GFM Wealth Advisory

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# TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

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## CAN I SELL AN INVESTMENT PROPERTY & PUT THE PROCEEDS INTO MY SELF MANAGED SUPER FUND?

By Patrick Malcolm

The GFM Wealth Financial Planners have seen a significant spike in clients considering selling a residential investment property.

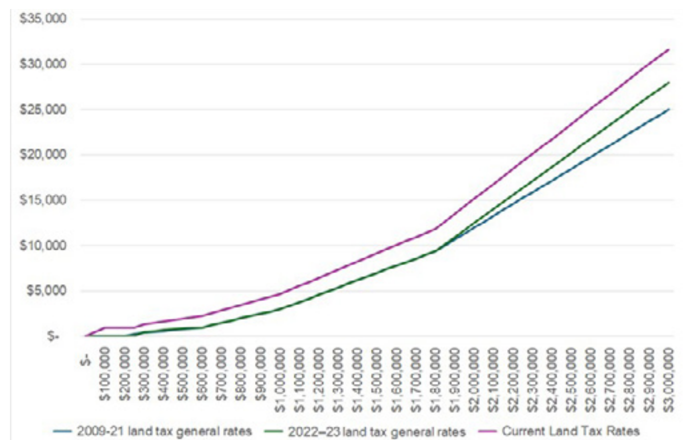
There are various reasons for this, including a desire to capitalise on the strength of the residential property market, the low rental yields available on residential property, a desire to simplify one's financial affairs, and ongoing maintenance or structural issues with a property.

However, legislative changes in Victoria around land tax and tenancy laws have affected the sentiment towards residential investment properties.

Victoria has recently seen a range of land tax changes, implemented in 2024 as part of their "COVID Debt Repayment Plan". A breakdown of the key changes are as follows:

- Lower Threshold: Previously, land tax only applied to landholdings with a total taxable value exceeding $250,000 (for trusts) or $50,000 (individually owned). Now, if the total taxable value of your non–exempt land adds up to $50,000 or more, you'll be liable for land tax.
- Surcharge and Rate Increase: The land tax system applies a combination of a flat surcharge and a progressive tax rate based on the total taxable value.
  - The flat surcharge has increased to $975 for all applicable landholdings.
  - For land exceeding $3 million in taxable value, there's an additional 0.10 percentage point increase in the progressive tax rate.
- Other Changes:
  - Apportionment of land tax and windfall gains tax between vendor and purchaser is no longer allowed in sale contracts.
  - Vacant Residential Land Tax (VRLT) will apply to vacant residential land across Victoria from 2025 onwards, with progressive rates based on the duration the land remains vacant.

The chart below details the change in land tax rates that have occurred:




Land Tax has increased by a minimum of 26% for properties with a land value of less than $3 million. It has increased by 260% for properties with a land value of $300,000 and 108% for a land value of $650,000.

Victoria has also introduced significant reforms to their residential tenancy laws in 2021. These changes included the following:

- Rental Bidding Ban: Bidding wars for rentals are no longer allowed.
- Minimum Standards: Rental properties must meet specific safety, ventilation, sanitation and structural integrity standards.
- Eviction Requirements: Landlords can only evict tenants with a valid reason. The few exceptions would include if a property is sold or becomes uninhabitable.
- Modifications by Renters: Tenants have more freedom to make minor modifications to the property.
- Urgent Repairs: Landlords are responsible for promptly fixing urgent repairs.

The changes to the Residential Tenancy Act in Victoria, while aiming to improve the rental experience, have drawn criticism for some potential unintended consequences. The concerns raised include:

- Reduced Rental Availability: Landlords, worried about increased responsibilities and the potential for lower returns, might be less inclined to invest in rental properties. This could lead to a decrease in the overall number of rentals available, tightening the market and potentially pushing rents even higher.
- Stricter Bond Requirements: With potential difficulties in evicting tenants, some landlords might increase bond amounts to mitigate risk. This could make it harder for tenants, especially those with limited savings, to secure a rental property.
- Impact on Property Maintenance: Landlords concerned about potential damage by tenants might be less willing to invest in repairs and upgrades to their properties.
- Superficial Modifications by Tenants: The relaxed rules on modifications by tenants could lead to a rise in poorly executed cosmetic changes that damage the property.
- Strained Landlord-Tenant Relationships: The changes could increase tensions and communication issues. Landlords might become more selective with tenants, and tenants might feel less inclined to maintain the property.

