Super Concepts

Developed by our team of SMSF technical experts

SMSF Investment Patterns Survey

JUNE 2018

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 2,600 funds, a sample of the SMSFs SuperConcepts administers and the investments they held at 30 June 2018. 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 around $3.2 billion.

A **QUARTERLY** ANALYSIS

INSIGHTS OF SMSF CLIENT **INVESTMENTS**

SURVEY COVERS **2,600** FUNDS

ASSETS OF THE FUNDS SURVEYED **$3.2 BILLION**

2018 Financial Year Analysis

We have prepared an analysis of the asset allocation of SMSF investments across the 2018 financial year, taking into consideration the change in annual performance of the market.

Theoretical asset allocation vs Actual asset allocation

The "Annual Asset Allocation Variance Analysis" table shows what the asset allocation at 30 June 2018 should have been, if trustees had stayed in the market and left their initial asset allocation unchanged during the year — this is termed 'theoretical allocation'. This shows what would happen if people 'set and forget' their investments at the beginning of the year.

To reflect the movements of each asset class, a range of indices were used to replicate the returns namely, Bloomberg Australian Bank Bill Index for Cash, Bloomberg Australian Composite Bond (All Series All Maturities) Index for Fixed Interest, S&P ASX All Ordinaries Index for Australian Shares, MSCI World ex-Aust Accumulation Index (unhedged $AUD) for International Shares and the S& P ASX 200 A-REIT Index for Property.

Annual asset allocation variance analysis

Asset Category	30 June 2017 Allocation	Annual Performance Movement	Theoretical 30 June 2018 Allocation	Actual 30 June 2018 Allocation	Variance
Cash and short term deposits	19.8	1.8	18.9	17.3	-1.6
Fixed Interest	12.0	3.1	11.6	12.2	0.6
Australian Shares	34.4	9.1	35.9	36.6	1.5
International Shares	13.1	20.5	14.7	14.4	-0.4
Property	19.3	7.5	19.4	18.9	0.3
Other (Hedge funds, agricultural funds, private geared & ungeared trusts and collectables)	0.4	–	0.4	0.6	0.2
Total	**100**	–	**100**	**100**	–

The allocation to cash shows a significant decrease which is the result of a massive spike in cash contributions being made to super during the last quarter of the 2017 financial year. This was due to the changes to the contribution rules, which saw many trustees utilise their last opportunity to make large non-concessional contributions to superannuation. A decrease in cash during the year was therefore expected, with trustees investing the monies contributed mainly by December 2017.

These monies were subsequently mainly invested in the Australian Equities sector. When stripping out performance, the allocation to this sector increased by 1.5%. During the year, the allocation to the top 10 listed securities has slowly decreased over the year showing trustees are looking for value outside of the standard blue-ship shares.

Quarterly Analysis

New strategies and rules outcomes are being implemented

Key trends that have emerged are an increase in personal concessional contributions particularly in the last quarter of the financial year and a sustained increase in lump sum commutations during the year. These are the result of the legislative changes introduced from 1 July 2017 that either increased the number of eligible contributors or provided a strategic reason to classify payments as lump sums rather than additional pension payments.

The overall asset allocation break-up as at 30 June 2018 was:

Sector	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2018 (%)	31 March 2018 (%)	30 June 2018 (%)
Cash and short term deposits	19.8	18.6	17.3	17.2	17.3
Fixed Interest	12.0	12.6	12.1	12.5	12.2
Australian Shares	35.4	35.6	36.9	35.9	36.6
International Shares	13.1	13.9	14.2	14.2	14.4
Property	19.3	18.9	19.0	19.5	18.9
Other (Hedge funds, agricultural funds, private geared & ungeared trusts and collectables)	0.4	0.4	0.5	0.7	0.6
Total	**100**	**100**	**100**	**100**	**100**

From an asset allocation perspective, Cash was higher than anticipated due to net cashflow and the Property sector appears to have decreased, however is most likely due to outstanding 30 June market values of the residential or commercial properties.

Top 10 largest holdings

The table below summarises the 10 largest investments which represent almost 13.6% of the total SMSF assets held. The total number of investments of the funds covered in the survey is just under 7,900. Two of the top ten are pooled structures used for accessing international equities.

The most commonly held ($ invested) investments at 30 June 2018 were:

