Spring 2022

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GDA
Private Wealth Specialists

Newsletter

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Opinion

Chairman's View

Science tells are that time is constant, but I have doubts, as I age seasons come and go faster and faster and the years simply fly by. Here we are over half-way through spring with summer, or Tasmania's multiple seasons in one day version of it, fast approaching.

Despite multiple objectors, some but not all of whom I agree with, Tasmania continues to change.

The Australian Bureau of Statistics estimates that Tasmania's population grew by 1,336 persons to 571,165 in the March Quarter 2022, compared to 523,890 in 2020, that is an increase of 47,275 in a little over two years. Compare that with Tasmania's growth from 510,500 in 2011 to 523,890 in 2020 an increase of 13,390 in nine years. The 571,165 already exceeds the Tasmania Government Growth Target for 2030 which was 570.000.

Tasmania is going to require housing and employment opportunities, or we will experience serious social issues.

There are residential property subdivision proposals around the state with two large subdivisions proposed in Hobart, involving the relocation of the University of Tasmania and the other the Skylands development on the Eastern Shore.

For the first time it appears likely that Tasmania will have its own AFL team and a covered stadium to go with it. It reminds me of the Kevin Costner film Field of Dreams and the voice was saying "build it and they will come," personally I think that is exactly what will happen. Football is one thing, you can take it or leave it, but I am of the view that it will provide the opportunity for Tasmanians to see events that previously were only available interstate.

Then of course you have the Cable Car, we will not go there as it will upset half the population and in all likelihood in previous "Chairman's Opinions" I have already upset the other half.

Those projects along with others will bring employment opportunities, they are also guaranteed to bring objectors out of the woodwork.

By the way, some of you may recall in the last newsletter I commented on foreign money flowing into real estate in Australia. On a recent trip to Queensland I saw three residential properties in close proximity in one suburb valued at more than thirty million dollars - two adjoining residences had never been lived in, the other is a holiday home for a few weeks a year. Our government is still facilitating it and the recent budget made no mention of it.

I was not born here, I moved here forty years ago when like many people who visit I fell in love with Tasmania, it is one of the best places on earth in a troubled world. I think all Australians should be careful to protect the lifestyle that we have been fortunate enough to enjoy and it worries me greatly that some are doing their best to devalue it.

John Fairlie - *Chairman, GDA Group*

Personal Insurances

We never want to have this conversation

Over time, financial planners spend years with their clients and build a trusted relationship. Financial and personal circumstances change over time and that is why ongoing reviews are so important. Below is an all too short of a summary of a life changing event.

At a review, income and expenses were discussed and the clients mentioned that their personal insurance costs were going up and they felt as their children were now adults and their mortgage had been reduced, the need for protection was probably less of a priority. A review of their insurances was requested. A needs based review was then conducted, options were investigated, and a meeting followed a few weeks later. At that meeting, the husband had a band aid on his forehead. "What, have you done?" "I've had a bit of a tumble and hit my head. They are doing some tests as I'm not really sure what happened, but I'll be right." He worked outdoors and suspected heat stroke. I presented the insurance reduction amounts and premium savings, with a proviso that we would wait for test results prior to making any changes. The initial test results were inconclusive, and follow up tests were to be carried out. It was agreed to leave the insurance as they were until their next review. After many medical tests over the following months they were unfortunately advised of a terminal condition. Income protection, Trauma cover, TPD and eventually a life insurance policy were all claimed upon. The devasting personal loss to this family remains the same. The financial impact of this personal loss had been assessed and addressed. Their remaining time together was not undermined by having to focus on the financial impact of their situation.

A couple of take aways:

The placement of these personal insurances had occurred several years prior. The review may have resulted in a reduction of insurances! We do not know what tomorrow brings, but with a needs based review, an informed decision can be made as to "what if" something occurs.

Always have a medical, prior to reducing personal insurance cover.

Insurance is not an all or nothing proposition. If an amount does become a financial impediment, a reduction, rather than a cancellation may be an option.

The types of protection available:

Life Insurance – leave something behind. Life Insurance pays a lump sum if you die or in certain scenarios, terminally ill and likely to die from the illness within 24 months.

Total and Permanent Disability (TPD) – because sickness and accidents happen. TPD Cover pays a lump sum if you are totally and permanently disabled. For many, this may be a greater financial impact than death as specified in the PDS.

