Your Private Wealth Specialists

SUMMER

2023

INSIDE THIS ISSUE

GDA GROUP

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OPINION

We are approaching the end of a very pleasant Tasmanian summer and despite the best efforts of some we continue to live in one of the best states, in one of the of the best countries in the world.

At times I find some of the practices in our industry frustrating, in particular, the belief or focus by the industry at large that a client's investments should all be liquid. I am fully aware that everybody's circumstances are different, but I firmly believe that in the majority of cases all investments do not need to be liquid, some for sure, but not all. A treasury position Paper titled "Retirement Income Covenant, 22 July 2021" found that 90% of retirement savings are left behind when people die. Many clients also have investments outside of the "super" system, which strongly suggests that you do not need all investments to be liquid.

Personally, when I consider the future, I aim to provide funding through to at least when one or both of us reach one hundred years of age. I may not get there, but it certainly will not be for lack of trying. I consider I am a real chance as only the good die young. I can imagine what an old grump I will be as I age, I can see my wife and perhaps some of my GDA partners rolling their eyes as they read this, thinking what do you mean, as you age.

On a serious note, I do not need all of my assets to be liquid and I don't think a lot of our clients do either. Notwithstanding volatility in the marketplace, I need my assets to produce growth both in the value of the assets and the income they produce. Growth in income is critically important if you wish to maintain your lifestyle or should it be necessary, to help fund your health care requirements as you age. This leads us to an issue that we are hoping to be able to address this year.

This focus on liquidity means Trustees of Public Offer Superannuation Funds historically have had a preference for investments to be liquid. In practical terms this can lead to excluding or minimising direct property investments and increasing the reliance on equity markets and on highly correlated investments such as A-REITs, and potentially higher levels of volatility. Equity markets both International and Australian are reasonably volatile and on occasions "crash". But good news! Because the investment is liquid you can cash it in and crystallise your losses. I am saying that "tongue in cheek" as in most cases it is silliness to do that. Never forget, when you sell somebody else thinks it is a good time to buy.

Commercial property is not considered liquid though technically it can be, if you see me in the office, you are welcome to ask me how. Despite commercial property returns over most time frames being right up there with the highest total returns, high levels of income, a low correlation with the share market and generally the lowest volatility, it is difficult to overcome industry prejudices. As an aside, it is expensive buying and selling real estate so in most cases it should be considered a long-term investment.

GDA has run property trusts for many years including one of the best performing property trusts in Australia, the GDA Diversified Property Trust (DPT). DPT came about when we rolled a number of our earlier Trusts into DPT. The largest group of initial investors who rolled their investment from one of our earlier property trusts into DPT have had the benefit of annualised returns in excess of 10% for 26 years which by anybody's measure is a solid performance. I have enclosed an information sheet on DPT.

The liquidity attitudes described above have meant that GDA has only been able to offer DPT to a limited number of our clients, being Self-Managed Superannuation Funds and thru IDPS (private funds on a platform) but not superannuation funds on a platform. We are working to overcome this issue if we are successful, we hope to be in a position to make DPT more readily available.

We are pleased to announce two new key signings at GDA, one on the Property side and the other on Accounting, both have over twenty years' experience in their respective fields and come highly commended. Scott Alexander joins as Director of Acquisitions and Asset Management and we are confident he will add real value on the property side. Suijannie Handojo is on the accounting side and we are sure our clients will benefit from her experience.

To finish on a humorous note, Mal Penglase one of the GDA partners will often say he has "short arms and deep pockets", personally I am not sure that is correct because I have never witnessed that aspect. But "Short Arms" was taken aback over the Christmas break. His son had been saying that his hair was too long, apparently it was interfering with his gym sessions. To cut a long story short, Mal was going down to cut the front lawn when he noticed his mother-in-law grooming the dog with the clippers. When Mal came back up his son had a number 4 "buzz cut". Mal is pretty sure the dog was done first, but apparently there is some dispute in the family about that. One thing is certain, having seen the photos, I can say that his 18 year son looked ten years older!

John Fairlie, Chairman

MONEY MATTERS

TIME AS AN ASSET

Interestingly, according to Forbes magazine, many people that are considered highly successful rank ‘Time’ as their most valued asset. You can never lose time and get it back again. You can’t spend time and go earn more of it. You can’t buy it, rent it, or borrow it. Use it wisely and enjoy the benefits. Squander it, and it’s gone forever.

