Firstlinks
a Morningstar company

Edition 388, 18 December 2020

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Editorial

In our final newsletter of articles for the year, we feature a free ebook of 20 interviews conducted with market experts across a wide range of asset classes and investment styles. A great Christmas read. Then we take a close look at ETFs, check the outlook for 2021, review where super policies are headed and include some fresh investment ideas.

But first ... If there is one thing 2020 taught us, it is to expect the unexpected. Although people like **Bill Gates** forecast in 2014 that a pandemic on a global scale would hit at some time, nobody seriously factored it into investment analysis. And even when COVID-19 struck, many analysts forecast economic doom and market collapses which also proved wrong.

Remember when **Amazon** was expected to kill Australian retailers? No doubt **Gerry Harvey** and **Ruslan Kogan** thought 'bring it on'. Remember **Afterpay** trading at $8 in March and now it's over $110. Remember how regulations would kill big tech? Remember how loan defaults would bury banks during the pandemic? And now, any number of companies are panned for their expensive valuations as the market runs on optimism. Who's to know if any company is in bubble territory?

But in another league is last week's IPO of **DoorDash** in the US. It was valued at **US$16 billion** in its last private funding round in June 2020 and it listed at US$102 before closing its first day at US$189 with a market value of **US$72 billion**. It's a seven-year-old startup that lost US$667 million in 2019 and US$149 million in the nine months to September 2020.

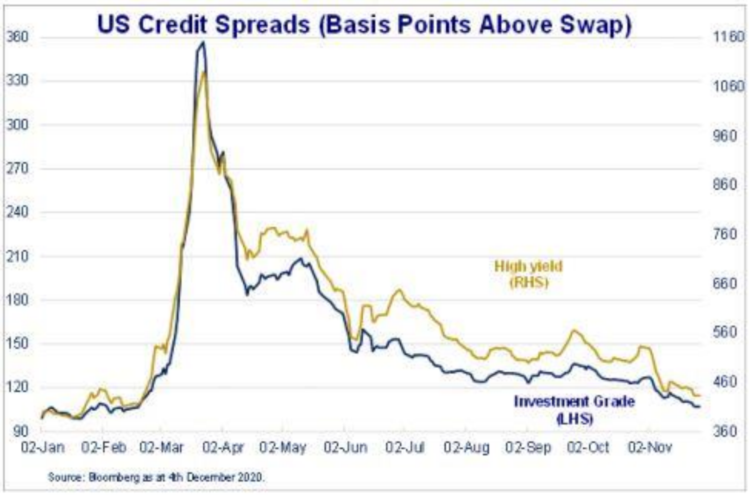
This company is not like **Tesla** which at least is changing the way we think about cars, even if it is also overvalued. DoorDash is an app for ordering food.

Asad Hussain is the lead mobility analyst at **PitchBook** (a **Morningstar** company), and prior to the float, he wrote: *"We believe DoorDash could be valued north of $25 billion in an IPO. Our analysis is based on favourable market conditions, increased investor enthusiasm, derisked regulatory environment, valuations of precedent transactions, and a similar valuation multiple to what the company has traded at in the past."*

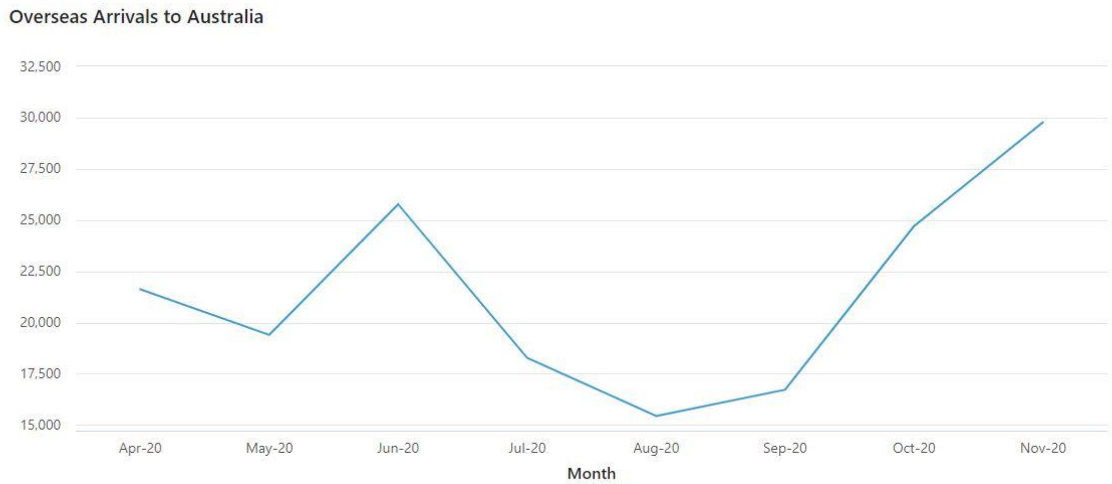
Well, US$72 billion is well north of US$25 billion, and **David Trainer**, CEO of **New Constructs**, called it "the most ridiculous IPO of 2020". He added: "*They do not have a way to make money long term. There's a lot of competition and we're seeing their market share decline. At the end of the day, this business is a race to a zero-margin business because there's really no differentiation.*"

Every market high delivers companies which mark a point in history, and DoorDash is an early candidate for a stock we will refer to for many years.

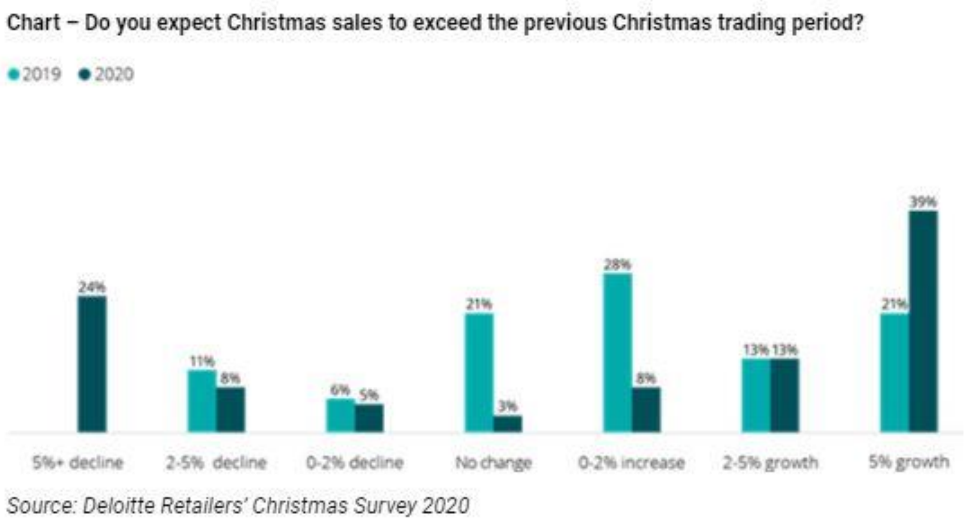
Of course, market euphoria is not limited to IPOs. Both high yield (formerly junk bonds) and investment grade bonds have rallied strongly since the start of April, and it's as if the disruption of a global pandemic never happened. Thousands of companies are stressed and with winter coming in the US, the pandemic numbers will get worse. But the search for yield is relentless, as shown here. Remember basket-case **Greece**? Its 10-year bonds are now trading close to 0.5%.



We can see reasons for the optimism even in the worst-affected of all industries, airlines. The chart below from the **ABS** shows overseas arrivals in Australia. With our strict quarantining requirements, it's surprising to see nearly 30,000 arrivals in a month. And **Jetstar** reported this week that 850 return flights a month will run by March 2021, or 10% more than in March 2019. It relies on community transmission remaining almost close to zero.



On the other hand, Christmas spending will not benefit all retailers equally. [Deloitte's recent Retailers' Christmas Survey]() shows a record number of retailers expecting sales growth above 5% but a quarter of retailers expect declines of more than 5%. Food and household goods are strong while clothing, department stores and cafes are lagging.



In this week's packed edition ...

The free ebook brings together 20 favourite interviews from 2020.

The final discussion for the year is with **Evan Reedman**, Head of Product at **Vanguard**, who describes the success of ETFs and how his company decides which products to launch. Backing up Evan's views, November 2020 was an historic month for ETFs, and **BetaShares** summarises the major milestones and identifies which funds and asset classes are benefitting.

