Cuffelinks
Connecting investors with ideas

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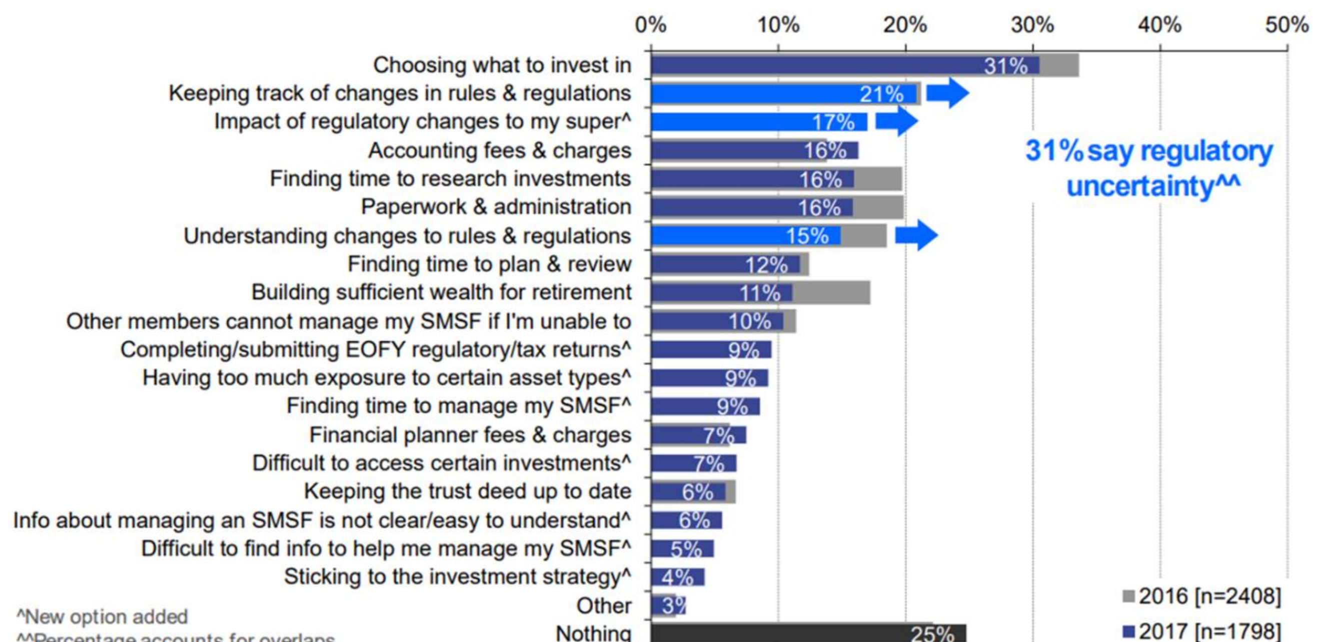
Part 1: How are SMSFs and their trustees changing?

Graham Hand

The 2017 Vanguard/Investment Trends SMSF Report surveyed 3,000 SMSF trustees, 470 financial planners and 900 accountants. It provides a glimpse into the challenges and trends faced by SMSFs, the largest subset of super fund assets with $645 billion under management.

Three issues stand out from the report: the increased complexity of the super rules, the growing number of SMSFs with unmet financial advice needs and the latest changes in asset allocation.

Concern over rule changes



Source: *Vanguard/Investment Trends 2017 SMSF Report*

Choosing what to invest in remains the hardest aspect of running an SMSF, but keeping track of regulatory changes and how they impact investments are prominent worries.

More trustees are concerned about accounting fees and charges than financial advice fees, but the research also shows little concern about finding time to manage an SMSF, accessing investments or information, or sticking to an investment strategy.

