The Smarter SMSF Podcast – Transcript

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Aaron Dunn: Welcome to the smarter SMSF podcast, the show where we discuss the latest insights, ideas and strategies with self-managed super funds, all designed to help make smart decisions and equip you to be at the top of your game. I'm your host, Aaron Dunn.

Aaron Dunn: Howdy folks. Aaron Dunn here from Smarter SMSF and welcome to this week's podcast. The release recently by Class of their March 2018 SMSF benchmark report provides us with key insights into a specific industry feature, benchmark data on SMSFs and across its members along with insights more broadly how we see SMSFs investing in what is classed as over a hundred and sixty thousand funds that they administer through their Class super software.

Aaron Dunn: And today again I'm joined by Kevin Bungard, CEO of Class Limited, who's going to be discussing with me this March 2018 report on the fact that we're seeing SMSFs continue to fuel that SATF growth. So, thank you again for joining me today Kevin.

Kevin Bungard: Thanks Aaron for having me here.

Aaron Dunn: Pleasure. So the popularity of ETFs is an interesting one here within SMSFs and it has been prevalent for some time. I think within this report you talk about the fact that you started looking at this a couple of years ago. And with the current insights, these again throw out some very interesting statistics about the growth of the ETF use and its percentage of asset representation across the sector.

Aaron Dunn: So, can I get you to elaborate a little bit more on what you've found in these March 2018 insights?

Kevin Bungard: Yes, I think the first thing is, as you say the popularity of the ETFs within the SMSF's investment portfolio is quite high. When they started though, I think the estimates made up a significant proportion of the earlier doctors and ETFs have gained in popularity across the industry. But they've fallen in terms of the percentage of members ... sorry, the investors they make up in that sort of ETF sector and a recent report has said it was found to kind of ... they were making up about a third of the investors rather than earlier on they were kind of making up half of the investors or more.

Kevin Bungard: But what was interesting when we looked at it from an asset perspective, they're actually making up over 50% of the holdings, so although the number of SMSFs investing as a proportion of the overall population is coming down, they're still investing a lot more than the kind of average investor and I think ... We've seen that in other sectors as well like P2P Lending and other markets where SMSFs invest, they tend to put a reasonable amount of money in, so it's interesting to see they're still making up half of those assets.

Aaron Dunn: So we see I guess a maturity as the ETF market has continued to mature, we've seen the number of individual entities and so forth come into the sector and that I guess has seen a reduction in the number of those in there but I

think from a dollar value, there's a substantially higher investment balance that we're seeing. SMSFs are looked to invest as opposed to again what are non SMSF type of investors, I think where there who hold an average of seventy thousand dollars as compared to roughly about a hundred and seventy thousand dollars with SMSFs.

Kevin Bungard: That's correct, yeah.

Aaron Dunn: Yeah, I was just going to say, that could be something that we see I guess ... Some SMSFs in that instance look at it as a low barrier to entry here and something in its early phases. And you spoke about the P2P lending as well, and that again is something that SMSFs, those that are more self-directed in many instances as well, may look to see some of these things earlier than what the normal market might look to do.

Kevin Bungard: That's right. I think it takes time for advisors and that portion of the market where to get an advisor to change their strategy to incorporate ETFs into that and then for that to flow through to those investors will take a period of time, whereas as you note those self-directed investors, if they see something and they think that it looks like a good vehicle for them to use, then they will adopt it.

Kevin Bungard: And as you mentioned, it is about that you've got additional investors coming in to this ETF market. In terms of the proportion of self-managed super funds that are investing in ETFs, we've seen that from sort of 2011, it'd be about 7% of SMSFs who are investing into ETFs come up to about 19%, so over those seven years, it's grown significantly and even over the last couple of years it's continued to grow. So the proportion of the SMSF market that is using ETFs is increasing as well.

Aaron Dunn: And long term I think with SMSFs we've seen a very heavy weighting towards the Australian equities market. If we think traditionally, we go to our S ... If we even go to the concepts that have the mum and dad index type of thing where we had banks and we had Telstra and those sorts of things, but the fact that ETFs in a very simple and efficient way deliver exposure into international markets and really broaden the asset base of SMSFs would certainly be one area of appeal as to why we've seen that shift go from around 7% to nearly one in five.

Kevin Bungard: Spot on. And I think that's in a number of different ways that ETFs can be leveraged in a portfolio. There's obviously a high proportion of cash traditionally in SMSFs as well, and I think there's the potential for instead of having that money sitting in cash, particularly when it's such a low return, if you can instead move that into an ETF, maybe an international focus in particular, and get more of that growth of those other sectors there's still a good exposure. It's easy to do. I mean one of the advantages of the ASX and investing in TDs is that it's relatively easy for the investor to participate. It's harder to participate in international markets or to participate in emerging markets or other areas.