Then **Dawn Kanelleas** looks beyond the large caps to identify small companies which are prospering and why market conditions suit them.

After a slow start to the year, 2020 is ending with an IPO bang as owners look to capitalise on bags of cash looking for a home. But it's not a road paved with gold and **Andrew Mitchell** explains what he looks for in an IPO.

We continue our articles looking into what 2021 promises with **Ron Temple** and **Apratim Gautam** who are not as optimistic as others. They list the negatives and positives including the inequitable rollout of vaccines.

Then two important papers from super industry leaders. **Andrew Boal** of **Rice Warner** says it's time the work done by various reviews led to greater clarity on superannuation objectives and post-retirement products, while **Tim Hodgson** of the **Thinking Ahead Institute** makes pointed criticisms of the Government's '*Your Future, Your Super*' reforms as a poor way to measure fund performance.

Finally, an important checklist from **Jonathan See** for anyone taking the opportunity over the holiday season to clean up their personal affairs. Don't leave a paperwork and administrative nightmare behind for some poor friend or relative to clean up after you die.

In a year when ESG investing has further entrenched itself in the mainstream, our final White Paper for 2020 from **Perpetual** looks at how renewable energy is straining our existing energy system during such a rapid transition.

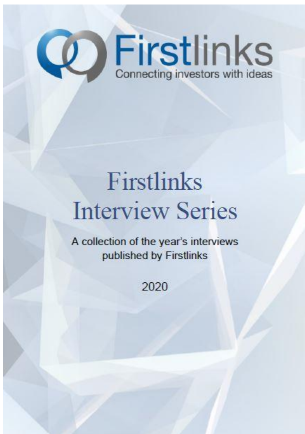
Thanks for following us again in 2020, our highest year of reader engagement with the added distribution resources of Morningstar.

Next Thursday is Christmas Eve so we will take a break before publishing an end-of-year **Special Edition** the following week. Watch for lots of great investing ideas from many of our leading contributors. Have a good (and healthy) Christmas as you catch up on some reading.

Special Edition eBook: Firstlinks 2020 Interview Series

Firstlinks

One of my favourite parts of editing Firstlinks is learning more about products and businesses in our Interview Series. They are highly popular with our readers as they go beyond the marketing messages to identify investments or styles from leaders in the industry. We often allow the interviewee to mention their own products as readers need to know where to go to find out more. This year's collection of 21 experts covers most asset types and is a window into how portfolios can become more diversified to manage risk.



From the start of Firstlinks (previously Cuffelinks) in 2012, we have focussed on the insights of market experts on investing, superannuation and many social and demographic issues. Our audience now totals about 80,000 Monthly Active Users making over two million pageviews a year. The first year of Morningstar ownership has provided additional resources and distribution reach. Our website includes a searchable archive of over 3,000 articles.

These interviews have not been 're-edited' and should be read in the context of the date they were written.

Please share this free ebook with friends and colleagues and encourage them to subscribe to our weekly newsletter for more great insights over coming years.

Evan Reedman: Australian ETFs from slow burn to rapid fire

Graham Hand

Evan Reedman is Head of Product and Portfolio Review Department at Vanguard Australia. Globally, with $9 trillion in assets under management as at 30 September 2020, including about $2 trillion in Exchange-Traded Funds (ETFs), Vanguard is one of the world's largest global investment managers.

GH: How would you describe the usage and acceptance of ETFs in Australia now versus five or 10 years ago, in both retail and institutional markets?

ER: Initially, we had a slow and steady burn, but in the last few years, investors have become comfortable with ETFs as an investing vehicle. Initially, support came from financial advisers, but increasingly, individuals are using ETFs for themselves. This year has seen record inflows in what was supposed to be a difficult market, with Australian ETFs rising about $5 billion in November 2020 with net inflows a record $2.5 billion. There is now $92 billion invested in ETFs in Australia. Investors now accept that ETFs are ideal for broad market exposure in a single trade for a relatively low cost, and that's what most ETF strategies provide.

GH: What have been the best two or three funds for inflows within the Vanguard range, and which haven't done much?

ER: Unsurprisingly, as we see in every market, the home bias funds do the best, which for us is the Vanguard Australian Shares ETF (ASX:VAS). It continues, year in year out, to be the most popular ETF that we offer, and is now sitting at about $7 billion. The others that have done well are the Diversified ETFs. People are looking for portfolio solutions and the diversified funds are a pre-packaged asset allocation solution.

The least popular are harder to identify as we have launched some new ETFs which still have small balances, but that does not mean they are out of favour. They are still finding their feet.

GH: Next year is Vanguard's 25th in Australia. For many years, your products were all unlisted managed funds with no ETFs but now I'm guessing ETFs receive the most flows. Is that correct?

ER: It's really been in the last two to three years that ETF flows have exceeded managed funds, for a couple of reasons. One, investors are now comfortable with the structure. And two, many of the businesses that we partner with in the industry, particularly financial advisers and platforms, have evolved their technology to suit holding ETFs as their preferred vehicle.

GH: How do you manage the different price points facing investors when they invest in Vanguard through a managed fund or ETF?

ER: Some of the price differences reflect the manufacturing and distribution costs of those products, and the mechanics of how they work, such as payments for registries or to index providers. So while we strive to offer the most competitive price points in the respective products, there are some price differences. We leave it to the adviser and the client to make the choice based on what suits them, depending on the platforms or systems they use.

One example is that a platform might facilitate a regular savings programme more efficiently than buying small amounts of ETFs and paying brokerage each time. We're agnostic, it's up to the client.

GH: Part of your title is 'Portfolio Review Department'. What does that do?

ER: It's Vanguard's eyes and ears to the market. We focus on what we call 'fund health'. It's not a matter of just putting a fund on the shelf and leaving it, but ensuring the products are operating efficiently including reporting to the Vanguard Board and the Global Investment Committee. We try to take a dispassionate and factual assessment on how they are performing. You might think of it as an 'in-house asset consultant'.

GH: Vanguard has a global reputation for index or passive ETFs but you also offer active funds. How do you reconcile the two?

EV: In Australia, we have two active equity products with sub-advisers Baillie Gifford and Wellington. We bring what we consider the best capabilities to the market and Vanguard has been working with some of these external managers for 40 years or more. The fund might be called the Vanguard Active Global Growth Fund or the Vanguard Active Emerging Markets Fund, for example, but we make it clear that there is a sub-adviser.

GH: Why does Vanguard focus its ETFs on broad market exposures rather than thematics or niche products?

ER: We need to have an economic reason for a product that meets a long-term investor outcome. The investment case must be strong and enduring for the needs and preferences of our primarily retail and intermediary clients. So we ask, 'What problems are investors trying to solve?' And we focus on their retirement goals or having income to spend in retirement. It's a different approach to some in the market which means we launch fewer products but it also ensures longevity in our product suite as well.

GH: Would you avoid a product which looks like it will generate good flows and be fashionable for a year or two but maybe not in five years?

ER: That's the sort of thing we do. We err on the side of saying that we're okay if others want to play in that space or offer a product but if there is any doubt about the longevity of the fund or even how it might be used by particular clients, we stay away.

GH: So we won't see the Vanguard Crypto Fund?

ER: It's funny how often I am asked about crypto or gold or inverse ETFs, but you will never see those from Vanguard. I'm not making any judgment on others, it's about product philosophies and who we are.

GH: Even with the current ETF income range, a lot of retirees are struggling for income. To what extent does Vanguard believe this can be solved by going down the risk curve, say into non-investment grade securities, or does the risk problem prevail?

ER: We still need a compelling economic rationale and we take a long-term approach to achieving outcomes. So first I'd say people should be taking financial advice. And second, investors should understand exactly what they are invested in, check the way their portfolio is constructed and ensure that what they are holding is true-to-label in order to allow them to ride out a short-term reduction in income. Unlike many active managers, we replicate a stated benchmark in our index funds and ETFs, so they would not be moving up and down the risk curve.

GH: Does Vanguard feel compelled to respond when another ETF provider launches a similar fund at a cheaper price?

ER: Our overall pricing philosophy in both managed funds and ETFs is to provide the best value to our clients with a high-quality product. But obviously we are running a business and we need to make money, so we focus on the long-term return to ensure Vanguard in Australia is a sustainable business. We watch what our competitors are doing but sometimes they may be using a different index or third-party service with different input costs. There are various price points where iShares or BetaShares have lower prices on similar products but we don't have a philosophy that says we have to be the cheapest. It's the final net outcome to the client that matters most. Value for money does not always mean the cheapest.