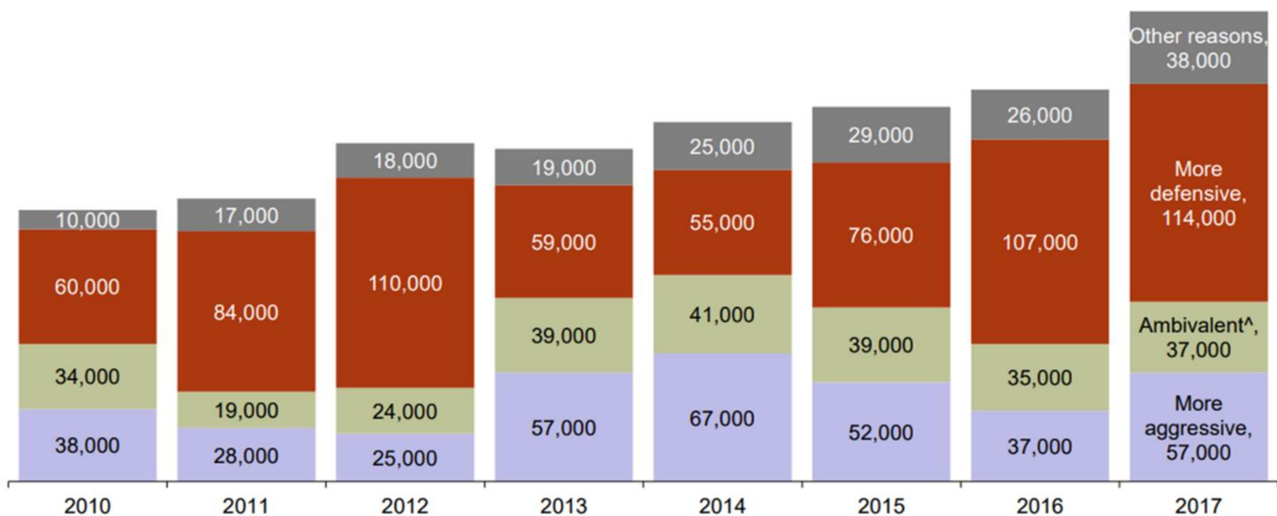
SMSF appetite for financial advice

The use of financial advisers (defined to include 'accountants for financial advice' and 'superannuation consultants') by SMSF trustees has fallen steadily over the last 10 years, from 54% in 2008 to 38% in 2017, although this is up from 36% in 2015. These relatively low levels are surprising. The concern about regulatory changes highlights the need for expert advice as navigating the minefield of super regulations is not for the inexperienced or novice. The top barriers to seeking advice were lack of confidence in advisers' expertise (27%), cost (23%), limited range of advice (21%), previous poor experiences (21%) and lack of ethics (17%). Unmet advice needs was reported at record levels, and 52% of trustees say they are most likely to turn to a financial planner while 48% say an accountant. Among financial planners, 20% identify as SMSF specialists, 49% SMSF generalists and 31% as non-SMSF planners.

SMSF financial planners report their major challenges as compliance and demonstrating value (75%), competition from accountants (45%), working with accountant (40%) and legislative changes (27%). The relationship between the two professions remains strained, although a growing proportion of accountants have a relationship with a financial planner. While 56% of accounting firms report they employ an in-house planner, 30% say they refer clients to an external planner when necessary.

More SMSFs changing their asset allocations

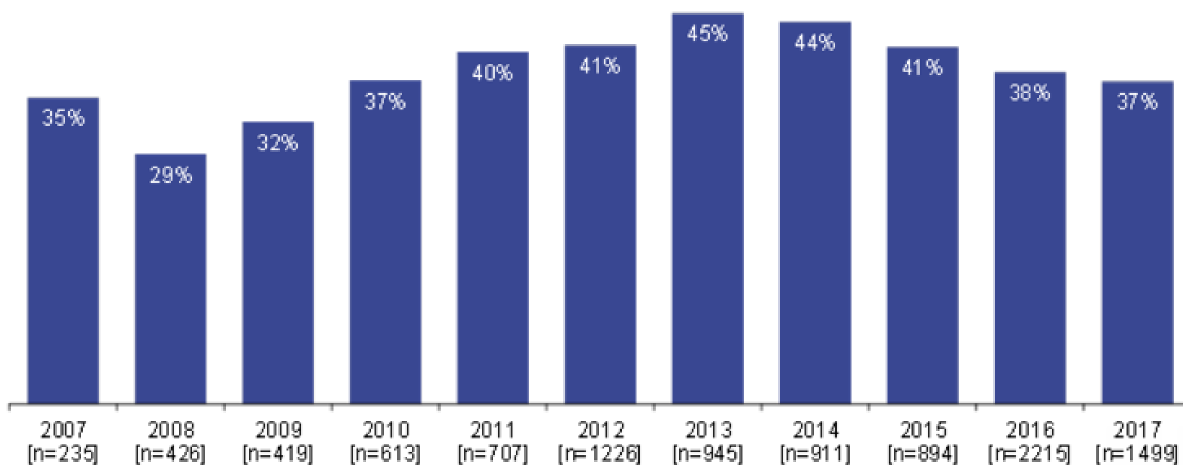
With historically low returns forecast for the next decade, SMSFs will be challenged in meeting their investment goals. Highlighted by the results is that more SMSF trustees are changing their asset allocations, with 'more defensive' outweighing 'more aggressive'. SMSFs' stock market expectations for the next 12 months (excluding dividends) are not optimistic, at only 3.4% on average. However, as the table below shows, some SMSFs are becoming more aggressive in their asset allocation compared with last year, while more are becoming defensive.



Source: 2017 Vanguard/Investment Trends Self-Managed Super Fund Report

Asset allocation by SMSFs

Cash retained a healthy share of allocations at 26% despite low rates. The table below shows direct shares (excluding managed funds and ETFs) continue to dominate although down in recent years. Residential property has remained steady at around 6-8% of SMSF portfolios for many years.



Source: Vanguard/Investment Trends 2017 SMSF Report

Managed funds have risen over the years but still at a relatively low 10%, although the intention to use managed funds has risen from 35% to 45% in the last five years. The leading managed fund sub-category is international equities (actively managed), suggesting allocations will improve in future reports and SMSF trustees are finally hearing the message that they are underrepresented globally.

On the 'intention to invest in the next 12 months' measure, the leading category is 'blue chip shares outside of managed funds', followed by high-yielding shares. ETFs, small caps, infrastructure, bonds and A-REITS all rose over the last year, with term deposits falling away in recent years.

ETFs continue to attract new demand, with 38% of ETF investors holding ETFs via their SMSF. Again, international index and active ETFs top the 'intention to invest' score. While in a major growth phase, only 3% of SMSF assets are allocated to ETFs, with financial advisers the core drivers behind the growth.

The summary from the 2017 Report includes:

1. Service providers have an opportunity to cover significant unmet needs, with investment selections and regulatory change the most prominent uncertainties. There is a large appetite for education and advice about strategy but not products.
2. This need has not translated into increased use of financial planners, with trustees citing difficulties finding advisers who can meet all their needs.
3. SMSF money is 'on the move', with asset allocation changes at the highest level observed, but both into more aggressive and more defensive categories.

SMSFs continue to grow with the net annual increase in numbers steady, although the number of new SMSFs established fell below 30,000 in 2016 for the first time in five years.

Graham Hand is Managing Editor of Cuffelinks.

