

# SuperConcepts SMSF Investment Patterns Survey March 2017

April 2017

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 2750 funds, a sample of the SMSFs SuperConcepts administers and the investments they held at 31 March 2017. 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 \$3.2 billion.

## Accelerated action by SMSF members to cope with the 1 July 2017 changes

The changes that will apply to superannuation from 1 July 2017 are the most significant changes since 2007. From 1 July 2017, the total value members can hold in existing tax free pension accounts cannot exceed \$1.6 million. Any remaining balances can still be held in the superannuation environment but is required to be kept in accumulation phase.

Two key trends have emerged this quarter, namely a continued increase in the contributions levels to utilise the last opportunity to make higher non-concessional contributions and similarly a significant increase on the use of lump sum withdrawals to fund both the contribution and member equalization strategies.

The changes in the different sectors were mostly in line with market performance, apart from a slight decrease in respect of cash holdings.

The overall asset allocation break-up as at 31 March 2017 was:

Sector	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2016 (%)
Cash and short term deposits	18.4	18.0	18.1	18.4	18.0
Fixed Interest	12.3	12.2	12.7	12.4	12.7
Australian Shares	35.8	34.5	35.3	36.0	36.7
International Shares	12.6	13.1	12.8	13.1	12.9
Property	20.4	21.7	20.6	19.6	19.2
Other (Hedge funds, agricultural funds, private geared & ungeared trusts and collectables)	0.5	0.5	0.5	0.5	0.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Top 10 largest holdings

The table below summarises the 10 largest investments which represent almost 15.5% of the total SMSF assets held. The total number of investments of the funds covered in the survey is just under 8,200. Two of the top ten are pooled structures used for accessing international equities.

The most commonly held (\$ invested) investments at 31 March 2017 were:

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

## Cash levels decreasing

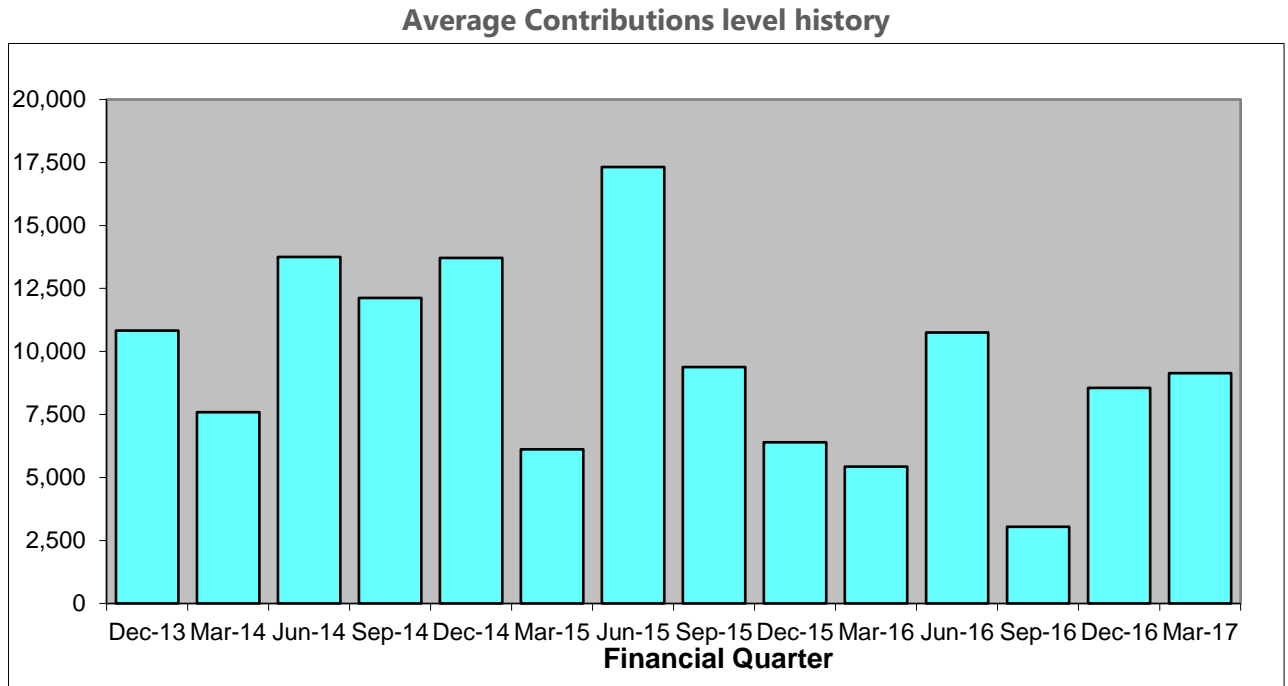
The level of cash decreased slightly from 18.4% to 18%. This could be linked to a significant increase in benefit payments. Term deposits with a term up to and including 1 year has increased slightly due to this reduction in cash holdings overall.