GH: As Head of Product, how does your role overlap with other people in Vanguard?

ER: Two major project teams which my team is currently working closely with are our Personal Investor team on enhancing our new digital retail offer, and the team building our new superannuation offer. But naturally the Product team has close ties with all other areas of the business managing our offer to investors.

GH: It's extraordinary that there are now more ETFs in the US than there are stocks. Are you concerned that development has gone too far, that it's not healthy for the ETF industry to have so many funds which inevitably means many will also close each year?

ER: We don't think we should test our product ideas on clients' retirement savings. It's up to us as investment professionals to ensure there are enduring reasons why we're offering a product to clients and it's not just to make a sale. So I do get concerned and I hope we do not see a repeat of the US experience in the Australian industry where every investment idea becomes an ETF.

GH: Finally, what major trends do you identify for the future growth of ETFs?

ER: Something that's moved from the institutional space to individual investors is ESG investing. The environmental, social, governance and ethical ways ETFs are constructed continue to grow at pace. Advisers and clients are really looking for these funds now. We recently launched an Australian Ethically Conscious fund based on the ASX300 but using a FTSE methodology and not the S&P index that we use for VAS. It's still small, obviously, but attracting good retail flows in its first couple of months of trading.

Graham Hand is Managing Editor of Firstlinks. Evan Reedman is Head of Product at [Vanguard Australia](), a sponsor of Firstlinks. This article is for general information and does not consider the circumstances of any individual. For more articles and papers from Vanguard Investments Australia, please click [here]().

Five reasons Australian small companies are compelling investments

Dawn Kanelleas

In a year full of ups and downs in investment markets, many Australian companies have stood out for their strong performance, and they aren't all at the big end of town. Our investment strategy looks for innovation and growth on the ASX and we consistently find it amongst the smaller players.

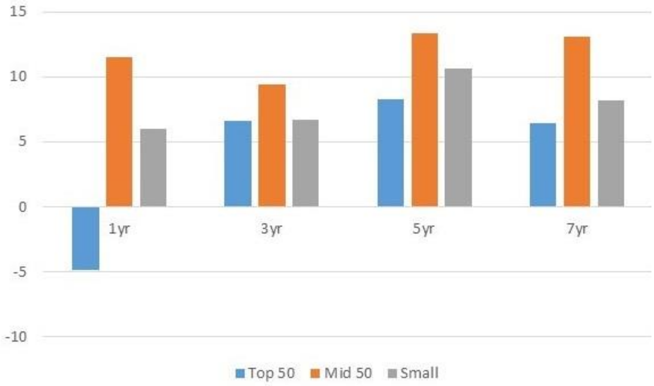
Here are five reasons we believe small- and mid-size companies are compelling investments.

1. Smaller companies can outperform

The small- and mid-cap index has provided better annualised, total returns versus the top 50 listed stocks over the past one, three, five and seven years to the end of November 2020. The market rewards innovation and the smaller end of the market is home to growth stocks with innovative and disruptive business models.

Investors who focused on total returns over these time periods may have received better rewards from these smaller companies than if they bought the big banks, miners and other Top 50 companies.

Multi-year total return (per annum) to 30 November 2020



Source: Bloomberg, as at 30 Nov 2020. Indices used: ASX Accumulation 50 Leaders Index; ASX Accumulation Midcap 50 Index; ASX Accumulation Small Cap Ordinaries Index. Past performance is no indication of future performance

2. Aussie tech punches above its weight

Software-as-a-Service (SaaS) provides important technology for millions of businesses around the world, and Australia is home to global operators that started on the ASX as microcaps. Some of these companies have high levels of recurring revenue and attractive long term global growth opportunities and include:

- **Xero** - Cloud-based accounting software provider for SMEs with more than two million subscribers worldwide.
- **Altium** - Benefits from demand and proliferation of electronics through the rise of smart connected devices.
- **Technology One** - Invested heavily and ahead of its peers in a cloud offering of enterprise software.

3. Miners power the future

Australian mining is more than just digging up the Pilbara. In fact, companies that mine metals play a key role in a range of modern digital and green technologies. For example, Lynas is the largest producer of rare earth oxides outside China and the second largest in the world. Mining company IGO is strategically focused on metals critical to clean energy. Its Nova nickel mine is a very low-cost producer vs global peers, and it recently hit the headlines for a high-profile deal to buy a stake in Chinese producer Tianqi.

One Tesla S battery requires more than 50kg of nickel and Tesla CEO Elon Musk recently tweeted that "Tesla will give you a giant contract for a long period of time if you mine nickel efficiently and in an environmentally sensitive way." IGO's focus on environmental sustainability puts it in a sweet spot to deliver on Musk's challenge.

4. Healthcare has a healthy outlook

Australia is home to world-leading innovators in healthcare including ResMed, Fisher and Paykel Healthcare, and Nanosonics. These companies are exposed to an industry sector that tends to perform well in down markets, and their high market penetration and reputation creates high barriers to entry for competitors.

In the Covid environment, ResMed and Fisher and Paykel Healthcare have been on the front line of demand with their world class respiratory products, while Nanosonics, a world leader in high level disinfection technology, will likely benefit from heightened global awareness of virus and bacteria control.

5. Product design is world-class

A number of iconic Australian brands are exporting Intellectual Prpoerty to the rest of the world and taking global leadership positions in their space.

Breville's targeted investment towards new product development, a scalable supply chain, and clever marketing has led to strong growth in the US and Europe. ARB, Australia's largest manufacturer and distributor of 4x4 accessories has a vast international presence and has entrenched its leadership in this space via substantial investments into research and design over many decades.

Both Breville and ARB may have been boosted by the lifestyle changes that the pandemic sparked, but beyond that, they are supported by strong financial and strategic characteristics.

Price isn't everything

Across all investment opportunities in our universe, we focus on identifying businesses with sustainable competitive advantages, strong financials and predictable earnings. Valuation is also important, but it is equally vital to consider the global market opportunity available, particularly to those businesses with high established barriers to entry and relatively low penetration rates.

When we identify businesses with all of these characteristics, we aim to construct portfolios that are preferentially weighted towards these attractive long-term growth opportunities.

Dawn Kanelleas is Head of Australian Small and Mid-Cap Companies at First Sentier Investors, a sponsor of Firstlinks. This article is for general information only and is not a substitute for tailored financial advice. Any stock mentioned does not constitute any offer or inducement to enter into any investment activity.

For more articles and papers from First Sentier Investors, please click here.

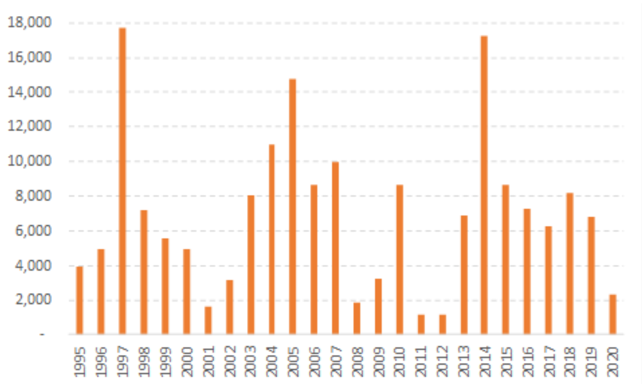
IPO a-go-go: the who, why, when and how much of IPO investing

Andrew Mitchell

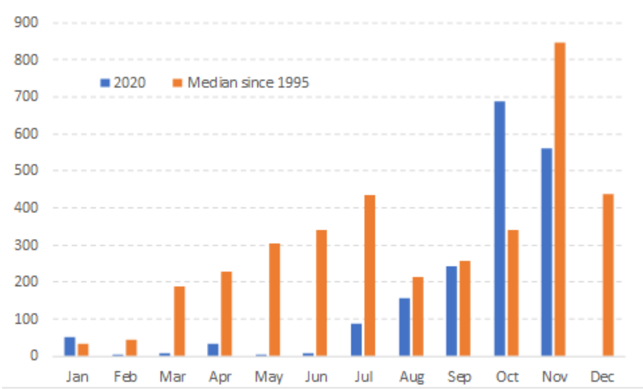
Australian capital markets have been showing signs of life recently, with the Initial Public Offer (IPO) cycle rising like the phoenix from the proverbial ashes. After a dearth of new issues for the first eight months of the year, IPOs have come roaring back in the last three months (see charts).

