is tight and interest rates as a consequence are high, the government should put a cap on rates or print more money. If imported goods are threatening jobs, stop the imports.*

The problem is in the unintended consequences of these actions - If you cap an imbalance, you inadvertently trigger a series of other imbalances. Put a price ceiling on fuel and you will soon be waiting an hour to fill up.

What populism does is eschew any intellectual framework for rhetoric like, fairness, justice, exploitation and land reform. There is never any detail and where the practise has been taken to its limits disaster has ensued. Readers might like to look at the history of Zimbabwe, Venezuela, Nazi Germany and Stalinist Russia.

The other effect of populism is the direct undermining of the very institutions on which democratic societies are built. Greenspan again:

*Civilised societies have built up a vast set of cultural imperatives and conventions governing people's interactions with one another and the state. Very few are written down, and most of us are not fully aware of the extent to which societal forces, religion,*



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*and education direct even the minutest of our choices day by day. To be sure, our legal system is also based on these values, but of necessity only in general terms.*

Having read this, I am a little humbled that I have had educated people argue with me that productivity hurts the workers (as if higher prices do not), that property rights are not key to underpinning economic prosperity (so how do you show you won anything), and that the problems in the middle east (for which we are all paying an economic and social price) are of the West's doing and not related to thousands of years of essentially unbridled tribalism (which is the very essence of Christianity).

At the end of day people voted for Trump because they are facing uncertainty and they are unhappy with the current state of political affairs. The solution however is not in populist responses but in well thought out and well executed policies that address big issues like the aging population, health care, the expensive and underperforming education system and the growing disparity between the haves and have nots.

**David French**  
**Managing Director**

## Our business

After a successful and progressive year in 2016, we enter 2017 with some exciting initiatives. First cab off the rank is the new Mortgage Broking initiative. Overseen by Mark Buisman in our Melbourne office, we can now organise competitive and well-researched loans to clients, family and friends, sourced from a wide range of providers. Combined with personal financial modelling, our offering is comprehensive, professional and tailored

to every client's situation.

If you are visiting the Melbourne office you'll have to dodge hammers and falling ceiling tiles. That's right – a fit-out after about 15 years. We're hoping it takes no longer than six weeks to complete and after that the remodelled premises will have more meeting rooms, offer better communication between staff, and have better air conditioning. Not to mention an attractive and up to date interior.

The Rockhampton office is moving to the floor upstairs, making available more meeting rooms and more space generally. It should be finished by end March.

Looking back on 2016, we are delighted at the number of clients who have commented how much they like the PAS system, and the results they are getting from directly managed portfolios. The direct investment bond offer through FIIG has also been very popular, and our own managed fund has made a number of attractive investments that are performing as well as expected or better, with more to come this year.

We have previously discussed the vastly increased compliance burden we have been faced with over the last 10 years, but particularly the last three. These unbridled regulatory requirements have led to a situation where we have no choice but to implement a modest compliance levy across all portfolios. This is consistent with other financial planning and portfolio management outfits and we will be writing to all clients individually about it. We are also writing to various regulators and the government to voice our concerns.

**David French**  
**Managing Director**



## Client Services Update

### Quarterly reporting

Your next round of portfolio reporting is scheduled for the end of January, this will include quarterly reports (Oct – Dec 2016). Your reports will come to you via email or post, depending on the preference you have selected. You can also access your reports via the online client portal as soon as they have been run. If you would like to be set up, or have forgotten your password, please feel free to contact the Rockhampton office on 1800 679 000.

### Approving recommendations

You will have received a form in early December 2016 for signing in relation to who is able to approve your recommendations and withdraw or transfer money from your portfolio account. We thank you for the prompt return of these forms, this is a compliance measure to ensure that members of a portfolio have been given authority to act on each other's behalf, if that is the preferred option.

### Updating your contact information

We are always on the lookout for ways we can improve the way we communicate with you. If any of your information including phone number, postal and email addresses have changed in the last few months, please send your updated information through to [enquiries@capinvest.com.au](mailto:enquiries@capinvest.com.au) and we will ensure your information is current. We pride ourselves on our face-to-face approach to client services so you can call in or phone our offices to speak with someone anytime during office hours.

**Rose Sladden**  
**Client Services Manager**





## Budget changes

### 2016/2017 Federal Budget - Key changes explained

Changes to superannuation legislation was a key focus of the 2016 / 2017 Federal Budget. The purpose of this article is to help explain some of the changes and how they may apply to you.

#### 1. Changes to concessional contributions

Concessional contributions are contributions made into superannuation for which a tax deduction is claimed; such as superannuation guarantee contributions (SGC) or salary sacrifice contributions.

From 1 July 2017, the concessional contributions cap will be reduced to \$25,000 pa (indexed) for everyone, regardless of age.

On the positive side, individuals who have total superannuation savings of less than \$500,000, who do not fully utilise the cap each year, can carry forward the unused cap on a rolling five-year basis starting from 1 July 2018.

The cap is currently \$30,000 per annum under age 50 and \$35,000 for 50 and over.

