Cuffelinks
Connecting investors with ideas

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This Week's Top Articles

Implications of low interest rates for infrastructure investors

Alexander Austin

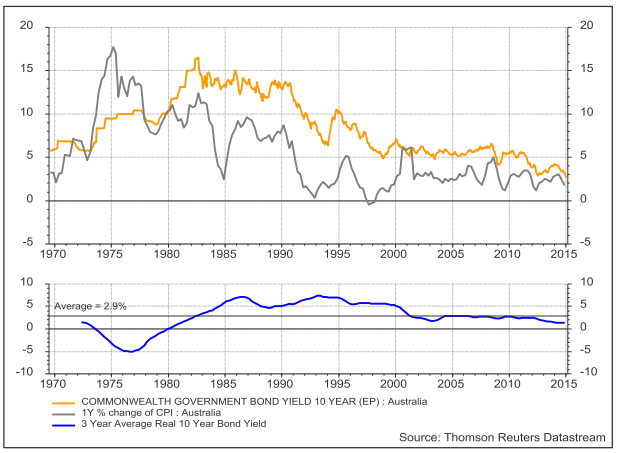
Infrastructure is often seen as an alternative to low risk defensive assets like cash and government fixed income in investors' portfolios. In discussions with infrastructure investors over the past few months, one recurring discussion topic has been the extremely low level of base or risk free interest rates.

Why does it matter?

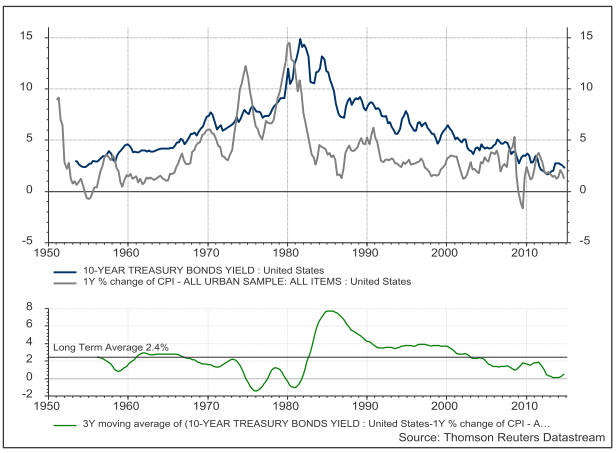
Part of the attraction of infrastructure at the moment and the record high prices of recent Australian core infrastructure transactions (and the gnashing of teeth amongst infrastructure investors at the cancellation of the former Newman Government asset sales programme) is that returns to traditional low risk sources of yield are so low.

The chart below shows the long term history of Australian 10 year government bond rates. Current yields of 2.5% are the lowest in the history I have been able to access (since 1969). This implies a zero real return (assuming inflation keeps within the 2-3% target band set by the RBA) before tax and fees. Post tax returns for superannuation investors will be negative, an unappetising prospect.

Australia



United States



But will such low real base rates persist or go even lower, and how should portfolios be managed in light of low interest rates?

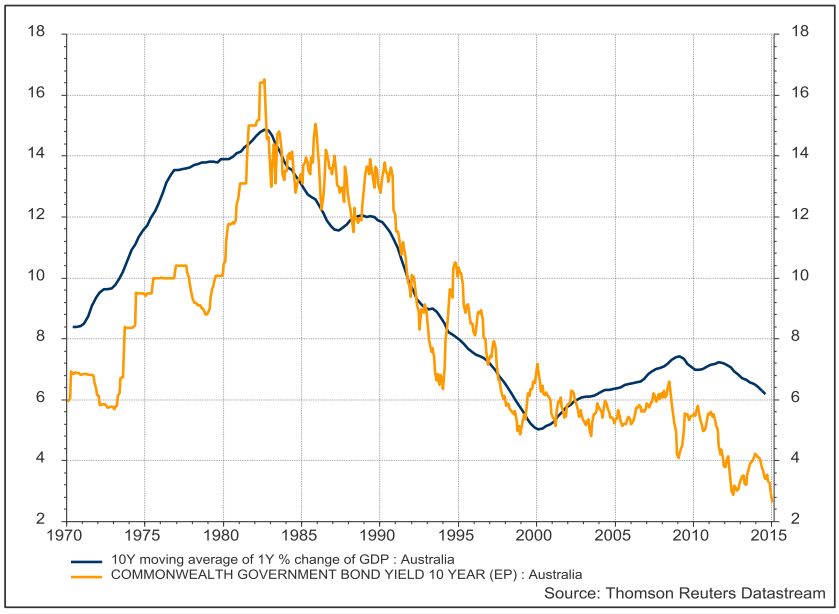
A long term outlook for interest rates

I am not going to make any short term forecast on bond rates. Current forward interest rate markets are probably as good a guess as anyone's on what might happen in the short term. And in any case, most infrastructure investors are considering investments that last decades and so decisions don't turn on the short term path for rates.