Kevin Bungard: ETFs give you the ability to actually participate in those markets. All you need is a hint. All you need is a broker account, so it makes it as easy to invest in some of those other market segments that as it is in Australian stock.

Aaron Dunn: So do you think it is a pure sort of diversification play or ... And I know the report talked about internationally ETFs make up about 54% of the top twenty in here. And so yeah, is ... Would it be fair to say that diversification is the key thing here or is it maybe a driver to other things from a potential cost point of view. I get ... What are the growth drivers in here that we see from the report that tend to suggest that SMSFs do have some sort of love affair when it comes to these ETFs.

Kevin Bungard: I think you've hit a couple of the key points, and we talked about the ease of access. If you compare just simply applying for managed funds, which would be one of the traditional vehicles that someone would have used, if you're off platform actually getting into or out of managed funds can be quite difficult in terms of the paperwork required. And again ETFs just make it that much easier, or any exchange trade or product kind of makes that easier for the investor, so as a self directed investor who's keen to just get on and do something, and having vehicles that are easier to access, is a big part of that. The fact that the ETFs provide such a broad range of market access and as you say at these levels compared to going to a platform or going to some of the managed funds products are potentially more cost effective. That all plays into it.

Kevin Bungard: I think the other thing you're seeing with ETFs is that people kind of use them ... that's probably not the right term, but they kind of use them as gap filler in terms of if you've got an approach to ... you've got some stocks that you're investing in. You know what you kind of ... You've got some stocks you're following closely, but then there'd be ... You know you need more exposure to international. You know you need more exposure even to the Australian market, buying into an ETF that's an ASX 200, ASX 300 type product is going to give you the rest of that sort of exposure without having to do too much work around researching individual stocks and so forth, so you can have your Telstra's and your big banks and then you might think but I need a bit more exposure so maybe I'll grab another product that will give me exposure to a small cash portion of the market, or give me exposure to emerging markets or wherever you want to go.

Kevin Bungard: So rather than you having to research all of these ... Even in the international, when we look at direct held international there's a lot of text stocks that are held directly where or ... Things like Berkshire Hathaway. So products that are well known, companies that are well known by investors and well researched. But if they want to get exposure beyond that without having to do a lot of work around individual research, then ETFs are a great way to get that exposure and I think people use it ... And they might not be ...

Kevin Bungard: You might be focused on the market at the moment. You might decide, oh actually, maybe I'm not ... I don't want to follow those stocks as closely any more. I can switch money into ETFs and then maybe later if I've got a view

that mining stocks are back, and I actually want to pick a few mining stocks, I can go back, pick those, sell them on the ETFs. So, as I said you can kind of use the ETFs as a bit of a buffer around your allocation and kind of move in and out of them relatively easily.

Aaron Dunn: So follow the indice as opposed to follow the actual specific stock and I guess ... And that's where some ... as you mentioned, some trustees might go well, I do have a couple of favourites. You may have a couple of particular stocks there that you may want to be a little bit more exposed to, but in a general sense the expertise doesn't necessarily sit with that trustee if they're not an active investor as such, so they may be better running the indice, whether it is at an S&P level or whether it's right down to like you said before an emerging companies type that gives them the exposure that they wouldn't ordinarily get or they wouldn't ordinarily have the expertise to be able to deliver on,

Kevin Bungard: And they can change that over time if their level of conviction about what they're doing varies. They can move in and out of those ETFs really easily.

Aaron Dunn: And that sort of liquidity, the ability to make it liquid like you do in ordinary share is certainly something of appeal. So the other thing that I wanted to talk about from this report, is you've continued to evolve some of the benchmark data in here and as we go beyond 1 July 2017 we've almost hit sort of the one year anniversary of implementation around the superannuation reforms. We're starting to see a few more insights into things around the membership, account balance, the member phases and more.

Aaron Dunn: So what my question to you here is are there any shifts that you've started to see in the data since the introduction of the reforms from the 1st July 2017? So we've had three reports, sort of post the implementation of it. If we think about average net assets per member phase is something that appears to be new in here and it talks about this largest component being mixed. I guess I'm interested in getting your thoughts on why you're looking at some of these things and where we're seeing some of the changes occurring post the reforms.

Kevin Bungard: With the benchmark report we were hoping to provide people insights into what's going on in the industry and actually note the super reforms have made a massive change to the mix of self-administered super funds, and probably the two big factors there were the transition retirement income streams effectively becoming accumulation phase money now instead of retirement phase money. And so the 30% that's in accumulation, that's increased by about 5% over the last twelve months so, since the year before. So, that's really ... We think a lot of that's driven by the change in the status of the transition to retirement income stream.