#### 2. Reduction of the non-concessional contributions (NCC) cap

Non-concessional contributions are made from after tax money, and are contributions for which no tax deduction has been claimed.

A cap of \$100,000 pa per person will apply. If the individual is under age 65, the 3-year

'bring forward rule' can be utilised, thus contributing up to \$300,000.

For the 2016-17 financial year the existing limit of \$180,000 per annum, or \$540,000 3-year limit, can still be used. In order to access the full \$540,000 limit, however, the individual must fully utilise this amount this financial year otherwise transitional 'bring forward rules' will apply. If an individual has not fully used their bring forward limit before 1 July 2017, the remaining bring forward amount will be reassessed to reflect the new annual caps.

If the individual's super balance is \$1.6 million or greater, no further non-concessional contributions can be made. This restriction only applies to non-concessional contributions.

Previously individuals could make non-concessional contributions of up to \$180,000 pa into their superannuation, with the ability of bringing forward two years' allowances (i.e. \$540,000 worth of contributions in total) if the individual is under age 65.

#### 3. Introduction of a pension transfer cap of \$1.6 million

A \$1.6 million transfer balance cap on the total amount of super an individual can transfer into retirement accounts will apply. The cap will apply to current retirees and individuals yet to enter retirement.

Retirees with balances above \$1.6m will be required to reduce their balance to the cap by the effective date by transferring any excess back to accumulation or withdrawing the excess from super. If not transferred, excess tax will be applied at 15% initially and 30% for subsequent breaches of the cap.

The cap will index in increments of \$100,000 in line with Consumer Price Index (CPI).

There was previously no limit on the

amount individuals could accumulate in pension phase.

#### 4. Increase in the tax rate for Transition to Retirement Income Streams (TTR)

Individuals who have reached their preservation are able to convert their superannuation capital into an account based pension even if they are working. This arrangement is known as a transition to retirement income stream.

From 1 July 2017, the tax exempt status of earnings supporting a TTR pension will be removed. Earnings within the pension will be taxed at 15%.

Although this reduces the attractiveness of a TTR Pension, a TTR Pension strategy will continue to be a tax effective strategy to reduce the amount of tax payable in your name.

Currently earnings on the capital within a TTR pension are tax free.

#### 5. Anti-detriment abolished

Anti-detriment payments will cease to be paid from 1 July 2017.

Upon the death of a member, some superannuation funds were able to pay an extra anti-detriment amount to eligible beneficiaries on top of the deceased member's account balance. It is essentially a refund of contributions tax that has been paid by the deceased member.

Most Self-Managed Superannuation Funds (SMSF's) do not have the capacity to make anti-detriment payments. This was a disincentive to investing in SMSF's that will be removed.

#### 6. Tax deductions for personal lump sum contributions made available to more individuals

Everyone under the age of 75 will be able to choose to claim a tax deduction for



personal superannuation contributions made from 1 July 2017, regardless of employment status.

Currently, a deduction can only be claimed by individuals who are self-employed or substantially self-employed (i.e. less than 10% of their income is attributable to employment-related activities).

## 7. Threshold reduced for Division 293 Tax

High-income earners currently pay an additional 15% tax on concessional contributions where their total income is over the \$300,000 threshold. This is called 'Division 293 tax' based on the legislative provision that outlines the extra tax.

The income threshold is proposed to be cut from \$300,000 to \$250,000 per annum from 1 July 2017 to limit the concessions available to higher income earners.

This will increase the number of people liable for the additional tax.

The above changes are just some of the changes that were passed by both houses of Parliament. Should you have any questions or would like to discuss any of these changes, please contact your adviser.

**Paul Young**

**Manager Client Services and Paraplanning**



**Table 1. Summary of new lower and upper thresholds**

|                      | Lower Threshold                    | Upper Threshold                        |
|----------------------|------------------------------------|--|
| Single Homeowner     | \$250,000<br>(Previous: \$209,000) | \$542,500<br>(Previous: \$793,750)     |
| Couple Homeowner     | \$375,000<br>(Previous: \$296,000) | \$861,000<br>(Previous: \$1,178,500)   |
| Single Non-Homeowner | \$450,000<br>(Previous: \$360,500) | \$742,500<br>(Previous: \$945,250)     |
| Couple Non-Homeowner | \$575,000<br>(Previous: \$448,000) | \$1,016,000<br>(Previous: \$1,330,000) |

## Centerlink

### Changes to Centrelink Age Pension Assets Test - January 1, 2017

The government has legislated changes to the Assets Test which took effect on January 1, 2017. The changes are:

- The level of assets that result in the maximum age pension entitlement ("lower threshold") has increased.
- The rate at which entitlement decrease (as assets increase) will double from \$1.50 for every \$1,000 above the lower threshold to \$3.00 for every \$1,000 above the lower threshold.
- The maximum level of allowable assets ("upper threshold") will decrease.

As a result, some individuals (with lower assets) would receive a higher Age Pension entitlement, with some receiving lower entitlement or lose their entitlements altogether. Table 1 illustrates the new lower and upper thresholds.

