Cuffelinks
Connecting investors with ideas

Edition 87, 7 November 2014

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Robert Merton on retirement incomes and Jane Austen

Graham Hand

Nobel laureate Robert Merton is on a global crusade. At the moment, he's travelling in Asia and Australia for the best part of a month, and after returning briefly to the United States, he'll make his fifth trip for the year to Beijing. Around the world, governments and businesses want to talk about pensions and retirement income. In Australia, he's arguing for a change in our superannuation thinking and culture. Although he recently turned 70 and was awarded the Nobel Prize for Economic Sciences in 1997, he still has boundless enthusiasm to make his case forcefully.

He's almost indignant when he describes our fixation with accumulating a pot of money for retirement, rather than focussing on the income outcome. He likes nothing better than a platform to launch a tirade against reporting member fund balances and future values, and to quote Elwood from The Blues Brothers movie, it's like he's on a 'mission from God'.

"The pile of money is the wrong measure," he says. "When someone wants to know how much a government pension is worth, they don't ask for the present value. They want to know the cash flow, the regular income. ExxonMobil tells you how much your pension is for life, not a lump sum. Even Jane Austen understood this. To show how wealthy Mr Darcy was (in Pride and Prejudice), she writes that he has an income of 10,000 pounds a year. She does not refer to his assets. Standard of living is a cash flow issue. Talking about the pot is the abnormal thing."

Merton believes this is far more than semantics. If you measure the wrong number, then you manage the wrong number. If a good standard of living in retirement is defined by a stream of income, it is unacceptable to expose a portfolio to market volatility that can upset that expected income. Ideally, a good retirement amount should sustain the lifestyle enjoyed during the working life. It might have been acceptable to have $1 million invested in a term deposit at 5%, earning $50,000, but now in the United States, such deposits earn maybe 0.1%. The same client cannot live on only $1,000 a year. So having

the $1 million pot was the wrong goal. And he adds, "If you think you don't need as much in retirement as when you're working, you're wrong."

Merton is in Australia seeing institutional clients of Dimensional Fund Advisors, focussing on changing the conversation about retirement incomes. He's confident better solutions can be found.

"Retirement is a global challenge, but it's an engineering problem not a science problem. It's not like coal fusion, where we don't know whether the science can solve our energy needs. The good news is it's addressable. The retirement challenge is due to demographics, the ageing of the population, plus people are living longer. That's not a problem, it's a good thing. It's wonderful, but you have to do something about it."

He gives a simple example. In the past, you worked for 40 years and lived for a further 10 years after retirement. So you needed to pay for 50 years of consumption with 40 years of work. If you want the same standard of living throughout, then you must save 20% each year and consume 80%. It's simple mathematics (40 years at 20% gives 80% for the last 10 years).

What happens if you live another 10 years? You now have 40 years to save for 60 years of living, so you need to save 33% of your income and consume only 67% in your working years (40 years at 33% gives 67% for 20 years). Which means living longer requires a drop in your lifestyle from 80% of income to 67%.

This creates a problem. He says, "Most people are not interested in reducing their standard of living simply because they are living longer. Somehow, they want to maintain their standard of living by consuming more and then live longer, so what's the magic answer? Earn a higher rate of interest. That is easy because it means you do not need to do anything. But this is misleading and not feasible. What about the extra risk?"

He says that at this stage in the discussion, people often tell him that over the long term, the sharemarket will deliver the required returns to solve the dilemma. He points out that the market often goes a long time producing poor returns, citing a wealthy, politically stable country like Japan where the Nikkei index peaked at 39,000 some 25 years ago, and is now at 17,000. Any solution needs to take responsibility for the advice if it does not work, and he adds: "Embedded in most solutions to the longevity problem is additional risk, as if that solves the problem."

How do we 'move the needle' on the problem, other than working longer? There are only three possible sources of income for retirement: one is the government, and funding problems make this an unlikely source; two is employer savings plans, but 'defined benefit' schemes are no longer available; and three is personal savings. And where is the vast amount of wealth tied up for the majority of people, the millions of Australians heading for retirement without enough money? The only place is the family home.

So Merton offers a surprising retirement income solution: reverse mortgages. He argues it is the only feasible major solution in most countries. The world has changed from where the family lived on a farm and the house needed to be passed to the next generation to maintain the business. It is rare that a family home is a treasure that must be preserved for future generations. Children are unlikely to move back to the family home. In retirement, it's a financial asset.