Another common question our financial planners get is: Can I contribute the sale proceeds of an investment property to superannuation?

The answer is: it depends!

Changes to the federal government's superannuation laws came into effect on July 1 2022, making it easier for many older Australians to contribute to their super even if they're no longer working.

Before July 1 2022, those aged 67–74 could only contribute to super if they satisfied the 'work test'. This test required you to have worked for at least 40 hours in a consecutive 30-day period within a Financial Year. This rule was abolished in the 2021 budget, with the change taking effect on July 1 2022. Those aged 67 to 74 can now contribute to their super whether or not they're still working. It is important to note that the work test applies if you intend to claim a tax deduction for a super contribution if you are aged 67–74.

Non-concessional contributions to super are "after-tax" contributions. The current non-concessional limit is $110,000 per Financial Year. This will rise to $120,000 from July 1, 2024.

Up to and including the year you turn 75, a bring–forward provision applies. This allows you to contribute up to $360,000 in that year. However, the total non-concessional contributions in that year and the next two Financial Years cannot exceed $360,000.

To access this $360,000 limit, your total super balance at the end of the previous Financial Year must be under $1,660,000. If your balance is higher, a lower cap may apply.

Unlike concessional contributions, when non-concessional contributions go into super, no tax on contributions is deducted.

The sale of an investment property can bring about capital gains tax. It applies when you sell an investment asset for more than you purchased it for.

Capital gains tax is poorly understood!

Here's a breakdown of how it works:

- Capital Proceeds: This is the selling price of your property minus any selling costs like agent fees and advertising.
- Cost Base: This is the property's purchase price, including any stamp duty, legal fees and other buying costs you incurred. You can also add capital improvements to the property over time (like renovations or extensions).
- Capital Gain: Capital proceeds minus cost base equals the capital gain (or loss).
- Tax on the Capital Gain: Only 50% of your capital gain is included in your taxable income for the year if the asset has been owned for over 12 months.

Here is a worked example:

Michael & Janet are aged 68. They purchased an investment property in joint names for $500,000 in 2000.

Wanting to simplify their financial affairs in retirement, they have just sold the property for $1.05m, with selling costs of $20,000.

Capital Proceeds: $1.05m – $20,000 = $1.03m
Cost Base: $500,000 (purchase price) + $50,000 (improvements) = $550,000
Capital Gain: $1.03m – $550,000 = $480,000
Taxable Capital Gain: 50% of $480,000 = $240,000

As the property is held in joint names, Michael & Janet will each need to include $120,000 in their taxable income in the current Financial Year, representing their share of the taxable capital gain.

Assuming they have no other assessable income in their names, they would each pay income tax & the Medicare Levy of $31,867, or $63,374 combined. This tax represents only 13% of the gross capital gain and only 6% of their net sale proceeds (after selling costs). As can be seen, the capital gains tax system is fairly generous.

Michael & Janet would have net sale proceeds of around $970,000. Assuming they have super balances of less than $1,660,000, they could each contribute $110,000 into super before June 30 as a non–concessional contribution. A further $360,000 could be contributed after July 1, which is $470,000 each, or $940,000 of the sale proceeds of $970,000. These contributions could be used to start an account–based pension. Any investment earnings on account-based pensions are tax-free.

If you do have an investment property that you are considering selling, we encourage you to contact your adviser to discuss the potential implications further.

## HOWARD & ROSEMARY ROSE: CLIENTS OF GFM SINCE 2022

By Amelia Paullo

Howard kindly wrote the article on their working life, retirement and relationship with GFM Wealth Advisory. We appreciate Howard's contribution to Trade Secrets.

Rosemary and I have only been clients of GFM Wealth Advisory since July 2022 and could be considered relative 'newbies'.

We switched from another SMSF advisor after 12 years, principally due to poor investment performance.