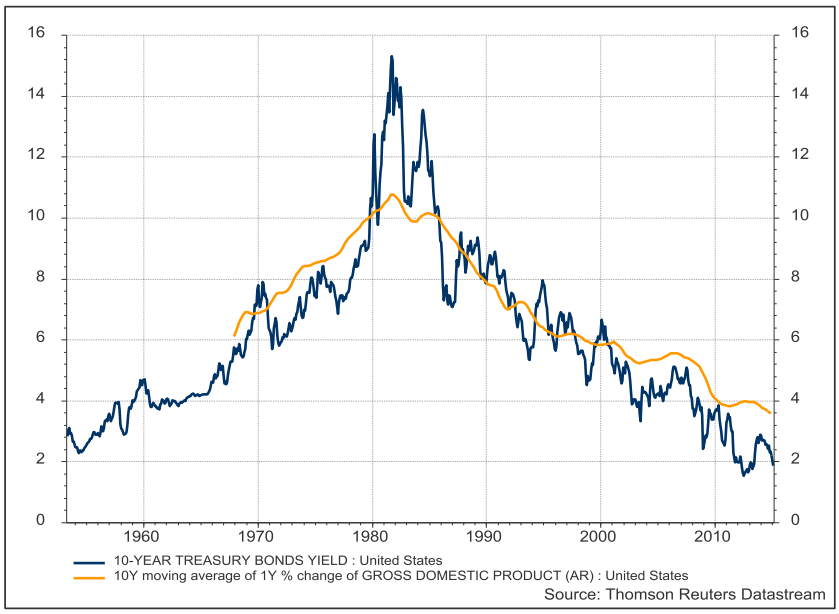
The more interesting question is the longer term – what do we think interest rates will do over the next 10 or 20 years? Are the rates a structural shift (and the high real rates enjoyed by investors over the past 20-30 years are actually unusual) or should we expect, once the short term impact of recovering from the GFC and QE work their way out of the system, that markets will return to 'normal'?

Economic theory suggests that in the long term, growth in the economy should match nominal bond rates. The charts below illustrate these relationships for both Australia and the United States (note the different time scales).

Australian 10 Year Bond Rates versus Nominal GDP Growth

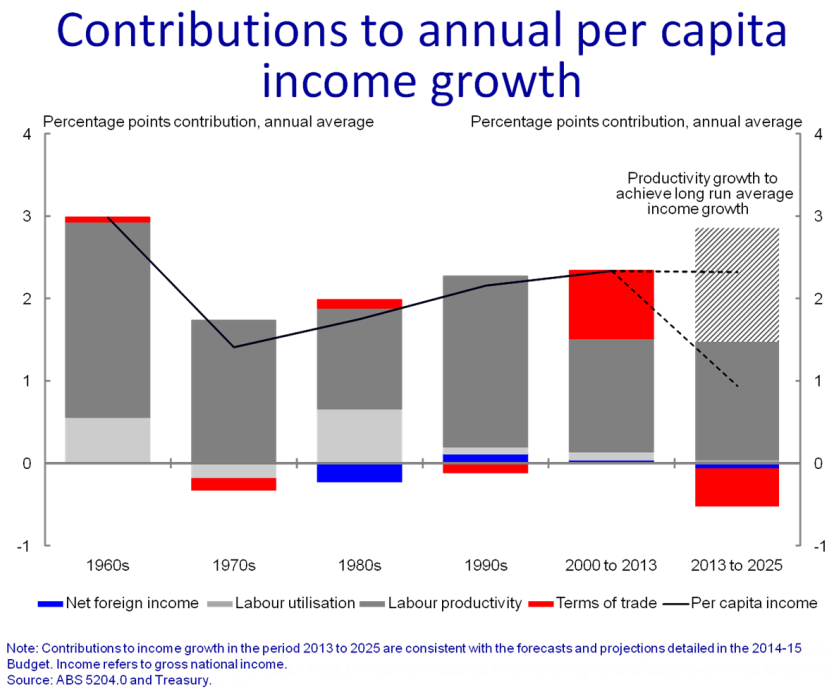


United States 10 Year Bond Rates versus Nominal GDP Growth



These charts show the relationship works pretty well – albeit recently both countries have had significantly lower bond rates than nominal GDP growth. In Australia, nominal GDP growth has been running at over 6% for the past decade, which is basically a mining boom/terms of trade story.

If you accept this relationship, future real GDP growth in Australia is likely to be significantly lower than over the past couple of decades. Australia won't benefit from another mining boom. Population growth will be slower. There won't be the same benefit from increased female participation in the workforce. The following chart, extracted from a speech by Martin Parkinson last year, gives an interesting decomposition of these effects.