There is a quote attributed to Warren Buffet, “I can buy anything I want basically, but I can’t buy time. There is no way I’ll be able to buy more time.” And that quote brings me to a recent game of golf I played. I find a golf course is a great place to acquire information, both useful and otherwise. You generally spending 4-5 hours with 3 other people walking 10km, talking, stopping and being silent, whispering, and hitting a little white (orange/green/yellow) dimpled ball anywhere between 60 to 120 times. There is the occasional curse word thrown in for good measure, usually directed at yourself or the ball. A cleansing and or refreshing beverage at the end of a round may also be the most successful part of the day.

The golf course is also a brilliant source of nicknames and the story behind them. “Showbags” – he’s full of rubbish. "ANZAC" – he’d spend a silent minute over the ball thinking about each shot he was about to hit. And recently I had the pleasure of playing with a guy called “Time” – no time to waste, he just kept going. Now don’t get me wrong, he is polite, and follows all golf etiquette. He waited for you to play your shot, acknowledged good and bad shots, but he would be efficiently moving to his next shot as soon as possible. He didn’t waste any time. Arguably the best golfer I have ever played with. Playing with borrowed clubs, between 5-9pm in the evening, he had a casual 3 under par at North West Bay Golf Course. J.C.A. Ricks. NWBGC- Club champion 93, 95 and 96.

And finally on the Golfing theme, for those with an eye for detail, 3 players are on the green, and only 2 have putters. David did not require a putter, as he had just achieved the holy grail on the golf course, a hole in one. I’m told it’s one of the greatest feelings you’ll experience on a golf course. Unfortunately, I cannot verify that!

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

DOWNSIZING YOUR HOME

From 1 January 2023, the eligibility age to make downsizer contributions to superannuation has reduced to age 55, from age 60.

This means an individual aged 55-year-old or over can make a downsizer contribution to super from 1 January 2023 of up to $300,000 per person or $600,000 per couple from the proceeds of selling their home.

However, there are some important aspects to consider:

- Individuals have 90 days from settlement of their existing home to make a downsizer contribution.
- The home must be in Australia and have been owned by you or your spouse for a minimum of 10 years and the sale must be exempt or partially exempt from Capital Gains Tax.
- You must not have made a downsizer contribution to your super fund prior.
- You must provide your super fund with a ‘Downsizer Contribution Form’ before or at the time of making the downsizer contribution.

This strategy provides an opportunity to contribute excess capital from the process of downsizing your home into the concessional tax superannuation environment. Additionally, you can convert the contribution to a pension and draw an income to help meet your living expenses. However, there can be impacts on your age pension entitlement or eligibility.

If you are considering downsizing your home, we recommend you give us a call and we can assist you.

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

THANK YOU

During the month of January, which is generally a quiet time in the financial advice world, we took time to reflect on what worked well last year and what we can improve on in 2023.

One aspect that worked well was the continued support from you, our clients, in referring your family and/or friends to our practice. We are always grateful and humbled by the trust and faith you show in us by referring those closet to you to us to receive advice.

For this, we thank you.

Michael Driessen & Malcolm Penglase

INCOME PROTECTION

What's your most valuable asset?

On occasion, we will have a client ask us if they should be a guarantor on a loan to allow their son or daughter to acquire their first home. Whilst this is an individual consideration and there is no blanket rule. One thing is for certain, is that you should have a conversation with your son or daughter about protecting their income and their partners.

There are obviously many different answers to this question. For many people, the immediate answer may be their family home, Superannuation, an investment portfolio, or property. Others list their most "valuable assets" to be less tangible and valued differently such as family, friends, health, and knowledge. Others consider their capacity to earn an income as of greater importance than any other physical or financial asset they will ever own.

Managing your capacity to earn an income can be done through your Super for convenience or for cash flow reasons. However, considered, and appropriate advice should always be sought prior to implementing any income protection strategy as a blend of Life and Total and Permanent Disability Cover, Trauma (Critical Illness) cover may all play a part in this space.

What is Income Protection?

Income protection insurance pays part of your lost income if you're unable to work due to illness or injury. It can help pay the bills so you can focus on getting better.

Indemnity value policy — the amount you're insured for is a percentage of your salary when you make a claim. If your salary has decreased since you bought the policy, you'll get a smaller monthly insurance payment. If your income is variable, your insured amount will be based on average annual earnings over a period of time appropriate for your occupation.

Why is it important? *

You and your family may not be left with a major financial burden if you're without an income due to illness or injury. Benefit payments may be used to assist with mortgage payments, ongoing bills and everyday expenses. This may mean you don't need to rely on family or friends for financial support.