Of the $2 billion of new shares hitting the Aussie equity market this year 80% has been since September and we expect an unusually busy December as well.

Completed Aussie IPOs (A$M)



Value of IPOs 2020 vs median level since 1995 (A$)



Charts: Ophir Asset Management, MST Marquee.

With the surge in IPOs, investors must be asking: how do I decide which company to invest in? As we know, IPOs can deliver big profits, but also big losses.

At Ophir, IPOs are subject to the same investment process that we put every company through. This sees a strong focus on earnings and its sustainability. We particularly look at the business model, the industry structure, its returns on capital, as well as how clean the balance sheet is and the quality of its management team.

But for IPO’s, to see if it’s a deal we’ll participate in, we also ask six key questions. We believe that if investors ask these questions, they’ll be much better placed to navigate this avalanche of IPOs.

1. Who is the vendor?

First, we want to understand who the vendor (seller) is. Regarding owners, we can generally contrast private equity vs strategic sellers into the IPO. If its private equity you need to look at their track record. This can be a real mixed bag. The best private equity outfits will play the long game, leaving some money on the table for IPO investors and taking the company to market with a legitimate and sustainable cost base. The worst will be opportunistic, only going to market when they can maximise price with juiced up profits – often leaving a sour taste in the mouth for those unlucky to buy from them.

It is also important to do your due diligence on board directors. Buyer beware for those IPOs with a window dressed board that have been ’assembled’ for the IPO. We can’t stress this enough: good directors find good companies. Prospective directors get access to more information than investors and the best will do extensive research before joining a company. Steer clear of those who have a history of riding the NED (non-executive director) merry-go-round of average companies, with the primary aim of collecting directors’ fees, as opposed to adding value.

Also, how much is being sold down by the owners? Is it a small or large percentage of their holding? Importantly, it pays to understand any escrow period for the holding that is retained by pre-IPO owners. The longer the time period the less secondary market selling pressure can be expected from them.

2. Who’s the broker?

The broker, essentially the seller’s agent, needs to have a strong history in the IPO market with a large and diverse client base to help get the sale away. Most importantly, the scale of their ‘skin in the game’ is important. How much of the IPO have they underwritten (which means they will be left holding shares if they can’t sell them all) and how much are their retail clients taking up the offer? The more they have on the line, the more they care about how the company trades post IPO.

3. Who are the buyers?

The last thing an IPO buyer wants is for the brokers running the IPO book to have to go to the ends of the earth to find buyers to complete the deal. Strong demand with an over-subscribed deal will help ensure there is strong post-listing demand.

Look out for the management team that needs to do a lot of zoom meetings with overseas investors to get the deal done. Be wary of too much interest from overseas hedge funds. They can often buy at the IPO then dump the stock as soon as it lists to make a quick profit.

4. Why is the IPO happening?

Warren Buffett’s business partner Charlie Munger has famously said, “You show me the incentive, I’ll show you the outcome”. There are many reasons why companies IPO, from a forced sell down, the need for growth capital, as a retention tool for staff, to pay back debt, or simply because the IPO window is open and they can.

The best IPOs are generally where there is a forced sell down by the owners and when key staff are taking no money off the table. Again, the more skin in the game the bigger the incentive for management to grow the business post IPO.

Historically the best IPOs we have made money from at Ophir have typically been some of the least loved or overlooked. They are often subsequently repriced after listing when earnings turn out better than others expected.

5. When is the IPO?

The timing of IPOs is one area where investors can run afoul. More IPOs occur when market or industry valuations are at cyclical highs. These periods can often be times of market euphoria during the latter stages of a bull market when FOMO (Fear of Missing Out) takes hold, everyone wants in and the stock market dominates taxi/Uber discussions. This is often the worst time to invest in an IPO.

But just like share market timing in general, investors tend to do it at the worst time, flocking in after the market has gone up, and selling of staying away after the market has gone down…generally the opposite of what a rational investor should do.

IPO and aftermarket demand will usually be found for those companies where their type of business is scarce on the ASX or unique versus other competitors (e.g. Buy Now Pay Later in the early days compared to the existing payments space). Professional investors crave diversification and will usually leap at the chance to get exposure to earnings streams that move different to the rest of their portfolios.

6. The How Much?

Finally, it's worth remembering that a great company doesn't necessarily make a great investment – it depends on the price you pay.

No matter how good the story is, if you are forced to overpay, you will likely get poor returns. Here valuation models such as discounted cash flows (DCF) and valuation multiples versus competitors, both domestically and offshore, are key.

Naturally, the underlying performance of the company should be analysed. Ideally you have at least five years of historical revenue and profit to look at. Watch out for the company cherry picking time periods or numbers to make them look better than they are.

The forecasts in the prospectus should also be scrutinised for how conservative or aggressive they appear. Quite often it is good to find out who are the advisors and auditors of the prospectus. Some are more conservative than others. You should also check out the warranty period for the forecasts (ie how far out are sales of earnings projected) in the prospectus and should ideally test the assumptions behind them with management.

Finally, it is worth putting the IPO deal to the smell test. If you get the opportunity to grill management, looking through the risks outlined in the prospectus is a good place to start for questions. Directors want to make sure they are not liable if something goes wrong so there is valuable information here. If you do not feel comfortable with the risks, or don't like management's answers when questioned on them … don't invest.

Take your due diligence checklist IPO shopping

There is no doubt the IPO market is surging at present.

While much of the IPO activity now is a result of the backlog of deals from earlier in the year, we can also count many opportunistic offerings. Gold companies are once again selling stock, no doubt trying to cash in on the elevated commodity price. Meanwhile, several consumer companies, like Adore Beauty, could be benefiting from a sharp recovery in consumer confidence (and from a potential customer base looking at itself on Zoom for the last six months!).

But unlike the last two years, when there has been many 'pulled IPOs', sellers are providing investors with what they want.

Still, be sure to take your due diligence checklist when IPO shopping this holiday season and you will be much more likely to pick a big winner than a big loser.

Andrew Mitchell is Director and Senior Portfolio Manager at Ophir Asset Management. This article is general information and does not consider the circumstances of any investor.

How to give retirees the confidence to spend

Andrew Boal

Australia has one of the best retirement systems in the world for accumulating savings. Yet, like many other countries, we continue to struggle with how to design an efficient retirement spending system. To some extent, this can be attributed to the absence of a clear purpose as to what we are trying to achieve.

Objectives not passed into law

Following a recommendation by the Financial System Inquiry, the Superannuation (Objective) Bill was introduced to Parliament in 2016 to establish the primary objective of super: "to provide income in retirement to substitute or supplement the age pension".

While it is a start, it does not provide a lot of direction. The Explanatory Memorandum provided more guidance, and two of the proposed subsidiary objectives noted at the time were to facilitate consumption smoothing over the course of an individual's life, and to manage risks in retirement.

Unfortunately, these objectives have lapsed in Parliament, so we still have some uncertainty about the overall pathway to better retirement outcomes.

More recently, in September 2019, Treasurer Josh Frydenberg announced a review into the retirement income system as recommended by the Productivity Commission in its report, *Superannuation: Assessing Efficiency and Competitiveness*.

The panel appointed to run this important review, released on 20 November 2020, was given terms of reference that included:

"It is important that the system allows Australians to achieve adequate retirement incomes, is fiscally sustainable and provides appropriate incentives for self-provision in retirement."

In this context, the panel identified four principles to assess the performance of Australia's retirement income system:

- adequacy
- equity
- sustainability
- cohesion

This latter one is particularly important. How do the various parts of the system work together to improve retirement outcomes in Australia?

Retirees in 'the middle'

It is only recently that a significant number of Australians began retiring with material retirement savings, with around 35% of superannuation balances at retirement reaching $250,000 or more. Over the next 20 years, this is set to change with almost 65% reaching that level. While around 15% of superannuation balances will exceed $750,000 in 20 years' time, as a proportion, retirees in 'the middle' will double from around 25% to 50%.

Retirees in this 'middle' group are likely to be eligible for a part age pension for a substantial portion of their retirement and, as a result, the means test rules will be important for them.