My view is that real GDP growth will be weaker, in the 2%-3% range, rather than the 3%-4% which has been 'normal' for Australia over the past few decades. A key risk to this is productivity growth which could easily disappoint.

Adding to this is inflation, which will probably track at 2-3% with a continued reversal of the mining boom terms of trade effect. This suggests a 4%-5% nominal GDP growth rate and by implication bond rate. This would be a real bond rate in the 2%-3% range, significantly higher than rates today.

In the US both growth (probably 1.5%-2.5% real) and inflation (1-2%) will be lower suggesting a lower US 10 year bond rate in the 2%-3% range. And this isn't that controversial – US bond markets currently have a forward interest rate of around 2.5% from about 2020 onwards. It just takes a while to get there from current zero rates!

It is in Australia where the gap between market views (which has cash rates getting back up to 3% in 2021 and basically tracking in the low 3% range from there) and the outlook for nominal GDP is most stark. To reconcile the two would require either much weaker expectations of economic growth or inflation.

The one factor, which is important, but doesn't figure in a nominal GDP growth based analysis is the high level of debt across the world at present. Debt, except when invested in productive capacity, is future consumption brought forward. The current debt overhang will be a drag on growth for a substantial period ahead. This, directly or indirectly, will be a cap on sharp rises in interest rates as many parts of the world cannot afford higher interest rates. All this suggests to me that the path for rates might be somewhat lower than a raw analysis of nominal GDP growth would suggest.

What does that mean for infrastructure investors?

Infrastructure is a long duration asset. A material share of the strong performance of infrastructure over the last decade is attributable to declining bond rates. If rates rise over the medium term, then necessarily this will be a drag on the future performance of infrastructure assets from today's valuations. An exception to this is floating rate infrastructure debt.

Look under the hood. Interest rates have direct and indirect impacts on infrastructure valuations. Much of the focus has been on target equity returns and multiples. However, it is important to recognise that base rates have material impacts through the cash flow impact of debt costs.

While many investors talk of their 'discipline' in not reducing target equity returns in light of lower base rates, the reality is that their investment bankers (and managers) forecast the cost of debt service using market implied interest rates. This creates a substantial inconsistency between a static equity hurdle and equity return forecasts that include the benefit of cheap debt service costs.

Be consistent. Whatever your view on base rates is, you should be consistent in terms of forecasts for inflation and, for patronage or economic infrastructure assets, revenue projections. In a world where bond rates remain low it seems highly likely that inflation and economic growth outcomes will be much lower than history. A follow-on question for another day is whether low interest rates 'justify' the record earnings multiples for recent Australian core infrastructure transactions.

Alexander Austin is Chief Executive Officer of Infradebt, a specialist infrastructure debt fund manager. This article provides general information and does not constitute personal advice.

Aged care reforms: are the changes really fair?

Rachel Lane

The primary objective of the aged care reforms that commenced on 1 July 2014 was to "create a better system to give older people more choice, more control and easier access to a full range of aged care services". From a financial perspective the two major changes were that aged care operators would be required to set and publish the price for every bed in their facilities and the government would conduct a comprehensive means test of aged care residents to determine their capacity to contribute towards their cost of accommodation and care.

Just to recap, the comprehensive means test formula is:

50c per dollar of income above $25,264 per annum (single) or $24,796 per annum each (couple) plus
17.5% of assets between $46,000 - $157,051 plus
1% of assets between $157,051 - $379,154 plus
2% of assets above $379,154.

Where the outcome is less than $53.39 per day the person is classified as low means and the calculated amount is their contribution towards their accommodation. Where the amount is greater, the person needs to pay the facility's market price and the amount above $53.39 per day is their means tested care fee.

The means tested care fee is capped at $25,529 per annum **or** the cost of care. There is also a lifetime limit of $61,269 across both home and residential aged care.

Is the new system really fairer?

More than nine months into the new world order we can clearly see what choice and fairer means testing have amounted to. Let's start with the people the government considers financially disadvantaged, known as low means residents, who have their assets and income assessed based on the following formula:

50c per dollar of income above $25,264 (single) or $24,796 each (couple) plus
17.5% of assets between $46,000 - $157,051

While it may seem fair, let's look at the financial outcomes of this means testing.

Shirley is a full pensioner with $50,000 in the bank and $1,000 worth of personal effects. As her income is below the threshold Shirley's Daily Accommodation Contribution is calculated on her assets as follows:

$51,000 - $46,000 x 17.5% = $875 per annum or $2.40 per day

Because all residents have the choice of paying for their cost of accommodation by a lump sum, daily charge or a combination, Shirley can choose to convert her daily charge to a lump sum, known as a Refundable Accommodation Contribution or RAC.

