

# The SuperConcepts SMSF Investment Patterns Survey June 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 3300 funds, a sample of the SMSFs SuperConcepts administers and the investments they held at 30 June 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.**

## 2016 Financial Year Analysis

SuperConcepts has prepared an analysis of the asset allocation of SMSF investments across the 2016 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 (outlined over the page) shows what the asset allocation at 30 June 2016 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.

The actual asset allocation for 30 June 2016 shows an increase in Cash and Property and reductions in Fixed Interest and International Equities.

Lower interest rates would be expected to make cash less attractive as an investment. The uncertainty during the year which culminated with announced changes to superannuation rules, Brexit and a federal election resulted in unease about where else to invest and a significant uplift to cash holdings. The reduction in the RBA cash rate also resulting in a fall in fixed interest allocations as trustees did not see enough premium for locking in interest rates.

Based on performance, the allocation to the Property sector appears to have increased due to additional purchases. The direct property investment represents 72% of the allocation to the sector. Within this subgroup a further 72% represents residential property. Taking into consideration the specific allocation of our clients’ investment within the sector, property investments increased slightly for the financial year, mainly by trustees increasing via exposure to direct property.

The “Other” section represents agricultural funds, commodities, a number of unlisted trusts, business assets and collectables, and personal use assets. Allocation to this sector has decreased. This is as a result on the cessation of the “grandfathered” rules for investing in collectables & personal use assets.

### Annual Asset Allocation Variance Analysis

Asset Category	30 June 2015 Allocation	% Annual Performance Movement	Theoretical 30 June 2016 Allocation	Actual 30 June 2016 Allocation	Variance
Cash and short term deposits	16.99	2.24	17.37	17.98	1.26
Fixed Interest	12.86	6.78	13.73	12.23	-0.99
Australian Shares	37.14	-2.58	34.83	34.53	-0.30
International Shares	14.14	1.04	13.75	13.05	-0.70
Property	18.33	18.75	20.96	21.76	0.80
Other (Hedge funds, agricultural funds, commodities, collectables and personal use assets)	0.54	-	0.52	0.45	-0.07
<b>Total</b>	<b>100</b>		<b>100</b>	<b>100</b>	

Source: SuperConcepts Pty Ltd

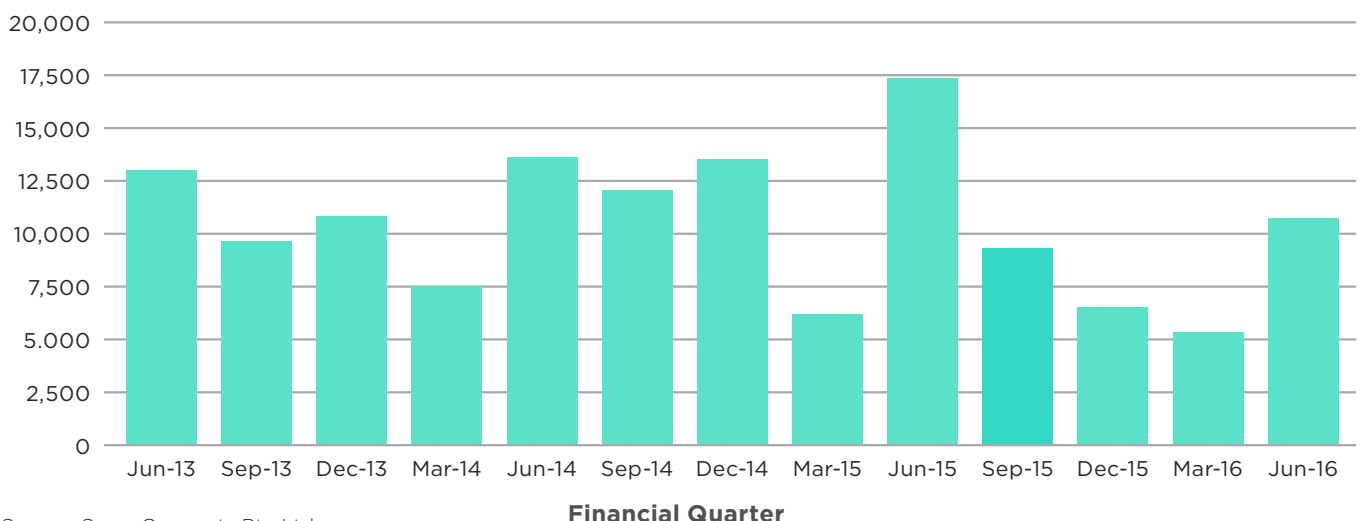
## Quarterly Analysis

### Contributions & benefit payments

The average contribution inflow per fund for the quarter increased from \$5,426 to \$10,748. This is in line with previous quarters where the June quarter typically shows an increase compared to the March quarters.