Merton believes showing people how to use the family home to supplement income is an important part of a retirement plan. This may come as a surprise to an Australian audience, as reverse mortgages are not popular, with only about 40,000 in existence and many former providers stepping back from the market (both ANZ Bank and Bank of Queensland recently cancelled their products). Perhaps it's a cultural issue, where we like to pass the full estate to our children, or the risk that comes from variable rate mortgages, where the debt can build quickly if rates rise.

To which Merton simply waved away the criticism. He said it's like listening to a song and not understanding the lyrics at first. After you listen carefully, at the twentieth time of hearing, you're singing along. At the moment, in Australia on reverse mortgages, we're just hearing the melody, but eventually, we'll also understand the lyrics. Like in The Blues Brothers movie.

Graham Hand met Robert Merton at a lunch organised by the Australian School of Business's Institute of Global Finance, based in the University of NSW, and supported by PwC and Finsia.

Retirement communities in many shapes and sizes

Rachel Lane

Last month, we looked at granny flat rights and examined the different legal and financial arrangements that people enter into when the need for aged care arises. This article examines retirement communities – retirement villages (RVs) and demountable home parks (DHPs).

Demountable home parks (also known as manufactured home parks)

DHPs are generally classified into two groups: those that originated from caravan parks for tourist accommodation and also offer permanent sites (often in a distinct area) and those that are purpose-built villages or communities marketed to retirees. While they operate under Caravan Park and Demountable Home Park legislation, they are often called things like 'Over 55's Community', 'Retirement Resort' or 'Lifestyle Village'.

DHPs built for the retiree market have the look and feel of a bricks and mortar retirement village with communal facilities such as swimming pools, bowling greens, tennis courts etc. They normally have bigger units, with the majority being two- or three-bedroom units and very few single-bedroom units. The units themselves can be hard to pick as demountable, particularly when there is a garden surrounding them and they come with all the 'mod cons'.

The key difference between a DHP and a RV is that the loan, licence or lease arrangement is over the land, not the building. This poses a unique set of circumstances for people living in these communities making residents both a homeowner and a tenant at the same time. Traditionally, there have been no entry or exit fees, however, some of the new communities do charge an exit fee.

Commonwealth rent assistance and DHPs

Due to the nature of ownership within a DHP, i.e. you own the home but rent the land (often called 'site fees'), rent assistance is often payable to residents of these communities who are pensioners.

Here's how the rent assistance is calculated:

Firstly, the rent (site fees) must be above the minimum threshold for rent assistance to be payable. The minimum thresholds are: $113.20 per fortnight for singles and $184.20 for couples (different thresholds apply to couples separated due to illness or share arrangements). Rent assistance is paid at 75% of the rent above this threshold, up to the maximum of $127.60 per fortnight for singles and $120 for couples.

For example, Shirley is a full age pensioner living in an Over 55's Community. She pays site fees of $120 per week to the community manager. Her rent assistance will be calculated as:

Rent paid $240 per fortnight (pfn)
minus threshold $113.20 pfn
excess $126.80
x 75% = $95.10

Shirley's rent assistance would be $95.10 pfn. For Shirley to receive the maximum rent assistance of $127.60 pfn her rent would need to be at least $283 pfn.

One of the main concerns for residents of DHPs is increases in site fees (rent). The leases offered vary from one to the next and one resident to another. While the lease will indicate the rate at which the rent will be increased during the period of the lease (e.g. CPI) for those with shorter leases their expiry can bring uncertainty about the affordability of the new lease.

Retirement villages

RVs operate under the relevant state or territory legislation which typically sets a minimum age of 55. This legislation generally provides a definition of what is and isn't considered to be an RV, sets out what legal documents (including disclosures) are required to be provided to residents by the village operator, regulates some (not all) financial arrangements and provides framework for the resolution of disputes.

There are many different forms of ownership with RVs, including freehold or strata title, company title, leasehold, licence and some operate under a rental model. The most common ownership model is a 99-year (or lifetime) leasehold or licence.

The costs associated with living in a RV can be summarised as: the entry cost, the ongoing cost and the exit cost.

1. Entry cost – This is the price paid to gain possession of the unit. This will be either the purchase price if it is strata or company title, or the amount of the interest-free loan you make to the developer if it is a lease or licence arrangement. The amount you pay determines if Centrelink or the Department of Veteran Affairs consider you to be a homeowner, whether the amount is an assessable asset and your entitlement to rent assistance. Consideration also needs to be given to the impact on pension entitlement itself.