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

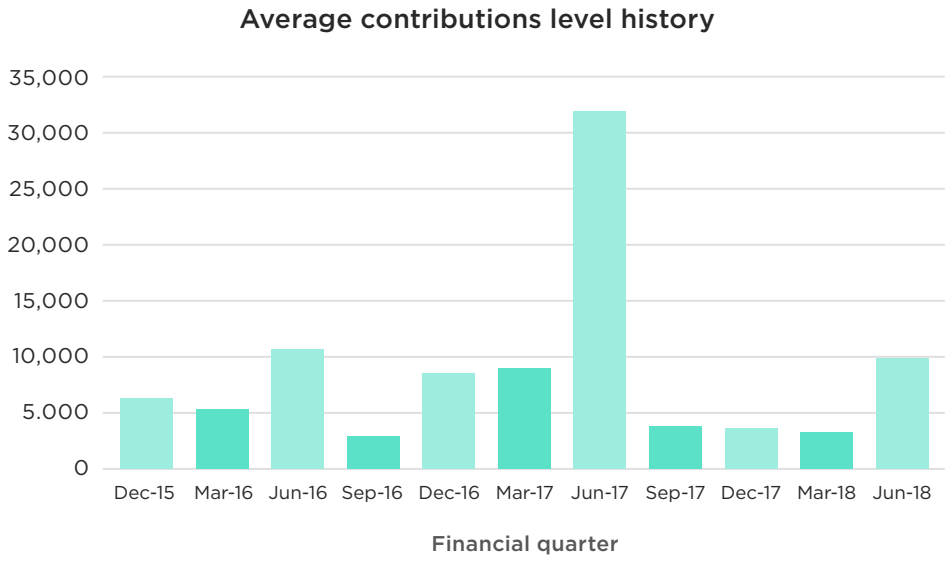
Cash levels slightly up due to last minute contributions

The level of cash increased marginally from 17.2% to 17.3%. This appears to be the result of an increase in personal tax deductible concessional contributions made during the quarter outweighing the amount of last minute pension payments needed to satisfy minimum levels.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Cash	14.5	13.3	12.0	12.0	12.1
Term Deposits < 1 year	5.3	5.3	5.3	5.3	5.2
Total %	**19.8**	**18.6**	**17.3**	**17.2**	**17.3**

Changes in Contributions and Benefit payments

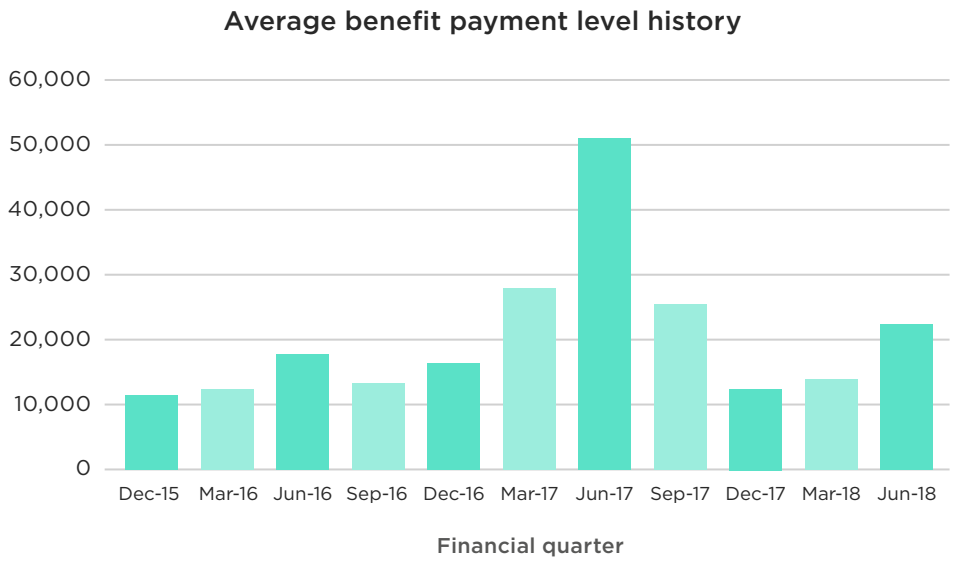
The average contribution for the quarter more than increased from $3,498 to $8,623. This number is significantly lower than for June 2017 due to the reduced caps but in line with the June 2016 levels. With the most significant change being the increase of the proportion that represents concessional contributions rising to 47%. This is due to the increased ability for individuals to claim tax deduction on personal concessional contributions.



The average benefit payment for the quarter showed an increase compared to the prior quarter, but a large decrease to $22,289 from $50,313 for the June 2017 quarter. This again reflects the significant impact of the legislative changes that applied from 1 July 2017 where the capital value of pension accounts is limited to $1.6 million which resulted in a lower level of pension payments being required to be paid.

Nevertheless, some clients still required the same level of cash from their SMSFs so that meant rather than deplete pension accounts by drawing additional payments above the statutory minimum level, they elected to take those amounts out as lump sum payments out of their accumulation accounts. In some cases where there is no accumulation account, these additional payments were still classified as lump sums from a pension account to improve the client's Transfer Balance Account position.

Out of all benefit payments, 79% of withdrawals were pension payments and 21% were lump sum payments. The proportion of lump sum payments has progressively increased throughout the year from 10% of all payments as minimum pension levels have been attained.



Fixed Interest

The asset allocation to the fixed interest sector decreased from 12.5% to 12.2%. Based on performance of the different sectors, if trustee had left their allocation to all sectors unchanged, the 30 June 2018 figure should have been 11.9%. This shows some cash have flown into the fixed interest sector during the quarter.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Hybrids & other direct holdings	6.7	6.6	6.7	6.9	6.5
Term Deposits > 1 year	0.8	1.0	1.2	1.0	0.8
Managed Funds	4.5	5.0	4.3	4.6	4.9
Total %	**12.0**	**12.6**	**12.2**	**12.5**	**12.2**

Australian Equity allocation up

The allocation to Australian Equities increased from 35.9% to 36.6% because of performance in the sector and inflow of new funds.