The formula for this is:

$875/6.75% = RAC of $12,963

So even though Shirley's assessable assets are $5,000 ($51,000 - $46,000) the means testing will say that she can afford to pay almost $13,000.

Let's look at another example. Jeff is a full pensioner with $140,000 in the bank and $10,000 in personal effects including a car. Jeff is also below the income threshold and so would only have his accommodation contribution calculated based on his assets.

Jeff's Daily Accommodation Contribution would be $50 per day and the equivalent Refundable Accommodation Contribution would be $269,630! At least Shirley has enough money in the bank, unlike Jeff.

Doubtful consumer protection

The market price obligations have not proven to be the consumer protection measure many people expected either. In a nutshell it's as simple as 'if no-one can pay more, no-one can pay less'. Prior to the aged care reforms people could only pay an amount up to their total assessable assets, being left with $45,000. Since the reforms, anyone who is not considered a low means resident needs to pay the market price.

Consider the following example. Jack is a full pensioner living in a retirement village, he will receive $150,000 from the sale of his unit and he has $45,000 in the bank and $5,000 in personal effects. Because Jack's assets exceed the $157,051 cap he needs to pay the market price.

Jack wants to move to the aged care facility on the same site as the retirement village to remain close to his friends, the market price is $450,000 by Refundable Accommodation Deposit (RAD) or $83.22 per day by Daily Accommodation Payment (DAP).

While in theory Jack has the 'choice' of paying by lump sum, daily charge or combination, in reality Jack cannot afford to pay by lump sum alone as he has insufficient assets, he also cannot afford to pay solely by daily charge as his income is not great enough to meet the expense. Jack will need to pay by combination.

If Jack pays a RAD of $154,000 his adjusted DAP will be $54.74 per day, Jack's cost of care will be:

Basic Daily Fee $47.49 per day
Daily Accommodation Payment $54.74 per day
Means Tested Care Fee $1.18 per day
Out of Pockets $10
Giving a total cost of $41,395 per annum

Jack's income will be his pension entitlement of $22,365 per annum and interest on his bank accounts (at 3%) of $1,230. Jack will have a cash flow shortfall of around $17,800 per annum.

Jack could elect to have his DAP deducted from his RAD to ease his cash flow shortfall. However, it is important to be aware that when choosing to have the DAP deducted from the RAD a recalculation of the RAD balance and new DAP amount is performed each month, it is like a reverse mortgage in that it is a compound interest debt.

If Jack elected to have his DAP deducted from his RAD his ongoing cost of care would reduce to $21,415 per annum. Now let's look at what would happen to Jack's RAD balance. At the end of Year 1 Jack's RAD balance would be $133,390, at the end of year 3 $87,765 and by the end of year 5 $35,566. As Jack's assets are depleted his cost of care reduces marginally as his means tested care fee reduces from $1.18 per day to zero.

Unintended consequences

Prior to 1 July, the aged care facility could have charged a resident with higher means more to enable Jack to pay what he can afford, but like I said earlier, with the market price 'protection measures' no-one can pay less because no-one can pay more. The true 'protection' that is really being afforded is to people who have assets above the market price, because the market price is a cap that protects them from paying what they can afford.

I don't think these consequences were an intention of the aged care reforms. The reforms were designed by the Labor Gillard government. But now that we can clearly see the consequences perhaps it is time for the Liberal Abbott government to reform the reforms.

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 aged care facilities 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.*