Legislation was also passed in February 2019 to amend the means test rules that apply to longevity protection products with effect from 1 July 2019. Under the new rules, only 60% of the purchase amount of a lifetime income stream is an assessable asset and only 60% of the payments are income.

These regulatory changes should, in time, promote the development of new longevity protection products such as deferred lifetime annuities (DLAs) or deferred group self-annuitisation (GSA) products, which should help retirees plan their retirement spending with more confidence.

However, they add further complexity. Consider a person who is a homeowner, who retires at age 67 with a superannuation account balance of $500,000 and who uses $50,000 to purchase a DLA. With 40% of the purchase price (or $20,000) no longer counting for the assets test, this person will be entitled to $1,560 per annum more in age pension payments for around 10 years.

The confidence to spend

Longevity risk is one of the major risks faced by retirees. The fear of running out of money and the uncertainty about how long a retiree might live causes many to try to manage their own longevity risk by spending cautiously. In addition to its favourable treatment under the means tests, a DLA partially solves that problem by providing a guaranteed amount of income for life once payments commence.

This allows retirees to more safely draw down the remainder of their savings up to that point, thereby enjoying a lifestyle that is better than would otherwise be the case during the early and more active years of retirement.

Unfortunately, DLAs and other annuity products are often criticised as being 'expensive'. The question is: compared to what? Many people undervalue the insurance component of the product but also because of the conservative nature of the investments typically backing these products. Retirees who want to leave a bequest to their family also prefer to add a death benefit to the product, which also makes them more 'expensive'.

Maybe it's time to go 'back to the future', where the annuity is a form of 'with profits' or unit-linked policy so that the policyholder shares the investment return (and risk). The number of units paid each year until death would remain the same, but the dollar amount would vary depending on the performance of the underlying investments selected by the retiree.

Unit-linked DLAs would have two distinct advantages over traditional annuities.

First, these products could remain invested in more growth assets during the deferral period, much like an account-based pension (ABP), with retirees able to dial down the risk profile of the investments as they get older, either by choice or automatically, via a form of life cycle investment.

Second, they would be more attractive to advisers who understand investment risk and return and can assist their clients. As annuities are not well understood in the general community, some form of guidance or advice will be needed to help retirees understand how DLAs and other retirement products can help them in retirement.

Retirement Income Covenant

One of the announcements in the 2020 Federal Budget was the deferral of the Retirement Income Covenant to July 2022, to allow the findings of the Retirement Income Review to inform the discussions and any further consultation.

According to Treasury, the Covenant will codify the requirements and obligations for superannuation trustees to consider the retirement income needs of their members, expanding individuals' choice of retirement income products and improving standards of living in retirement.

The Covenant is supported by a number of key principles:

- Trustees should develop a retirement income strategy for members.
- Trustees should offer all members a comprehensive income product for retirement (CIPR), which, by design, would provide longevity protection and some access to capital.
- Trustees should provide guidance to help members understand and make choices about the retirement products offered by the fund.

With the release of the Retirement Income Review Final Report and ensuing consultation on the Covenant, we look forward to the introduction of new retirement income products and affordable access to better guidance and advice.

We will then be able to help more members secure a better retirement, where they can spend more of their savings safely, especially in the early years of retirement when they are healthier and more able to enjoy it.

Andrew Boal is Head of the Actuaries Institute's Retirement Strategy Group and CEO at Rice Warner. This article was first published by Your Life Choices and is reproduced with permission.

The road to super hell is paved with good intentions

Tim Hodgson

Australia's superannuation system is held in extremely high regard around the world. We are deeply interested in whether the proposed *Your Future, Your Super* reforms (which include the performance measurement of super funds) will further strengthen it for the benefit the super fund member, or weaken it.

The reform's intentions are unquestionably good, however we believe that, in three important areas, they will be counterproductive and will make member outcomes worse. In our view, member outcomes will suffer because aggregate costs will rise, long-term achieved returns will be lower and systemic risk is likely to increase.

1. Aggregate costs will rise

Australia's institutional system comprises a retail sector and an industry funds sector, with an SMSF opt out for individuals. Given the adoption of an identical investment strategy, retail funds have typically had higher costs than industry funds. The higher costs reflect that it is more expensive to recruit individual retail members than to recruit a new business with underlying employee members, and paying a profit margin to a shareholder is an additional expense.

By stapling one super fund to the member, all other super funds will now have to compete as if they were retail funds, in order to persuade individuals to unstaple themselves and restaple to a new super fund. This reform shifts the industry funds from a business-to-business operating model, to a business-to-consumer model with the associated significant increase in cost of acquiring new business.

2. Long-term achieved returns will be lower

If the costs of the super fund business go up then the net investment returns to members will go down. A higher cost of acquiring new business is certain and carries no obvious return benefits (perhaps slightly increased scale benefits), and so is likely to reduce the net return to members.

However, this is not the only way in which we believe long-term achieved returns will be lower.

The performance test is likely to be counterproductive in that it will divert skill and attention away from maximising absolute returns towards the management of career risk – the returns relative to the *Your Future, Your Super* composite benchmark.

In the current super fund system, the risks and rewards of trying to maximise absolute returns are somewhat symmetrical and fairly muted. The peer group comparisons mean that getting it wrong, or right, in the pursuit of absolute returns will put a super fund at the bottom, or top, of the table. In the post-reform super fund system, the risks and rewards become distinctly asymmetric and the consequences become highly significant.

Underperform the benchmark by 0.49% p.a. and 'nothing happens' but underperform by 0.5% p.a. and you are likely to have to exit the business. This may sound over dramatic. However, while a super fund has 12 months to rectify its performance, in reality, failing the first test will imply something like a 90% probability of failing the second test a year later.

At this point the super fund then cannot accept new members, and whilst this is not necessarily terminal, we believe a failed test would be an existential event.

Faced with those consequences, how would you manage the portfolio? To maximise the long-term absolute returns or to not fail the performance test?

In some market conditions, or for some periods of time, the two objectives may happily align but that will not be case at all times or in all conditions. The reforms invite super fund investment teams to more fully emphasise the management of their career risk.

Jeremy Grantham has written extensively on career risk, calling it the biggest driver of investment behaviour. By upping the ante on career risk, the reforms will change investment behaviour. It is our contention that this will act to reduce the long-term absolute returns achieved.

While on the subject of investment returns, the bluntness of the test is hugely significant. Of the seven largest pension countries that we track in the Global Pension Asset Study, Australia is already the worst in terms of pursuing the proxy goal of peer performance (as opposed to member outcomes).

This proposal accentuates an area where experts agree Australia already has an issue. The aim should be to get the best measure of prospective expected outcome; however the validity of proxying that with an eight-year performance test is really low.

3. Systemic risk is likely to increase

One of the implicit aims of the reforms is to compress the range of investment outcomes by cutting off the underperforming tail. If that was the only effect on the range of investment returns then we would have no problem.

However, the career-risk point makes it reasonable to assert that this is unlikely to be the only effect. We believe is it likely that herding behaviour will increase and further narrow the range of achieved investment returns. This, in turn, increases the correlation of member outcomes, meaning that when the DC system fails to deliver the expected, or hoped-for, returns, it fails to deliver them for all members at the same time.

This then has implications for the age pension and taxpayers. While we in no way condone the protection of persistently underperforming funds, a system's perspective shows that the problem must be managed without raising systemic risk.

In summary

The proposed reforms will, in the main, move the Australian system away from, rather than towards, global best practice that truly puts member needs and outcomes above all other considerations.

Specifically, the proposed reforms are highly likely to be counterproductive by raising costs and systemic risk, and by reducing long-term returns. Furthermore, we believe the reforms are likely to negatively impact business models, behaviours and investment practice.

The reforms are well-intentioned, but the unintended consequences are too significant to leave them as they are. We urge they be revisited and amended to reduce the chances of damaging one of Australia's prize assets.

Today's officials need to be fully conscious that the consequences of their decisions will play out over the longer term, so will require real vision and understanding now to avoid imperilling the next generation's savings.

Tim Hodgson is Co-Head of the Thinking Ahead Group, an independent research team at [Willis Towers Watson](#) and executive to the [Thinking Ahead Institute](#). This article is general information and does not consider the circumstances of any investor.

What to watch in post-pandemic 2021

Ronald Temple, Apratim Gautam

As 2020 nears an end, investors face a challenging combination of crosscurrents. On the positive side, the US election has passed with a market-friendly outcome and three COVID-19 vaccines appear to be within weeks of widespread distribution, with more likely to follow.