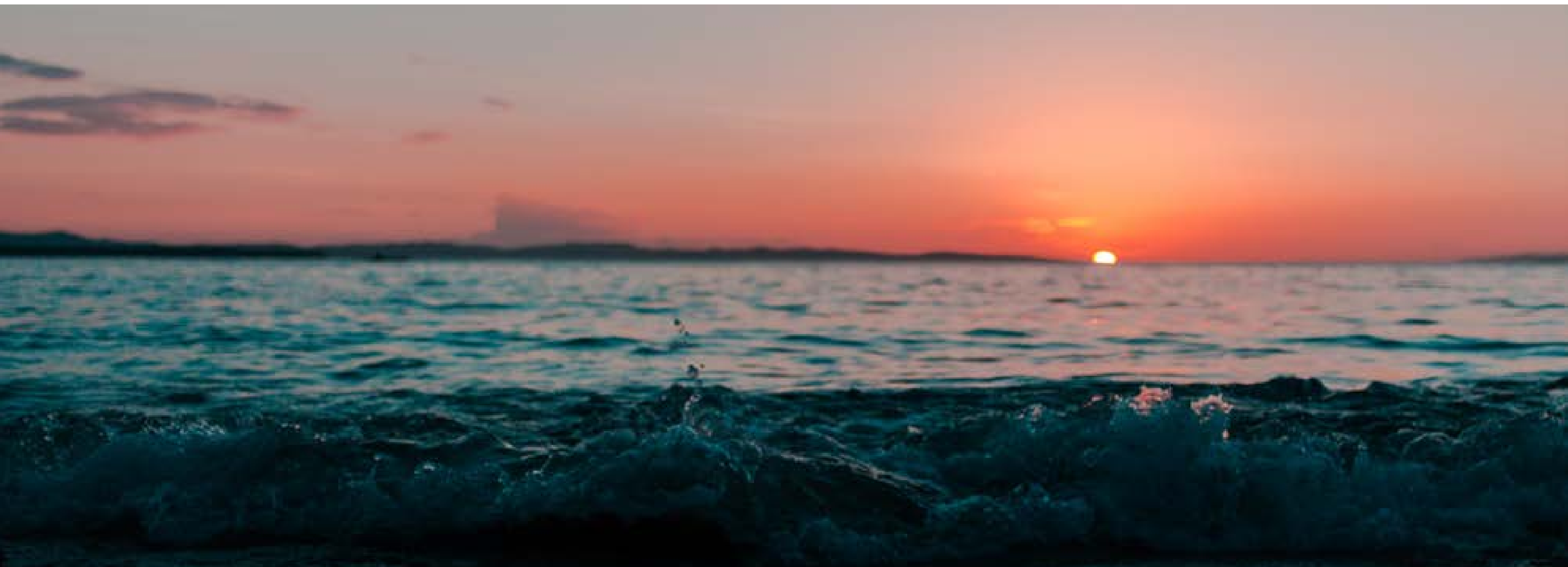
Trauma Cover – health is everything. Trauma Cover pays a lump sum if you are diagnosed with specifically defined trauma conditions such as cancer, heart attack or stroke.

Income Protection – works when you cannot. At its most basic, income protection pays a percentage of your income when you are unable to perform all or part of your occupation due to sickness or injury. Waiting periods apply, so you need to consider your own situation to determine how this protection will best work in your situation.

Key Person Insurance - protect your business in the event of an unplanned exit, such as death, disability, or illness.

If you do not have this conversation with loved ones, who will? Have you had this conversation with the next generation?

Malcolm Penglase ADFS(FP) BBus. AFP®
- Senior Financial Planner, GDA Group



SMSF

Keeping an SMSF investment strategy on track

A key responsibility for any trustee is ensuring the fund has an investment strategy, which is appropriate, regularly reviewed and managed for the benefit of all fund members. An investment strategy is all about having a plan in place to manage the fund's assets in a way that the trustees expect will meet the members' retirement objectives.

Superannuation law specifically requires all SMSF trustees to 'formulate, review regularly and give effect to an investment strategy' that not only has regard to the whole circumstances of the fund, but includes the specific considerations discussed below.

With this in mind, an investment strategy should not just be a document simply repeating the requirements of legislation, but a live document tailored to the relevant circumstances of the fund. As circumstances change, so should the plan, to ensure things remain on track.

Specific legislative requirements

While there is no prescribed format for an investment strategy, nor does it technically have to be in writing, a fund's trustee(s) may have trouble demonstrating they have met their various legislative requirements without having documented evidence of this having occurred.

An investment strategy is required to consider the following specific factors:

1. The risks involved in making, holding and realising, and the likely return from, the entity's investments, having regard to its objectives and expected cash flow requirements.
2. The composition of the entity's investments as a whole, including the extent to which they are diverse or involve exposure of the entity to risks from inadequate diversification.
3. The liquidity of the entity's investments, having regard to its expected cashflow requirements.
4. The ability of the entity to discharge its existing and prospective liabilities.
5. Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

Guidance from the regulator

While these specific requirements provide direction to fund trustees, further guidance over time has been provided by the Australian Taxation Office (ATO) to help trustees understand their responsibilities.