If you have lost your Age Pension entitlement, you may still be eligible for the

Commonwealth Seniors Health Care Card which provides a number of concessions and benefits.

There are also strategies you can implement to reduce your assessable assets, such as:

- Gifting (within allowable limits)
- Renovating the family home
- Superannuation fund contributions on behalf of a spouse who is below the Age Pension age.

If you have any questions regarding the changes, please contact your financial adviser.

**Ken Khoo**  
**Paraplanner**



## Insurance

### Are your retirement plans safe?

Picture this. You've recently retired, and you're reasonably confident you'll have enough savings to fund the comfortable lifestyle you'd always hoped for.

Then you receive a phone call with some bad news – your daughter has been diagnosed with a serious health condition, cancer. More than half of all death in Australia are due to cancer.

With the bills piling up, and your daughter set to be out of the workforce for an indefinite period, you invite her to move back into the family home. You ask whether she has life insurance to help finance her ongoing living needs, only to find out she'd never gotten around to it.

It's a natural instinct for a parent to do whatever it takes to help their children when they need you. And luckily for the baby boomer generation, and your children, many of you have the financial resources to help out.

But what if 'helping out' meant you had to stay in the workforce longer, or cut back on your retirement lifestyle to help fund your child's mortgage, medical expenses or living costs?

Or what if you had to provide for your grandchildren? What would that mean for your own financial situation – both now and in the future?

These scenarios may sound extreme, but consider the following statistics:

- One in five families will be impacted by the death of a parent, a serious accident or illness that renders a parent unable to work<sup>#</sup>.
- Two thirds of families with kids at home couldn't meet their expenses beyond 12

months of the main breadwinner having passed away<sup>†</sup>.

- 95% of families do not have adequate levels of insurance<sup>#</sup>.

### Do your children have it covered?

Generations X and Y are comfortable with the idea of using debt to achieve their goals. And to get into the housing market, they often have to take on considerable mortgages, which can take a decent bite out of their income.

Of course, all of this is sustainable when they're working full-time. But if your children don't have adequate protection for their income, their debts, and their dependants, they could be vulnerable to serious illness or injury. Their own families (if they have one) can also be considerably exposed if they die. Raising children is expensive. It estimated to cost \$537,000 to raise two children from birth to age 21. This does not allow for private education.

When you consider the maximum disability support pension available from Centrelink is only \$877 per fortnight (\$22,802 p.a.)<sup>2</sup>, an extended period out of the workforce could leave a big hole in their budget. That's if they're eligible for any government assistance at all. Qualification is based on the extent of their physical condition and is means-tested.

### Talking to your children about life insurance

Many adult children will discuss their major financial decisions with their parents. Major events like getting married, buying a house, or even changing jobs are good opportunities to talk to your children about life insurance.

One of the good things about taking out life insurance from a younger age is that premiums are often very affordable.

For example, a 30 year-old female clerical worker can take out \$500,000

life insurance (with Total and Permanent Disability cover), plus \$4,000 a month income protection, for around \$3 a day (Source: TAL Life Limited ABN 70 050 109 450 AFSL 237848).

This cover will provide some financial relief in the event of serious sickness or injury. It will also make available a lump sum on death that may be used to pay off debts, medical bills or help the family meet ongoing living costs.

The best way to help your children get the right level of protection for themselves (and you!) is to encourage them to discuss their life insurance circumstances with a financial adviser or specialist risk adviser.

# 'The Lifewise/NATSEM Underinsurance Report' – February 2010

† 'Analysis of Insurance Needs', Rice Warner Actuaries – May 2005 NARSEM, Australia child costs in 2007

2 Centrelink Disability Support Pension, maximum single rate from 20 March 2016

Please be mindful that this information does not take into account your personal needs and financial circumstances. You should consider the appropriateness of the information having regard to your objectives, financial situation and needs.

**Morgen Harris**  
Senior Risk Adviser



## New Service - Lending



### Mortgage Lending Services

At the end of 2016, we received approval for our Credit Licence. There have been many conversations with clients about real estate and loans. With advisers having previous experience in the area, we researched and applied for a lending licence to better help our clients.

The reality now is that most of us rely on loans to fund our property purchases. Whether buying your first home or your first investment property, this can become a stressful time. Our services now offer specialist advice to assist you with your lending needs so that this doesn't have to be so stressful. We are here to give you tailored advice to make sure your property and loans are working for you.

Our lending services include:

- Help find a home that is right for you
- Assist with the purchase of the property

- Use your cash flow to save on interest
- Create wealth using the equity in your home
- Review of your existing mortgage(s) to ensure that you have the most appropriate loan to match your needs and budget as your situation changes

The process starts out with an initial free consultation to find out the needs of the clients. The adviser will then do research for the best outcome for the client and liaise with the client throughout the process. With approval from the clients, the application will be submitted. The adviser will step you through the process and liaise with third parties if required. Upon settlement and after the purchase the adviser will continue to be in contact with you to ensure repayments are set up correctly and everything is running smoothly. On the anniversary of the home loan, a review will be undertaken to ensure the loan product still meets the client requirements.