2. Service charges – Irrespective of the method of title held, residents are responsible for the ongoing costs of the village. These include insurance, water rates, general lighting, staff wages, and repairs and maintenance. Of course residents are also responsible for the internal maintenance of their unit, their own utilities and insurance of their personal effects.

Many villages also require outgoing residents to pay the cost of refurbishment of the unit and this will be part of the calculation of the departure fee.

3. Deferred management fee (DMF) – This is the cost that causes the most confusion. There are a number of different ways in which the DMF can be calculated, and in some cases the retirement village operator will give a choice of models. In looking at the models it is important to understand if the DMF will be calculated using the purchase price or the sale price and whether it will be before or after any capital gain sharing.

Availability of care services

The amount of care that can be provided in an RV or DHP will vary from one to another. Traditional retirement communities focus on the lifestyle and activities and want to attract residents that are sociable and physically active. These communities may require that you leave if your health deteriorates as too many people unable to participate or remaining in their units can have a detrimental effect on the experience of the other residents as well as the ability to sell units to new residents. In some circumstances the manager will allow you to have care provided to you in your unit. The manager may organise this for you or leave it up to you to arrange, just as you would in your own home.

At the other end of the scale there are retirement communities that are purpose-built to deliver care. Where it is a condition of entry that you require care the manager will generally assess your needs prior to you moving in to ensure that they can provide the services you need. They will generally co-ordinate the package of services for you and provide you with a price table to help you understand what the cost will be now and what you can expect if your care needs increase. In many cases the care being provided will be through a government-funded care package with the delivery of 'top up' services by staff or through private contractors.

Living in a retirement community can provide the company of like-minded people while having access to care and other services that maintain independence. Understanding the legal and financial aspects as well as the ability to have access to care if needed is vitally important.

©Aged Care Who Cares?

Rachel Lane is the Principal of Aged Care Gurus and oversees a national network of financial advisers dedicated to providing quality advice to older Australians and their families. Read more about retirement villages and demountable home parks in the book "Aged Care, Who Cares; Where, How and How Much" by Rachel Lane and Noel Whittaker. This article is for general educational purposes and does not address anyone's specific needs.

Keeping track of 'superannuation interests' is critical

Graeme Colley

A 'superannuation interest' is unique to SMSFs and some government superannuation funds. Keeping track of each superannuation interest may be a nightmare for some accountants, financial planners and DIY clients, but failure to do the right thing may lead to catastrophe for the client or their dependants.

A superannuation interest is a concept invented for purposes of the income tax legislation as it identifies solely the taxation components of a member's accumulation and pension benefits, and is relevant to how tax may be paid, including by dependants. The general rule in an SMSF is that a member has one only superannuation interest.

However, the exception to the general rule is that each pension account of a member has its own superannuation interest. It is therefore possible for a member to have superannuation interests supporting amounts in accumulation phase and a number of other superannuation interests, each supporting its own pension interest. This article is a summary, with more information available on the ATO website or my longer article.

Let's start considering superannuation interests and look at a simple example, then move to more complex situations, particularly those where a surviving member may be in receipt of a death benefit pension.

Superannuation interest – one account only

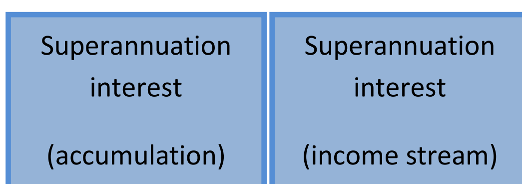
Let's assume Almira has an account in an SMSF and been contributing from her after tax savings for many years. In addition, her partner, Arthur, has made spouse contributions for her and she has also received the co-contribution on a number of occasions, both of these totalling $140,000. The value of Almira's benefit in the SMSF is $350,000. Therefore the value of Almira's tax free component is $140,000 and the value of her taxable component is $210,000 ($350,000 - $140,000).

Superannuation interest

(accumulation)

40% of her superannuation interest ($140k/$350k) consists of the tax free component and the remaining 60% consists of a taxable component. If she were to draw part of her superannuation interest as a lump sum the tax free and taxable components would be split into the 40%/60% proportions. If Almira's superannuation interest was used to commence a superannuation income stream, the taxable and tax free amounts of each income stream payment and any lump sum commuted from it would consist of the same proportions that were calculated at the time the income stream commenced.