Typically, these events would be the all-clear signal investors need to shift out of defensive work-from-home beneficiaries into cyclical recovery plays. However, major developed countries across the Northern Hemisphere are facing new record levels of COVID-19 infections, spurring new economic lockdowns and increasing the risk that many companies, particularly small businesses, might not make it to the other side of this pandemic.

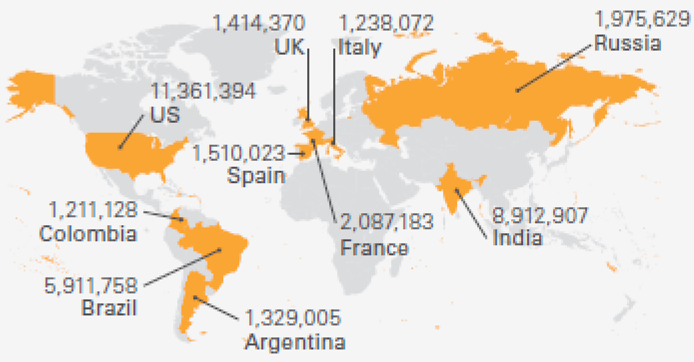
Judging from our earlier pandemic experience, this scenario would signal exactly the opposite market reaction as that to the vaccines. Investors face a timing conundrum, indicating yet again that it is likely to be darkest before the dawn.

The timing conundrum

Against this backdrop we believe it is fair to say that the global outlook for 2021 is mixed. The positive news is that we are now at the beginning of the end of a pandemic that has infected more than 55 million people and resulted in at least 1.3 million global deaths (Exhibit 1).

However, this process will be long and complex, and life may not return to normal in wealthy developed countries until 2022. Less wealthy countries will wait at the back of the queue for access to the vaccine and are likely to fall further behind developed economies in the meantime. Even within wealthier nations, inequitable distribution of the vaccine could exacerbate existing inequality.

Exhibit 1: COVID-19 Infections Continue to Surge across the Globe



As of 18 November 2020
Source: John Hopkins University COVID-19 Tracker

Moreover, the consequences of the lack of fiscal follow-through to support economic activity in the United States are likely to accumulate, dampening the pace of the recovery. Fortunately, European governments have enacted significant fiscal stimulus packages and are poised to benefit from the European Union recovery fund as it begins disbursing funds in 2021. China, by contrast, has rebounded rapidly from the pandemic and is on track to deliver growth in 2021 at levels not seen in years on the back of significant monetary and fiscal stimulus.

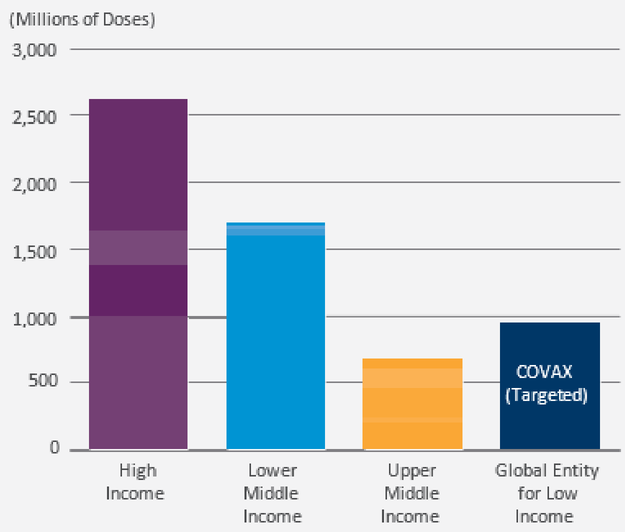
This backdrop is not new. Navigating it is becoming more treacherous, however. Global central banks hoping to invigorate growth and increase inflation expectations continue to prop up the value of financial assets, but we appear to be approaching a point at which central banks can no longer drive the economy.

If that is the case, security selection will be more important than ever as we wait for a paradigm shift to economic growth that gives rise to the next investing regime.

The COVID-19 vaccine could result in major economic divergence

The creation of new vaccine techniques could herald a new dawn in vaccine technology which could mean humanity is less at risk from pandemics in the future. And yet, the politics of vaccine distribution may be the most challenging part of the process. How, when, and who gets access to the vaccine may exacerbate the inequalities that have marked the last few decades, create new forms of bio-inequality, and result in long-lasting imbalances. Policy makers can ensure the vaccine is distributed equitably, but if they fail, citizens may not forget. Exhibit 2 shows the potential inequity.

Exhibit 2: Wealthier Countries Will Have More Access to Vaccines



As of 11 November 2020
High Income regions represent: UK, US, Japan, and the EU. Source: Launch and Scale

Let's summarise the positives and negatives for the US, Europe and China with more details in the full paper linked below.

US outlook: positives and negatives

Positives

- Vaccine approval and rollout will likely accelerate an economic recovery
- Continuing expansionary fiscal policy is likely, though it may be smaller than Democrats hope
- Extremely accommodative monetary policy will last for several years

Negatives

- Potential policy gridlock from a divided government
- Lack of meaningful additional monetary policy tools could limit effectiveness

Europe outlook: positives and negatives

Positives

- Major fiscal stimulus could greatly assist the economic recovery
- Stimulus targeting green investments could be critical in diminishing carbon emissions and catapult Europe into the lead on green technology

Negatives

- Political fragility, from Brexit to Hungary and Poland, could hamper recovery efforts
- A change in German leadership could bring uncertainty to the union

China outlook: positives and negatives

Positives

- A strong economic recovery could help keep the global economy afloat
- A greater emphasis on quality of growth could reduce pollution and health problems

Negatives

- Ongoing dependence on credit raises risks of excessive leverage
- The country's human rights record will draw greater criticism and pressure

Investment implications

The next six months are likely to represent a choppy transition to the post-pandemic investing environment later in 2021. We urge investors to remain focused on the long term rather than trying to time the ups and downs of short-term market gyrations.

With the US political system likely to be mired in the gridlock of divided government, fiscal policy probably will not jolt the global economy out of its longer-term lethargy. The EU recovery fund and ongoing Chinese stimulus measures offer some hope of a stronger economic rebound than occurred after the Global Financial Crisis when much of the euro area suffered under excessively rigid dogma around fiscal conservatism. This ideological rigidity cost tens of millions of people years of economic vitality and has had lifelong implications for earnings, health, and happiness.

This time, Europe seems to have risen to the occasion and is trying to accelerate the recovery, while also using the opportunity to more aggressively target climate change.

Monetary policy may continue to be a focal point for investors but central banks have few tools left at their disposal. With negative real interest rates across developed markets, investors seeking income likely will continue to struggle to find attractive opportunities.

We believe much of the developed market sovereign debt universe is unattractive. We would either rely on an actively-managed global fixed income strategy that can tactically allocate to attractive opportunities or, if investing directly, we would seek incremental returns from investment grade corporate credit, high-grade securitised credit and select hard currency emerging markets debt issues. The extra yield on these assets results from incremental risk, but at this stage of the economic cycle, appears attractive relative to the alternatives.

The 'lesser evil' of asset allocation

We have seen in the past that extended periods of extraordinarily low interest rates can lead equities to appreciate as investors choose the "lesser evil" in their asset allocations. We expect 2021 to be no different. Our base case is that equity valuations continue to climb. The conundrum we face within the equity market is the tension between the cyclical impetus to invest in stocks that tend to outperform as their returns on capital improve after economic downturns versus the structural benefits from persistent ultra-low interest rates for quality and growth stocks. The stocks that are likely to benefit from cyclical improvement are not limited to those traditionally viewed as being value stocks. There are many companies across a range of subsectors that have traded materially lower as investors seem to have concluded that the decrease in demand and the subsequent decline in returns on capital caused by the pandemic are permanent rather than temporary.

In some cases, we disagree and would argue that the arrival of vaccines should lift those shares higher. On the flip side of the story, the market has also priced other stocks that have benefited from the pandemic as if the gains are permanent and returns will remain elevated for years to come. In some cases, we believe this optimism is well placed as structural trends were accelerated and pulled forward. In others, however, it is not, and we expect meaningful downside moves in some shares as the pandemic winds down.

While the jury is out on factor allocation decisions, considerations around the level and trajectory of financial productivity relative to the valuation of shares are critical from a security selection basis.