High real dividend yields support equity returns

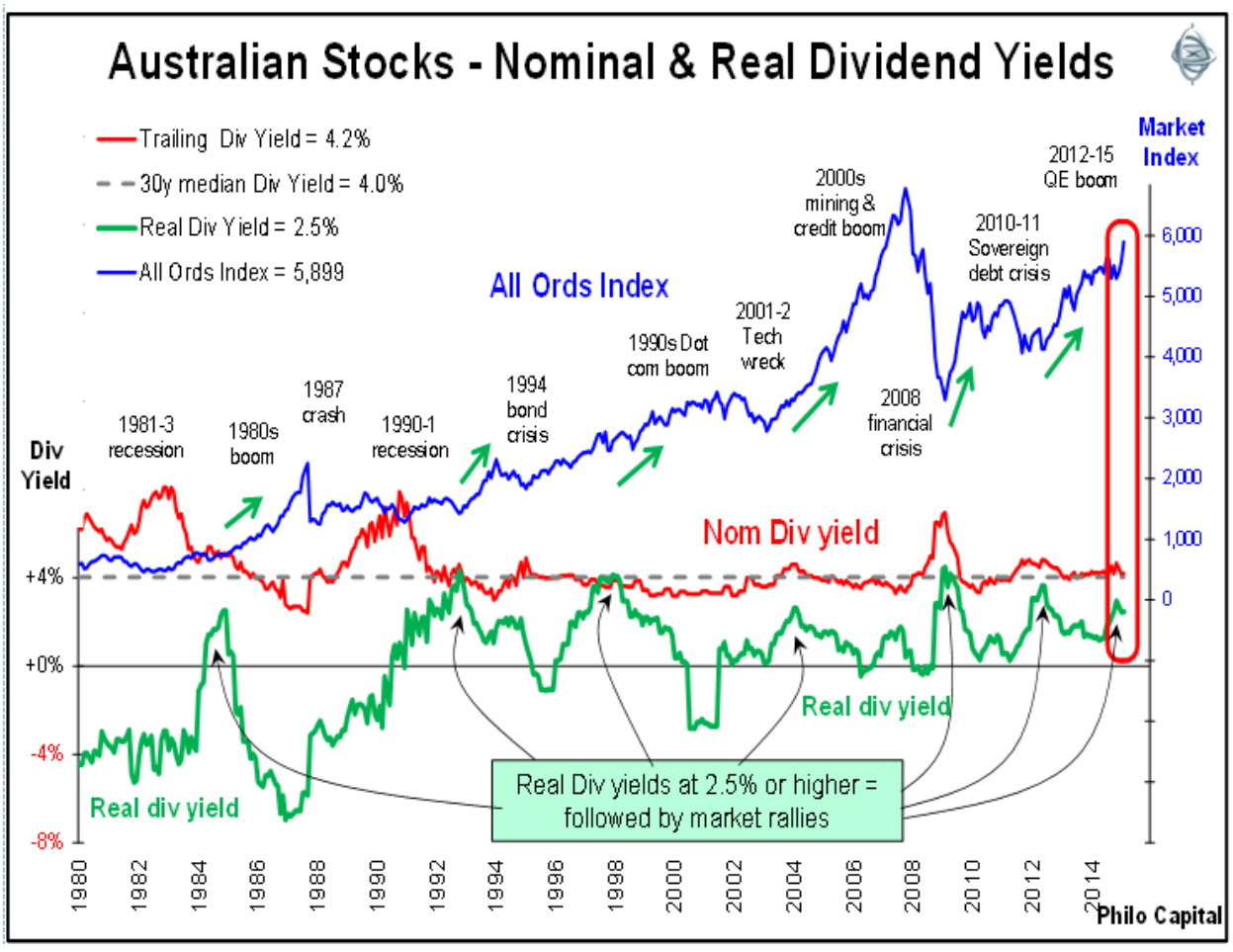
Ashley Owen

Over the past seven decades in Australia the level of 'real' dividend yields across the market has provided a pointer to broad stock market rallies ahead.

The 'nominal' dividend yield is the aggregate level of dividends for the market over the most recent 12 month period divided by the current market index level. The 'real' dividend yield is the 'nominal' dividend yield less the current or most recent annual inflation rate. A similar measure also works for the US market. The chart shows the Australian market since 1980 noting the booms and busts.

When the real dividend yield reaches 2.5%, the market has rallied for the next several quarters. This measure considers all of the rallies through the 2000s credit/mining boom, the GFC, the sovereign debt crisis and QE boom, and it has also worked in all prior cycles since World War 2, except in the high-inflation 1970s.

In 2014 the Australian market was flat but at the end of 2014 the real dividend yield once again reached 2.5% indicating the market was likely to rally, and it has indeed risen strongly. At the end of February 2015, the real dividend was still 2.5% (4.2% nominal yield less 1.7% inflation), and this has provided further support to our bullish stance on shares.



Local investment markets are being driven by three main factors – monetary, fiscal and political. On the monetary front the Reserve Bank has had to keep cutting interest rates to try to bring down the dollar and to stimulate business investment. The plan is not working as intended. The dollar is still too high and business investment has stalled. Banks are not lending to businesses and businesses are not borrowing

or investing. Lending growth is showing signs of growth but it is mainly housing lending, and investment property lending in particular.

Investment has collapsed in the resources sector (thanks to falling commodities prices, over-supply and weak demand), and it has also stalled in other sectors due largely to political uncertainty and the budget crisis.

Instead the rate cuts have fuelled asset price booms driven by foreign and local investors. Foreign investors have so far not been deterred by currency losses. They continue to chase our relatively high interest rates and yields on bonds, commercial property and shares, which are still high compared to the rest of the world. Local investors are shifting money out of bank deposits and chasing higher yields in 'risky' assets at high prices.

The government has been canvassing various measures to cut back spending – eg charging for previously 'free' doctors' visits, counting the family home in assets tests for welfare, and means testing childcare subsidies. The Federal Treasurer has also signalled that a whole range of taxes and tax breaks are on the table for the upcoming May budget - including capital gains tax, negative gearing, franking credits, GST and superannuation tax breaks. These may sound logical and sensible but they will cost votes the government cannot afford to lose. The labour market is weakening, the unemployment rate is rising, wage growth rate is slowing, and inflation is declining.