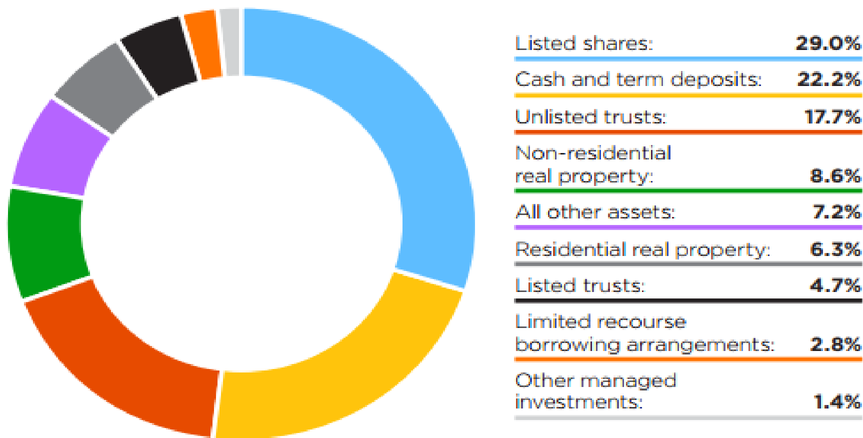
Part 2: Drilling down into latest SMSF allocations

Graham Hand

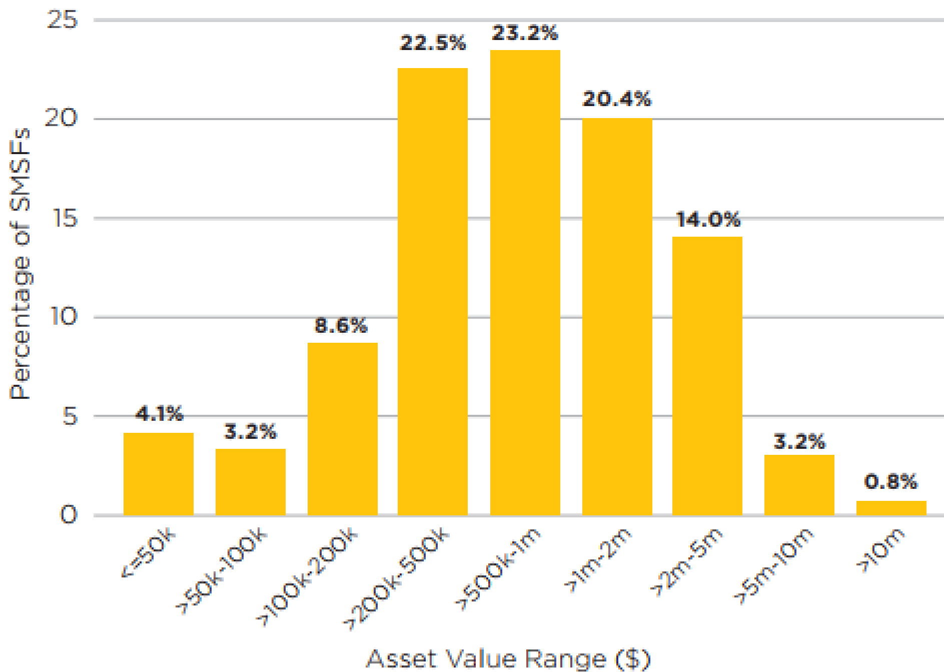
There is a long-running debate about SMSF exposure to global equities, driven by the misleading interpretation of the data issued by the Australian Taxation Office. The ATO only lists direct holdings on global exchanges in its international equities allocation, and misses the billions held by SMSFs in managed funds, Exchange Traded Funds and Listed Investment Companies.

Drilling deeper into the listed trust allocation

Compensating for this data weakness is the Class Limited SMSF Benchmark Report, and we have been given early access to the June 2017 data. The numbers are compiled from over 130,000 SMSFs using de-identified data. Initially, for consistency with the ATO data, Class uses the same asset allocation categories, as shown below.



Class also provides the asset value ranges of SMSFs, showing some very small and very large balances but two-thirds in the $200,000 to $2 million bands.



Where the first chart above reports listed shares at 29%, like the ATO data the vast majority of these shares are listed on the ASX. It is the unlisted trusts category at 17.7% of assets and the listed trusts at 4.5% of assets, where the global equities lie. Managed funds hold 12% of SMSF assets, with 32% of SMSFs holding some type of managed fund.

The asset exposure of the Top 20 managed funds is 57% international equities, 10% Australian fixed interest, 9% cash, 8% global fixed interest and 5% listed property. Only 8% is Australian equities.

As shown below, the Top 20 managed funds are prominent in many SMSFs, with about a quarter of SMSFs holding investments with Magellan and Platinum.

Rank	Security Code	Description	% of Funds with Managed Funds that hold this security	% of total SMSF Managed Fund investments[2]
1	MGE0001AU	Magellan Global Fund	24.7%	4.4%
2	PLA0002AU	Platinum International Fund	24.4%	4.3%
3	PLA0004AU	Platinum Asia Fund	10.5%	1.8%
4	MAQ0482AU	Winton Global Alpha Fund	8.4%	0.9%
5	FID0008AU	Fidelity Australian Equities Fund	7.7%	1.4%
6	ETL0032AU	Aberdeen Emerging Opportunities Fund	6.4%	0.6%
7	MIA0001AU	MFS Global Equity Trust	6.4%	1.1%
8	MAQ0277AU	Macquarie Income Opportunities Fund	6.0%	1.0%
9	GSF0002AU	Grant Samuel Epoch Global Equity Shareholder Yield (Unhedged) Fund	6.0%	0.8%
10	MAQ0410AU	Walter Scott Global Equity Fund	5.6%	1.1%
11	ETL0018AU	PIMCO Global Bond Fund - Wholesale Class	5.5%	0.7%
12	SCH0028AU	Schroder Fixed Income Fund - Wholesale Class	5.5%	0.9%
13	VAN0004AU	Vanguard W'sale Australian Property Securities Index Fund	5.4%	0.6%
14	MAQ0404AU	IFP Global Franchise Fund	5.3%	0.9%
15	TGP0034AU	RARE Infrastructure Value Fund - Unhedged	4.9%	0.5%
16	IOF0145AU	Janus Henderson Tactical Income Fund	4.9%	0.8%
17	HOW0052AU	Kapstream Wholesale Absolute Return Income Fund	4.8%	0.8%
18	CSA0038AU	Bentham Wholesale Global Income Fund	4.4%	0.5%
19	APN0008AU	APN AREIT Fund	4.3%	0.5%
20	BFL0004AU	Bennelong ex-20 Australian Equities Fund NEW TO TOP 20	4.3%	0.6%
Total (Percentage that the top 20 make up of total SMSF investments in Managed Funds)				24.2%