Pros

1. Less Stress - Being able to focus more on yourself may ease your mental state knowing that you can still pay your bills and provide for your family.
2. Covers a Portion of Your Income - No insurer will pay you your entire salary, but you can generally get cover for up to 70% of your income. Generally enough to cover expenses.
3. 'Benefit Periods' - The benefit period is how long the monthly payments will last if you remain unable to work due to your illness or injury. Options from two or five years, or up to a specific age (such as 65) are available in many cases. Shorter benefit periods will reduce premiums.
4. 'Waiting Period' - This is the amount of time you must wait before your payments start. Most policies offer a waiting period between 14 days and two years. You must be unable to work as a result of your illness or injury at the end of the waiting period to be eligible for payments. In general, the longer the waiting period, the lower the premium. Consider sick and annual leave balances, savings and emergency funds.

Cons

1. Pre-existing Medical Condition - Pre-existing medical conditions can affect your premiums.
2. Your Policy May Have Exclusions - may also have specific exclusions of high-risk activities.

How Income Protection is paid

You can generally choose to pay for income protection insurance with either:

1. Stepped premiums — recalculated at each policy renewal, usually increasing each year based on the higher chance of a claim as you age
2. Level premiums — charge a higher premium at the start of the policy, but changes to cost aren't based on your age so increases happen more slowly over time

Your choice of stepped or level premiums has a large impact on how much your premiums will cost now and in the future.

Tax Treatment on Income Protection

According to the Australian Taxation Office (ATO), Income Protection Insurance premiums are generally tax-deductible. The position can vary where cover is purchased as part of superannuation arrangements (for example, through an SMSF, or through an industry or retail super fund). Policies outside of super usually allow a higher amount of cover and have more features and benefits available.

As these benefits replace regular income, the ATO stipulates that any payments received under an Income Protection Insurance policy must be included on your tax return as part of your assessable income.

If you do not have this conversation with your son or daughter, who will?

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

GDA DIVERSIFIED PROPERTY TRUST

	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
*Total Return	16.45%	15.09%	12.23%	16.46%	13.64%	11.59%

HIGHLY COMMENDED
Direct Property
FUND MANAGER OF THE YEAR 2022
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*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.

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ECONOMIC NEWS

Key Points

- Equity markets had a strong month with Australia's S&P/ASX 200 Index returning 6.2%. All sectors of the market finished the month in positive territory led by Consumer Discretionary, Materials and Property.
- Globally, developed markets performed strongly with the S&P 500 Index (USD) returning 6.3% and the FTSE Eurotop 100 Index (EUR) returning 6.6%.
- Likewise, in Asia the Hang Seng Index (HKD) generated a strong return of 10.4% and the CSI 300 Index (CNY) finished up 7.4%.

Australia

The Australian market commenced the year convincingly, with the S&P/ASX 200 Accumulation Index rising by 6.2% and every sector finishing positively apart from the Utilities (-3.0%) sector. In particular, the gain represents the best start to the year since the inception of the Index. The Consumer Discretionary (+9.9%) and Materials (+8.9%) sectors led the market as investor optimism around the future cash rate and inflation trajectory in an Australian and global context buoyed the broader market.

The Utilities sector was the biggest laggard as investors pivoted away from more defensive sectors in favour of more cyclical exposures. The Consumer Discretionary sector performed robustly as companies reported earnings. The Materials sector performed strongly as several commodities continued their recent rally on the back of the China re-opening demand. Further, the volatility in the Australian market was relatively subdued. Broadly speaking, the more 'growth' oriented and interest-rate sensitive sectors exhibited solid performance as investors weighed up the potential for central bank policy rate cuts in Australia and other global economies.

Global equities

Global equities started on a positive note as optimistic views around inflation fed through to possibilities around an ease in central bank tightening. Emerging markets outperformed developed market counterparts returning 3.8% (MSCI Emerging Markets Index (AUD)) versus a 3.0% gain according to the MSCI World Ex Australia Index (AUD).

Investor confidence was elevated during the month as global macro data surprised to the upside combined with China reopening earlier than expected. This was reflected by the Hang Seng Index and the CSI 300 Index, returning 10.4% and 7.4% respectively (in local currency terms) for the month. In the US, over a third of companies have reported, with earnings in aggregate being 0.6% above consensus and the S&P500 Index posting a monthly return of 6.3% (in local currency terms). Over in Germany, the DAX 30 Index reported a gain of 8.7% for the month (in local currency terms) as it continued to benefit from the easing of supply disruptions, a decline in the risk of gas rationing and further fiscal support.