In this case, we would caution against chasing companies that depend on cash flows far in the future as they are susceptible not only to the risk of failing to deliver on their business plans, but also to seeing their valuations compressed severely if interest rate trends change and discount rates increase vis-a-vis future cash flows.

Quality stocks, on the other hand, have a long history of outperforming markets through the cycle, albeit with short punctuated periods of relative weakness. We would focus on capitalizing on near-term anomalies to position in these quality companies, complemented by companies that can improve returns to pre-pandemic levels as we exit this crisis.

Summary of opportunities

The pandemic has exposed fragilities that had been overlooked for decades and that will now need to be addressed. At the same time, we saw that governments can respond to a crisis with both fiscal and monetary policy tools that can be very effective.

The key is sustaining the use of those tools long enough to exit the crisis, rather than misinterpreting the success of the policies to mean the stimulus is no longer needed. In the United States, we expect significant policy changes from President-Elect Biden, but also legislative gridlock. The EU recovery fund and stimulus programs in China should help lift growth locally, but the United States will have to wait for a cyclical recovery after the pandemic. We expect central banks will continue to try to stimulate growth, though they have few remaining tools.

Investors will still face difficult decisions regarding sources of income, diversification, and capital appreciation. We would encourage focusing on bottom-up fundamentals for each individual security, while also avoiding the instinct to move too far out on the risk curve. The past year has been tumultuous, but there is a light over the horizon. Moreover, as a result of the pandemic, the power of scientific innovation has been demonstrated and should give us optimism as we seek to address other big challenges such as chronic health issues and climate change.

Ronald Temple, CFA is Co-Head of Multi-Asset and Head of US Equity and Apratim Gautam is a Macroeconomic and Policy Analyst at Lazard Asset Management. This article is general information and does not consider the circumstances of any investor.

A copy of the full report can be accessed here.

November 2020 was an historic month for ETFs

BetaShares Capital

This article is an extract from the BetaShares Australia ETF Review for November 2020. There are now 257 Exchange Traded Products trading on ASX and Chi-X.

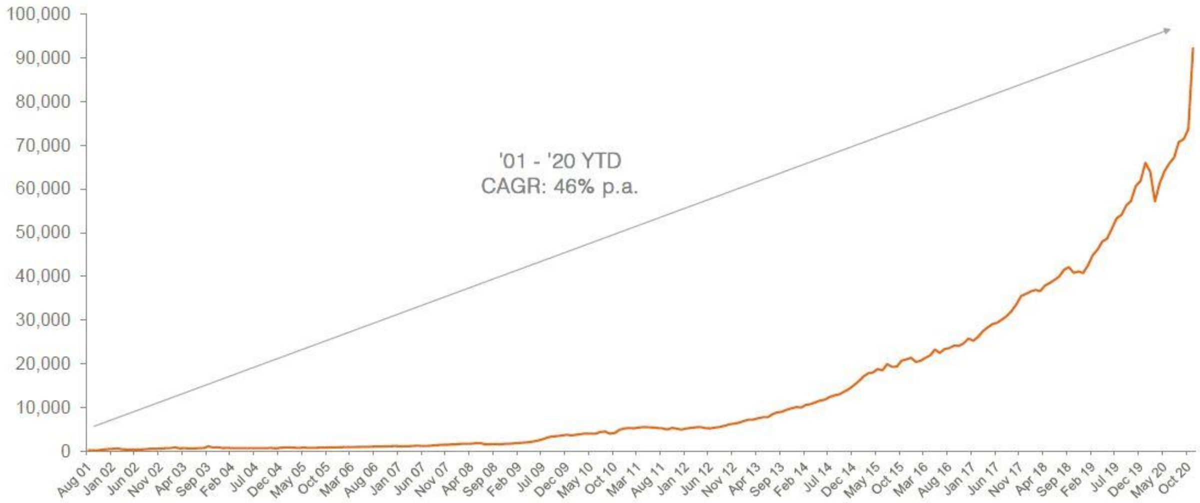
Firstlinks regularly includes monthly and quarterly ETF reviews in its Education Centre, and we are highlighting ETFs this month due to the historic milestones:

- November 2020 saw industry records broken for absolute Funds Under Management (FUM), absolute dollar monthly FUM growth, annual growth in FUM and largest net flows on record amongst others
- A notable event this month was the conversion of Magellan's Global Fund into an 'Open Class' structure which permits applications and redemptions both on and off market. The entire $13.5 billion in that strategy has been 'ported' across to the ETF industry data. We've included the converted fund for FUM

purposes in the numbers below but, given it's a structural change not a net flow, have excluded from the monthly flow figures

- Including this conversion the industry's market cap is now **$92.3 billion**, although, even without it, the industry rose to a **record high** of **$78.7 billion**, representing an almost **$5 billion** monthly FUM increase, smashing the previous record of $4.1 billion recorded in January 2020
- For the third month in a row, the Australian ETF industry broke its all-time net flows record, receiving $2.5 billion of net flows, surpassing the previous record from last month ($2.3 billion)
- Including the Magellan conversion, industry growth over the last 12 months has been 52%, representing absolute growth of $31.6 billion over this period
- With sharemarkets rallying strongly in November, we saw an almost even mix between asset value appreciation and net new money.
- Trading value remained strong with ~$8.3 billion traded which represented a 19% month-on-month growth
- Three new products were launched this month, all of which were Active ETFs. Apart from Magellan's conversion, new funds were launched by Munro and Loftus Peak in the global equities space
- As has been the case since the COVID crisis, equities exposures dominated net flows this month, and this month, particularly the case with international equities ($1.2 billion of net flows).
- We saw outflows in cash and short exposures, both of which may be the result of markets rallying and investors positioning for a risk-on allocation.

Figure 1: Australian ETP Market Cap: August 2001 – November 2020



CAGR: Compound Annual Growth Rate. Source: ASX, Chi-X, BetaShares. Note, in November 2020, Magellan restructured a large international unlisted exposure to an open class structure and this fund (MGOC) will be included in ETF figures going forward.

Top 10 Products: November 2020

By Market Cap

Ticker	Product	Issuer	Market Cap	Rank Movement
MGOC	Magellan Global Fund - Open Class Units (Managed Fund)	Magellan	$13,592,749,946	
VAS	Vanguard Australian Shares Index ETF	Vanguard	$6,893,976,712	-1
STW	SPDR S&P/ASX 200	State Street	$4,105,993,621	-1
IOZ	iShares Core S&P/ASX 200 ETF	iShares	$3,687,300,464	
IVV	iShares S&P 500 ETF	iShares	$3,553,840,127	-2
VGS	Vanguard MSCI Index International Shares ETF	Vanguard	$2,565,601,983	-1
AAA	BetaShares Australian High Interest Cash ETF	BetaShares	$2,164,157,735	-1
VTS	Vanguard US Total Market Shares Index ETF	Vanguard	$2,073,731,773	
GOLD	ETFS Physical Gold	ETF Securities	$1,983,738,785	-2
IOO	iShares Global 100 ETF	iShares	$1,940,991,616	-1

Other products with > $1B AUM: VAP, VEU, IAF, VAF, VHY, QUAL, MVW, NDQ, VGAD, A200

Top 10 Inflows (by $) - Month

Ticker	Product	Inflow Value
MGOC	Magellan Global Fund - Open Class Units (Managed Fund)	$12,459,300,000
VAS	Vanguard Australian Shares Index ETF	$270,906,021
STW	SPDR S&P/ASX 200	$137,285,956
IOZ	iShares Core S&P/ASX 200 ETF	$114,813,423
ILB	iShares Government Inflation ETF	$95,918,035
ASIA	BetaShares Asia Technology Tigers ETF	$85,287,279
IVV	iShares S&P 500 ETF	$84,333,087
NDQ	BetaShares NASDAQ 100 ETF	$80,995,347
A200	BetaShares Australia 200 ETF	$80,504,407
QUAL	VanEck Vectors MSCI World Ex-Australia Quality ETF	$70,379,942