One of the first points which challenges trustees is the requirement to 'give effect to an investment strategy that has regard to the whole of the circumstances of the entity'.

Giving effect simply means the trustees have ensured the fund's investments are held in accordance with the investment strategy and the investments and strategy remain on track to provide for the members' retirement goals and objectives.

ATO guidance suggests an investment strategy should be reviewed at least annually, with the trustees ensuring they document this review, including any decisions arising from it, to demonstrate they have met the requirement to 'review regularly' the fund's strategy.

The fund's auditor will also want to check each year that the SMSF has an investment strategy, the investments were held in accordance with that strategy, and the strategy has been reviewed.

Significant events may require the strategy to be reviewed more regularly than on an annual basis. For example, where new members join or existing members depart the fund, the investment strategy may need to change.

Where a member commences a pension, or a lump sum benefit is requested, the fund's investments may need to be restructured to manage the payment of a lump sum or to provide the ongoing liquidity needed to meet the regular pension payments.

Having regard to the composition of the fund's investments, including diversification, is probably the next area trustees need to understand when it comes to formulating and managing the fund's investment strategy. This requirement tends to raise such questions as 'do my fund's investments need to be diversified?' or 'is it appropriate if all my fund's investable assets are invested in one single asset such as a property, or in a single asset class such as direct Australian shares?'

One of the more obvious situations where this consideration would become a reality is where the fund starts paying a benefit to its members, in the form of either an income stream payment or member benefit lump sum. The timing of such payments may be expected, such as when a member attains their preservation age or retirement, or at other times unexpected, such as a premature death benefit or disability income stream payment.

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SMSF

Keeping an SMSF investment strategy on track

An SMSF also has an ongoing liability to manage annual tax payments, plus the associated operating expenses of the fund such as accounting, auditing and sometimes advice services fees.

Where an SMSF invests in direct property, the fund may have repairs, maintenance, and other ongoing operating expenses which need to be considered.

When the fund has borrowed to purchase an asset, such as a direct property, under a limited recourse borrowing arrangement (LRBA), meeting ongoing loan repayments need to be considered.

The requirement to take into account the liquidity of the fund's investments sits alongside considering cash flow requirements. Where the fund holds an investment which may not be immediately liquid, can the fund's ongoing liabilities be met by the investment returns, such as rent or distributions; or are the regular contributions being made my members predictable and reliable enough to assist in providing the liquidity the fund needs?

The requirement for fund trustees to consider whether they hold insurance for a fund member was enacted back in August 2012. Similar to the requirements to consider cashflow and diversification, there is no compulsion for a fund to hold insurance cover for a fund member; the trustees simply need to consider whether it is appropriate or not to do so.

Approaching an investment strategy

While not specified how, trustees still need to demonstrate they have implemented their fund's investment strategy. A common way to do this would be to include target allocations, generally percentages, to various assets or asset classes.

Alternatively, if asset allocation ranges aren't chosen, a trustee could list the material assets of the fund in the investment strategy. Including a statement as to why investing in the nominated asset or assets will achieve the retirement goals of all fund members would be helpful to support such a strategy.

As the range of investment options continues to grow, the best way to look at where and SMSF trustee could invest is to look at it from the perspective of what is not allowed. A trustee is free to choose from virtually any type of investment, provided that the investment is firstly permitted, or not otherwise prohibited by the fund's trust deed, is not prohibited under super law, and meets the sole purpose test.

Common considerations for SMSFs in this area often include the acquisition of assets from related party rules, in-house asset considerations, and non-arm's length income and expenditure rules for income tax purposes.

Finally, what happens when an SMSF's investment strategy is not compliant?

The ATO can take compliance action against trustees when fund's investments breach super laws, or when investment strategies don't meet the requirements. The ATO has a range of measures to deal with non-compliance more broadly from education or rectification directions through to administrative penalties or disqualification of a trustee.

When it comes to a fund's investment strategy, a breach that has not been rectified can result in a penalty of $4,440 for each individual trustee or the corporate trustee.

While the role of an SMSF trustee carries with it a number of responsibilities, the ongoing implementation and review of the fund's investment strategy is essentially important from both a legislative and member outcome basis.

Source - *Tim Howard, BT.*

Retirement

The real cost

When looking at saving and planning for retirement, it is important to know how much you can expect to be spending. The latest retirement standard figures and other data sources can give you an idea of the cost of retirement, but what else do you need to consider ensuring your financial wellbeing?