Kevin Bungard: And the other big one as you noted, the mixed portion is the largest portion of the market now, and that's gone up by about 10%. And that's been driven by those pensions that were over 1.6 mill basically having to convert money back into accumulation phase. And so you saw a big decline in the number of funds that were in pure pension phase, so that's fallen dramatically.

Aaron Dunn: So that'll be I guess really interesting to follow over the coming reports into the future years because I mean in some of the past conversations that we've had and through the benchmark report, we've spoken about the ways in which members will be taking benefits out of superannuation. So yeah, we'll be watching with great interest to see how some of this data unfolds and I think it's a credit to the Class or the team there in putting this up together because it really gives us some fantastic insights into the way in which the dynamics of the sector are unfolding.

Aaron Dunn: We've of course seen the statistical report from the ATO give us data historically, but it's really a snapshot at a particular point in time. But when we think about the ability to be able to see a fluid piece of data and a growing piece of data, that continuing to provide insights, it's helping not only at a fund level be able to make decisions that at a practise level to make decisions, but then also I guess right across industry if we think about reports that are being generated at the moment about a productivity commission point of view. We go things right through to the Royal Commission. To be able to have data that we can hang our hats on going forward, I think's going to be critically important, so again I think you should be highly commended that the work that gets done in this every quarter.

Aaron Dunn: So if I can say in respect to that, where can people find out more about getting access to this report and of course subscribing to receive these when they get released each and every quarter?

Kevin Bungard: So you can go to the Class website. So class.com.au and if you go to the insights page on there then you can download those, so and you can download all of the past reports as well. And I might just add to that as well Aaron, I think it's important from a policy point of view with the Labour Party talking about their upcoming policy, when we get the data ... So the next report we will look at this pension phased data in particular because we'll have I think then a final picture post lodgement of where these things will settle to. And I think we'll look at the amount of money that's moved from being in that tax free pension phase to moved back into accumulation phase is significant.

Kevin Bungard: So in terms of policy setting, the self-managed super funds are already going to be paying a lot more tax than they were paying before because of this shift. So we'll look at some of that going forward as well.

Aaron Dunn: And that's a critically important thing when we ... The data from my understanding was reflective of about the 2014-15 year which quite clearly when we look at what Labor's policy is around the abolition of the franking credit refund, doesn't reflect really the expectation of revenue to what they match, they're getting. And then you overlay that with the fact that we've seen the coalition government look to now increase from four to six. I think very quickly we'll see some of those members with larger credits look to build out additional membership to see the benefit of those franking credits not get lost into the coffers in Canberra but rather within the contributions tax within the family group, so, yeah.

Aaron Dunn: And I guess the last thing Kevin we have upcoming in September the Class Connect conference. Do you want to give that a little bit of a plug in terms of what those that may wish to attend would be looking to get out of that particular conference.

Kevin Bungard: We're looking forward to actually having a conference where we'll be talking about something other than the super reforms. But officially what we'll be talking about is what the world looks like in a post reform. What things should be we worrying about next? And I think it'll be nice for everyone to be thinking about what they should be doing in terms of their practise, areas that maybe are a little still underdeveloped in the industry like estate planning and so forth, but also some of the residual strategies and so forth that result from the impact of super reform and what people need to be doing going forward.

Kevin Bungard: But I think yourself and others I'm sure are thinking about what the world looks like for practises moving forward and how they grow practises and adopt to the best practise based on what the industry needs going forward.

Aaron Dunn: Absolutely. And yeah, so in terms of access and registration for that, they can go to the Class website (https://www.class.com.au/class-connect-2018/) I presume to find out more about the Class Connect conference?

Kevin Bungard: They can. The early bird is closing real soon now

Aaron Dunn: So get your skates on is the short answer

Kevin Bungard: Exactly. So yeah, get online and have a look and sign up for that but yeah, some terrific content and some terrific speakers there.

Aaron Dunn: Including myself so I very much look forward to it and I think as you rightly said there Kevin, it is not just about understanding the technical of what's happening into the future but really a lot of it is practise design and looking at the way in which practises need to continue to evolve and understand where the industry's heading and this data is just what ... is just one piece that helps us as professionals to understand where the future of SMSF lies and that's a lot of the work that I enjoy doing and get a lot out of sharing with others as well and one of the reasons why I do the podcast.

Aaron Dunn: So to you again, thank you for taking the time out of your busy schedule. It is always appreciated.

Kevin Bungard: Terrific. Thank you Aaron.

Aaron Dunn: And once again thank you everyone for joining me in this week's SMSF podcast. I look forward to you joining me next week. Take care and bye for now.

Aaron Dunn: Thanks for joining me today on the smarter SMSF podcast. That was a smart move. If you'd like to find out more about today's topic, you can add a

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