[2]Percentage each security makes up of the total SMSF Managed Fund investments e.g. MGE0001AU is 4.4% of the total SMSF investments in Managed Funds.

Direct equities by security

The Class data confirms the largest asset allocation is to listed domestic equities at 37% of SMSF assets, with a place in 68% of all SMSFs.

The domestic listed assets comprise:

- Shares 78.5%
- Debt and hybrids 9.0%
- Stapled securities 6%
- ETFs 5.9%
- Other listed trusts 0.6%

The following table shows the Top 20 shares in SMSF portfolios. Over half of all SMSFs have been experiencing the Telstra pain of a halving in the share price and cut in dividend. The banks make up over half the investments in the Top 20, with Westpac overtaking BHP in the last quarter.

Rank	Security Code	Description	% of Funds with Domestic Listed Securities that hold this security	% of total SMSF Domestic Listed Securities investments[1]
1	TLS	Telstra Corporation Limited.	51.7%	4.2%
2	WBC	Westpac Banking Corporation	48.1%	6.2%
3	BHP	BHP Billiton Limited	47.9%	3.8%
4	ANZ	Australia And New Zealand Banking Group Limited	45.3%	5.1%
5	NAB	National Australia Bank Limited	45.1%	5.3%
6	CBA	Commonwealth Bank Of Australia.	44.4%	7.9%
7	WES	Wesfarmers Limited	36.9%	2.9%
8	WOW	Woolworths Limited	30.8%	1.8%
9	WPL	Woodside Petroleum Limited	28.8%	1.6%
10	S32	South32 Limited	25.4%	0.4%
11	CSL	CSL Limited	19.9%	3.0%
12	CYB	Cybg PLC - Cdi 1:1 Foreign Exempt Lse	19.5%	0.1%
13	RIO	Rio Tinto Limited	19.5%	1.4%
14	QBE	QBE Insurance Group Limited	17.7%	0.7%
15	TCL	Transurban Group - Ordinary Shares/Units Fully Paid Triple Stapled	15.5%	1.2%
16	MQG	Macquarie Group Limited	14.9%	1.5%
17	AMP	AMP Limited	14.8%	0.6%
18	MPL	Medibank Private Limited	13.8%	0.4%
19	ORG	Origin Energy Limited	13.7%	0.6%
20	STO	Santos Limited	13.3%	0.3%
Total (Percentage that the top 20 make up of total SMSF investments in Domestic Listed Securities)				49.0%

[1]Percentage each security makes up of the total SMSF Domestic Listed Securities e.g. TLS is 4.2% of the total SMSF investments in Domestic Listed Securities.

Graham Hand is Managing Editor of Cuffelinks. Exclusive access to the Class SMSF Benchmark Report for June 2017 was provided by [Class Super](#).

Listed property report card for August 2017

Pat Barrett

We're midway through the August 2017 reporting season with Australian Real Estate Investment Trusts (AREITS) up 2% month to date. Most stocks have recorded strong capital gains (higher valuations), low debt costs and reasonable outlooks. There's been a 15% spread between the best and worst performers month to date with Charter Hall Group (CHC) up +11% and Charter Hall Retail (CQR) down -4%. The highlights are:

Ardent (AAD) – forced initiative

Management outlined their strategic initiatives to improve the customer offer plus evaluating excess land opportunities, which is in response to Ariadne's (ARA) proposals. There'll be more news flow about this name as we approach a vote to appoint new directors on September 4.

Abacus Property Group (ABP) – record result

ABP’s record was driven by higher rental income, fee income and profits from asset sales and developments. It could have been even stronger had local council elections and state agencies not delayed the timing of approvals at some sites, especially at Camellia in Sydney's west. ABP provided FY18 DPS guidance (the first time they have guided) of 18.0 cents per share (cps) or +3% growth.

Australian Unity Office (AOF) – office of suburbia

AOF exceeded its IPO forecasts, with outperformance driven by better leasing outcomes and borrowing costs. It offers a solid 6.8% distribution yield, with no significant single lease expiry until FY22 and conservative gearing of 27%.

Aveo Group (AOG) – money back guarantee

Aveo shares jumped 11% post their result, with a buyback announced and further enhancements to its Aveo Way Contract in response to recent media reports. Management is pro-active and have developed eight resolutions to improve customer experience, via improved buyback periods and money back guarantees, plus actively encouraging residents to get independent legal advice (or sign an acknowledgement they were advised to), financial advice and consult with their families.

Aventus (AVN) – bulky's good

Management is best of breed in this asset class, having lifted occupancy to 98% and converting more leases from CPI reviews to fixed growth. Tenants enjoy lower rental expenses in these bulky goods and super centres with occupancy costs (cost of rent divided by sales) around 9-10% versus up to 20% in larger shopping centres. Gearing is relatively high at 39% but some smaller asset sales should reduce this.