Running the numbers – the retirement standard

Since June 2006, the Association of Superannuation Funds of Australia (ASFA) have been monitoring the living costs associated with retirement. Every quarter they research and publish the average annual budget singles and couples aged around sixty-five can expect to spend when living a modest or comfortable lifestyle in retirement. This is known as the retirement standard and for some time it's been a popular yardstick for what it costs to live as a retired person in Australia.

Your definition of comfortable

For a modest way of life, think essential living expenses, taking holidays in Australia only and limited spending on upgrades to cars, appliances, and electronic items. Things like international travel, a new car from time to time and eating out on a regular basis are the trappings of the comfortable lifestyle category.

Your idea of what a comfortable lifestyle looks like – and the money it takes to live it – could be quite different from the retirement standard definition and estimates. The amount you earn and spend in the lead up to retirement is just one of the things that can influence your budget and spending patterns after you have left work. How and where you plan to spend your retirement is also going to affect the income you need.

The big-ticket items – health and energy

According to a recent media release from the ASFA, budgets for singles and couples living comfortably have risen 23% and 26% respectively in the decade since the first retirement standard figures were published. The increases for a modest lifestyle are higher, at 33% for a single person and 36% for a couple. ASFA have identified the rising costs of power, food, rates, and health care as the main culprits for these changes. It is not surprising that the impact is greater for those living modestly. In most household budget, these four items are essentials rather than luxuries.

The modest living retirement standard figures are running well ahead of the Consumer Price Index (CPI) increase for the same period which was 28.6%. But while it might seem retired people living a simple life are worse off than they were 10 years ago, changes in the aged pension tell a different story. In real terms, the aged pension rose by 70% for a single person and 54% for couples during this time, making it possible for retirees to cover their living costs, despite major price hikes for essentials.

Relying on the aged pension?

This is an important reminder of the significance of the Age Pension in supplementing income from your super. In fact, the latest quarterly Milliman Retirement Expectations and Spending report published in June 2017, claims the median annual expenditure of a couple aged 65-69 is just $34,858, which is only marginally higher than today's full aged pension allowance for couples of $34,819 per year. But as January 2017 changes in assets and income tests for the age pension demonstrate, it's difficult to have certainty about your future entitlement to government benefits in retirement.

Taking home and health for granted

Something else to bear in mind when calculating your own personal retirement budget is whether you own your own home and how you are doing health wise. Retirement standard figures are based on two important assumptions – you live in a home you own outright, and you are in good health. So, if you are likely to be renting for the rest of your life or spending on a mortgage or medical bills in the early years of retirement, you will need to factor this into your budget.

Advice - making a difference

Even with the help of carefully compiled estimates, surveys, and reports from the ASFA and Milliman, figuring out how much you should be saving for retirement and how best to invest it for a healthy return can be a challenge. Seeking advice from a GDA Financial Planner can help you produce a strategy for optimising your financial situation in the lead-up to or during retirement.

Whatever your plans are for retirement, a GDA Financial Planner can offer valuable advice on making sure you have enough income to live comfortably and achieve your goals.

Michael Driessen SSA® CFP® – *Director and Senior Financial Planner, GDA Group*

Giving back

GDA in the community

GDA were delighted to sponsor the Rotary Club of Hobart's Annual Art Show recently held at Wrest Point Casino.

Specifically, GDA sponsored the 'City of Hobart' category of which there were 180 entrants. Our Senior Financial Adviser Michael Driessen had the pleasure of judging the category and selected Lauren McLeenan's Solstice Sunset as the category winner. Lauren was a worthy winner of the category and this was further evidenced by the quick sale of her work.

GDA was pleased to be a sponsor this year which helped the Rotary Club raise in excess of $20,000 to be used to support programs locally and internationally.