	31 March 2016 (%)	31 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2017 (%)
Cash	13.1	12.5	13.2	13.5	12.7
Term Deposits < 1 year	5.3	5.5	4.9	4.9	5.3
Total %	18.4	18.0	18.1	18.4	18.0

## Contributions, Benefit and Pension payments show significant changes

The average contribution for the quarter increased from \$8,548 to \$9,138 for the quarter. This continues the trend established in the December 2016 quarter once the 1 July 2017 changes were legislated of trustees maximising their contributions under the current rules.

This increase is a reversal of the historical trend where the March quarter has usually been the lowest quarter each year and is also the highest March quarter since we commenced monitoring contributions in 2010.



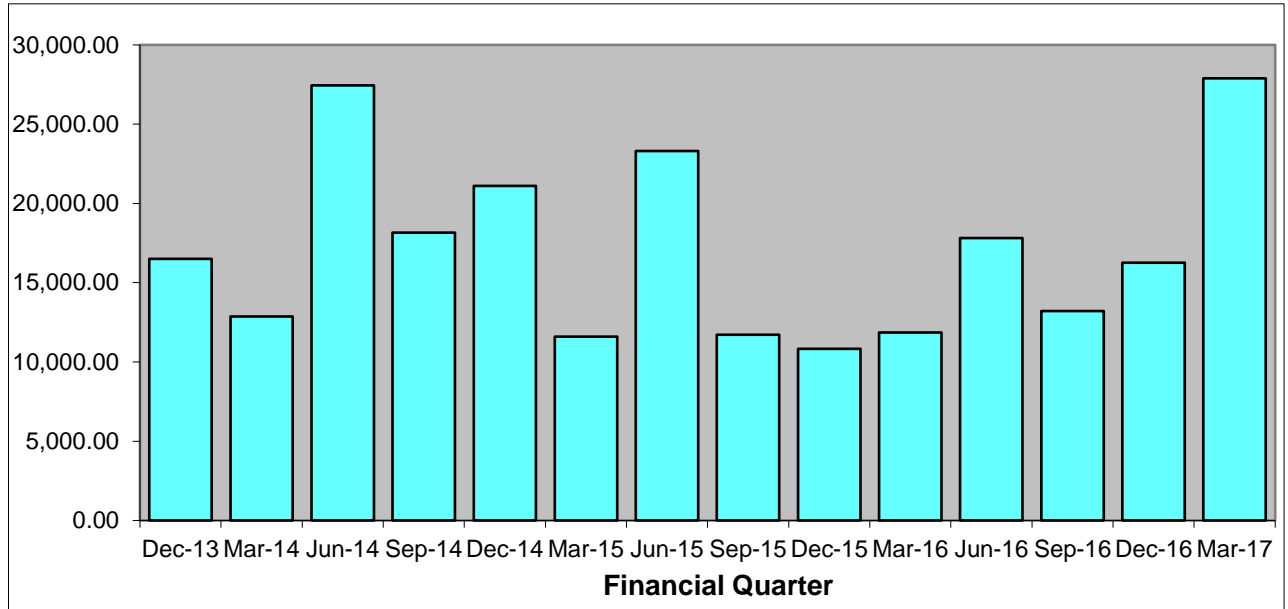
The average benefit payment for the quarter increased significantly from \$16,256 to \$27,900 for the quarter. This again shows the significant impact of the legislative changes coming 1 July 2017.

From 1 July 2017, the total value members can hold in tax free pension accounts cannot exceed \$1.6 million. Any remaining balances can be kept in super but are required to be kept in accumulation phase.

During prior quarters the split of lump sum withdrawals versus pension payments was generally around 20% versus 80%. This has changed significantly and 40% of benefits during the quarter were drawn as lump sums and 60% of benefit payments were pension payments.

The large increase in lump sum benefits shows that more trustees are implementing withdraw & re-contribution strategies to take advantage of the current non-concessional contribution caps. This is being done to make non-concessional contributions to an accumulation account, non-concessional contributions that then commence a 100% tax free pension and non-concessional contributions to a spouse to try and equalize member balances. Some trustees also appear to be reducing their total superannuation balances and drawing monies from the superannuation system.