But for investors, the extraordinarily loose monetary policy (low interest rates) and fiscal policy (budget deficit blowout) are supporting asset prices (shares, bonds and property).

Ashley Owen is Joint CEO of Philo Capital Advisers and a director and adviser to the Third Link Growth Fund. This article is educational only and is not personal financial advice, and does not consider the circumstances of any individual.

How zero coupon bonds became dingos and not koalas

Graham Hand

The excellent television series currently being shown on ABC television, *Making Australia Great: Inside Our Longest Boom,* by George Megalogenis (available on iview here), is a journey down memory lane for those involved in financial markets for many decades. It must be hard for younger folk to believe that the exchange rate was once set by regulators having a chat each day. They were the more relaxed days before deregulation.

This article recalls those days and explains why zero coupon bonds are sometimes called dingo bonds in Australia, 30 years after these securities were first created. Even the current Social Security Laws, released just last week, refer to dingos.

Where does the expression come from, what does it mean, and what happened to the other animals, especially the koalas?

A dingo bond represents a zero coupon bond stripped from a negotiable government bond obligation. A 10-year government bond paying half-yearly coupons is actually 20 interest payments and a repayment of principal on maturity. It is possible to 'strip' each of these obligations and sell the pieces individually. For example, an investor might buy the right to just one payment in seven years' time. The 21 future payments can be sold to hundreds of investors as separate zero coupon bonds.

And that's the deal I tried to do in 1984.

Treasury still told the Commonwealth Bank what to do

What is not mentioned in the ABC series is another form of market regulation: the Commonwealth Treasury used to tell the Commonwealth Bank what to do, at least until the Bank was privatised.

This is the story of a minor footnote in the history of government control over the market. I was too junior in the Bank at the time to know how widespread the government influence remained before privatisation, but I'm guessing it was considerable.

Prior to 1959, the Commonwealth Bank had dual functions as both the central bank and a commercial bank. The government then split the roles, giving central bank functions to the Reserve Bank, and the Commonwealth Bank remained under government ownership until privatisation started in 1991. I joined the Bank in 1979 when the Bank carried a government guarantee but otherwise operated as a normal commercial bank ... although not quite, in my limited experience.

Name the day you become a millionaire

The attractions of stripping individual zero coupon payments in 1984 were considerable:

1. At that time, taxation law allowed the tax on the income to be paid on maturity. An investor could buy a zero coupon bond today and not pay any tax on the accrued income until it was actually received, maybe 10 or more years later. For investors who expected to be in a lower tax bracket, say after retirement, it was wonderful to defer income.

2. Interest rates were high, and the increase in value was spectacular. Because the securities did not receive regular payments of interest, they would be priced at deep discounts to their face value. For example, a 10-year zero coupon at the prevailing rate of 14% would increase in value almost four times, so $26,000 would become $100,000.

3. The future payment was an obligation of the Commonwealth Government, the most secure form of investment possible.

This form of coupon stripping had started in the US around 1982, but it had never been attempted in Australia. At Commonwealth Bank, we partnered with Merrill Lynch to develop the market here. These engineered products always carried animal names. Merrill's was called TIGRs, or 'Treasury Investment Growth Receipts'; Salomon Brothers invented CATS, or 'Certificates of Accrual on Treasury Securities'; and Lehman had LIONs, or 'Lehman Investment Opportunity Notes'. We sat around tables covered in empty pizza boxes and cans of beer late into the night, throwing around different names. It had to be a friendly Australian animal to improve global sales, and we had to have the name 'Treasury' or 'Commonwealth' in there, to inform investors it was a government obligation, not the Bank's or Merrill's. And so we settled on COALA (pronounced 'koala'), which were 'Certificates of Accrual on Liabilities of Australia'. I was uncomfortable with the 'C' but the Americans loved the idea of selling little furry animals.

Over the course of several months, the excitement grew. We drafted offer documents, we developed the advertising campaign, we chose a suitable government bond, we decided how much to issue. The numbers seem unreal in the current low rate environment. If we bought $100 million face value of bonds at par with a 14% coupon, we had $14 million of annual interest payments to strip for 10 years plus the final maturity, giving a $240 million transaction. This was a big deal for a new product 30 years ago.

The advertising agency devised a detailed print campaign. 'Name the day you become a millionaire' screamed the headline. Then we showed someone investing $250,000 today and receiving $1 million back from the government in 10 years, with no tax until maturity. It was brilliant. We booked the advertising, installed extra phone lines in the office to cope with the calls, trained a few staff to answer simple questions and we were ready to push the button.