What's concerning, is it's the lowest June quarter result since 2012 and reflects the nervousness of clients over speculation on changes to the superannuation rules culminating with the Federal Budget announcements in May 2016.

### Average Contributions level history

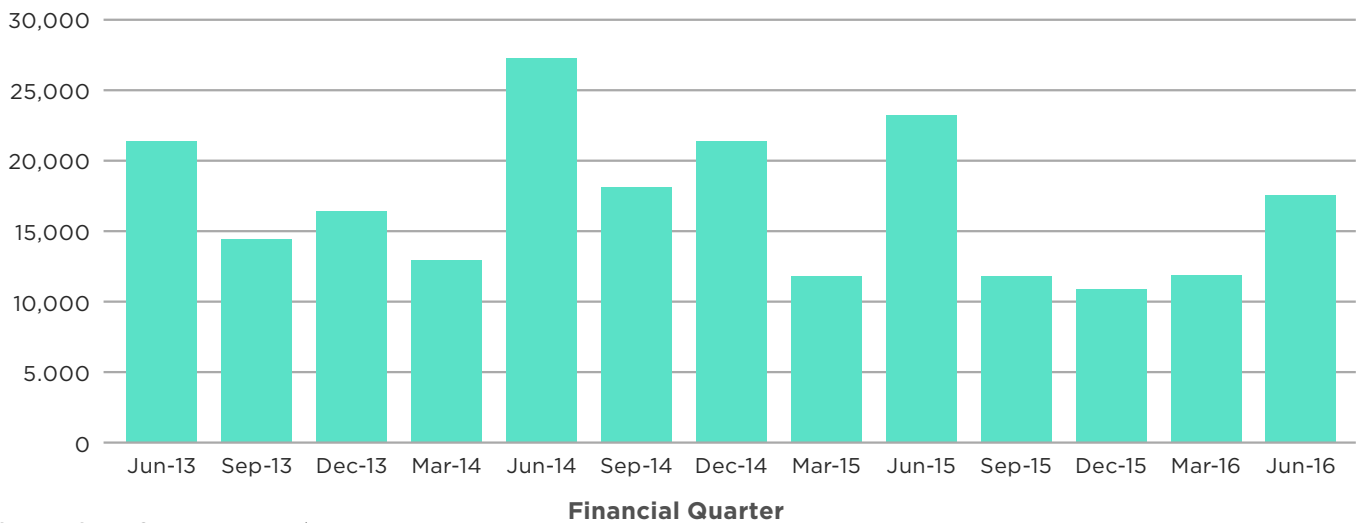


Source: SuperConcepts Pty Ltd

The average benefit and pension payments made by SMSFs were \$17,813 compared to \$11,865 for the December quarter.

This is quite similar to prior years with 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.

### Average Benefit payment level history



Source: SuperConcepts Pty Ltd

### Steady as she goes for the last quarter of the financial year

The allocations at 30 June 2016 reflect the impact of the sector performance for the quarter rather than injection of additional capital. The one variance to this was Australian Equities where the continuing flight from the Top 20 stocks resulting in an additional decrease for the quarter.

The overall asset allocation break-up as at 31 June 2016 was:

Sector	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Cash and short term deposits	17.0	18.7	18	18.4	18
Fixed Interest	12.9	12	12.3	12.3	12.2
Australian Shares	37.1	36.4	35.4	35.8	34.5
International Shares	14.1	12	12.9	12.6	13.1
Property	18.3	20.4	20.8	20.4	21.7
Other (Hedge funds, agricultural funds, private geared & ungeared trusts and collectables)	0.6	0.5	0.6	0.5	0.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SuperConcepts Pty Ltd

## Top 10 largest holdings

The table below summarises the 10 largest investments which represent almost 14.4% of the total SMSF assets held. The total number of investments of the funds covered in the survey is just over 8,500. Two of the top ten are pooled structures used for accessing international equities.