Property

The S&P/ASX 200 A-REIT Accumulation index had a strong start to the calendar year advancing during January, with the index finishing the month 8.1% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also finished strongly, advancing 8.2% for the month. Australian infrastructure performed well during January, with the S&P/ASX Infrastructure Index TR advancing 1.9% for the month.

The positive start to the year is a welcome sight for REIT investors, as the listed property sector suffered a material decline in 2022. 2022 was the worst-performing year for REITs since the global financial crisis. Capital raising is expected to be a prominent theme in Q1 this year with the significant change in debt markets and cost of capital. In the global REITs market, we have already seen eight capital offering instruments in January, raising a total of $4.1bn in capital, in contrast to the $250m raised in December.

The Australian residential property market experienced a –1.1% change month on month in January represented by Core Logic's five capital city aggregate. Brisbane (-1.4%), Sydney (-1.2%), Melbourne (-1.1%) and Adelaide (-0.3%) all performed poorly whilst (0%) stayed relatively neutral.

Fixed Income

With no RBA meeting in January, there has been a pause on rate hikes, with rates expected to rise once again in February. This led to Australian 2- and 10- year Government bond yields falling by 23bps and 50bps, respectively. The fall in bond yields resulted in almost every fixed income sector being in the green, resulting in the Bloomberg AusBond Composite 0+ Yr Index to return 2.7% over the course of the month. Inflation has now risen to 7.8%, over the past 12 months to December, and CPI rose 1.9% this December quarter according to ABS data.

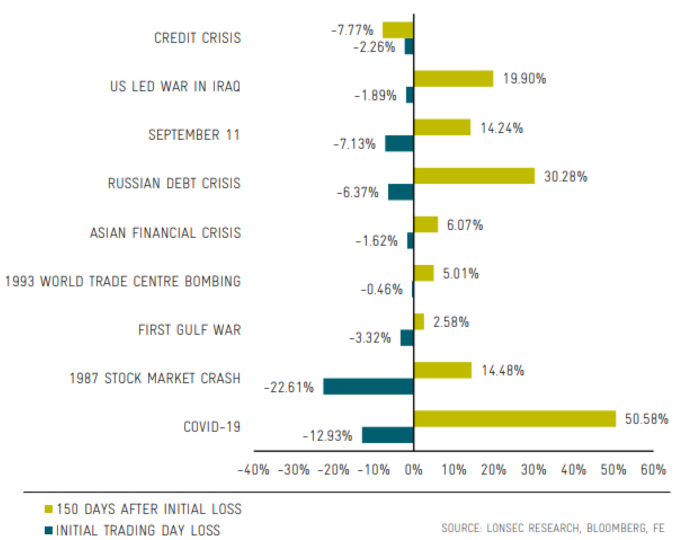
Globally, fixed income markets showed a mixed story, with US markets bracing for another rate hike in the next Federal Reserve Meeting on February 1. US 10-year Bond yields rose 37bps and US 90 Day T-Bill yields rose 30bps. In the United Kingdom, markets also await the return of the BoE meetings in February, with the current January bank rate sitting at 3.50%. Over January, U.K. 2 Year Gilt yields fell 11bps and U.K. 10 Year Gilt yields by 34bps.

OUTLOOK FOR 2023

In 2023 inflation and heightened geopolitical risk are expected to continue to be key focal points. However, the narrative will increasingly focus on the prospect of a recession as the impact of higher interest rates makes its way through the economy, impacting households and demand which in turn will make its way to corporate earnings by Q3 in 2023. At this stage, our base case is not for a deep recession in Australia. However, globally, Europe remains at greater risk of a deep recession as high inflation combined with energy security concerns resulting from the war in Ukraine continue to impact European markets. Central banks appear to be comfortable with the prospect of a recession as long as inflation is controlled. Against this backdrop, we have been gradually neutralising our key active asset allocation exposures away from risk assets in favour of bonds. The year ahead will be challenging with markets likely to range trade. Our dynamic asset allocation has added significant value over recent years as the decision to be long equities and underweight bonds was a relatively simple one. We expect that bottom up manager and stock selection will be a greater contributor to returns in 2023 as we continue to see increases dispersion in returns within asset classes as market volatility remains.

SOURCE: LONSEC INVESTMENT

Dow Jones Industrials Index Performance Following a Crisis



The chart highlights some of the major financial and political crises over the past 20 years. The chart shows the initial impact these events have had on the performance of the US equity market (measured by the Dow Jones Industrial index) and how the index has performed over the subsequent 150 trading days following the event. In most cases, the market tends to rebound following a major economic or political crisis.
While Lonsec is not recommending market timing, the chart highlights the point that major crises, in general, have a short-term impact on markets.