I retired 12 years ago, having spent 42 years in the Australian water industry based in Darwin, Canberra, and Melbourne, working early on as an Engineer and then as an Economist. The last 25 years were spent in executive roles with Melbourne Water, focusing on corporate strategy, pricing, and sustainability.

Rosemary retired ten years ago after spending time working in several stockbroking firms and with the Victorian Farmers Federation.

We have two beautiful daughters and a very grown–up and delightful seven–year–old granddaughter.

We downsized to an apartment in Glen Iris in 2020 after living in Mount Waverley for 43 years. Our daughters live in Hampton.

I keep active by playing lawn bowls, teaching children how to swim, bike riding and painting the houses of our offspring. I Chair our Owners Corporation Committee and am a member of the Management Committee at the Bowls Club.

Rosemary plays golf, attends water aerobics and Pilates classes, and enjoys 'social coffees'.

We are members of Hawthorn u3a (current affairs and music) and have travelled extensively overseas.

We became clients of GFM based on a recommendation from our former advisor in the old firm (Amelia Paullo), who provided excellent client service. Following an initial meeting, which spelled out the benefits of a firm offering investment and financial planning advice, we had no hesitation in becoming GFM clients.

We have found GFM very professional, client-focused, friendly, and courteous in their dealings with us. We have appreciated the massive amount of work undertaken by Amelia and others to transfer our investments from our portfolio to the new one, making it more tax–effective and spreading the investment risk. We appreciate the opportunities that GFM provides to keep us up to date with market developments and enjoy the social functions held during the year.

The best thing we have experienced as clients is the smooth transition from our previous SMSF provider to GFM. On top of this, based on the annual financial modelling performed by GFM, we have a much better appreciation of how long our funds will last!

We have already referred friends to GFM and will continue to do so in future based on GFM's professionalism, standing in the Financial Planning industry, investment performance and exceptional client service.

## INTRODUCING: MICHELLE PARKINSON

By Witi Suma

With great pleasure, we introduce a new team member, Michelle Parkinson.

Michelle started her professional career in administration at one of the "big four" banks, where she worked in corporate and personal superannuation. After taking a break to prioritise her family, Michelle returned to work at a small boutique financial planning firm that specialised in Self–Managed Superannuation Funds (SMSFs).

In September 2023, Michelle joined the GFM team and has been an invaluable asset ever since. Her primary role involves preparing all necessary documentation to establish SMSFs and investment accounts, and she works closely with our accountants to ensure the timely completion of SMSF tax returns. Michelle's passion for her work and exceptional attention to detail make her a trusted and reliable member of the GFM team, and we are very proud to have her on board.

Here's a quick Q and A with Michelle:

***Q. Your family?***

My family consist of my husband, Scott, and three beautiful children: Ella (18), Jack (16) and Ava (13). We also have a 3-year-old Cavoodle named Lenny.

***Q. Favourite holiday destination?***

My favourite holiday destination is Italy. We have been fortunate to travel overseas; Italy is one of my favourites. The food, people and scenery. What more could you want?

Within Australia, I love catching up with family in Yarrawonga and spending time on the river.

***Q. Hobbies?***

When I have some spare time and not running around after my kids I enjoy gardening, catching up with family and friends and watching the kids' sports. My son plays football at Beverley Hills Football Club, and both Ava and Jack have played basketball since they were six years old. I was actively involved on the basketball committee for several years.

***Q. What is your favourite food/drink?***

I love a good Chicken Parma, and my favourite dessert is Tiramisu.

***Q. Your proudest moment?***

My proudest moment is being a mum to Ella, Jack and Ava. I feel blessed to have a beautiful, healthy family and love watching them every step of their lives.

***Q. What sports do you follow?***

I mostly follow AFL and support the mighty Tigers. Although they are not doing well this year, they have enjoyed their success over the last few years.

***Q. The best part of working at GFM?***

Everyone has welcomed me with both arms since my first day at GFM. Working in a professional environment that supports teamwork, collaboration, and self-development is wonderful.

## A REFRESHER ON BONDS AS AN ASSET CLASS

By Patrick Malcolm

With Australia's highest long-term interest rates in over 11 years, we feel that bonds now have an important role in a diversified portfolio, potentially offering a generational opportunity for investors.