### Average Benefit payment level history



### Fixed Interest shows slight increase

The asset allocation to the fixed interest sector increased from 12.4% to 12.7%. The increase mainly comes from the increased allocation to managed funds from 3.8% to 4.4%.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2017 (%)
Hybrids & Other direct holdings	6.6	6.5	7.0	7.2	7.0
Term Deposits > 1 year	1.3	1.3	1.5	1.4	1.3
Managed Funds	4.4	4.4	4.2	3.8	4.4
<b>Total %</b>	<b>12.3</b>	<b>12.2</b>	<b>12.7</b>	<b>12.4</b>	<b>12.7</b>

### Australian Equity notionally increases

The allocation to Australian Equities increased from 36% to 36.7%.

When taking into consideration the performance in the different sectors, if trustees left their allocation unchanged, their theoretical allocation to Australian Equity for the quarter should have been 36.7%. The increase for the quarter is therefore mostly in line with market performance.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2016 (%)
Direct Shares	31.2	29.7	30.4	30.8	31.3
ETF's	0.9	1.1	1.1	1.4	1.2
Managed Funds	3.7	3.7	3.8	3.8	4.2
Total Australian Shares %	35.8	34.5	35.3	36.0	36.7

## Top 10 largest Australian listed securities

Out of the total SMSF assets held, the top 10 listed securities trustees invest in represent 14.4% of total investments.

The top 10 shares represent just less than 40% of all trustees Australian Equity holdings.

The most commonly held (\$ invested) shares at 31 March 2017 were:

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

## Exposure to International equities notionally down

Exposure to International Equities decreased from 13.1% to 12.9%. When looking at performance in the different sectors and currency movements, the theoretical allocation should have been 12.7% if trustees would have left their allocation unchanged for the quarter. Part of this decline is due to a stronger AUD dollar during the quarter which resulted in a fall in value particularly in the direct holdings.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2017 (%)
Direct Shares	2.3	2.8	2.5	2.6	2.2
ETF's	2.4	2.2	2.1	2.2	2.2
Managed Funds	7.9	8.1	8.1	8.3	8.5
Total %	12.6	13.1	12.7	13.1	12.9

## Exposure to ETFs and International Managed Funds

The overall allocation to Managed Funds increased from 17.6% to 18.7% 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.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	30 Dec 2016 (%)	31 March 2017 (%)
Cash & Fixed Interest	4.6	4.6	4.4	4.0	4.5
Australian Equities	3.7	3.8	3.8	3.8	4.3
International Equities	7.9	8.1	8.1	8.3	8.5
Property & Other	1.7	1.7	1.4	1.5	1.4
Total	17.8	18.2	17.7	17.6	18.7

Investment using ETFs represents 4% of all assets during the March quarter. The ETF allocation has continued to increase over the past few quarters. ETFs are mostly used in the International Equity sector, representing 16.9% of all International Equity holdings.

## Property Exposure

The asset allocation to the property sector decreased from 19.6% to 19.2% for the quarter which is consistent with performance for the period. Direct property represents around 81% of the total property allocation.

In actual numbers, the approximately 2750 funds covered in the survey own a total of 1003 residential or commercial properties. The split between commercial property and residential property was 30% versus 70%.

The average value per property was \$686k for commercial property and \$413k for residential property.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2017 (%)
Direct Property	16.0	15.7	16.3	15.8	15.6
Listed Property	2.2	2.1	1.9	1.6	1.6
Managed Funds	1.3	1.3	1.2	1.2	1.2
Other (Syndicates, Unlisted Trusts etc)	0.9	2.7	1.2	1.0	0.8
<b>Total %</b>	<b>20.4</b>	<b>21.7</b>	<b>20.6</b>	<b>19.6</b>	<b>19.2</b>

### Limited recourse borrowing arrangements

Around 18.5% of the total number of funds in the survey are currently utilising a borrowing arrangement.

In percentage terms based on number of loans, 81% of borrowed monies relate to property, with financial asset loans representing 19% of the borrowed monies. The percentage split was the same during the December quarter.

The average property loan amount was \$260k compared to \$68k for financial asset loans, so based on loan values, 94% of borrowed monies relates to property, with financial asset loans representing 6% of the borrowed monies

At the end of the December quarter 41.1% of all direct property holders had a gearing arrangement in place, up from 39.5% from the previous quarter. The table below shows the percentage of geared property for the year.

	31 March 2016 (%)	30 June 2016 (%)	30 Sept 2016 (%)	31 Dec 2016 (%)	31 March 2017 (%)
Direct Property holders utilising LRBA's	35.6	37.3	38.0	39.5	41.1

For any queries in relation to this Investment Pattern Survey please contact Philip La Greca on (02) 8055 0669 or [Philip.LaGreca@SuperConcepts.com.au](mailto: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.