We are excited to offer lending services to both our current and prospective clients. Our aim is ease stress during a stressful time to make sure that our clients real estate objectives are met by making sure their property and loans are working best for them. If you, or anyone you know is looking at property or considering refinancing, please contact us today.

### Hidden Costs on Fixed Rate Home Loans

It's an exciting time when you find the property you want, and finally have approval for the money required to buy it! Because that's the reality now, most of us rely on loans to fund our property purchases.

There are significant differences between Variable and Fixed rate mortgages, and

there are some hidden traps to look out for when comparing those loan offers, especially within this low interest rate environment when Fixed Rate offers are being heavily promoted by lenders.

Always ensure you read the Terms and Conditions before signing on the dotted line, so you know exactly what you are getting yourself into, especially if you are thinking of paying your mortgage off sooner than the contract states.

You might think you're protected should you need or want to get out of the loan contract. But when the federal government stepped in and banned exit fees on all new variable rate mortgages in 2011, fixed rate mortgages were not included in the ban.

So if you are planning on paying your mortgage off sooner than expected, a variable rate mortgage may be the more appropriate loan structure for you, or even better, you could split the loan so you have the portion you know you can't pay back for a period in the fixed portion of your loan, and the amount you believe you can pay back faster in the variable portion.

Fees to watch out for with Fixed Rate Mortgages are as follows:

#### Establishment fee

An establishment fee is a one-off payment when you start your loan. Usually ranging from \$600 - \$1,000.

#### Ongoing fee

An ongoing fee is charged every month or year for administering your loan – and this is usually around \$10 a month.

#### Break cost fee

Break cost fees, also known as exit fees, early repayment adjustment fees or prepayment fees, are charged if you make extra repayments on your loan, pay your loan off in full or decide to switch to another loan type such as a variable rate

loan.

Most lenders will allow you to pay a small amount off your loan each year without being charged, this can range from \$10,000 to \$30,000, however if you pay more than this amount you may incur a hefty fee.

How are break cost fees calculated? They are essentially based on three factors: the length remaining on your loan, what interest rate you are paying (compared to your current lender's fixed rate), and the amount you initially borrowed. Break costs can run into the tens of thousands of dollars depending on how much interest rates have changed.

#### **Discharge fee**

A discharge fee, also known as a termination fee or settlement fee, will be charged when you pay your mortgage in full. This is normally \$150 and covers the lenders legal costs.

Purchasing property and using borrowed funds is a big financial commitment and therefore it is incredibly important that you seek independent legal and financial advice.

**Mark Buisman**  
**Lending Adviser**



## **Business Highlights**

### **Business Consulting**

Our consulting team services a variety of

businesses. We have developed expertise in industry sectors including agriculture, manufacturing, heavy machinery, logistics, technology & media, finance, construction and many more. We strive to provide our clients with peace of mind regarding their business's financial position to alleviate unnecessary pressure on management so they can focus their attention on day-to-day operations.

Our consulting team has been assisting businesses for over five years. For Corporate advisory we offer a variety of services that supports business operators such as:

- Financing and refinancing opportunities
- Investment management
- Business structuring and governance
- Mergers and acquisitions
- Corporate superannuation services
- Taxation planning and management

For small-to-medium sized businesses we offer professional advice tailored to each individual business, services such as:

- Bookkeeping
- Financial modeling and budgeting
- Turnaround consulting
- Business plan development
- Refinancing existing debt obligations
- Insurance
- Economic research, analysis and feasibility studies

Every business is different, so every consulting process will be different, however the main stages are similar. The consulting services process begins with an initial consultation, or interview, regarding your business. There will be discussions on the background and current status of your business, and the outcome you are looking

to achieve.

The next step is for a business proposal to be developed. The proposal is a document with advice on where to take your business from here to meet your objectives. The document explains how this will happen with the required steps.

Once you are happy with the proposal, implementation will start. This is the fun part for us. For you, the focus will be on the day-to-day business. With constant communication, reviewing our approach and implementing any necessary changes, you will see your business shift and transition to the outcome you are seeking.

We are excited to offer a range of advanced consulting services to both our current and prospective clients who own small-to-medium businesses. Our aim is to add value to your business through providing a variety of the highest quality consulting services by taking the time to understand each business' unique needs so that clients achieve the business outcomes that are required.

If you, or anyone you know, has a small to medium business that would benefit from these services, please contact us today. We can also provide you with a Capability Statement if you wish to learn more about these services.

**Jake Brown**  
**Business Consultant**





## Staffing update



### Arjuna Le Gros

#### Trainee

Arjuna is our newest member of staff taking on the role of Financial Planning Assistant in the Melbourne office.

Arjuna comes to us with a Bachelor of Accounting and Finance from Swinburne University in Melbourne.

It is our pleasure to welcome Arjuna to the team.



## Financial Planning Strategy

### Transition to Retirement Income Streams

Previously, individuals could not access their superannuation until they had reached their preservation age and a condition of release had been satisfied (which was usually retirement from the work force).