At their most basic level, bonds are a way for an entity to raise money by borrowing from another. Bonds are issued by governments and corporations to raise money when they need new sources of capital.

A bond pays the bondholder a periodic interest payment known as a coupon, just like a loan. At maturity (the end of the bond's life), the principal is returned to the investor.

Bonds have evolved into a $100 trillion global market. A wide range of bonds are available, each offering different risk and return profiles. However, most are designed to provide regular income and capital preservation. Consequently, they are generally considered to be a lower-risk investment compared to shares.

Bonds are often included in a portfolio to help reduce volatility and overall portfolio risk (diversification).

Why should I include bonds in my portfolio?

Bonds are put in an investment portfolio for various reasons, including income generation, capital preservation and as a hedge against economic slowdown:

- Income generation

Bonds provide investors income through coupon payments, typically paid quarterly, twice yearly or annually.

- Capital preservation

At maturity, the principal value of a bond is returned.

- Hedge against economic slowdown

While the share market typically does not like a slowdown in economic growth, it can be a good thing for bonds. This is because slower growth usually leads to lower inflation. This in turn makes fixed rate bonds look more attractive. An economic slowdown is also typically negative for company profits and share market returns, adding to the attractiveness of bonds during these times.

***Fixed Rate Government Bonds***

A fixed-rate bond gives its owner a claim on a series of cashflows: they receive a semi-annual coupon payment, and at the bond's maturity date, they will also receive the bond's "face value". Both the coupon rate and the face value are fixed for a specific bond, so let's say that the annual coupon rate is 5%, the face value is $1,000, and the bond is due to mature in exactly ten years. That means every six months, this bond's owner will receive a coupon of $25 (i.e. half of 5% of $1,000), and in 10 years, they will also receive the $1,000 face value.

Since these dollar payments don't change, an investor holding the bond until maturity knows exactly what they will receive in dollar terms. What does change over time is the return rate, known as "yield to maturity" on the bond, and that's because while cash payments from the bond are fixed, the price paid for the bond fluctuates on the open market according to supply and demand, just like share prices.

If the investor pays $1,000 to buy this particular bond, then their annualised return rate is 5%, but an investor may be able to buy the bond for a different price. Let's assume the same bond could be purchased for a mere $500. Since the bond's cash payments do not change, the semi-annual income would now represent an annual rate of around 10% ($25 semi-annually over a $500 initial payment). However, the face value of $1,000 would be double what was originally paid for the bond, so the overall return, the yield to maturity, would be an extreme 15%. It's more likely in current market conditions that the bond costs more than its face value, say $1,100, to buy now. That purchase price corresponds to a yield to maturity of around 3.8%.

Market commentators speak of bond yields moving, but you could also think of bond prices going up or down and sending the yield down or up. If our bond's price goes up from $1,000 to $1,100, the yield would go down from 5% to 3.8%. If the price went down from $1,000 to the extreme $500, the yield would go up from 5% to 15%. However, these changes are only relevant if the owner wants to sell the bond early instead of waiting to redeem it for full face value at maturity. By contrast, holding a bond to maturity effectively locks in the original yield, providing certainty of long-term total return.

***Yield to Maturity vs Running Yield***

"Yield" is a very confusing term.

In the context of bond investments, it is usually an abbreviation of "yield to maturity", meaning the total annualised rate of return to be received if the bond is purchased at current market prices and held until maturity. This is easily confused with "running yield", which refers to only the income component of the bond return derived from the coupon payments. This complicates the comparison of bonds with something like a term deposit.