Bunnings (BWP) – won't you stay with me

After many years of outperformance, BWP has been impacted by the upcoming and potential departure of the tenant (Bunnings) from 13 properties. They have an excellent core portfolio and strong balance sheet but these expiries will negatively impact underlying growth. Management is committed to maintaining the distribution at FY17 levels, even if they have to use capital profits from asset sales.

Charter Hall Group (CHC) – stepped off the Cbus

They don't formally announce until next week but they did issue a statement saying that they have "determined not to proceed with further due diligence on the acquisition of Hastings Management Proprietary Limited". The stock rallied +4% on the news. The AFR reported that some investors in Hastings, including Cbus, were not happy with Westpac about the prolonged sale and some had questioned CHC's lack of experience in the infrastructure space.

Centuria Industrial REIT (CIP) – be careful what you wish for

The new management team is earning its keep, with occupancy down to 92% and gearing at 43%. The debt book was completely refinanced during FY17, with further asset sales likely. The stock is appealing because of the near 8% yield with a lot of leasing work required in FY18.

Charter Hall Long WALE (CLW) – long and strong

The result was as expected given the long-term nature of leases with no material vacancy until FY21. Higher income was offset by higher costs linked to debt and the simplification of its legal structure.

Charter Hall Retail (CQR) – tough times don't last

The supermarket wars and soft retail conditions have resulted in low growth out of this stock, with investors rewarded via a relatively high yield. FY18 will see further repositioning (additional sales and developments) that will assist future growth. The price will be supported by a buyback, but this can only be used sparingly given their relatively high gearing.

Dexus (DXS) – blister in the sun

The market is excited about the strength of the Sydney and Melbourne office markets, with effective rents growing +32% in Sydney and +20% in Melbourne. Given the long-term leases in place it's hard to capture all of this at once, with the rental growth across the portfolio +2.6% during FY17. With the pressure on retail stocks, Dexus is enjoying its time in the sun.

Folkestone Education (FET) – kids are alright

Another strong result from management, with nearly 9% EPS growth in FY17 driven by rental growth, new development and lower interest costs. The portfolio WALE (or weighted average lease expiry) has increased to

9.1 years, due to new centre completions and lease extensions. The development pipeline continues to look healthy, with returns from new centres far superior to that achieved by acquiring existing centres on market.

GPT Group (GPT) – in Bob we trust

FY17 FFO guidance was upgraded to 3%, supported by lower costs and stronger than expected retail income. This stock is the 'proxy' for Australian real estate with exposure to all commercial sectors and the CEO (Bob Johnston) has done well to steady the ship. There's a few developments that could add a lot of value in the medium term.

ALE Property Group (LEP) – it's Woolies' shout

The underlying portfolio is rock solid, 100% leased to a tenant 75% owned by Woolworths on 25-year leases (plus options) with annual CPI rent uplifts. Given broader market uncertainty, this portfolio is highly desirable and trades accordingly. They're nearing their first rent review in November 2018, which is capped/collared at +10/-10% and should lead to a substantial lift in dividends.

Mirvac (MGR) – Mirva-lous effort

This was the best result thus far, with all businesses delivering strong numbers. MGR has benefitted from a strong residential market to recycle and reposition its investment portfolio. They've taken profits from their residential business and redeployed into high quality commercial assets. Management has done a great job implementing the strategy. The retail portfolio performed well, focused on urban locations with higher densities. Not all retail is created equal.

Shopping Centres Australia (SCP) – CQR with a twist

As per CQR but they've boosted earnings by selling assets into retail funds (syndicates) that they control, and deriving fees from these.

Stockland Group (SGP) – better than expected

The FY17 result was stronger than expected, with record residential settlements coupled with strong margins boosting the overall return, and their gearing is down to 22%. Importantly their FY18 guidance was above consensus so look for upgrades to occur.

Vicinity (VCX) – the hard work's done

VCX unveiled a solid underlying result that was overshadowed by a change in the distribution policy, targeting a payout ratio of 95-100% of AFFO for FY18. It's been a busy year for the management team, with divestments, developments, remixing of tenants and distribution changes. A new CEO was announced last week, with Grant Kelley returning to Australia after spending many years abroad, most recently as CEO of City Development Limited in Singapore.

Westfield Corporation (WFD) – been there, done that

Westfield delivered a solid half year result (they're a calendar year firm) and maintained FY17 guidance. Operationally, their better malls (Flagship) continue to outperform Regional assets. They have relatively high gearing of 38%, and will rely on partial asset sales to lower this. WFD referred to their extensive experience to see them through volatile trading conditions, referring to themselves as "industry leaders" and at the "cutting edge". However, the negative sentiment towards the sector shows no signs of abating and earnings growth has been lacklustre.

Pat Barrett is Property Analyst at [UBS Asset Management](). *This article is not specific financial product advice and it does not take into account any individual investor's investment objectives, tax and financial situation or particular needs. UBS is a sponsor of Cuffelinks.*

The dangers lurking for credit investors

Amy Xie Patrick

After a few small wobbles earlier in the year, the chase for yield has resumed, pushing US equities to record peaks and taking credit indices close to their most expensive post-GFC levels. Fixed interest managers are reaching further along the credit rating menu in the search for higher returns. The credit market is sufficiently diverse to cater to different investor tastes in terms of risk and return, however, behind the lure of the high yield lies some not-so-hidden dangers which every investor should be wary of. We examine the case for spread decompression and the near-term catalysts that render high yield debt vulnerable.