Regulations were introduced in 2005 to give effect to the “Transition to Retirement” (TTR) measure which allows individuals to gain access to their superannuation benefits after reaching preservation age while still working and before a condition of release has been met.

Your preservation age, is not the same as your pension age. Your preservation age is the age at which you can access your super and depends on when you were born. You can use Table 2 below to work out your preservation age.

**Table 2. Preservation Age Summary**

| Date of Birth              | Preservation Age |
|----------------------------|------------------|
| Before 1 July 1960         | 55               |
| 1 July 1960 - 30 June 1961 | 56               |
| 1 July 1961 - 30 June 1962 | 57               |
| 1 July 1962 - 30 June 1963 | 58               |
| 1 July 1963 - 30 June 1964 | 59               |
| From 1 July 1964           | 60               |

The TTR measure allows individuals to commence a retirement income stream (i.e. account based pension) while still working. The retirement income stream commenced is non-commutable, which means that the balance cannot be accessed until a condition of release is satisfied. There is a minimum 4% or maximum 10% yearly pension income limit of the account balance, as at 1 July each year.

Commencing a TTR pension can be very tax effective as income and capital gains are tax free and the pension payments are concessional taxed for those under age 60. Pension payments become tax free for those over age 60.

A popular strategy used by those who have reached their preservation age and intend to keep working has been to use a TTR pension to increase their overall super nest egg whilst still maintaining their cash flow requirements.

This strategy involves:

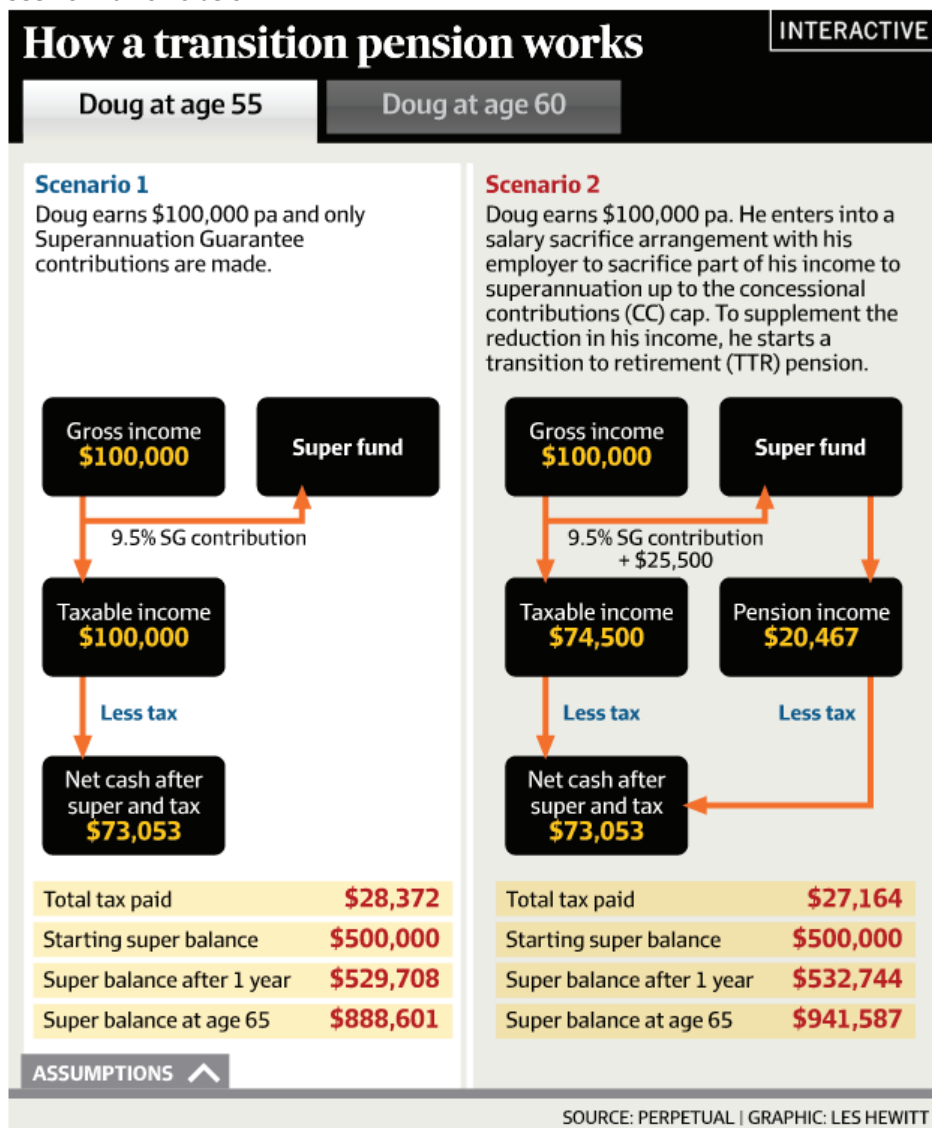
- Arranging with your employer to sacrifice part of your pre-tax salary directly into your super fund;
- Convert most of your super into a TTR pension account; and
- Using the regular payments from the TTR to replace the income you sacrificed into super.