To illustrate the difference, let's continue with our example above, using a bond with ten years to maturity, a face value of $1,000 and an annual coupon rate of 5%. The bond pays $25 in coupons every six months, and the face value is $1,000 on redemption in 10 years. Suppose the bond is purchased for $1,000. In that case, the annual running yield is 5% (2 payments of $25 divided by a $1,000 purchase price), and the yield to maturity is also 5%. But if the bond is bought for a price different to the fixed face value, then the running yield won't match the yield to maturity. For example, suppose the bond is purchased for only $500. In that case, the running yield will be

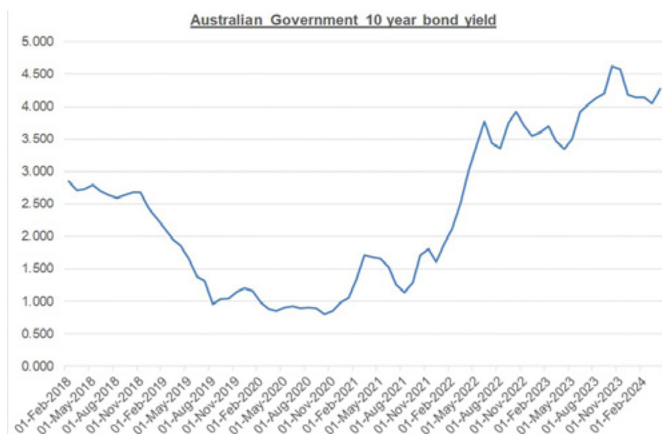
10% (based on annual income of $50 divided by $500), but the yield to maturity will be around 15%. If the bond is purchased for $1,100, then the running yield will be 4.5%, but the yield to maturity will be 3.8%.

### *How can 'safe' bonds deliver negative returns?*

It is important to note that bonds can deliver negative returns over short periods if bond yields go up. This is because bond returns break down into income and capital gain. While the coupon income on a bond is known and static over time, the capital gains on bonds will fluctuate with the trading price, just as they do for shares. If you buy at a high price and sell at a low price, you will create a capital loss. If that negative price change is large enough, this might outweigh the (positive) coupon income on the bond, leading to a negative overall return.

Professional fund managers investing in bonds must report their short-term performance even if they don't sell them. In a period when bond prices have fallen (i.e. bond yields have risen), the fund holdings are "marked to market" to reflect an unrealised capital loss, and the short-term returns reported on those fixed-income funds may be low or negative: this is what happened between October 2020 & October 2023.

As seen from the chart below, over those three years, the yield on the Australian ten year government bond benchmark rose from 0.80% to 4.63%, meaning longer-term bond prices fell. Deducting this capital loss from the positive coupon income return, we can understand how the Bloomberg Ausbond Treasury 0+ Year Index benchmark returned -13.2% for that three year period.




With Australia's highest long-term interest rates in over 11 years, we feel that bonds now have an important role in a diversified portfolio, potentially offering a generational opportunity for investors.

## TRANSITION TO RETIREMENT PENSIONS – STILL USEFUL!

By Sam Eley

A Transition to Retirement Income Stream (TRIS) is a way for those who have met preservation age to be able to commence receiving an income stream from their superannuation savings.

Preservation age for superannuation is listed below:

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

For those over age 60, you could reduce work hours and supplement your income with a tax–free income stream from superannuation. For those under age 60, you can access an income–stream via the TRIS; however, pension payments are not tax–free but assessed at your marginal tax–rate with a 15% tax offset.

Previously, TRIS pensions were taxed like Account-Based Pensions in that any earnings and capital gains within the TRIS were taxed at 0%. This meant that members could move the bulk of their superannuation to a 100% tax–free investment environment, whether they needed the income from their superannuation or not.

Governments have since closed this loophole and ensured TRIS pensions are being utilised as intended – to supplement income as you transition to retirement. TRIS pensions are now taxed like standard Accumulation balances within superannuation, 15% on earnings and 10% on capital gains (if the asset is owned over 12 months, 15% otherwise), which has reduced the effectiveness of this strategy.

However, the TRIS strategy remains useful despite these tax changes and can assist with reducing personal income tax.

### Case Study

Gemma is 61 years old and continues to work full–time. She will likely continue working full–time for the next six years. She earns $120,000 per annum. Having recently renovated her home, and with the increased cost of living, she has $300,000 remaining in debt. Gemma has no spare cash flow to increase her superannuation contributions. She has a super balance of $900,000. Gemma has not yet met a condition of release to access her superannuation benefits and commence an Account–Based Pension. However, she has met her preservation age.