The most commonly held (\$ invested) investments at 30 June 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	Magellan Global Fund
7	BHP Billiton Limited
8	Platinum International Fund
9	Wesfarmers Limited
10	CSL Ltd

## Cash holdings decreased

The level of cash decreased from 18.4% to 18%. When taking into consideration the performance within the different sectors, it shows the decrease was mainly the result of funding benefits. Interestingly, there has been an increase in the use of short-term term deposits even though there was a cut in official interest rates.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Cash	12.3	13.1	12.6	13.1	12.5
Term Deposits < 1 year	4.7	5.6	5.4	5.3	5.5
<b>Total %</b>	<b>17</b>	<b>18.7</b>	<b>18</b>	<b>18.4</b>	<b>18</b>

Source: SuperConcepts Pty Ltd

## Fixed Interest static

The asset allocation within the fixed interest sector remained static, even when taking into consideration the performance amongst the different asset categories. If trustees left their asset allocation unchanged for the quarter, the allocation should have been 12.2%.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Hybrids & other direct holdings	6.2	5.8	6.3	6.6	6.5
Term Deposits > 1 year	1.6	1.8	1.6	1.3	1.3
Managed Funds	5.1	4.4	4.4	4.4	4.4
<b>Total %</b>	<b>12.9</b>	<b>12.0</b>	<b>12.3</b>	<b>12.3</b>	<b>12.2</b>

Source: SuperConcepts Pty Ltd

## Australian Equity allocation decreasing

Based on performance in the sectors, the theoretical allocation should have decreased to around 35.64%, instead the allocation to Australian Equities decreased to 34.5%.

Traditionally trustees invested almost \$1 of every \$5 in the S&P Top 10 shares, with almost 17% of fund assets invested in the Top 10. This percentage has reduced to under 14% of total fund assets during the quarter.

The performance of the ASX top 20 shares was 1.5% for the quarter compared with 3.1% for the All Ordinaries. The additional reduction in allocation to Australian Equities results from disposal of assets.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Direct Shares	32.4	32.2	31.1	31.2	29.7
ETFs	1.1	0.9	1	0.9	1.1
Managed Funds	3.6	3.3	3.3	3.7	3.7
<b>Total Australian Shares %</b>	<b>37.1</b>	<b>36.4</b>	<b>35.4</b>	<b>35.8</b>	<b>34.5</b>

Source: SuperConcepts Pty Ltd

## Top 10 largest Australian listed securities

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

Since the start of the 2015/16 financial year, this figure has fallen from around 16.5%. The Top 10 shares now represent just less than 38% of all trustees Australian Equity holdings.

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

Ranking	Company	S & P Top 10 Constituents by Market Cap
1	Commonwealth Bank Ltd	Commonwealth Bank Ltd
2	Westpac Banking Corporation	Westpac Banking Corporation
3	Telstra Corporation Limited	ANZ Limited
4	ANZ Limited	BHP Billiton Limited
5	National Australia Bank Ltd	National Australia Bank Ltd
6	BHP Billiton Limited	Telstra Corporation Limited
7	Wesfarmers Limited	Wesfarmers Limited
8	CSL Limited	Newcrest Mining
9	Transurban Group	CSL Limited
10	Woolworths Ltd	QBE Insurance Group

Source: SuperConcepts Pty Ltd

The ASX Top 10 by market cap in the index are the four major banks, two mining companies, a telco, a retailer, a pharmaceutical company and an insurance company.

## Exposure to International holdings remain steady

Exposure to International Equities increased slightly from 12.6% to 13.1%. When looking at the performance inside the different sectors, the theoretical allocation should have reached 12.8%, if trustees left their allocation unchanged for the quarter. This shows a modest amount of new funds have entered the sector.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Direct Shares	2.1	1.3	2.5	2.3	2.8
ETF's	2.6	2.2	2.3	2.4	2.2
Managed Funds	9.4	8.5	8.1	7.9	8.1
<b>Total %</b>	<b>14.1</b>	<b>12</b>	<b>12.9</b>	<b>12.6</b>	<b>13.1</b>

Source: SuperConcepts Pty Ltd

## Exposure to ETFs and International Managed Funds increasing

The overall allocation to Managed Funds increased from 17.8% to 18.2% 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.

The top 10 Managed Funds consist of six International Managed Funds, two Fixed Interest Managed Funds, one small cap Managed Fund and one Index Managed Fund.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Cash & Fixed Interest	5.3	4.6	4.5	4.6	4.6
Australian Equities	3.6	3.3	3.3	3.7	3.8
International Equities	9.4	8.5	8.1	7.9	8.1
Property & other	1.8	1.7	1.7	1.7	1.7
<b>Total</b>	<b>20.1</b>	<b>18.1</b>	<b>17.6</b>	<b>17.8</b>	<b>18.2</b>

Source: SuperConcepts Pty Ltd

Investment through the use of ETFs represents 3.65% of all assets during the June quarter. ETFs are mostly used in the International Equity sector, representing 18% of all International Equity holdings.