Superannuation interest – two accounts



A member may have more than one superannuation interest with some of their super and commence a superannuation income stream with some of the accumulation balance. The amount remaining in the

accumulation interest will be one superannuation interest and the amount that provides the superannuation income stream will be another.

As an example, let's assume Bjoern's superannuation interest in accumulation phase had a balance of $500,000 and included a tax free component of $100,000. If he commenced an account based income stream with $400,000, the proportioning rule would be used prior to the commencement of the income stream to work out the tax free and taxable components. Prior to transferring the amount from the accumulation account to the income stream account the proportion would be $100,000/$500,000 consisting of a 20% tax free component and an 80% taxable component.

Once the income stream commences the proportions stay with the income stream balance until it ceases. Therefore any amount received as an income stream or any lump sum received from the part or full commutation of the income stream will include the tax free and taxable components as determined when the income stream commenced.

In cases where the income stream has commenced solely from a tax free component it will always be tax free including income that is accumulated on the tax free amount.

Superannuation interest – three accounts

Superannuation Interest 1 Accumulation	Superannuation Interest 2 Account based pension	Superannuation Interest 3 Account based pension

There is no limit to the number of superannuation interests a member may have in an SMSF. However, the use of multiple accounts needs to take into account the purpose for which each superannuation interest is maintained and the costs associated with their administration.

The calculation of the tax free and taxable components in the case of multiple superannuation interests is no different to the examples above where two accounts were involved. The only exception is that there are a greater number of superannuation interests for which information must be maintained.

Death benefit pensions

Superannuation interest (accumulation)	Superannuation interest Account based income stream	Superannuation pension interest Death benefit income stream

On the death of a member a pension may commence or continue as a reversionary pension to a surviving dependant. A separate account must be established in the name of the survivor who will now be a member of the fund and is required to be appointed as a trustee or a director of the corporate trustee of the SMSF if they are not already at the time of death.

The reason to keep the death benefit superannuation pension interest separate is to ensure the tax free and taxable components of the deceased are retained. In addition, it is not possible to 'mix' the balance of any death benefit pension with other superannuation interests, even other death benefit pension interests as it results in the commutation of a death benefit which must be paid from the fund as a lump sum.

There is only one exception to the requirement that death benefits must be paid from the fund and are able to be retained in the fund or rolled over. This occurs in the case of a pension which was being paid to the deceased at the date of death and became payable to surviving spouse. In these cases the spouse

is able to commute the pension and roll it over to another fund or to another superannuation interest after the death benefit period has been satisfied.

Conclusion

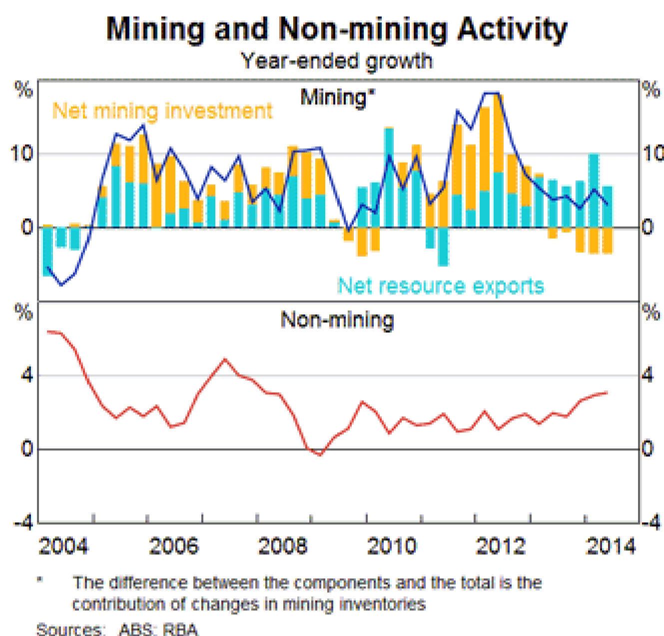
Taking an interest in the 'superannuation interest' is an essential part of managing an SMSF. By not taking an interest in the 'interest' a client and possibly their dependants could be exposed to paying more tax than they are required to. As the late Kerry Packer once famously said, "Pay your taxes, just don't tip them. They're not doing that good a job."

Graeme Colley is Director Technical and Professional Standards at the Self Managed Super Funds Professionals Association of Australia (SPAA). Keeping track of super interests unabridged.