High yield more vulnerable with falling inflation

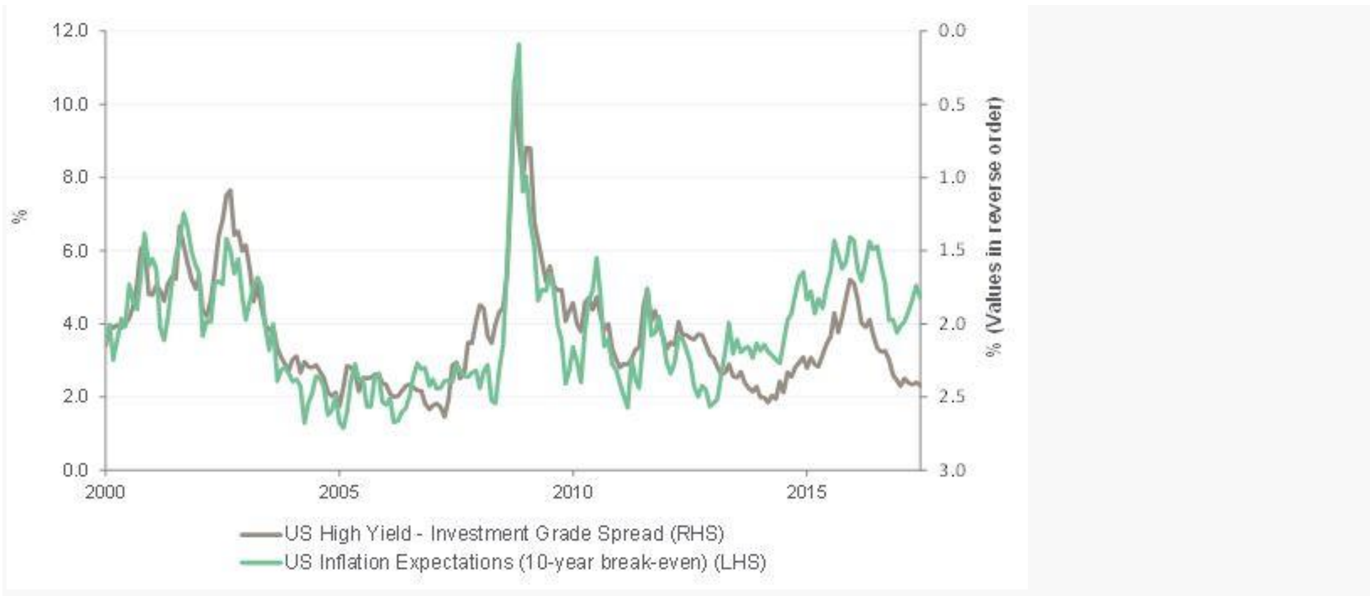
One of these dangers is the evolving broader macroeconomic backdrop. For the first time in the post-GFC era, most of the world's developed market central banks are on the path to policy normalisation. Critically, this is in the absence of a material pick-up in inflation and inflation expectations. In fact, both measures have actually fallen this calendar year as reflected in the chart below.

Inflation expectations have fallen recently

Source: Bloomberg

Historically, such declines in inflation expectations have been a negative for credit. Inflation expectations provide a gauge of sentiment towards future economic growth, which helps drive company revenues and debt servicing. It is important to make a distinction between debt in the investment grade camp (BBB or above) and junk bonds (BB or below), also known as high yield. It is the latter camp that is the most sensitive to a shift in the economic landscape. For example, the spread between the difference in yield on junk and investment grade typically widens when inflation expectations fall i.e. junk bonds underperform.

Contraction in high yield spreads versus inflation



Source: Bloomberg

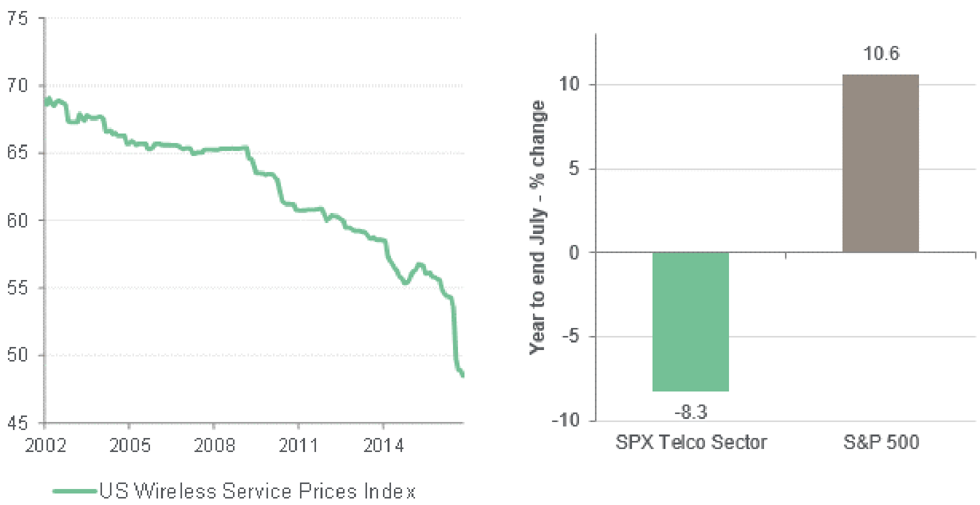
Risks vary considerably within each credit rung of the junk bond category. While many credit investors turn to this area in an attempt to boost yields, there are varying degrees of risks that do not necessarily compensate the investor with a higher return. For example, in the CCC rating category, the extra yield declines considerably as debt increases. On average, a company with three times leverage only offers an extra 10 basis points above a company with two times leverage. Further, the ability of CCC issuers to service their debt would be severely impeded if rates rose just 1%, to the extent that the interest payments would need to be funded by issuing further debt.

Structural change leads to risks at sector level

There are also varying vulnerabilities at the sector level due to ongoing structural industry changes. These shifts cannot be weathered as easily by the high yield space when compared with their investment grade counterparts, given the former lacks the same financial flexibility.

Delving deeper, while the energy sector faces challenges from weaker oil prices, the telecommunications and consumer spaces look increasingly concerning as they endure significant drops in the price of their services. The Wireless Services Price Index has fallen 11% in the six months to the end of June 2017. While the reaction has been relatively muted in high yield credit so far, the negative impact has clearly hit share prices.