## Direct Property allocation remains steady

The asset allocation to the property sector increased from 20.4% to 21.7% for the quarter.

Direct property represents around 72% of the total Property allocation, compared to 78% for the previous quarter. There has been a significant increase in property being accessed through pooling structures as an alternative to borrowings, particularly as a result of the changes to related party lending.

The funds covered by the survey own a total of 1052 residential or commercial properties. The split between commercial and residential property was 28% versus 72%.

The average value per property was \$716k for Commercial property and \$397k for Residential property.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Direct Property	14.6	16.5	16.5	16	15.7
Listed Property	1.7	1.7	1.9	2.2	2.1
Managed Funds	1.3	1.2	1.2	1.3	1.3
Other (Syndicates, Unlisted Trusts etc)	0.7	1	1.2	0.9	2.7
<b>Total %</b>	<b>18.3</b>	<b>20.4</b>	<b>20.8</b>	<b>20.4</b>	<b>21.7</b>

Source: SuperConcepts Pty Ltd

## Limited recourse borrowing arrangements

Around 16.9% of the total number of funds in the survey are currently utilising a borrowing arrangement, compared to 19.4% during the previous quarter.

The number of property loans increased by 2.6% for the quarter, while the number of investment loans decreased by 0.97% for the quarter.

In percentage terms, based on the number of loans, 70% of borrowed monies relates to property, with financial asset loans representing 30% of the borrowed monies.

The average property loan amount was \$278k compared to \$100k for financial asset loans. Based on loan values, 87% of borrowed monies relates to property, with financial asset loans representing 13% of the borrowed monies

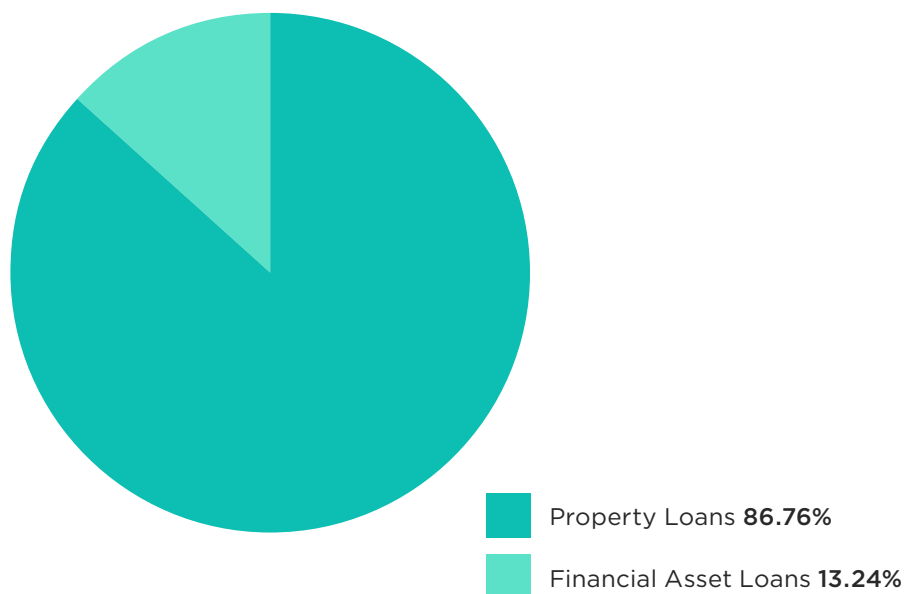
At the end of the June quarter, 37.2% of all direct property holders had a gearing arrangement, up from 35.6% from the previous quarter. The table below shows the percentage of geared property for the year.

The decrease in the geared property percentage in the September quarter was mainly the result of about 450 existing funds being added to the data. These funds held a relatively high portion of direct property mostly without borrowings, with the demographics being mainly older trustees.

	30 June 2015 (%)	30 Sept 2015 (%)	31 Dec 2015 (%)	31 March 2016 (%)	30 June 2016 (%)
Direct Property holders utilising LRBAs	38.8	29.8	33	35.6	37.2

The graph below shows the split across direct property and financial assets within the total borrowings at 30 June 2016.

**Borrowing across Assets**



For any queries in relation to this Investment Pattern Survey please contact Philip La Greca on (02) 9257 5326 or [Philip@multiport.com.au](mailto:Philip@multiport.com.au). Philip La Greca is Executive Manager – SMSF Technical & Strategic Solutions.

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