I will survive! Investing amid structural change

David Bassanese

Australia's economy has fared better than most post-GFC, buoyed primarily by the tail end of the resource boom, solid population growth and a strong financial sector. That said, with the resource boom maturing and the workforce ageing, the Australian economy has slowed – and is likely to grow at a slower pace in coming years than we've grown accustomed to. Investors must deal with the challenges of 'picking winners' in the new environment.



At first glance these changes could be taken as a negative for investors in the Australian share market. But the reality is that our economy has long had to cope with structural change, which has not stopped quality Australian companies from generating profits and wealth for investors over the long term.

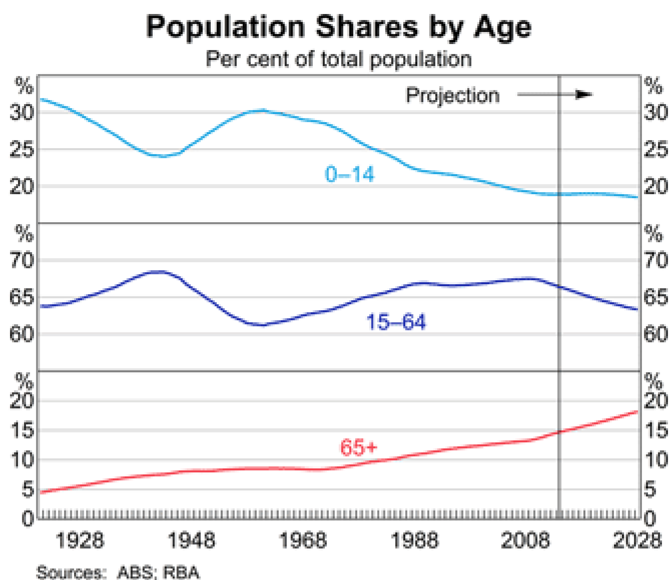
Structural change and the economy

Most investors are familiar with Australia's recent commodity export price boom, and the associated strong lift in mining investment. During this period, national income and employment grew at a healthy pace.

Of course, a by-product has been relatively high interest rates by global standards and a strongly rising Australian dollar, which have been harmful for many Australian sectors not exposed to the resource

sector. In effect, interest rates and the $A worked to 'squeeze' other sectors of the economy to make room for a rapidly expanding resource sector without threatening a break-out in wages and prices.

Population ageing has also contributed to a fall in labour force participation, which has meant somewhat slower growth in the work force relative to the overall population.



With commodity prices now in retreat, and a falling share of the population of working age, the Australian economy faces slower growth in national income. Indeed, Senior Treasury official Dr David Gruen recently noted gross national income per person grew at an annual rate of 2.3% over the past 13 years but may rise annually by only 0.9% over the next decade.

Reserve Bank Deputy Governor Philip Lowe extrapolates that data to suggest: "we will need to adjust to some combination of slower growth in real wages, slower growth in profits, smaller gains in asset prices and slower growth in government revenues and services."

The economy's next phase

The good news, however, is that slower income growth does not necessarily mean falling share prices or lower dividends. For starters, although growth in national income 'per person' may be slowing, overall growth in national income should remain well supported by continued solid population growth.

And growth in domestic *production* should be faster still, due to strong gains in resource export volumes – particularly iron ore and LNG – following the heavy investment in new capacity in recent years. Low interest rates and the weaker $A are also helping the economy unleash activity in sectors once held back by the mining boom, such as housing and non-mining trade exposed sectors like tourism and international education.

Of course, as the baby boomer generation moves into retirement, growth patterns will change. Far-sighted management should identify and respond to these changes – witness the massive investment by our major banks into wealth management businesses, to replace lost mortgage income with the fees earned by managing retirement funds.

More generally, the predicted changes in the economy should be gradual enough for many existing firms to respond in a timely manner to the new challenges and opportunities as they arise. And those that don't are likely to be usurped by nimble new starters which, if successful, are also likely to stake their place among Australian listed companies.

Apart from changing or amending corporate strategy (which the best companies already do), astute management can also modify their financial management to maintain or boost dividends. Capital management programs can help support share prices and grow dividends, at least in the near to medium term.

In short, thanks to earlier pro-competitive reforms such as deregulation of labour and product markets and the floating of the $A, the Australian economy has demonstrated remarkable resilience and flexibility. It avoided recession over the past 20 years despite the dotcom crash, Asian financial crisis, and the most recent US sub-prime induced global financial crisis.