By taking these steps, it's possible to accumulate more money for your retirement, due to a range of potential benefits. For example:



- Salary sacrifice super contributions are generally taxed at up to 15%, rather than at marginal rates of up to 49%;
- Investment earnings in a TTR are tax-free, whereas earnings in a super fund are generally taxed at a maximum rate of 15%; and
- The taxable income payments from the TTR pension will attract a 15% pension offset between preservation age and 60.

See how it works below:



### SPOILER ALERT!

In the 2016 Federal Budget, the government proposed that from 1 July 2017, earnings from a TTR pension will no longer be tax-free. The earnings will be taxed at up to 15%, the same as if they were in accumulation phase. Whilst this proposed measure does take some of the gloss off the TTR strategy it is still a worthwhile strategy, but in more limited circumstances.

If you're considering taking advantage of the TTR pension/salary sacrifice strategy, or considering reviewing an existing strategy, then we recommend you seek advice on the merits of such a strategy for your personal circumstances, especially the implications post-30 June 2017.

**Josh Scipione**  
Adviser



- Commences July 1, 2015.
- Doug's employment income increases by 2.8% pa.
- The portfolios are invested in a balanced (including alternatives) risk profile, which aims to generate capital growth of 3.3% and income return of 4.3% pa (franking levels of 18.4%) over the long term.
- In scenario 2, Doug starts a TTR pension with \$300,000 from his existing superannuation account.
- CCs cap remains constant.

## Investment Briefs



### TPG Telecommunications

Over recent years, there has been a high level of public attention on the transition to the National Broadband Network (NBN). Cost and time overruns have dominated the political narrative. For us as investors, this part has less relevance than the impact and possible advantages the NBN will provide to companies. The NBN is a national wholesale only open access data network which retail service providers can access and on sell internet access and other services to their consumers. The NBN is intended to, in time, replace the existing copper network owned by Telstra (TLS), with much higher speeds than what is experienced currently.

One company that is taking advantage of the build of NBN is retail service provider TPG Telecommunications (TPM). In anticipation of a nationwide roll out of NBN, it embarked on a significant acquisition exercise of retail service competitors in order to gain market share. In 2010 it acquired Pipe Networks for \$370m. In 2013, it raised the stakes and took over AAPT for \$450m. However, it wasn't finished, last year they completed their largest acquisition of all by taking over IINET for a whopping \$1.6bn.

These are significant investments to attempt to integrate into the TPG 'mainframe' and as a practice we are very reluctant to invest in firms that have embarked on such a path of acquisitions. As a result of acquisitions, goodwill as a percentage of net equity reached a very

high level of 88% in 2012 and 85% in 2014 and currently sits at 68%. Furthermore, TPG is also experiencing some NBN access pricing issues due to the Government's aim for NBN Co to make a return on investment. This has led to higher prices being charged for access which is in turn affecting TPG. All of these factors are starting to catch up with TPG with the stock down by 47% since August this year. Also, despite all that is going on domestically, TPG is expanding its footprint internationally, recently being awarded a licence to operate as the fourth mobile operator in Singapore.

TPM would have met some of our criteria as an investment. Its high return on capital invested led us to investigate the company for longer term investment. However, due to the factors mentioned above, we decided there was too much underlying risk to the company. A core component of investing is to miss out on the worst 20% in the market. By adhering to very strict risk measures we believe this helped us in avoiding TPM as an investment for clients.



### Infrastructure Sector

Unexpectedly, Donald Trump is the President-elect of the United States of America. When investing, we have a strong grounding in what is known as 'bottom-up'

investing whereby we very closely look at the merit of individual investments. Can the business prosper despite what economic circumstances prevail? Does the business have longevity, in other words will it still be around in 20 plus years? We have long believed that certain infrastructure investments fulfill the desired role due to their, at times, monopolistic nature, stable and long life cash flows and low beta (variability in share price). We haven't changed our stance on infrastructure however, macro factors such as the Trump Presidency have certainly affected performance over the last four months.

Bond yields have been the major driver of infrastructure share prices since August this year as the Trump victory heralds the likelihood of larger US government intervention through fiscal expenditure. The bond market is at times a key driver of infrastructure company's valuations due to income returns being benchmarked off the 'risk-free' Commonwealth bond yield. Furthermore, as infrastructure companies tend to hold more debt than the average company their financing costs subsequently rise with increases in bond yields. As a result, the increase in global bond yields has impacted the performance of our preferred infrastructure investments Sydney Airport, Transurban and APA Group.

Infrastructure investments continue to meet our very stringent requirements for long term investment. The underlying assets of our preferred infrastructure investments continue to perform despite the more volatile macro environment and despite the recent fluctuations in global bond yields. Sydney Airport (SYD) for example just announced another 7.5% November international traffic growth (see chart pack) as it capitalises on the sizable growth from the Chinese and other Asian markets.

We believe the market has presented investors with compelling long term value due to the recent sell off in the infrastructure market. The income yield on both Transurban and Sydney Airport reached above 5% at the depths of the sell off which we believe for stable companies growing earnings and dividends strongly represents a long term opportunity.