Michael Driessen SSA® CFP® – *Director and Senior Financial Planner, GDA Group*

Market update

Purvis Investment Market Conditions Report

- In the 18 months after the COVID market crash of 2020 equity prices recovered strongly on the back of earnings growth and continued low interest rates. The momentum of equity prices has since dissipated due to rising inflation and rising interest rates and bond yields.
- Consumer price inflation has been accelerating in the USA, Europe, and Australia, due mainly to factors beyond the influence of central bank monetary policies, such as supply chain disruptions.
- Nevertheless, all major central banks have made clear in the last week that they are prepared to cause a recession if that is what it takes to get inflation under control: into the 2% to 3% p.a. range that they have been targeting for the last thirty years.
- Equity and commodity markets have fallen slightly over the last month, blunting what appears to be a bear market rally. They have not yet fully adjusted prices to reflect the greater risk of a global recession. There is more adjustment to come- perhaps a fall of up to 25% from current levels in some markets.
- The Chinese economy is slowing rapidly due to the combined effects of its zero COVID policy leading to extensive shutdowns together with the reduction of leverage in the property development sector.
- Beyond commodities, slower Chinese economic growth also affects the import of manufactured goods from the European Union and the USA, so it will increase the risk and extent of a global recession.
- In Australia, shifts in monetary and fiscal policy will have limited effects on the outlook for bond yields, equity earnings or pricing. The Australian bond market will be most affected by conditions in the US bond market. The Australian equity market is more likely to be influenced by economic conditions in China or equity market conditions in the USA.
- In the shorter term, over the next one to three years, a major downturn in equity markets, of 25% or more below the current level is a significant possibility because of the intersecting problems of the continuing COVID pandemic, war and inflation which are beyond the capacity of governments and central banks to fix quickly.
- Investors who are concerned about the capital stability of part or all their assets over the next three years should significantly reduce the allocation to equities in that part of their portfolio that relates to the next three years.
- They should then hold short-term fixed interest or cash rather than long-term bonds as defensive assets for that part of the portfolio, because bonds may well have low or even negative total returns.
- Having said all of this, the outlook for equity investment beyond the next 3 years and out to 10 years is still positive relative to bonds but it is less so relative to cash returns which are rising.
- Portfolio holdings that relate to the longer term, beyond five years, should continue to hold a benchmark weighting in equities, but only if there is a tolerance for a significant downturn in value over the next few years, before an eventual recovery, which may take up to five years

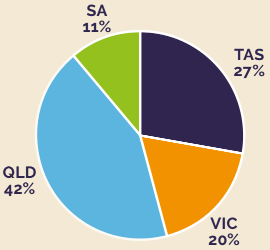
About the author - *James Purvis is an actuary who has worked in investment management and research since 1979. He also holds a degree of Master of International Public Health from the University of Sydney School of Public Health.*

GDA Diversified Property Trust

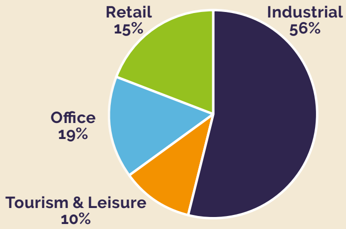
Investing in a property trust

The GDA Diversified Property Trust ("DPT") is an open ended unlisted property trust established and operated by GDA Securities ("GDA"). GDA is an experienced fund manager with over 19 years in the industry specialising in property investment and property management. DPT primarily invests in a diversified portfolio of direct commercial properties. It is an established trust, having been in operation since December 2004.

Properties by Geographical Location[1]



Properties by Sector[1]



DPT's objective is to provide investors with a regular and competitive level of tax advantaged distributable income combined with the potential for capital growth.

How to invest

Read the Product Disclosure Statement ("PDS") in full before making any investment decisions. The PDS and latest unit price can be obtained from our website gdagroup.com.au/the-fund/, contacting our office on (03) 6234 4413 or by emailing investor@gdas.com.au. Complete the application forms in the PDS and make payment for your application.

STATUS	OPEN
Distributions	5.02%[2] p.a. paid quarterly
Portfolio occupancy	100%
Gearing ratio	32.55%[3]
Borrowing facility expiration	June 2027
Weighted average lease expiry	4.71 years[5]
Withdrawal mechanisms	· Limited Three-Monthly Withdrawal Offers (March, June, September and December) · Five-Year Liquidity Events
Risks	Investments are subject to risks (see section 5 of the PDS for the risks associated with an investment in the DPT)
Minimum investment	$20,000.00
Reinvestment option	Available
Management fee	0.75% pa of gross assets (see section 6 of the PDS for all the fees and costs)

Performance[4]	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Total Return	22.15%	18.65%	14.61%	16.33%	13.78%	11.60%

1. Calculated by asset value. **2.** Based on actual distribution of 6.10 cents per annum per unit and a current unit price of $1.2159 as at 30 September 2022. Distributions for future quarters may vary. **3.** Total interest bearing liabilities divided by total assets. **4.** Performance data for the periods longer than one year have been annualised. Capital growth and income distributions are not guaranteed and are subject to the assumptions and risks contained in the PDS. Past performance is not a reliable indicator of future performance. **5.** The Trust has entered into a Works Agreement with the current tenant of 579 South Road, Regency Park SA which will see a new 3 year lease commence following the completion of these works. On the assumption that the new lease commences on 1 January 2023, the weighted average lease expiry is 5.15 years.