Picking winners will not be easy

We should not underestimate the ability of corporate Australia to rise to the next set of challenges they face. That said, picking tomorrow's corporate winners and losers via purchasing individual shares will not be easy. In this regard, investors should note an often little-appreciated benefit of index-based investing such as through exchange traded funds – survivorship bias. The indexing process automatically cuts exposure to poorly-performing companies over time, while re-weighting to new and more strongly-performing competitors – something you don't get when buying individual stocks.

The structural changes will also give rise to major macro themes relating to technology, climate change, the emerging Asian middle-class, demographics, an ageing population, and energy and natural resource usage. Exchange traded funds can not only target the overall macro themes through diversified portfolios, but also specific sectors within an index. It is a faster-changing, more complex and harder to anticipate investment world. There are many reasons for optimism about the future of Australian companies but some of the star performers of today will struggle to adapt to the inevitable changes.

David Bassanese is the Chief Economist at BetaShares Capital, a leading manager of exchange traded funds. This article is for general information purposes and does not constitute personal financial advice.

Bank capital in a post-FSI world

David Buckland

The Financial Services Inquiry (FSI), chaired by David Murray, is scheduled to release its final report in November 2014. From a bank capital perspective, there are two main issues:

- mortgage risk-weightings, and
- domestically systemically important banks (D-SIB) capital for banks that are 'too big to fail'.

Mortgage risk-weightings

The FSI has shone a light on the stark differences between the risk-weightings the big four banks apply to mortgages vis-à-vis their smaller regional competitors. The advantage arises because major banks use sophisticated internal risk models with lower capital assumptions than the smaller banks which use standardised models. As David Murray observed in his 15 July 2014 speech: "*Smaller banks face some regulatory disadvantages that reduce their competitiveness, especially higher risk weights for mortgages. The report identifies a range of options to promote competitive neutrality.*"

In its most recent submission to the FSI, APRA noted the distortion that these differences in risk-weightings created. Essentially, mortgage lending has been significantly more profitable for the major banks than other forms of lending.

On the notion of potentially reducing the risk-weightings for mortgages written by regional banks adopting the standardised approach, APRA went on to say: "*There is no compelling reason to adopt policy changes that are weaker than the internationally agreed Basel framework in an attempt to address competitive concerns … Furthermore, it is undesirable to make changes to the prudential framework that would provide further incentives for residential mortgage finance over other forms of credit.*"

Other financial commentators have supported the argument for increasing mortgage risk-weightings. In fact, Christopher Joye wrote in The *Australian Financial Review* in July 2014: "*Investors in major bank*

stocks priced on current leverage and returns would arguably suffer if these reforms were implemented, but depositors and bond-holders would be better off, given lower risks of default."

Too big to fail

The second issue relates to bank capital and moral hazard. Under the current regulations, APRA requires the major four banks to hold an incremental 1% in Common Equity Tier 1 CET1) capital (sometimes known as D-SIB capital) to reflect the implicit government guarantee the banks enjoy.

There is a view that David Murray may seek to shore up the Australian banking system once and for all by requiring an additional 1% to 2% in D-SIB capital. This would force all major banks to issue equity.

According to David Murray: "*The [FSI Interim] report suggests that there may be a case for Government and regulators to do more to reduce resultant disruption and the size of the potential call on taxpayers. Options for change include higher regulatory capital requirements to further reduce the risk of failure … For this reason the committee has asked for views on the pros and cons of higher capital ratios – to reduce taxpayer exposure to failure."*

Such increased capital requirements would be dilutive, but it is the least dilutive when valuations are stretched. From this perspective, now would be an opportune time for regulators to affect such an increase in D-SIB capital requirements.

Potential implications of the FSI

The implications of these potential changes to the capital requirements of the major banks will fall into one of the following four scenarios:

1. no change to any capital rules from the FSI
2. increase in the risk-weights for mortgages
3. increase in D-SIB capital for the major banks
4. both an increase in risk-weights for mortgages and an increase in D-SIB capital for the majors.

Montgomery believes that if the major Australian banks are required to adhere to the fourth scenario, for example, within a five-year time frame, this should not cause too much short-term discomfort for the sector.

David Buckland is the Chief Executive Officer of Montgomery Investment Management. This article is for general information purposes and does not constitute personal financial advice.

Making your SMSF business a saleable practice

Andrew Bloore

With the advent of new licencing rules and the focus on the rapid growth of SMSF's, many accounting and planning firms are considering what their involvement should be in the SMSF space. Making your business more efficient and perhaps saleable does not necessarily mean you want to, or will, sell it. The area is rapidly changing and staying still and doing nothing may be detrimental to the business value.