### SCT Logistics Bond

Recently, we partnered with FIIG Bonds to facilitate the trading for clients in the Australian Corporate Bond market. With the declining quality of new listings on the Australian Hybrid market, we decided to extend our fixed interest offering. This has a number of advantages for clients but most importantly it means that generally speaking the investments will be less subordinated to other creditors and in some cases offer security over physical assets of the underlying company. One such company that recently was initiated on our Approved Products List (APL) for investment in its Senior Unsecured Bond is SCT Logistics (SCT).

SCT is Australia's largest private freight operator with a 40 year operating history. The group operates mainly on Australia's east-west corridor and currently has around 40% market share of this corridor. SCT transports fast moving consumer goods (FMCG) with notable customers including Woolworths, Fosters and Nestle. SCT is not directly exposed to commodities and hence has a relatively stable cash flow profile. The company has recently made

significant investments into a new SAP system as well as capex of over \$90m on new locomotives, rolling stock and trucks and as a result is now post significant capex.

The SCT Senior Unsecured Bond is attractive to investors due to the healthy 440 basis points interest rate spread on the 90 day bank bill swap rate representing a yield to maturity of 6.1% given the maturity date for this bond is in June 2019. Furthermore, the restriction on capital returns including dividends and loan payments is limited to a maximum of 65% of net profit after tax which is a positive as a holder of debt in SCT.

We are continually seeking out relatively short dated maturity, attractively placed corporate bonds to now form a part of client portfolios going forward. We believe SCT meets our criteria, and as a result, we are investing in this bond for clients.

### Lachlan McKenzie-McHarg Adviser Equities Dealing and Research



## New Investment Committee Newsletter

### Monthly publication (Feb - Nov)

Please be on the lookout for the Investment Committee's monthly newsletter. The newsletters will advise clients on general recommendations that have, or will be, coming up from the committee.

The newsletter will be published on a monthly basis (except in the months of December and January).

The information in this newsletter will be generic without a lot of detail. The details are the in house knowledge of our committee and will follow through to you in your recommendations. The knowledge is not public knowledge.

Please contact your adviser if you have any questions.



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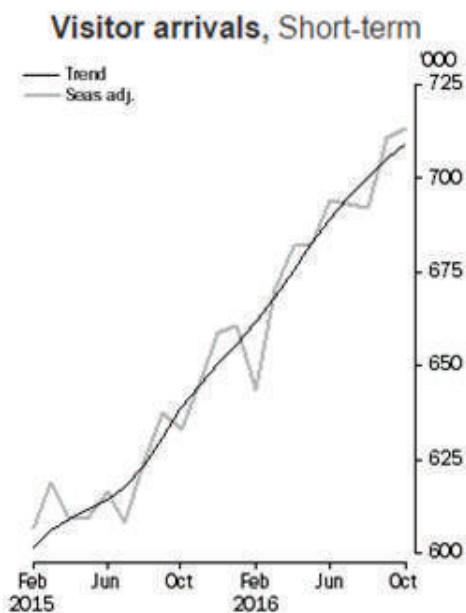
## CHART PACK

**Trumpflation?** Australian Bonds yields have moved higher on the back of President-elect Donald Trump



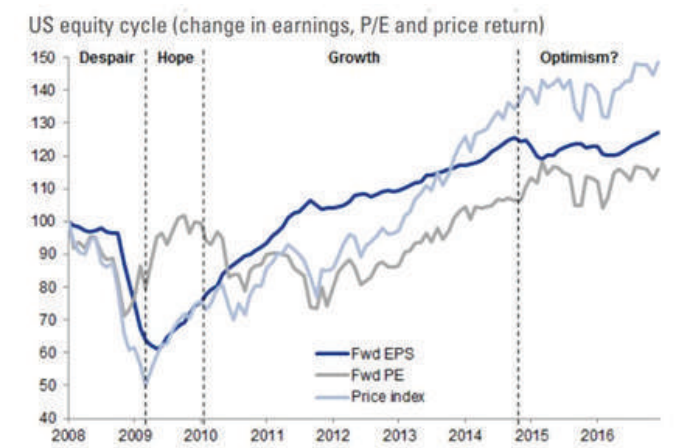
Source: Reuters

**Up, Up and Away** Strong inbound visitor numbers has benefited Sydney Airports



Source: ABS

**Next Stop, Optimism?** Share prices have rallied past earnings per share (eps) but will a new White House furl a tailwind to future eps.