Gemma's employer contributes the 11% Superannuation Guarantee to her fund this Financial Year. Based on her income of $120,000, this would see contributions of $13,200 to super on her behalf. The concessional contribution cap is currently $27,500, meaning Gemma could still contribute up to $14,300 to superannuation and claim a tax deduction on this amount if she had the cash flow to do so.

If Gemma commenced a TRIS with $880,000 of her super balance on July 1 2023, she could draw a minimum of 4% of the pension balance ($35,200) in the current Financial Year or up to a maximum of 10% ($88,000) of the balance if required.

To generate a larger tax deduction in the current Financial Year, Gemma could draw the $35,200 minimum pension tax–free as she is over age 60 and re-contribute $14,300 as a concessional contribution and $20,900 as a non–concessional contribution back into her superannuation fund, essentially recycling this money back into superannuation but saving tax while doing so.

The net result from a tax perspective is as follows:

| | **CURRENT** (Financial Year 2023/24) | **PROPOSED** (Financial Year 2023/24) |
|---|---|---|
| Employment Income | $ 120,000.00 | $ 120,000.00 |
| Less: Personal Concessional Contribution | $ – | $ 14,300.00 |
| **Taxable Income** | **$ 120,000.00** | **$ 105,700.00** |
| Tax Payable | $ 29,466.63 | $ 24,819.18 |
| Medicare Levy | $ 2,400.00 | $ 2,114.00 |
| **Total Personal Tax Payable** | **$ 31,866.63** | **$ 26,933.18** |
| Total Super Tax Payable | $ – | $ 2,145.00 |
| **Total Tax Payable** | **$ 31,866.63** | **$ 29,078.18** |
| *Total Super Contribution* | *$ 13,200.00* | *$ 27,500.00* |

Gemma saves $2,788 in tax in the current Financial Year by maximising her concessional contribution cap. She could continue to utilise this strategy each year until she ceases work in 6 years.

While this isn't as large an overall tax saving as was previously available under the old TRIS rules, there is still the opportunity to save meaningful amounts of income tax through the TRIS strategy. It is worth considering, particularly if you are over age 60 and unable to maximise concessional contributions through cash flow and personal savings.

## CONTRIBUTION CAP INCREASES EFFECTIVE FROM JULY 1 2024

By Karen Maher

Starting July 1 2024, the annual caps for concessional and non–concessional contributions will increase as follows:

| Contribution Type | Current Financial Year (FY 2023/24) | From July 1 2024 (FY 2024/25) |
|---|---|---|
| Concessional contributions | $27,500 | $30,000 |
| Non–concessional contributions | $110,000 | $120,000 |

This marks the first increase in the contribution caps in four years.

### Concessional Contributions:

Often called pre-tax contributions, concessional contributions typically include employer contributions, salary sacrifice contributions, and personal contributions claimed as a tax deduction. These contributions are taxed at 15% upon receipt by the superannuation fund.

With cap indexation, individuals with a superannuation balance of less than $500,000 as of June 30 2024, are potentially able to contribute up to $162,500 as a concessional contribution next Financial Year if they have not made any other concessional contributions into super over the previous five Financial Years.

### Non–concessional Contributions:

Non-concessional (after-tax) contributions are made from after-tax money and don't provide a tax deduction. They are not taxed upon receipt by the superannuation fund.

The non-concessional contribution cap is set at four times the annual concessional cap.

### *Bring–forward rule*

Individuals under 75 years old at any time in a Financial Year can bring–forward up to two years' worth of non-concessional contribution cap for that Financial Year, allowing them to contribute a larger amount without exceeding their cap. This is known as the bring–forward rule.

The higher annual non-concessional contribution cap will also increase a person's limit under the bring forward rule to a maximum of $360,000. However, it is important to note that the cap increase does not apply where the bring–forward rule has been previously triggered, and you are within the bring–forward period (i.e. this year, 2023–24 or last year, 2022–23). In this case, the remainder of the bring–forward period will be based on the non-concessional cap when the bring–forward rule was triggered, less the non-concessional contributions made during that period.

### *Non–concessional contribution eligibility*

To be eligible to make non-concessional contributions, an individual's total super balance (TSB) must be less than $1.9 million as of June 30.

Additional TSB thresholds apply for contributions exceeding the annual cap using the bring–forward rule, detailed in Tables 1 and 2 below.