High yield telecommunications vulnerabilities increase as service prices plunge



Source: Bloomberg

The consumer-orientated areas are also a worry as supermarkets and food have joined the longer-term weakness in broader retail on the back of the Amazon-Wholefoods announcement.

High yield (junk) bonds to underperform

With these factors in mind, we believe the high yield credit area is much more vulnerable than its investment grade counterpart. Benefitting from the underperformance of junk bonds is achieved through buying protection on high yield indices and selling protection on safer investment grade credit. By selling protection on investment grade, the cost of our high yield trade is reduced. In turn, the trade performs well if we see a widening of high yield spreads versus investment grade. This is a relatively defensive approach that aims to protect portfolios, as well as offering a more active alternative that can still deliver returns when more conservative credit outperforms.

Within yield-focused funds, we advocate for a more diversified approach to generating regular income by looking beyond credit markets by exposure to Australian shares that are generating consistent dividends. The Australian share market has established a reliable track record of delivering dividend yields of around 4% since 1982 and presents a suitable complement to a portfolio of high grade credit and corporate debt. With this approach investors can mitigate the exposure to risks that are gathering steam in parts of the credit spectrum.

Amy Xie Patrick is Portfolio Manager, Income & Fixed Interest at BT Investment Management*.*

Is the outcry about retirement villages justified?

Rachel Lane

If you believed everything you heard about retirement villages lately, it would be easy to conclude that these facilities should be avoided, due to the likely detrimental effects on your financial circumstances and health.

If you are more of a critical thinker or have experience with the industry, you are probably shaking your head. People tell stories of signing contracts they did not understand, not seeking legal or financial advice or worse, receiving advice that did not completely inform them about contracts and costs.

Tips for retirement villages

Retirement village contracts are a balance of rights, responsibilities and costs. They can be complicated and advice should be mandatory. Here are some tips and traps on what to expect.

Importantly, if you are their adviser your role is not to 'weigh the scale' on the value of the transaction but to highlight the costs, rights and responsibilities and allow clients to make an informed decision.

Watch the Retirement Villages Act

Firstly, retirement villages operate under state (or territory) legislation, typically the *Retirement Villages Act*, which prescribes what is and is not a retirement village, who can be a resident (typically there is a minimum age of 55) and the legal documents that are required, commonly contracts and disclosure documents. It also regulates some but not all of the financial arrangements. Typically, retirement villages are not allowed to profit from running the village.

Under the contract, the ownership (or right to occupy) a home in a retirement village is often a Leasehold or Licence but in some cases, it is Strata Title or even a company share or unit trust arrangement. Many people have a natural inclination to want a Strata Title because of the rights and control that relate to the ownership model as well as being familiar with an ownership model.

This is a good example of how retirement village contracts can be different from similar transactions and the need to ensure you get the correct balance of rights and responsibilities.

In a strata title village, the perception of 'ownership' is probably different to the reality. In most cases the resident may have a copy of the title or may hold the title but with a caveat against it, to restrict sale to people who are not eligible to live in the village and to ensure that the exit fee is paid.

Strata villages certainly give residents a say in the running of the village, as residents are part of the owner's corporation. But this also comes with the responsibility to keep up this involvement for your entire stay. Just like any other strata complex, owners are responsible for the owner's corporation fees until their unit sells.

In states that have a guaranteed buyback or payment when someone moves into aged care, these often do not apply to a strata title village.

Let's be clear. I don't believe strata villages are bad, I am saying that retirement village contracts are different to similar contracts in the 'real world' and people need to look past what they think they want and assess the contracts on their merits. The contract should strike the right balance of costs, rights and responsibilities for the individual.

Break down the different costs

To analyse and compare different villages, break the costs of the transaction into three parts: Ingoing, Ongoing and Outgoing.

Ingoing - the amount someone pays for their home (or right to occupy a home) in the village plus transaction costs such as stamp duty or contract preparation fees.

Ongoing - the costs to live in the village, often called the general service charge or recurrent charge. A budget should also be done for personal expenses. In most retirement villages people are levied for utilities, which are individually metered. Then there are everyday expenses such as groceries, maintaining a car, entertainment and travel. In addition, there may be the cost of care through a Home Care Package, private carers or a combination of two.

Outgoing - the amount people pay when they leave the village or the home is sold. The Deferred Management Fee, which is commonly between 25% and 40% of either the purchase price or sales price, is normally the biggest cost. But there can also be a share of capital gain (or loss), reinstatement or refurbishment costs and sales and marketing fees.

Important consequences to consider

Moving to a retirement village can have wide-ranging consequences on personal finances, so watch the following:

- Impact on pension entitlement and eligibility for rent assistance
- Cost of a Home Care Package.
- Ability to afford living in the community, and
- The amount of money that will be received when the unit is sold or the amount paid under a guaranteed buyback and how quickly this will occur.

These factors will impact the long-term asset position, which affects the cost of the next move, into aged care. Crunching the numbers and understanding rights and responsibilities throughout the transaction can be complicated, but it is essential to ensure there are no surprises later.

If there is a lesson in the current media hype it is this: the right legal and financial advice is valuable for consumers and retirement village operators.

Rachel Lane MFP is Principal of Aged Care Gurus. See www.agedcaregurus.com.au. This article is general information and does not consider the circumstances of any individual.

Where do our wealth and jobs come from?

Phil Ruthven

The wealth of Australia in the last official estimate by the ABS for FY2016 was $14.4 trillion, and net of foreign liabilities (equity and debt) was just over $11 trillion. This net wealth is split 83% household and 17% government.