Source: Goldman Sachs Global Investment Research



## Lifestyle

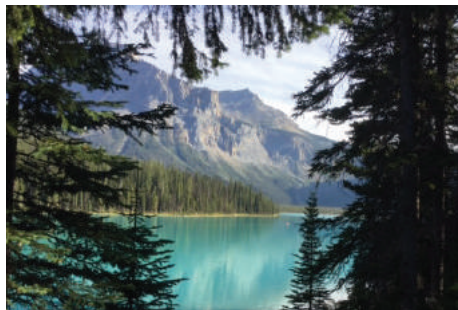
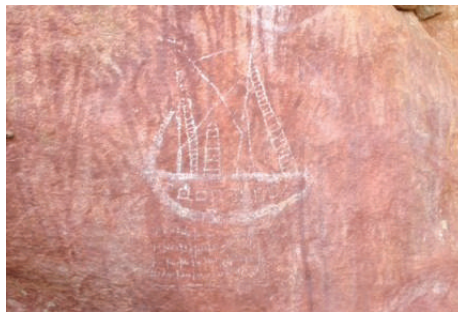
### Retirement

Following a 35-plus year career in the mining industry, a debilitating accident and the loss of my son-in-law to Motor Neurone Disease in 2008, made us realize how important, precious and short life is. These experiences set us on our path for retirement, with the ultimate aim of making the most of our time.

We've always travelled and enjoyed driving holidays. One of our first retirement projects was converting a Toyota Coaster into a self-sufficient motorhome and we continue to utilize it today. Following the near 6 month transformation, we embarked on a four month journey traversing the coastline of Australia, meeting up with friends along the way.



The photo of our bus 'Wilkat' was taken at Wulga Rock, WA and our purpose for being there was my seeing a story on the Aboriginal Art Gallery in that area in an Australian Geographic magazine. In particular, this photograph of a ship caught our interest and we planned our trip to accommodate its inclusion on the itinerary. Viewing the elusive wreath flower and other wildflowers of WA was also on our agenda and this basically sums up our traveling style. We work out what we want to see and do, plan meticulously and then hit the road and see what happens. We are very laid-back and our schedule is



always subject to change, depending on the weather or a whim. We enjoy free camping whenever it's available and in most instances, we settle at a base and go on excursions from there, being sure to visit as many bakeries as are available.

Our travels have taken us around the country twice and we have been fortunate to stand on the most northern, southern, eastern and western points of Australia, some more than once. We have completed numerous treks, in either the bus or 4WD and camper trailer, both solo and with friends and family, that have taken us through the Simpson Desert, chasing dinosaurs on the Scientific Loop in the outback, catching snowflakes on top of Cradle Mountain and taking 8 hours to 4WD 400km on the old coach road from Maytown to Laura on a trip to Cape York.

While we love travelling around Australia and will continue to do so for as long as we are able, we have recently visited America, Canada (Emerald Lake pictured) and Alaska. Our next big trip is to New Zealand in the New Year and we are in the planning stages of another 'Prior-Maclean' expedition to cross the Madigan Line in the Simpson Desert later in 2017.

**Happy in retirement,  
Bill & Kathy Prior**



## Staffing in our Rockhampton and Melbourne offices

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|------------------|--|
| David French     | Managing Director                            |
| Sue Dunne        | Senior Financial Adviser                     |
| Bob Stewart      | Senior Financial Adviser (Equities Dealings) |
| Selena Smith     | Receptionist                                 |
| Bronwyn Nunn     | Portfolio Admin / Compliance Support Officer |
| Jodie Thompson   | Share Trading Officer                        |
| Davina Knight    | Compliance Manager                           |
| Rose Sladden     | Client Services Manager                      |
| Kris Atkinson    | Senior Client Services Officer               |
| Adrian Cahill    | Consultant / Analyst                         |
| Katrina Tearle   | CHESS Administrator                          |
| Natasha Kuhl     | Portfolio Administrator                      |
| Cheryl Walton    | Paraplanner / Analyst                        |
| Kelly Drobek     | Social Media / Marketing Officer             |
| Jaimi Summerton  | Administration Officer                       |
| Christine King   | Bookkeeper                                   |
| Sandra French    | Bookkeeper                                   |
| Kailan Augustine | Bookkeeper                                   |
| Boden Abell      | Undergraduate Trainee                        |



### Melbourne – 1800 804 431 or [clientinfo@pentad.com.au](mailto:clientinfo@pentad.com.au)

|                         |   |
|-------------------------|---|
| Robert Syben            | Head of Financial Planning/ Financial Adviser |
| Chris Heyworth          | Senior Financial Adviser                      |
| Lance Livermore         | Senior Financial Adviser                      |
| Mark Buisman            | Senior Financial Adviser                      |
| Morgen Harris           | Risk Adviser                                  |
| Joshua Scipione         | Financial Adviser                             |
| Scott Plunkett          | Risk Adviser                                  |
| Amy Gill                | Risk Adviser                                  |
| Ian Maloney             | Manager - Share Trading                       |
| Lachlan McKenzie-McHarg | Adviser Equities Dealing and Research         |
| Ming Hou                | IT Manager                                    |
| Sharon Pollock          | Project Administrator                         |
| Paul Young              | Manager - Client Services & Paraplanning      |
| Ken Khoo                | Paraplanner                                   |
| Stephen Coniglione      | Investment Research Officer                   |
| Jake Brown              | Business Consultant                           |
| Tracey Briggs           | Receptionist                                  |
| Avril Ryan              | Temp Receptionist                             |
| Arjuna Le Gros          | Financial Planning Assistant                  |