And this was all in the days when a young banker could try these things with a nod from his boss. There was no compliance team, no risk section, no committees, no marketing department. It's incredible to think back on the delegated trust and authority. It would be impossible to do it now without a hundred people checking every step.

The birth of DINGOs, the still birth of COALAs

Shortly before the launch, the Treasurer of the Bank, Fred Hulme, who had been aware of the months of work undertaken with Merrills, made a fateful decision. He decided to tell the Managing Director, Vern Christie. And Christie thought he had better advise the Commonwealth Treasury, and the Secretary of the Treasury was John Stone.

John Stone is featured in the ABC Series. He was Secretary from 1979 to 1984, and when Paul Keating became Treasurer in 1983, he initially retained Stone as Secretary. As the Megalogenis story shows, Stone had very strong opinions on most Treasury matters. When he found out about the COALA project, he hit the roof. He immediately saw the potential for loss of government revenue. He told Christie to cancel the launch immediately, and he would move to introduce tax legislation to ensure the accrued income on a zero coupon bond of longer than one year would be treated for tax purposes as income in the year it was earned but not received.

The cancellation was due to the Commonwealth ownership of the Bank. When we told the Americans from Merrill Lynch, especially the one who had left his life behind in New York and camped in Sydney for a couple of months, they were dismayed. They said they would never have partnered with a government-owned bank if they had known the government could interfere in a commercial transaction.

Within a few weeks, another investment bank, BA Australia, launched a competing product, called 'Discounted Investments in Negotiable Government Obligations', or DINGOs.

Merchant updates its zero coupon bonds

By STEPHEN BARTHOLOMEUSZ

BA Australia plans to launch a second and updated series of its innovative DINGOs, Australia's first zero coupon Commonwealth bonds.

The merchant bank said yesterday the new series would be available from 10 August and would have three new features. The new DINGOs will be available in smaller parcels, will have a longer selling period and will be available through a "lay-by" scheme

The first series of stripped-coupon bonds were issued last month. The issue closes on 3 August and BA said yesterday nearly all the bonds were sold.

BA's senior manager in charge of the DINGO project, Mr Chum Darvall, said the later maturities had been the first bonds to sell out in the first issue, probably because of the scope they gave for maximum "income planning and retirement advantages." (Taxable income from DINGOs is not received until the bond matures, allowing investors to plan income flows to minimise taxable income at that point).

Mr Darvall said there had been strong buying of the first series by small superannuation funds.

He said the keen interest shown in the securities by small investors had prompted BA to lower the size of the minimum parcel by about $2000 to just over $1000. He said the seven-week selling period would allow investors time to withdraw funds.

Zero coupon bonds are created by the physical stripping of the interest coupon on Commonwealth bonds from the principal. Both the principal and the coupon are then sold separately, with the principal selling at a discount on its maturity value which effectively locks in a return to the investor.

This is an extract from *The Age, 1 August 1984*. BA Australia managed some successful transactions before John Stone slammed the tax door shut. The COALAs never left their cage, the Americans trudged back to New York wishing they'd worked with someone else, and I wondered what might have been if we'd just done it without asking permission from our owner.

So today we have DINGO bonds

Everyone called the new rules the 'dingo legislation', zero coupon bonds generally became known as 'dingo bonds', and the expression has lived on through the decades. The COALAs, you might say, were stonewalled.

Graham Hand has worked in wealth management and banking for 38 years and is the Editor of Cuffelinks. He will be presenting on SMSF risk management to the Australian Investors Association on 8 April 2015. For more information, please see this Information Sheet.

Not all global equities are created equally

Paul Hennessy

The Australian Treasury's 2015 Intergenerational Report released a few weeks ago makes for mixed reading. Australians are likely to live longer, which is good news. But this also means they will need more income for a longer retirement, which can be challenging.

So far, Australian investors have largely relied on a few traditional sources of income: term deposits, investment grade credit, and high-yield domestic equities. But we believe that a particular type of global equities – those that pay and grow dividends over time – can be an important addition to their portfolios.

Market risk versus longevity risk

Investors approaching retirement face a conundrum. On the one hand, they need stable and secure income that can last for the next 20 to 30 years in retirement. But on the other hand, they also need growing income that can protect their purchasing power against inflation. In short, investors have to grapple with both market risk and longevity risk in retirement.

Traditional sources of income such as term deposits provide a fairly steady stream of income for investors' current needs. But there is a trade-off – they fall short of delivering the growing income that can help offset the impact of inflation.

To be fair, high-yield Australian equities have delivered strong returns in recent years and franking credits make them even more attractive. However, this group of equities has been dominated by companies in just a few sectors. To put this into perspective, as at September 2014, about half of the dividend income from the S&P/ASX 200 index came from the financial sector. As a result, investors who turn mostly to high-yield domestic equities for income face another trade-off. They lose the benefits of diversification that come with investing in a wider range of companies.