Where are you in the value chain?

Before starting to make changes, the first step is to consider where in the SMSF value chain you are, and where you want to be. To me there are three core parts of the value chain for SMSF businesses (ignoring the investing and funds management components):

1. Advice (financial, tax and structural) and information

Do you want your business to offer advice and if so to what extent and what type, who will be your clients and what will they pay for it?

2. Administrative process

This is not tax work, it is the process of keeping details on all transactions as they occur, managing the paperwork, producing minutes, monitoring investment strategies, receiving pension payment contributions as well as receipt of income that is due to the fund etc etc. This includes assisting the trustees with adhering to the SIS Act regulations and rules, and ensuring deeds are updated and the fund complies.

3. Taxation and trustee services

This is the standard BAS and tax work and other ancillary services necessary for the ATO lodgement requirements, plus trustee responsibilities including compliance.

Obviously there are significantly more items in each of these areas, but the key issue is to decide where you want to be in the chain and be true to it and build the practice solution around it. Not being true to it is the biggest mistake that affects the profit of your business.

Understand what 'best practice' is and make that your goal, even if you wish to be in the entire value chain. Determine what works for your business and ask how you will profit from the chosen position. Then build the practices, processes and people around the solution you want, not the other way around.

Let your clients know. If you are a trustee, you should ask your provider what they specialise in and what they don't. Presumption often leads to disappointment.

Some simple steps to take

There are some actions to consider to position the business appropriately:

- identify the part or parts of the value chain you want to be in
- write a divisional plan for all sections of your business
- determine what success means
- work out your marketing plan
- decide what a 'client' is and how many you need
- determine how you are going to sell and then deliver the service to clients
- work out the billing process and the collection of revenues
- calculate the profit you are targeting
- report against all of the above regularly.

Is it better to outsource or even sell?

Once you have determined what you are involved in, you should ensure you have referral or outsource partners to deliver the areas you are not involved in. Even if you are not the supplier, every part of the value chain is important to the SMSF trustee.

Outsourcing is not a dirty word. If you want to be in a part of the value chain but do not want to build the internal capability then many firms will white label their service for you. Outsourcing should be an arrangement where the firm delivers to you what you need to deliver to your clients – not the other way around. If an outsourcing arrangements means you end up doing all their work, then you did not get the framework right when contracting the outsourcer. It should be your service, not theirs, so set the parameters to ensure that your business is not burdened by outsourcing.

If you do want to sell your business or a part of your business, put yourself in the shoes of an acquirer and relook at it. Acquirers will pay the most for quality, organised, value chain-orientated businesses. Selling does not necessarily mean you want to get out of this area of business. It may just mean the part of the value chain that you prefer not to do can be sold which frees up cash for other things.

Take a good look at your business and be objective about the skills of your people and what drives you and them. Focussing on the things you don't do well often means you are taking time away from the things you do do well. Better to concentrate your energies on what you are best at.

Andrew Bloore is Chief Executive Officer at SuperIQ, a leading SMSF administration provider. This article is for general information purposes and does not constitute personal financial advice.

Fund Performance Snapshot

BT Australian Share Wholesale Fund

How to understand the report

The Sector Exposure shows the weighting of the portfolio to particular industry sectors.

The Performance Breakdown (Sector Based) separates the Total Annualised Return over five years of 6.66% pa into Style (6.43% pa) and Stock Selection (0.23% pa). The Stock Selection component is the excess return of the Fund over the Style.

The Excess Performance Breakdown (Sector Based) of 0.09% pa is the amount the Fund outperformed the ASX300 index, divided into Timing of -0.01% pa and Excess Selection of 0.10% pa. The Excess Selection is the Selection component of the difference between the Fund and the benchmark.

The Style Analysis section does the same calculations based on Style (eg growth or value) rather than Sector.

For a more comprehensive explanation with worked examples provided by TTA and MPI, see the Fund Performance Snapshot section of our Education Centre (on the Cuffelinks main menu). All quoted returns are per annum.