**Table 1: TSB thresholds and bring forward caps for 2023/24**

| TSB on June 30 2023 | NCC cap |
|---|---|
| $1.9m + | $0 |
| $1.79m to < $1.9m | $110,000 |
| $1.68m to < $ 1.79m | $220,000 |
| < $1.68m | $330,000 |

**Table 2: TSB thresholds and bring forward caps for 2024/25**

| TSB on June 30 2024 | NCC cap |
|---|---|
| $1.9m + | $0 |
| $1.78m to < $1.9m | $120,000 |
| $1.66m to < $ 1.78m | $240,000 |
| < $1.66m | $360,000 |

## TWO WEDDINGS FOR GFM

## CONGRATULATIONS TO IVAN AND WAI & ORRIN AND KIRSTEN

All of us at GFM Wealth and GFM Gruchy would like to congratulate GFM Gruchy's Partner & Senior Accountant, Ivan Yeung, on his marriage to Wai, who were married on May 11.

We also congratulate our new Associate Financial Planner, Orrin Shaw, on his marriage to Kirsten, who were married on May 4. A profile on Orrin will be in our next edition of Trade Secrets.

It is wonderful to celebrate such significant life milestones with our team members. We wish them a lifetime of love and happiness together.

## KEY OBSERVATIONS FROM THE 2021/22 SMSF PERFORMANCE BRIEF

By Rebecca Dhillon

In February this year, the SMSF Association, in conjunction with the University of Adelaide's International Centre for Financial Services (ICFS), released their annual research findings to examine how the overall financial performance of Self Managed Super Funds (SMSFs) compared to Australian Prudential Regulation Authority (APRA) regulated superannuation funds.

Historically, comparisons between SMSFs and APRA funds have been difficult due to the differing formulas applied to measure performance and methods used to calculate the data.

The research study overcomes these differences using SMSF financial statement data (rather than data from SMSF annual returns) and a calculation methodology that is directly comparable to how APRA calculates returns for APRA-regulated funds.

The research used data from over 394,000 de–identified SMSFs representing more than 67% of total SMSFs in FY2021/22 to benchmark SMSF performance.

The research analyses the performance over the 2021/22 Financial Year, concluding that the SMSF sector outperformed the APRA fund sector. The research concluded:

- More than 38% of the SMSFs sampled generated a positive return over the Financial Year, compared with less than 5% of APRA funds.
- The median SMSF return was 4.1% higher than the corresponding APRA fund return, the largest annual return margin observed by the ICFS between 2017–2022.
- SMSFs performed relatively well in difficult market conditions. The median return for all sampled SMSFs was –1.0% p.a., compared to –5.1% p.a. for APRA funds.
- The size of the SMSF had a negligible impact on driving returns for the period.

The outperformance of SMSFs compared to APRA funds during the Financial Year results from asset allocation. SMSFs typically have a lower allocation to International Equities, which delivered negative returns for the Financial Year.

The above research coincided with the Australian Tax Office's (ATO) statistical annual overview of SMSFs for FY2021/22, providing key data on the sector. As of June 30 2022, over 50% of assets held by SMSFs were invested in just three asset classes:

- 28% listed shares
- 18% cash and term deposits
- 12% unlisted trusts

We believe a diversified asset allocation is essential to drive portfolio returns, decreasing the volatility of portfolio returns from year to year. Adequate diversification allows you to participate in the growth and performance of financial markets while reducing the risk in your portfolio by moderating the ups and downs in returns over time.

The table below shows the best-performing asset class each year for the last three Financial Years, as measured by an asset class benchmark Index:

| Asset Class | Measure | FY20/21 | FY21/22 | FY22/23 |
|---|---|---|---|---|
| Cash | RBA Bank Bill 90 Days | 0.0% | 0.3% | 3.2% |
| Australian Fixed Interest | Bloomberg AusBond Composite 0+ YR TR | –0.8% | –10.5% | 1.2% |
| International Fixed Interest | BBgBarc Global Aggregate TR hedged | –0.2% | –9.3% | 1.2% |
| Australian Listed Property | S&P/ASX 300 A–REIT TR | 33.9% | –11.2% | 7.5% |
| Australian Equity | S&P/ASX 200 TR | 27.8% | –6.5% | 14.8% |
| Australian Equity (Small Caps) | S&P/ASX Small Ordinaries TR | 33.2% | –19.5% | 8.4% |
| International Equity | MSCI World Ex Australia NR | 27.5% | –6.5% | 22.6% |