Top 10 Outflows (by $) - Month

Ticker	Product	Inflow Value
AAA	BetaShares Australian High Interest Cash ETF	-$44,901,969
WVOL	iShares Edge MSCI World Minimum Volatility ETF	-$28,395,973
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	-$23,584,433
USD	BetaShares U.S Dollar ETF	-$19,917,170
YTMAZJ	XTB EQT AZJ 5.75% OCT-20	-$18,310,000
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	-$13,895,402
BEAR	BetaShares Australian Equities Bear (Hedge Fund)	-$12,572,586
WRLD	BetaShares Managed Risk Global Share Fund (Managed Fund)	-$12,126,434
BBUS	BetaShares US Equities Strong Bear Currency Hedged (Hedge Fund)	-$11,534,159
AUST	BetaShares Managed Risk Australian Share Fund (Managed Fund)	-$11,496,610

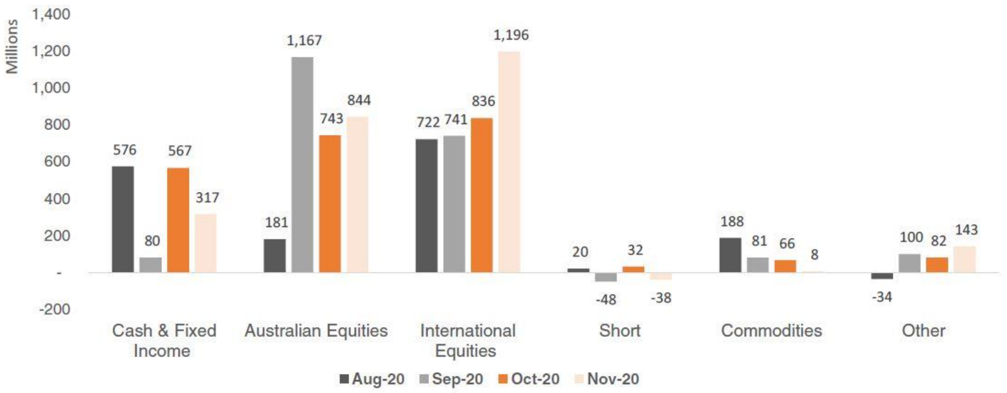
Top 5 Category Inflows (by $) – Nov 2020

Broad Category	Inflow Value
International Equities	$1,195,997,663
Australian Equities	$843,969,519
Fixed Income	$359,461,002
Multi-Asset	$89,530,451
Australian Listed Property	$73,351,249

Top Category Outflows (by $) – Nov 2020

Broad Category	Inflow Value
Cash	-$42,392,015
Short	-$38,002,147
Currency	-$19,917,170

Figure 2: ASX ETF Flows by Asset Class - Last 4 Months (A$m)



Top 5 Sub-Category Inflows (by $) – Nov 2020

Sub-Category	Inflow Value
Australian Equities - Broad	$664,052,300
Australian Bonds	$309,184,990
International Equities – Dev'd World	$305,756,287
International Equities - US	$274,641,921
International Equities - Sector	$231,781,097

Top Sub-Category Outflows (by $) – Nov 2020

Broad Category	Inflow Value
Cash	-$42,392,015
Short	-$38,002,147
Currency	-$19,917,170

ETF Issuer Flows – YTD 2020

Provider	Inflow Value	% Industry
Vanguard	$5,098,135,357	28.2%
BetaShares	$4,809,402,612	26.6%
iShares	$2,836,167,492	15.7%
VanEck	$1,932,085,132	10.7%
ETF Securities	$1,217,201,282	6.7%
State Street	$745,461,264	4.1%
Magellan	$422,713,614	2.3%
Gold Corporation	$248,194,390	1.4%
Fidante	$225,534,078	1.2%
Russell	$165,004,375	0.9%
Switzer	$80,950,761	0.4%
Morningstar	$73,269,780	0.4%
Investsmart	$59,840,510	0.3%
Fidelity	$48,694,977	0.3%
Montgomery	$33,963,390	0.2%
Janus Henderson	$20,354,633	0.1%
Perennial	$15,055,318	0.1%
Munro Partners	$11,179,254	0.1%
Loftus Peak	$9,230,000	0.1%
Kapstream	$4,341,815	0.0%
Antipodes	-$526,682	0.0%
Schroder	-$1,498,313	0.0%
K2 Global	-$5,205,924	0.0%
ACBC	-$23,491,193	-0.1%
Platinum	-$48,321,721	-0.3%

Seven steps to easier management of your estate

Jonathan See

When you choose someone to act as the Executor of your estate, you are giving them the responsibility of taking charge of your estate because you trust them and you are confident that they will carry out your wishes. While this may be taken as a compliment, most people appointed as Executors are unaware of the demands of the role.

Your Executor will have the responsibility of applying for probate, paying liabilities, distributing assets and closing accounts, all according to your wishes. It is a role not to be taken lightly. It could take up a serious chunk of time coupled with them having to deal with the emotional aspects surrounding the estate and its administration.

In the absence of any issues surrounding the estate, and even with complete documentation, the task of performing these responsibilities is daunting for an Executor especially for a first timer. It becomes more difficult if they encounter setbacks such as not being able to find the required documents or being given the wrong information and having to reconstruct information from scratch.

To avoid delay and what might become massive inconvenience and expense, help your Executors by ensuring they have access to everything they need when the time comes.

Here is a list of things you can do to help your Executor:

1. Locate and update your executed Last Will & Testament

Your Executor can act on behalf of your estate only if they have the originally executed Last Will & Testament. It is therefore important to make sure that it is up to date, no pages are missing and all pages are signed and witnessed. Your Executor will need this document when they seek probate so make sure they have access to it.

For practicality, give your Executor a certified copy of your Last Will & Testament or at least tell them where they can find the document.

2. Prepare an inventory of all your assets and liabilities

Another document required for probate is an inventory of assets and liabilities of the estate. By preparing the inventory, your Executor will have an easier time in preparing and lodging the application for probate. Assets you may have include bank accounts, properties, shares owned in companies, automobiles while liabilities include mortgage, utilities, and mobile phone subscriptions.

3. Prepare a list of contacts of professionals and advisers you liaise with

Much of the time spent by your Executor will be in determining who your contacts are and searching for them. You can help your Executor by providing contact details for you solicitor, accountant, financial planner and life insurance agent.

4. Organise all your title documents

If any documents you are required to have are lost or missing it would be better if you arrange for their replacement now rather than requiring your Executor to do so. This is especially true for real estate as the documents are necessary to transmit the property to the beneficiaries.

Instances when you may not have custody of the physical title documents include:

- where they are held by your mortgagee
- simply lost over time
- some Australian states do not issue paper documents of title e.g. Queensland (a printout of the Registration Confirmation Statement from the Queensland Land Titles Office is recommended) or Victoria (obtain a copy of the electronic certificate of title)

5. List your online accounts

You may want to provide a list of all online accounts together with the login details (e.g. usernames, passwords, answers to secret questions) to your Executor so that they can close or continue using some online accounts. Online accounts you might have include bank accounts, share registry accounts, utilities accounts, social media accounts, email accounts … virtually anything provided online.

6. Make sure your Executor has access to some cash

Your estate will incur bills such as medical expenses, funeral expenses, and legal fees. It is best to make sure your estate contains a cash account and give your Executor access to it so that they can pay these bills and other expenses of the estate.

7. Put the documents in a place where your Executor can find them

Gather all your important documents together and store them in a safe place for easy access for your Executor. It is advisable to prepare the following documents:

- Last Will and Testament which is up to date
- Codicil (if any)
- Powers of Attorney, general or enduring
- Appointment of Enduring Guardian
- Living Will
- Birth Certificate
- Marriage Certificate
- Citizenship Certificate, if naturalised
- Certificates of Titles
- Life insurance policies
- Share certificates, brokerage statements and other documents of title of your Investments
- Binding death benefit nominations which is up to date
- List of assets and liabilities
- List of contacts of professionals and advisers
- Details of any safe or safe deposit box you use
- Automobile registrations
- List of online accounts to be operated or closed with details of usernames and passwords

The location of the documents should be secure and if possible protected from fire, storm and flood. Ideally you would scan all the documents and create a parallel electronic safe so that if the physical documents are lost or destroyed your electronic copies will be sufficient for your Executor to administer your estate.

By doing these things the Executor is better able to perform their duties. Planning ensures that the estate can be implemented with as little fuss and problem as possible and will avoid unnecessary delays and, importantly, fees, costs and charges.

Jonathan See is a Solicitor with Townsends Business & Corporate Lawyers. This is an excerpt of the author's recently published article, 'Preparing for the Inevitable: Getting your estate documents together'. It is general information and does not consider the circumstances of any individual.