Residential land and dwellings dominate wealth

It is our developed resources of land used for dwellings and commercial buildings, and the buildings and infrastructure on that land, that dominate with almost two thirds of the wealth. Interestingly, our natural resources of mining and timber account for a small 7% of the total wealth. Equipment and inventories add another 9% and intellectual property 2%. The balance of 15% is in the form of financial assets. The exhibits below tease out the composition.

Australia's Wealth
F2016

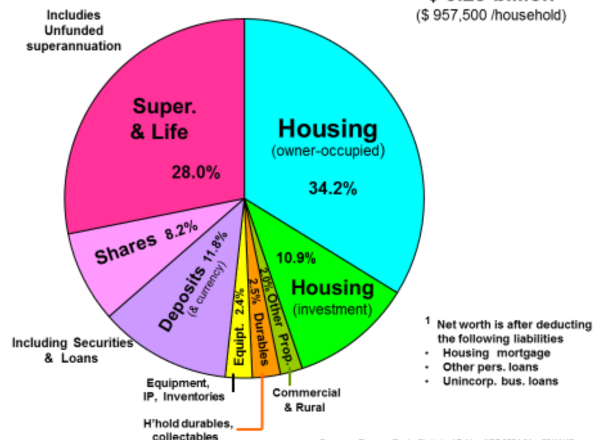
$14.35 trillion

Assets $ 14.4 trillion
Liabilities $ 3.2 trillion
Net Assets $ 11.2 trillion [2]

Net Foreign Debt
$ 1.03 trillion (62% of GDP)

1 Software, intangible assets, mineral exploration, spectrum licenses
2 $1.17 million per household

Australian Households Net Worth[1]
June 2016

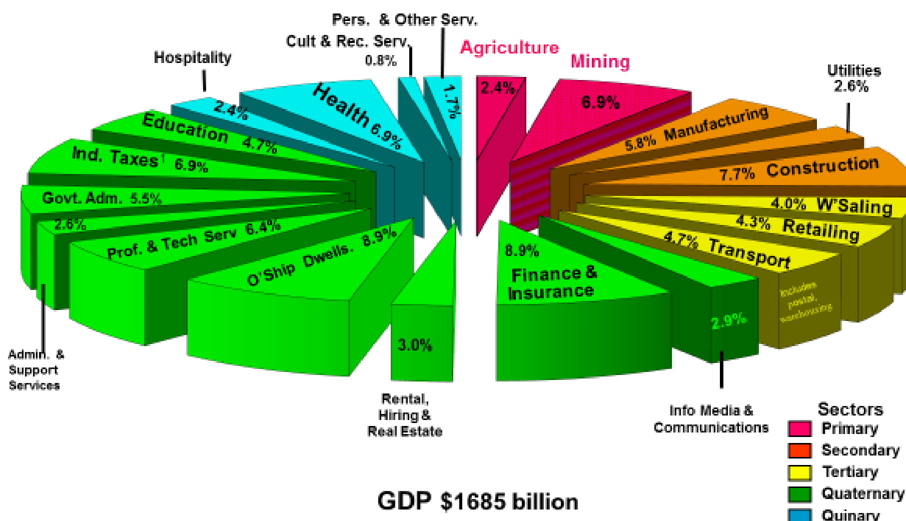


For households, average net worth sat at just under $1 million in FY2016, and will average $1 million by the end of 2017 calendar year. Thanks mainly to the rapid growth in superannuation, households are on the cusp of having financial assets at over half this average net worth, which has already a reality in the USA. Superannuation has accelerated the displacement of hard assets such as land, buildings, equipment and household durables such as vehicles, appliances and furniture.

The new wealth created every year is termed our gross domestic product (GDP), and it reached $1.7 trillion in calendar 2016, although we consume most of it in the form of consumable goods and services. We export around a fifth of it to balance our imports and invest around a quarter of the GDP in dwellings, buildings, equipment and intellectual property. Depreciation eats into such investment, new and old, but asset appreciation also takes place via land values and the growing value of businesses.

The exhibit below shows this new wealth creation in the year to March 2017.

Australia's Industry Mix
Shares of GDP, in F2015 price terms **Year to March 2017**



GDP $1685 billion

Note [1]: Less subsidies, but includes stat. discrepancy (0.3%)

Touring the land beats the land itself

Gone are the days when most of our wealth was created on the land. Agriculture and Mining account for less than 10% of our wealth each year. The value-added via processing is rightly credited to Manufacturing industry.

Ironically, more wealth is created these days by touring on the land (tourism by Australians and inbound tourists) at nearly $100 billion compared with Agriculture at a little over $70 billion.

Our secondary (industrial age) industries are a shadow of their former dominance. It has fallen from about 40% of GDP in the 1960s to 18% now. It is the quaternary (fourth) and quinary (fifth) service industries that are creating most of the wealth in our current Infotronics Age (1965-2040s). Health is now the nation's largest industry when the health services, medical insurance, pharmaceutical manufacturing and pharmacists are taken into account.

Only manufacturing - under blow-torch pressure from mass-producers such as China, and a lack of uniqueness or economies-of-scale - has fallen in net new wealth creation. It is the service industries creating the vast bulk of new wealth.

How do the changes translate into jobs?

This is even more the case when it comes to jobs, as seen below. The goods sector (via only Construction) created 1 in 8 of the new jobs, but the goods sectors accounted for nearly all the jobs lost over the past 5 years.

We are still creating new wealth, our net worth continues to grow and will pass $1 million per household as we enter 2018, and we are creating six times more jobs than we are losing over a 5-year period.

For all of the political shambles we put up with - worse in most other countries - our business sector continues to create this new wealth and jobs. Let's thank the business sector for that.

Phil Ruthven is Founder of IBISWorld and is recognised as one of Australia's foremost business strategists and futurists.

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