Why dividend growth matters

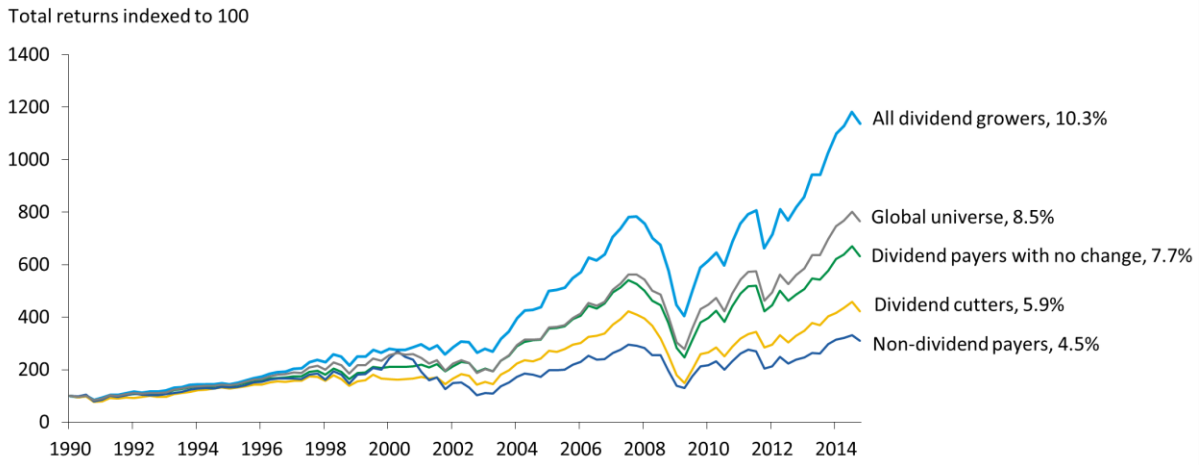
Australian investors tend to view global equities as a homogeneous asset class, typically seen as a growth asset or a diversifier to domestic equities.

But not all global equities are created equal. Our analysis indicates that dividend growers have a unique profile that can be especially useful when it comes to retirement investing.

Dividend growth matters because it can be an important indicator of a quality company. For companies to pay and grow dividends in a sustainable manner over time, they need to grow their earnings and generate free cash flows. Those with the ability to do so tend to have competitive business models. They also need to have robust balance sheets. Importantly, dividend growth can signal the presence of management teams that have a disciplined approach to capital allocation and are aligned with shareholder interests.

Dividend growth can be a powerful signal of a company's ability to generate long-term value for shareholders and historical data supports this belief. From end-1989 to end-2014, dividend growers around the world delivered an annualised total return of 10.3% in US dollar terms while the broader market returned 8.5%. Dividend growers also outpaced stocks that did not pay dividends (4.5%), stocks that initially paid dividends but then cut them (5.9%), and even stocks that paid constant dividends (7.7%).

Global dividend growers have historically delivered superior long-term returns



Note: Returns for global universe are total returns in USD dollars (with gross dividends reinvested) calculated as a weighted average of regional portfolio returns. The regional portfolios are defined as follows: from Dec 1989 to Dec 2004, the 1000 largest companies in the respective S&P Global BMI indexes for each of the North America (50% weight), Europe (25%) and Japan (10%) and the 500 largest companies in the Emerging Market (10%) and Pacific ex Japan (5%). From Dec 2004 onwards, the regional portfolios consist of the 1000 largest companies in the respective MSCI IMI index for North America, Europe and Japan and of the 500 largest companies in the Emerging Markets and Pacific ex. Japan indexes. Regional portfolios' constituents are rebalanced on a quarterly basis. Data from 31 December 1989 through 31 December 2014. Sources: Factset, Compustat, Worldscope, MSCI, CII Quant.

Over the same period of time, dividend growers posted lower volatility compared with the global universe. Their returns were also more resilient than the broader market's in periods of downturn. On average, dividend growers captured just 85% of the market's downside. By comparison, steady dividend payers captured as much as 97% of the market's downside.

A complementary retirement tool

The bottom line is: global dividend growers have the potential to deliver superior long-term returns and lower volatility, as well as an income stream. They can also provide diversification to a domestically-oriented portfolio. These characteristics are crucial for investors approaching retirement.

Australian investors looking to manage market and longevity risks should consider dividend growers as a complement to traditional sources of income. By adjusting their investment approach now, they could potentially better enjoy those well-deserved retirement years.

Paul Hennessy is Senior Vice President and Country Head, Australia of Capital Group. This article provides general information and does not address the personal circumstances of any individual.