When taking into consideration the performance in the different sectors, if trustees left their allocation unchanged for all sectors, their theoretical allocation to Australian Equity for the quarter should have been 36.3%. The increase for the quarter is therefore partially the result of market performance but also the result of the injection of cash contributions in the quarter particularly in June.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Direct Shares	30.4	30.3	31.2	29.6	30.3
ETF's	1.2	1.1	1.3	1.3	1.6
Managed Funds	3.8	4.1	4.4	5.0	4.7
Total Australian Shares %	**35.4**	**35.5**	**36.9**	**35.9**	**36.6**

Top 10 largest Australian listed securities

Out of the total SMSF assets held, the top 10 listed securities trustees invest in represent 11.9% of total investments, down from 13.4% during the June 2017 quarter. During the last few quarters trustees have gradually reduced their exposure to the top 10 listed securities.

The top 10 shares represent just less than 33% of all trustees Australian Equity holdings.

The most commonly held ($ invested) shares at 30 June were:

Ranking	Investment
1	Westpac Banking Corporation
2	Commonwealth Bank Ltd
3	BHP Billiton Ltd
4	ANZ Ltd
5	National Australia Bank Ltd
6	CSL Ltd
7	Wesfarmers Ltd
8	Telstra Corporation Ltd
9	Macquarie Group Ltd
10	Woolworths Ltd

Exposure to International equities

Exposure to International Equities increased from 14.2% to 14.4%. When looking at performance in the different sectors and currency movements, the theoretical allocation should have been 14.9% if trustees would have left their allocation unchanged for the quarter. This gap is sourced by the payment of distributions on 30 June from the international managed funds which are reflected in the performance but removed by ex-distribution prices. Managed funds continue to be the most popular way for trustees to obtain international exposure, though the use of ETFs is steadily growing.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Direct Shares	2.4	2.3	2.5	2.4	2.7
ETF's	2.4	2.7	2.4	2.5	2.4
Managed Funds	8.3	8.9	9.3	9.3	9.3
Total %	**13.1**	**13.9**	**14.2**	**14.2**	**14.4**

Exposure to ETF's and International Managed Funds

The overall allocation to Managed Funds increased from 20.3% to 20.7% 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 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Cash & Fixed Interest	4.6	5.2	4.5	4.8	5.1
Australian Equities	3.8	4.1	4.4	5.0	4.7
International Equities	8.3	8.9	9.3	9.3	9.3
Property & other	1.4	1.6	1.4	1.2	1.5
Total	**18.1**	**19.8**	**19.6**	**20.3**	**20.7**

Investment using ETFs represents 4.7% of all assets during the June quarter. The ETF allocation has showed a consistent increase over the past years. ETF's are mostly heavily used in the International Equity sector, representing 16.7% of all International Equity holdings.

Property Exposure

The asset allocation to the property sector decreased from 19.5% to 18.9% for the quarter. Based on performance of the A-REIT the allocation would have increased to 19.9%. However as direct residential and commercial property allocation represents about 83% of the total property investments, the figure has fallen. The allocation is likely to increase during the next quarters with trustees currently obtain new valuations supporting the 30 June 2018 market value as part of completing their financials.

In actual numbers, the approximately 2,600 funds covered in the survey own a total of 962 residential or commercial properties. The split between commercial property and residential property was in terms of number is 30% commercial versus 70% residential, compared to 42% commercial versus 58% residential based on value.

The average value per property was $681k for commercial property and $410k for residential property.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Direct Property	15.9	14.2	13.9	16.2	15.3
Listed Property	1.6	1.9	1.7	1.6	1.7
Managed Funds	1.2	1.3	1.1	1.1	1.2
Other (Syndicates, Unlisted Trusts etc)	0.6	1.6	2.3	0.6	0.7
Total %	**19.3**	**18.9**	**19.0**	**19.5**	**18.9**

Limited recourse borrowing arrangements

Around 17% of the total number of funds in the survey are currently utilising a borrowing arrangement.

In percentage terms based on number of loans, 92% of borrowed monies relate to property, with financial asset loans representing 8% of the borrowed monies.

The average property loan amount was $262k compared to $46k for financial asset loans, so based on loan values, 99% of borrowed monies relates to property, with financial asset loans representing only 1% of the borrowed monies

At the end of the June quarter 42.1% of all direct property holders had a gearing arrangement in place, this is the same percentage compared to the. The table below shows the percentage of geared property for the year.

	30 June 2017 (%)	30 Sept 2017 (%)	31 Dec 2017 (%)	31 March 2018 (%)	30 June 2018 (%)
Direct Property holders utilising LRBA's	40.7	41.8	40.7	41.8	42.1

For more information about this survey

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Important information

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