Fund reports and data for the Performance Snapshot provided exclusively to Cuffelinks by:

BT Aus Share Wholesale

Performance Snapshot

As of September 30th, 2014

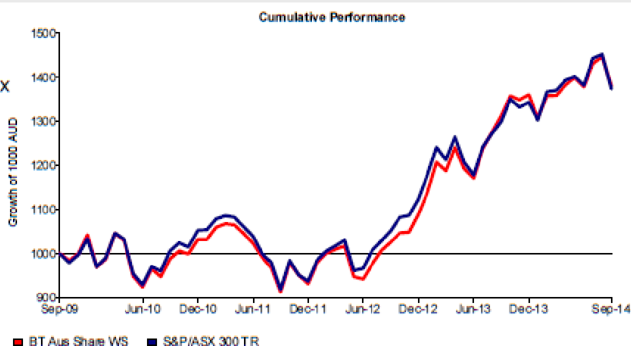
Performance Summary

- Fund has outperformed the Australian stock market as a whole over the last five years.

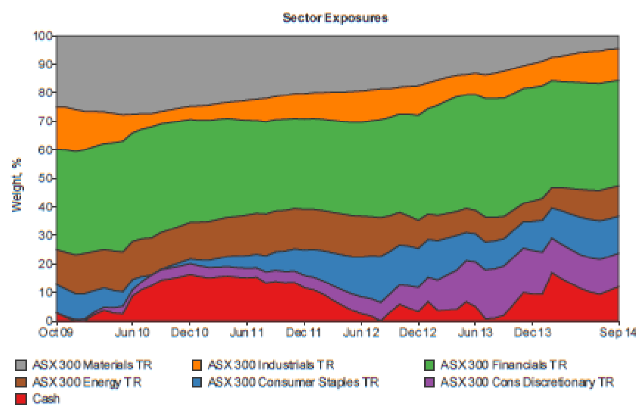
- Sector attribution shows that the fund behaves as if it is a mix of six sectors; Industrials, Financials, Materials, Consumer Discretionary, Consumer Staples, and Energy.

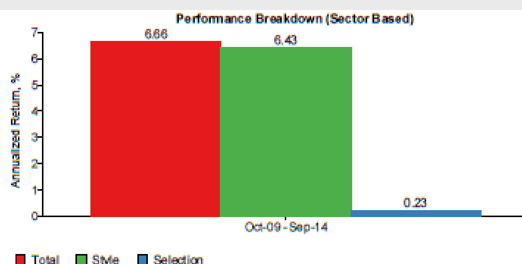
- Analyzing the fund's excess performance based on sector exposures, we see that the fund has outperformed due to selection, but underperformed based on allocation.

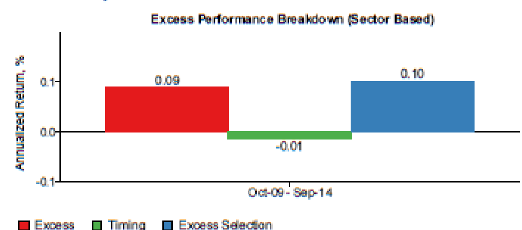
-Style Analysis shows that the fund is tilted more towards growth.



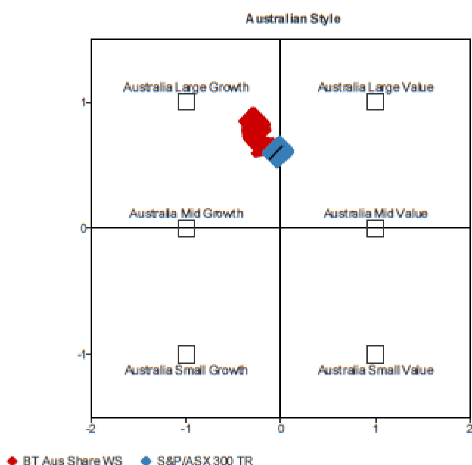
Sector Analysis

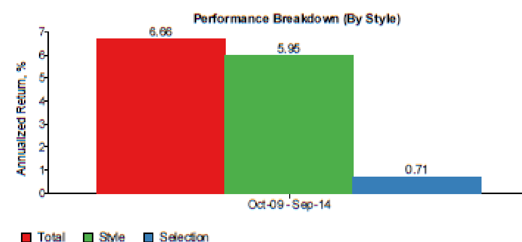


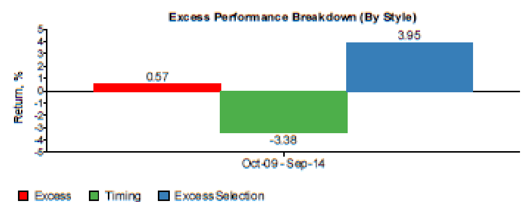




Style Analysis







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