*Source: Morningstar Annual Asset Class Returns.*

The table shows that the best-performing asset class has differed each Financial Year. Not having a diversified asset allocation would have impacted portfolio performance. A diversified asset allocation means avoiding big bets in one asset class or a few investments that may adversely affect your portfolio returns if it underperforms.

GFM Wealth has long advocated using SMSFs as we believe they are an excellent vehicle for managing your superannuation assets. Within an SMSF, you can invest directly in your chosen combination of investments aligned with your risk profile and objectives. Through an SMSF, you can invest in direct shares, high–yielding cash accounts, term deposits, income-orientated investments, unlisted assets and direct property. Typically, not all of these investments are available via mainstream superannuation funds.

The Fund's Trust Deed limits the investment choices available within an SMSF and must satisfy the 'sole purpose test'. That is, the SMSF's sole purpose is to provide members retirement benefits.

While an SMSF will not be a suitable structure for everyone, particularly individuals with a low superannuation balance or individuals unwilling to invest some time towards managing their super, we believe SMSFs offer the greatest control, flexibility and transparency over how your superannuation assets are invested. We strongly believe that the confidence and security achieved from controlling and managing your nest egg make an SMSF compelling.

## 10-YEAR TEAM DINNER

By Mai Davies

On Friday, February 16, we celebrated at Centonove to acknowledge those team members who have been with the company for over ten years.

It is pretty amazing that with 29 staff members, thirteen have been with the company for over ten years. We look forward to other staff members joining the ten–year club in the next few years.

This is our 13th celebration. The team members are:

| | |
|---|---|
| Rebecca Dhillon | 10 Years |
| Ivan Yeung | 13 Years |
| Kushal Sharma | 15 Years |
| Jacqui Umali | 16 Years |
| Andrew Goldman | 16 Years |
| Annie An | 18 Years |
| James Malliaros | 22 years |
| Patrick Malcolm | 22 years |
| Lorraine Miller | 23 years |
| Paul Nicol | 25 years |
| Witi Suma | 27 years |
| Mai Davies | 39 years |
| Phil Gruchy | 46 years |

## ANNUAL GOLF DAY: FRIDAY, MARCH 22, 2024

By Mai Davies

We held our 21st Annual Golf Day at Riversdale Golf Club on Friday, March 22, attended by many keen golfers. Everyone had a fantastic time and we were blessed to have perfect weather.

It was also great to have new players join us this year. The course was in perfect condition, and we had some terrific prizes on offer.

Congratulations to Scott Sheezel, Philip Sheezel, Martin Van Os and Ric Casey with an Ambrose Score of 58.3966!

The photos from the day can be found on our website.

www.gfmwealth.com.au/events/past-events/annual-golf-day-2024/

## GFM WEBINARS

By Mai Davies

We recently held our first and second webinars for 2024. We were delighted to see many interested clients and guests dialling in.

We held our first webinar for the year on Wednesday, March 13, providing an update on the Aoris International Fund. Patrick Malcolm, our Senior Partner, hosted our special guests, Stephen Arnold, Managing Director and CIO and Delian Entchev, Portfolio Manager, Aoris Investment Management.

We held our second webinar for the year on Wednesday, May 1, providing an update on the Australian Foundation Investment Company (AFI), Djerriwarrh (DJW) and Mirrabooka Investments (MIR). Paul Nicol, our Managing Partner, hosted special guests Mark Freeman, David Grace, Brett McNeill and Kieran Kennedy from AFIC, Djerriwarrh and Mirrabooka.

Both webinars discussed the key positions in each portfolio, the investment opportunities at present, and the macroeconomic environment.

If you have missed our previous webinars, they are on the GFM website. Click on the link below to watch the recordings of the previous webinars.

www.gfmwealth.com.au/news-info/past-webinars/

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